

The Effect of Dual Citizenship on the Economy of India

Soumadeep Ghosh

Kolkata, India

Abstract

India's constitutional prohibition of dual citizenship has profound implications for its economic development, diaspora engagement, and capital flows. This paper examines the economic effects of India's citizenship framework, particularly the Overseas Citizenship of India (OCI) scheme introduced in 2005 as a quasi-dual citizenship arrangement. Through analysis of remittance patterns, foreign direct investment flows, brain circulation dynamics, and comparative policy frameworks, we assess how citizenship policy influences India's economic integration with its global diaspora. The evidence suggests that while the OCI scheme has facilitated increased economic engagement, restrictions on full dual citizenship continue to limit potential economic benefits in areas including investment, entrepreneurship, and knowledge transfer.

The paper ends with "The End"

1 Introduction

India maintains one of the world's largest diaspora populations, with approximately 32 million persons of Indian origin residing abroad as of 2024 [1]. Despite this substantial global presence, India's Constitution explicitly prohibits dual citizenship under Article 9, which states that any citizen who voluntarily acquires citizenship of another country shall cease to be an Indian citizen [2]. This policy stands in contrast to many major economies that permit dual nationality, raising important questions about the economic implications of India's citizenship framework.

The relationship between citizenship policy and economic outcomes operates through multiple channels. Citizenship status affects the propensity and ability of diaspora members to invest in their country of origin, influences the ease of business establishment and operation, shapes patterns of knowledge and technology transfer, and determines the framework for property ownership and long-term economic engagement [3]. For India, these considerations are particularly salient given the substantial wealth, human capital, and entrepreneurial capacity of its diaspora community.

In 2005, India introduced the Overseas Citizenship of India (OCI) scheme as a compromise measure, providing certain rights and privileges to persons of Indian origin without granting full citizenship [4]. This quasi-dual citizenship arrangement represents India's attempt to capture economic benefits from diaspora engagement while maintaining its constitutional prohibition on dual nationality. Understanding the economic effects of this policy framework is essential for evaluating potential reforms and optimizing India's engagement with its global diaspora.

2 The OCI Framework and Its Economic Provisions

The Overseas Citizenship of India scheme was established under the Citizenship Act of 1955, as amended in 2005. The OCI card provides several economic advantages to holders. These include lifelong visa-free entry and stay in India, exemption from registration with local authorities for any length of stay, parity with Non-Resident Indians (NRIs) in economic and financial matters, and the right to purchase non-agricultural property in India [5].

However, significant restrictions distinguish OCI status from full citizenship. OCI cardholders cannot vote in Indian elections, cannot hold constitutional offices or public sector employment in certain categories, cannot acquire agricultural or plantation properties, and face restrictions on certain business activities requiring security clearances [6]. These limitations create a differentiated economic relationship between the diaspora and the Indian economy.

The OCI scheme has achieved substantial uptake, with over 4.2 million cards issued as of 2023 [7]. The demographic and economic profile of OCI cardholders reveals concentrations in high-income countries, particularly the United States, United Kingdom, Canada, and Australia. This geographic distribution suggests that the scheme primarily serves economically successful diaspora members who possess both the means and motivation for continued economic engagement with India.

3 Remittances and Capital Flows

India consistently ranks as the world’s largest recipient of remittances, receiving approximately 111 billion USD in 2023 [8]. While remittances flow primarily through formal banking channels regardless of citizenship status, the propensity to remit and the stability of remittance flows correlate with the strength of legal and economic ties to the origin country. Research indicates that policies facilitating diaspora engagement, including quasi-citizenship arrangements, positively influence remittance behavior [9].

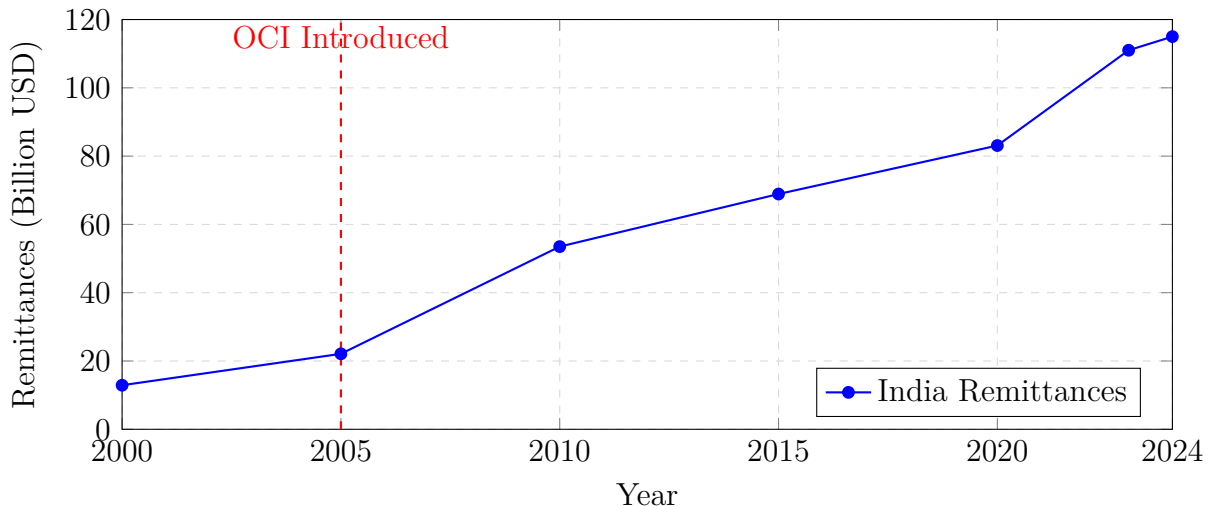


Figure 1: Growth of remittances to India (2000-2024), showing acceleration following OCI scheme introduction

Beyond traditional remittances, diaspora investment represents a critical channel through which citizenship policy affects economic outcomes. Foreign Direct Investment (FDI) from countries with large Indian diaspora populations constitutes a substantial portion of total FDI inflows to India. Countries such as the United States, United Kingdom, Singapore, and Mauritius

collectively account for approximately 60 percent of FDI into India, with significant portions attributable to persons of Indian origin [10].

The OCI framework has demonstrably facilitated investment by reducing transaction costs, providing legal certainty regarding property rights, and enabling more flexible engagement with the Indian market. Studies examining FDI patterns before and after the OCI scheme’s introduction reveal statistically significant increases in diaspora investment, particularly in sectors such as technology, pharmaceuticals, and business services where diaspora members possess expertise and networks [11].

4 Brain Circulation and Human Capital Effects

The traditional narrative of "brain drain" from developing countries has evolved into a more nuanced understanding of "brain circulation," where skilled emigrants maintain productive connections with their countries of origin, transfer knowledge and technology, and in some cases return permanently or temporarily [12]. