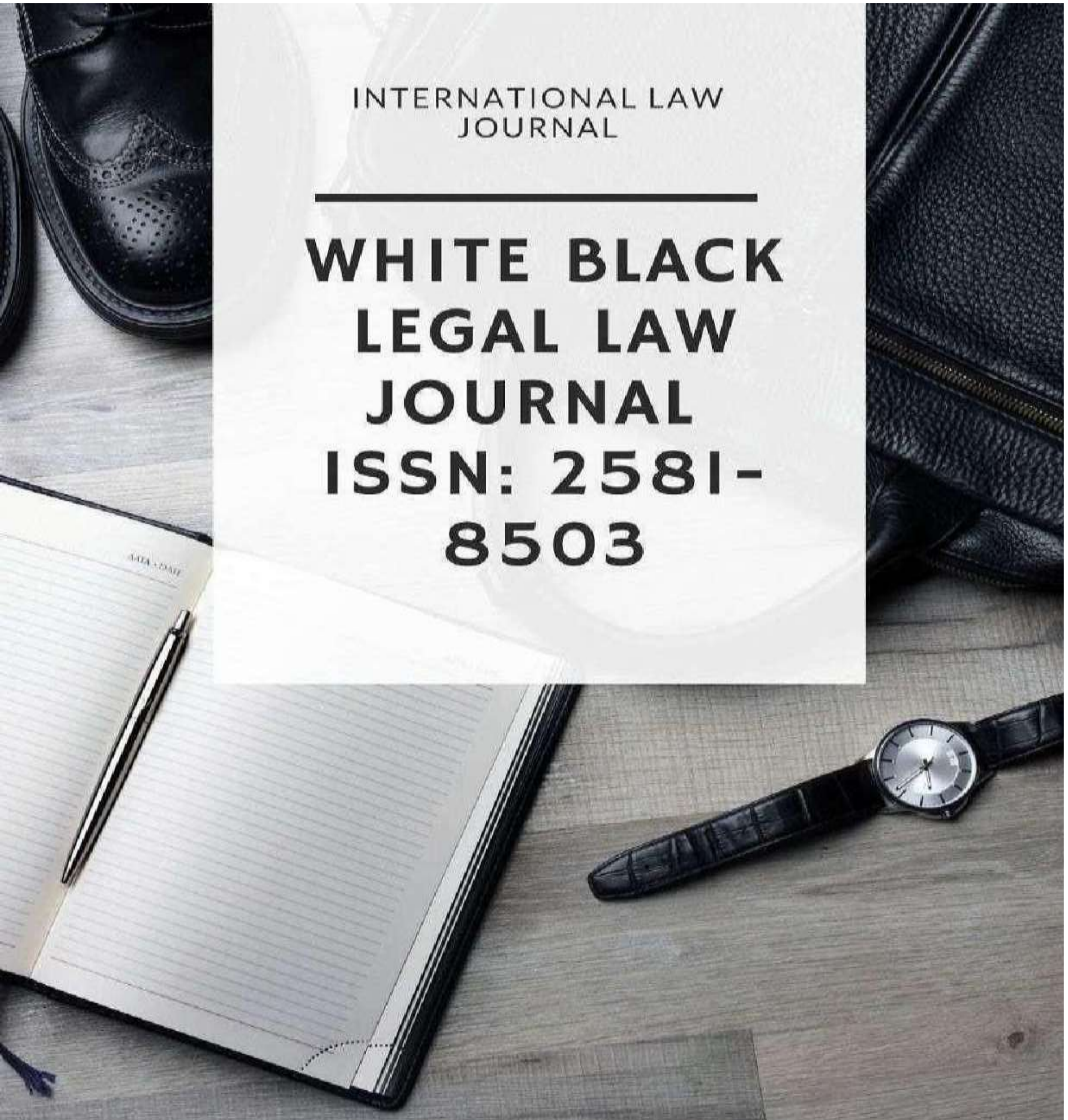

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INDIA'S FOREIGN POLICY FRAMEWORK AND GREEN FDI INFLOWS- AN OUTLOOK

AUTHORED BY - RISHI KUMAR* AND NAVEEN KUMAR+

ABSTRACT

The UN Climate Change Conference (COP 21or Paris Agreement) has altered the contours of climate change, with Finance, Nationally Determined Contributions (NDCs), Accountability, and Transparency taking the centre stage. The nation-states in effect aligned their polices to broader mandate of Paris Agreement to ensure that not only their growth trajectory is sustainable, but also put their weigh to raise funds that contribute in advancing their NDCs. Like the rest of developing nations, India too has to rely on Foreign Investments to cater its developmental goals and for greater good raise funds 'sustainably'. Though India have matured foreign investment policy framework, with markets catering to foreign funds since 1991 (post-liberalisation period), through FDI policy framework. However, lately new investment apparatuses have evolved which caters solely to development projects which are planned, developed, and maintained sustainably. The FDI data shows that foreign investments are moving from conventional energy sectors to renewable energy sectors and are making indelible impressions on environment and ESG front. The present paper while highlighting the catalyst nature of foreign investment in India's growth trajectory, showcases the first principles of 'Green FDI' and makes an analysis of 'whether existing FDI Policy of India accommodates the tenets of Green FDI and raise capital sustainably in order to protect environment and meet NDCs?'

Keywords: FDI, SDGs, Green FDI, Environment, Sustainability, Foreign Investment Framework

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I. Introduction

Foreign Direct Investment (FDI) is a vital stimulant for India's economic growth, providing a significant non-debt financial resource for the country's development efforts. International firms make investments in India, taking advantage of the country's unique investment advantages, which include tax breaks and comparatively low labour costs. This not only aids the development of technology competence for India, but also promotes job generation and other benefits. The entry of these investments into India is a direct outcome of the government's aggressive policy framework, a dynamic business climate, increased global competitiveness, strong & diverse demography, and growing economic impact.

The Indian government has launched a number of policies and measures to increase foreign direct investment (FDI) in the nation. Notable efforts include the "Make in India" program, which aims to streamline regulations and foster a friendly business climate across industries. Liberalisation of foreign direct investment rules (primarily post 1991), notably in retail, defence, insurance, and single-brand retail selling, has been a prominent goal. The Goods and Services Tax (GST) adoption has increased transparency, while Special Economic Zones (SEZs) offer designated areas with tax breaks.[1] Since the 1991 financial crisis, India has liberalised its economy and increased foreign direct investment (FDI), resulting in the creation of over plethora of jobs and provided growth impetus to whole nation. To capitalise on the country's changing economic climate and lower salaries, direct foreign investments are being made in the country's rapidly growing private enterprises.[2]

India's foreign policy has progressively incorporated sustainability and climate diplomacy as critical strategic concerns in the twenty-first century. As the government promotes itself as a worldwide leader in the transition to a low-carbon economy, the relationship between its foreign policy goals and environmental obligations has grown stronger. The encouragement of green foreign direct investment (FDI), or cross-border investments in ecologically sustainable areas such as renewable energy, clean transportation, energy efficiency, and green infrastructure, is central to this expanding agenda. India's foreign policy framework is characterised by multilateralism, strategic autonomy, and sustainable development ideals, and it aggressively pursues collaborations to improve climate resilience and environmental

[1] India Brand Equity Foundation, *available at*: https://www.ibef.org/economy/foreign-direct-investment, (last visited on April 2, 2025).
[2] United Nations, "World Investment Report- Investment Facilitation and Digital Government" (2024).

innovation. Initiatives like the International Solar Alliance (ISA), the Coalition for Disaster Resilient Infrastructure (CDRI), and India's participation in G20 sustainability debates reflect this perspective.[3] India hopes to attract green FDI through bilateral agreements, international forums, and regional cooperation to achieve its obligations under the Paris Agreement and the Sustainable Development Goals (SDGs).[4]

India's traditional path is making significant strides towards its ambitious sustainability targets. On this green journey, green finance and foreign investments are propelling the country towards a greener economy and opening up a wide future. Foreign investors have several options to contribute to India's green economy, notably through renewable energy and sustainable development initiatives. Foreign investment is crucial to supporting India's green objectives, especially as government programs promote eco-friendly investments and deepen and broaden the breadth of opportunities in India's green economy.

II. Foreign Investors- The Catalyst for Growth and *Quid pro Quo*

Foreign investors have had an important role in determining India's economic trajectory, acting as significant drivers of development, innovation, and global integration. Since the Indian economy's liberalisation in the early 1990s, foreign direct investment (FDI) and portfolio investments have made major contributions to capital formation, technology transfer, and job creation in a variety of industries. India's vast customer base, developing digital infrastructure, and ambitious economic reforms have made it a more appealing location for global investment. Foreign investors have a role that goes beyond cash inflows; they introduce sophisticated management methods, create competitive challenges, and encourage productivity increases in indigenous enterprises. Furthermore, strategic investments in industries such as manufacturing, renewable energy, information technology, and infrastructure are assisting India in climbing the global value chain and aligning with sustainable development objectives.

India requires around ₹20,000 crore in yearly FDI in the renewable energy sector alone. From April 2000 to March 2024, India received about ₹1,26,161 crore in FDI into non-conventional energy sources.[5] Opportunities for collaboration are especially important at this time, when

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[3] Arun S. Nair, "Connectivity Initiatives by G20 Countries: Convergence or Divergence?" *Research and Information System for Developing Countries (RIS)* 19-31 (2021).
[4] NITI Aayog, "SDG India Index Baseline Report, 2018" (2018).
[5] Invest India, "The green push: How foreign investors can contribute to India's sustainability goals", *available at*: https://www.investindia.gov.in/blogs/green-push-how-foreign-investors-can-contribute-indias-sustainability-

countries are setting examples and aspirations. For example, Britain has set a target of achieving net zero emissions by FY 2050, which would necessitate a considerable increase in renewable power generation, such as wind and solar. Green Strategic Partnership with Denmark encourages political collaboration, strengthens economic links and green growth, and creates jobs by focussing on achieving the Paris Agreement and UN Sustainable Development Goals.[6]

Furthermore, India and the EU have formed a collaboration on smart and sustainable urbanisation to strengthen solid waste management systems and promote the circular economy. It strives to construct smart cities through new housing options, water supply, sewage systems, and other initiatives. India has also developed such agreements with Austria, Germany, and France, among other countries. The clean energy sector's innovation ecosystem, fuelled by technology, is pushing the envelope, with start-ups providing scalable and sustainable solutions that help cut carbon emissions. More than 6,600 cleantech start-ups are dispersed over 450 districts in India, representing almost 34 states and union territories. This is where India expects to invest more than ₹ 35 billion per year in renewables to meet its 450 GW target by FY 2030.[7] These are the potential places where international investors can find investment opportunities. Their contributions assist to close the finance gap required to create large-scale green initiatives. India's green economy provides a unique chance for international investors to contribute to global sustainability while reaping significant financial rewards. The government's policies and efforts, as well as the country's commitment to renewable energy projects, provide an atmosphere that encourages international investment.[8] As India works to achieve its sustainability targets, the involvement of international investors and technology is greatly improving the efficiency and efficacy of these initiatives. These collaborations are gaining traction as the federal and state governments make it easier to do business by highlighting investment areas and how they may profit from them. These collaborations are significant milestones towards establishing a green economy that offers a greener future.

goals#:~:text=The%20role%20of%20foreign%20investors,in%20non%2Dconventional%20energy%20sources (last visited on April 02, 2025).

[6] Ministry of Foreign Affairs of Denmark, "India-Denmark Joint Action Plan (2021-2026) Green Strategic Partnership", available at: https://indien.um.dk/en/denmark-in-india/green-strategic-partnership, (last visited on April 02, 2025).

[7] Ren 21, "Renewable 2022- Global Status Report" (2022).

[8] Subhashish Dey, Anduri Sreenivasulu, *et.al.* "Renewable energy present status and future potentials in India: An overview" *Innovation and Green Development* (2022). See also, UNCTAD "Investment Policies for the Energy Transition Incentives and Disincentives" (2023).

By FY 2030, India anticipates investment potential surpassing $500 billion in industries such as renewables, green hydrogen, electric vehicles (EV), and infrastructure change. From April 2020 to March 2024, the total FDI equity inflow in India's non-conventional energy industry exceeded 17 million.[9] The tremendous drive for sustainable projects underlines India's determination to meeting its lofty climate targets while also promoting economic growth. Foreign investors may take advantage of these possibilities by investing in a variety of programs aimed at developing renewable energy infrastructure, advancing green hydrogen production[10], and expanding the electric vehicle industry. One of the government's primary achievement was to enable up to 100% foreign direct investment in renewable energy projects via the automated method. Foreign investors have had a huge impact on India's economic transition by providing finance, technology, and global best practices. Foreign Direct Investment (FDI) inflows have facilitated the growth of essential industries such as manufacturing, telecommunications, information technology, renewable energy, and financial services. These investments have not only helped to boost GDP growth, but they have also increased sectoral productivity, encouraged innovation, and improved infrastructure. Multinational corporations, for example, have played an important role in expanding India's digital economy by helping to establish e-commerce platforms, financial solutions, and IT-enabled services.[11]

Furthermore, foreign investors frequently serve as conduits for the spread of technology and expertise. Joint ventures and strategic alliances with domestic enterprises have resulted in the enhancement of local capacities, knowledge spillovers, and the integration of Indian firms into global value chains. Such alliances, particularly in the automobile and pharmaceutical industries, have resulted in greater exports and worldwide competitiveness. Policy-wise, India has gradually liberalised its FDI framework in order to attract more international investment. Reforms such as the elimination of retroactive taxes, the implementation of the Production Linked Incentive (PLI) program, and the streamlining of regulatory rules under the 'Make in India' and 'Startup India' initiatives have made the climate more friendly for foreign

[9] Crisil Intelligence, "Crisil Infrastructure Yearbook 2025" (2025). See also, USAID and Invest India, "Investment Landscape of Indian E-Mobility Market South Asia Regional Energy Partnership (Sarep) And Invest India" (2023).
[10] Aminul Islam, Tarekul Islam, *et.al*. "Accelerating the green hydrogen revolution: A comprehensive analysis of technological advancements and policy interventions" 67 *International Journal of Hydrogen Energy* 458 (2024).
[11] Sayantan Khanra and Anuragini Shirish, "Editorial: special issue on digital economy in the global south" 52 *Decision* (2025).

investors.[12] However, difficulties such as regulatory uncertainty, bureaucratic roadblocks, and infrastructural shortfalls exist, potentially impeding the full potential of foreign investment. Addressing these structural concerns is critical to maintaining investor trust and ensuring that foreign investment continues to drive fair and sustainable growth in India.

III. Green FDI- Building Tomorrow Sustainably

Green Foreign Direct Investment (Green FDI) has emerged as a critical tool for balancing economic growth with environmental sustainability. Green FDI is a significant option for channelling foreign capital into environmentally responsible industries, particularly as global efforts to battle climate change, cut carbon emissions, and encourage the transition to low-carbon economies ramp up. Unlike traditional FDI, which is largely motivated by economic gains, Green FDI focusses on initiatives that contribute to environmental sustainability, such as renewable energy, sustainable infrastructure, electric transportation, energy efficiency, and climate-resilient technology.[13]

A definition of "green FDI" can help policymakers and others analyse if and how FDI contributes to environmental goals, and can help them develop methods to green those financial flows. A workable definition can also assist project developers, potential funders, consumers, governments, and other stakeholders in determining whether an investment is environmentally sound, more easily and efficiently, reducing transaction costs associated with investment decisions, government approvals, and consumer choices. However, there is no commonly accepted or statistically operationalized definition of "green FDI" at the moment.

Nonetheless, some instructive efforts to describe the notion have been made. This section below examines some of such attempts and illustrates some of the ongoing issues associated with analysing the environmental implications of FDI.

[12] Madanjit Kumar Singh, "Framework for FDI in India" *International Journal of Humanities Social Science and Management (IJHSSM)* (2022).
[13] Pham Xuan Hoa, Vu Ngoc Xuan, *et.al*. "Nexus of innovation, foreign direct investment, economic growth and renewable energy: New insights from 60 countries" 11 *Energy Reports* (2024).

Source	Concept	Inclusive Definition
UNCTAD[14]	Low-carbon FDI	Greenfield FDI in renewable energy, recycling activities and low-carbon technology manufacturing.
OCED[15]	Green FDI	FDI in Environmental Goods and Services (EGS), proxied by FDI in electricity, gas and water sectors
World Bank[16]		FDI into environmentally relevant sectors from home country with stricter environmental policies or higher energy efficiency than host country.
fDi Intelligence[17]	FDI in Renewable Energy	Greenfield FDI in solar, wind, biomass, hydroelectric, geothermal, marine and other renewable power generation
Bloomberg New Energy Finance	Global investment in clean energy, low carbon services and energy smart technologies	Greenfield and M&A activity in renewables (e.g., biofuels, small hydro, wind and solar), clean energy services (e.g., carbon markets), and energy smart technologies (e.g., digital energy, energy efficiency, and energy storage).

Table 1: Overview of Estimates of Green FDI

Source: Author's own, using compilation from different sources

Green FDI serves a dual purpose in growing economies such as India, promoting economic growth while also facilitating progress towards national and international climate commitments such as the Sustainable Development Goals (SDGs) and Paris Agreement objectives. The rising convergence of foreign investment and green development goals emphasises the need for policy frameworks that attract, facilitate, and protect such investments. This academic investigation aims to investigate the conceptual underpinnings of Green FDI, its sectoral consequences, and transformational potential in creating sustainable development trajectories, particularly in the Global South. Foreign direct investment (FDI) in green sectors is a key driver

[14] United Nations Conference on Trade and Development, "World Investment Report 2023" 18 (2023).
[15] Golub, S. S., C. Kauffmann and P. Yeres (2011), "Defining and Measuring Green FDI: An Exploratory Review of Existing Work and Evidence", OECD Working Papers on International Investment, 2011/02, OECD Publishing. http://dx.doi.org/10.1787/5kg58j1cvcvk-en.
[16] César Calderón and Norman Loayza, "Greenfield Foreign Direct Investment and Mergers and Acquisitions: Feedback and Macroeconomic Effects" World Bank Policy Research Working Paper 3192, (2004).
[17] fDi Intelligence, fDi Explainer: What is greenfield investment? *available at:* https://www.fdiintelligence.com/content/locations/global/fdi-explainer-what-is-greenfield-investment-77199 (last visited on, April 12, 2025).

of sustainable economic growth, particularly in contemporary societies. This is especially true for FDI, in which investors seek profitable possibilities, particularly in emerging and lower developing countries. In this scenario, one of the most pressing issues about FDI is its environmental impact. However, FDIs have a negative impact on EQ since they promote economic growth and technological improvement in the host nation.[18]

Emerging market and developing economies (EMDEs) are navigating the shift with limited financial resources, high post-pandemic debt levels, and legislative impediments to investment. With a few noteworthy exceptions, they have made less progress in greening their economy than developed nations, despite the fact that the cost of reducing emissions in EMDEs is around half that of advanced economies. For the time being, the majority of EMDEs contribute very little per capita to global emissions. However, EMDEs will drive a large portion of future energy usage increase as they raise living standards for their people and promote urban expansion. If they cannot separate economic development from greenhouse gas emissions, the climate problem will become considerably more difficult.[19]

With adequate funding, EMDEs can restart or accelerate their greening. The rationale of declining prices for renewable energy sources and consistent advances in related technology applies anywhere those sources are discovered. Renewable resources are more widely dispersed than fossil resources, which are concentrated in only a few nations. Some early adopters in the developing world are already generating considerable FDI flows, particularly in the energy and automobile industries. For the globe as a whole, investments like these can help prevent the worst-case climate scenarios, saving lives and reducing the possible 14% impact to global GDP in 2050 from unchecked climate change.

The essential challenge is how to scale such flows. Development finance institutions (DFIs) and multilateral development banks (MDBs) contribute to project facilitation, often by sharing risks in blended finance models that leverage public money to catalyse private flows.[20] However, these banks will need to provide considerably more support, and plans to overhaul

[18] Mahamane Famanta, Abid Ali Randhawa, *et.al*. “The impact of green FDI on environmental quality in less developed countries: A case study of load capacity factor based on PCSE and FGLS techniques” 10 *Heliyon* (2024).
[19] *Ibid*. See also, Dirk Holtbrügge and Nikhila Raghavan, “Environmental effects of foreign direct investment in India: pollution haven or pollution halo?” *Critical Perspectives on International Business* (2024).
[20] OECD, “Scaling up Blended Finance in Developing Countries” (2022).

their operational models and balance-sheet policies in order to greatly boost their capacity for blended finance transactions and other forms of funding are gaining traction. Developed nations must also increase their efforts, working through DFIs and MDBs as well as bilateral agreements. An essential goal for all stakeholders is to agree on a standard definition of green FDI in order to improve coordination and flow tracking while combating possible greenwashing. With geopolitical and technological pressures currently disrupting global integration, decarbonisation may either add to the strain or provide a chance to establish globalisation on a more solid and equal footing. In October 2023, the European Union will begin to phase in its Carbon Border Adjustment Mechanism (CBAM), which would eventually impose a carbon tax on imports from nations that do not price carbon domestically. Multinational businesses (MNEs), motivated by shareholders and customers, as well as the regulatory landscape, are increasingly concerned with the carbon impact of their supply chains. Countries with carbon-intensive infrastructures and value chains will be disadvantaged in the long run.[21]

Countries that fulfil the decarbonisation challenge, on the other hand, will witness an increase in global competitiveness, as well as more and better employment, cleaner air, and other environmental gains for their citizens. For their part, EMDEs confront the interrelated issues of modernising their development plans and increasing their FDI attractiveness. They are a diverse group, thus there is no one set of levers for them to pull. However, early movers have taught us some valuable lessons, beginning with the need of setting aggressive climate targets and backing them with FDI facilitation measures.

The gain an edge in sustainable financing government sells sovereign green bonds to raise funds for green infrastructure projects. The bonds are intended to fund public-sector projects that assist lower the economy's carbon intensity. In FY 2022-23, the Union government issued sovereign green bonds worth around ₹16,000 crore to offer affordable finance for renewable energy projects, with ₹6,186 crore of the revenues exclusively earmarked to renewable energy programs.

By issuing these bonds, the government provides a low-risk investment opportunity for

[21] Jeffrey Rissman, Chris Bataille, *et.al*. "Technologies and policies to decarbonize global industry: Review and assessment of mitigation drivers through 2070" 266 *Applied Energy* (2020). See also, Victor Steenbergen and Abhishek Saurav, "The Effect of Multinational Enterprises on Climate Change- Supply Chain Emissions, Green Technology Transfers, and Corporate Commitments" *World Bank* (2023).

international investors seeking to contribute to long-term initiatives. The earnings from these bonds are used to fund projects that support India's aim to decreasing carbon emissions, making them an appealing alternative for environmentally conscious investors.[22]

IV. Government Policies- The Key Enablers

Recognising FDI's ability to increase capital inflows, create jobs, and encourage technical growth, the Indian government has deliberately positioned it as a key component of its development program. A number of policy initiatives have been adopted throughout the years to establish a favourable climate for foreign investment, ranging from sectoral liberalisation and regulatory simplification to increased investor protection. Government measures such as the Make in India campaign, Production Linked Incentive (PLI) schemes, improved Ease of Doing Business, and the implementation of automated clearance procedures for different industries have considerably increased investor trust. Furthermore, tax changes, digitisation of corporate operations, and the establishment of special economic zones (SEZs) represent a larger governmental move towards economic openness and global competitiveness.

In recent years, India has emerged as a desirable location for FDI, owing to a number of variables. India placed 40th in the World Competitive Index 2024, up three spots from 43rd in 2021. India was also rated the 48th most inventive country within the top 50, ranking 40th out of 132 economies in the Global Innovation Index 2023.[23] India has risen from 81st in 2015 to 40th in 2023. India has recently emerged as an appealing location for FDI due to supportive government policies. India has implemented a variety of initiatives and policies to encourage FDI. These rankings have stimulated India's FDI investment, particularly in emerging industries such as military manufacture, real estate, and R&D. Some of the major government initiatives are:

- As part of the Union Budget 2025-26, the government increased the sectoral ceiling for the insurance sector from 74% to 100%. This year's budget also witnessed the introduction of State Investment Friendliness Index. The government also plans to create Jan Vishwas 2.0 to improve the business environment even more.[24]

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[22] Shuangshuang Fan, Muhammad Shahbaz, *et.al*. (eds.), *Recent Developments in Green Finance, Green Growth and Carbon Neutrality* (Elsevier, 2023).
[23] *Supra* note 1.
[24] Press Information Bureau, "India offers a transparent, predictable and comprehensive FDI Policy Framework for investments", *available at*: https://pib.gov.in/PressReleasePage.aspx?PRID=2101785 (last visited on March 19, 2025).

- **India's National Action Plan for Climate Change (NAPCC)**: This policy focuses on critical issues like as solar energy, energy efficiency, water management, sustainability, agriculture, health, the Himalayan ecology, sustainable habitats, Green India, and climate change strategy. In accordance with the NAPCC, 34 states and union territories have created their own State Action Plans on Climate Change.[25]
- **Green Energy Corridor**: This entails creating intrastate and interstate transmission infrastructure across several renewable-rich states. The seamless project guarantees that the energy generated by these resources is efficiently transferred and incorporated into the national grid. The procedure also includes establishing Renewable Energy Management Centers (REMCs) and control infrastructure such as reactive compensation, storage systems, and so on. This initiative has been significant in India's energy transformation, giving power to around 60 million people through KfW-financed networks.[26]
- **National Solar Mission (NSM)**: This mission was launched to encourage solar energy development in India, and numerous projects have been implemented as part of it. These include establishing at least 50 solar parks with a target of 40,000 MW of solar power projects, constructing grid-connected solar rooftop power plants, and developing 12,000 MW of grid-connected solar PV power projects. India's solar power efforts rank sixth in the world in terms of total solar capacity, indicating that the solar mission has had an impact.[27]
- **Renewable Purchase Obligation (RPO)**: Under this effort, obliged organisations, mostly DISCOMs, in each state are expected to satisfy their minimum proportion of electricity purchases from renewable energy — 24.3% in FY 2023 to 43.3% in FY 2030 — with the goal of increasing the percentage of non-fossil fuel-based power capacity to 50% by FY 2030. Between FY 2013 and FY 2021, solar and wind-based power rates were reduced by 30% and 50%, respectively, thanks to this project.[28]

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[25] Press Information Bureau, "National Action Plan on Climate Change (NAPCC)", *available at*: https://static.pib.gov.in/WriteReadData/specificdocs/documents/2021/dec/doc202112101.pdf (last visited on March 19, 2025).

[26] Rasika Athawale and Frank A. Felder, "Overbuilding transmission: A case study and policy analysis of the Indian power sector" 174 *Energy Policy* (2023). See also, Intra-State GEC Phase-I, Ministry of New and Renewable Energy, *available at*: https://mnre.gov.in/en/gec-1/ (last visited on April 06 19, 2025).

[27] Ministry of New and Renewable Energy, "Solar Overview" *available at*: https://mnre.gov.in/en/solar-overview/#:~:text=Solar%20energy%20has%20taken%20a,on%2011%20th%20January%2C%202010. (last visited on April 06, 2025).

[28] IREDA, "Industry Research Report on Renewable Energy, Green Technologies and Power-focused NBFCs" (2023).

Several projects have been implemented, including the Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan (PM-KUSUM), Solar Rooftop Phase II, and the 12000 MW CPSU Scheme Phase II. To guarantee effective electricity evacuation, the Green Energy Corridor Scheme entails installing new transmission lines and expanding substation capacity. The Transmission Plan seeks to incorporate 500 GW of renewable energy capacity by 2030. Furthermore, the Green Energy Open Access Rules, 2022, have been announced to encourage renewable energy, and a Green Term Ahead Market has been established to ease the selling of renewable energy power via exchanges. Further, various steps are being implemented to improve a consistent corporate regulatory environment across the country and to encourage states to foster healthy competition in order to attract investment, particularly FDI. The Government of India produced the Business Reforms Action Plan (BRAP) 2024 rankings and the Logistics Ease Across Different States (LEADS) 2024 report to provide potential investors examples of a favourable business ecosystem and logistics performance in various states and union territories. In addition, the Union Budget 2025 announced the introduction of an Investment Friendliness Index of States in 2025 to promote the spirit of competitive cooperative federalism.

The **Reserve Bank of India** has taken several actions to increase foreign exchange inflows which is aiding in enhanced FDI in India. These actions consist of[29]:

- Exempting additional Foreign Currency Non-Resident (Bank) [FCNR(B)] and Non-Resident (External) Rupee (NRE) deposits from Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- Authorization for banks to accept new FCNR(B) and NRE deposits without regard to current interest rate regulations until the end of October 2022.
- Inclusion of all new issuances of 7-year and 14-year G-Secs under the Fully Accessible Route (FAR) for FPIs.
- Exemption from the short-term limit for FPIs investments in G-Secs and corporate debt made until October 31st, 2022.
- Permitting FPI in commercial paper and non-convertible debentures with an original maturity of up to one year.

[29] *Supra* note 1.

- A temporary increase in the limit for External Commercial Borrowings (ECBs) under the automated route from US$ 750 million or its equivalent per fiscal year to US$ 1.5 billion.
- Increase in the all-in cost ceiling under the ECB framework by 100 basis points, subject to the borrower having an investment grade rating.
- Permission for AD Cat-I banks to use foreign currency borrowings made abroad to fund foreign currency loans to organisations for a variety of end uses other than exports.

India has recently emerged as a key worldwide centre for FDIs. According to the World Investment Report 2023, India ranked among the top ten global FDI destinations.[30] In recent years, India has offered significant business tax cuts and eased labour rules. Furthermore, India has remained an appealing market for overseas investors in terms of both immediate and long-term opportunities. India's cost-effective manufacturing sector is one of the most promising for attracting foreign direct investment. Over the last decade, India has also improved its governance efficiency, resulting in increased FDI inflows into the nation. Despite a minor decline in FY24, significant sources of FDI such as Singapore, Mauritius, and the United States remain robust.[31] On sectoral front, FDI in the renewable energy industry has increased significantly, reaching US$2.5 billion in FY23, representing a 56% YoY increase. Q1 FY23 alone saw US$949.4 million in FDI, with Q4 FY23 indicating a phenomenal 102 percent YoY rise of US$838 million. As of December 2022, total FDI in the industry was US$12.47 billion, up from US$78 billion in 2014.[32]

V. India's Consolidated FDI Policy and Environment

India's Consolidated Foreign Direct Investment (FDI) Policy, released by the Department for Promotion of Industry and Internal Trade (DPIIT), serves as the overarching framework for regulating foreign investments across industries. The policy, which is updated on a regular basis (most recently in 2020, with sector-specific revisions in succeeding years), attempts to expedite investment procedures, improve ease of doing business, and align FDI inflows with

[30] *Id.*
[31] The Hindu, "India receives highest FDI from Singapore in 2023-24; Mauritius second biggest investor: Government data" (June 02, 2024), *available at*: https://www.thehindu.com/business/Economy/india-receives-highest-fdi-from-singapore-in-2023-24-mauritius-second-biggest-investor-government-data/article68242434.ece (last visited on April 06, 2025).
[32] Melissa Cyrill, "The Scope for Foreign Investment in India's Green Growth Challenge" (January 17, 2024), *available at*: https://www.india-briefing.com/news/the-scope-for-foreign-investment-in-indias-green-economy-30785.html/ (last visited on April 08, 2025).

national development targets such as environmental sustainability.[33] While the policy's primary goal is to boost economic growth, it has increasingly linked with India's environmental objectives by promoting foreign direct investment in green industries such as renewable energy, electric transportation, waste management, and sustainable infrastructure. This trend mirrors India's larger commitments to the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).

India permits 100% FDI under the automatic route in several environmentally critical sectors, Renewable energy (solar, wind, biomass, small hydro), Waste management, Electric vehicles (EVs) and EV infrastructure and clean technology and environmental consultancy services.[34] Although the FDI policy itself does not define a distinct category for Green FDI, environmental protection is embedded through various compliance mechanisms, like mandatory Environmental Impact Assessments (EIAs) for industrial projects, clearance from MoEFCC, State Pollution Control Boards, and adherence to the Environmental Protection Act (1986) and the emergence of ESG norms via SEBI's Business Responsibility and Sustainability Reporting (BRSR) guidelines, applicable to the top 1,000 listed companies from FY 2022–23.[35]

Owing to government's increasing backing and improved economics, India's renewable energy sector has grown more appealing to investors. As India strives to create a net-zero economy, the country's renewable industry has the potential to provide more than $1 trillion in economic effect by 2030 and $15 trillion by 2070. Foreign direct investment (FDI) will be critical in bringing resources such as finance and innovative technologies into the business.

FDI of up to 100% is now permitted in the renewable energy business under the automatic method, with no previous government permission required. In march, the Parliamentary standing committee on energy, in a report on 'Financial constraints in the renewable energy sector, pointed to a considerable gap between the required and actual investment and suggested the government to create an enabling framework to bridge it.[36] The committee noted that, India

[33] Ministry of Commerce and Industry, "India offers a transparent, predictable and comprehensive FDI Policy Framework for investments", *available at*: https://pib.gov.in/PressReleasePage.aspx?PRID=2101785 (last visited on April 08, 2025). See also, NITI Aayog, "Strategy for New India @ 75" (2018).
[34] *Supra* Note 28. See also, *Supra* Note 32.
[35] United Nations Conference on Trade and Development and Sustainable Business Institute at the European Business School, *Making FDI Work for Sustainable Development* (2004). See also, OECD, *Defining and Measuring Green FDI: An Exploratory Review of Existing Work and Evidence*, (2011).
[36] Ministry of New and Renewable Energy, Standing Committee on Energy 2021-22, "Financial Constraints in Renewable Energy Sector" (2022).

would need an annual investment of $19- $27 billion in renewable energy sector until 2030, compared to the earlier estimate of $9.86 billion, thereby emphasised on tapping the FDI route. Apart from this, the majority of the country's renewable development has been made feasible by attractive FDI prospects and India's large potential in the renewable energy sector, which has led to a gradual increase in foreign investments in India during the past fiscal years. The Government of India has set an enormous objective of attaining 175 GW in renewable energy capacity by the end of 2022, with a target of 450 GW renewable energy capacity by 2030, making it the world's largest renewable energy growth plan.[37] Presently, FDI up to 100 per cent is permitted in the renewable energy sector under the automatic route, and no prior government approval is required in India, but subject to the provisions of The Electricity Act, 2003.[38]

Considering the government's aspirational goal, the MNRE's policies and activities strive to encourage more outstanding capital for the development and expansion of India's renewable energy sector. Under the existing laws, businesses engaging in non-conventional power generating can receive up to 100% foreign direct investment. The Indian government has repeatedly sought to implement a welcoming and investment-friendly FDI policy. The overarching goal has always been to develop a more capital-friendly FDI policy and to eliminate barriers that have hampered the inflow of investment and money into the country. The Centre's FDI policy revisions, investor collaboration, and ease of business measures have increased FDI inflows.[39]

These continual advances in India's FDI underline the country's status as a top investment destination for foreign investors. The Ministry of Commerce and Industry in order to protect stressed enterprises has revised its current FDI policy to avoid takeovers or purchases of Indian enterprises during the epidemic. If a company situated in a country having a land border with India makes an investment, or if the beneficiary of the transaction is a resident of any of those countries, the new FDI policy will require government clearance. This category previously

[37] Sunita Narain, Nivit Kumar Yadav, *et.al*. "The 500 GW switchover- Coal is the king of energy at present. India needs to dislodge it with clean energy for an equitable green transition" *Down to Earth* (2025). *Available at*: https://www.downtoearth.org.in/energy/the-500-gw-switch-over (last visited on April 12, 2025).
[38] S&R Associates, "How Green is Your Money? Capitalizing on Indian Renewables" (November 29, 2022), *available at*: https://www.snrlaw.in/how-green-is-your-money-capitalizing-on-indian-renewables/ (last visited on April 12, 2025).
[39] Sadhon Saha, Md. Nazmus Sadekin, *et.al*. "Effects of institutional quality on foreign direct investment inflow in lower-middle income countries" 8 *Heliyon* (2022). See also, *Supra* note 33.

comprised just Bangladesh and Pakistan, but it has been expanded to include all bordering nations with India, including China and Macau.[40]

VI. Conclusion

The evolving dimensions of India's foreign policy framework indicate a growing convergence between traditional economic diplomacy and burgeoning environmental concerns. As the world shifts towards sustainable development and low-carbon transitions, India's strategic alignment with green FDI inflows is both a geopolitical need and an economic opportunity. The country's calibrated outreach via bilateral engagements, multilateral platforms such as the G20 and COP summits, and regional alliances such as the International Solar Alliance demonstrates a purposeful shift in foreign policy to attract environmentally responsible investment.

This study emphasises that green FDI is no longer just an add-on to India's foreign economic strategy, but is increasingly becoming a primary channel via which the government negotiates its twin responsibilities to economic growth and environmental stewardship. However, the lack of a specialised Green FDI framework, along with legislative inconsistencies and inconsistent sub-national implementation, continue to limit India's potential as a green investment hub. The relationship between diplomatic capital and green industrial strategy must thus be institutionalised through a more cohesive inter-ministerial approach that combines foreign investment facilitation with strong environmental oversight.

Finally, India's foreign policy posture must embrace green FDI as a driver for long-term economic reform while simultaneously using it as a strategic statecraft instrument. By doing so, India can put itself at the vanguard of the global green economy while also ensuring that its growth trajectory stays inclusive, resilient, and environmentally sustainable. Future policy improvements must focus on incorporating sustainability into the architecture of foreign investment regulation, cementing India's normative and practical leadership in the changing global environmental order.

[40] Ministry of Commerce and Industry, "Government amends the extant FDI policy for curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic" *available at*: https://pib.gov.in/PressReleasePage.aspx?PRID=1615711 (last visited on April 12, 2025). See also, Divya Rau, *Revised FDI Policy for Neighbouring Countries, available at:* https://indiacorplaw.in/2020/04/revised-fdi-policy-for-neighbouring-countries.html (last visited on April 12, 2025).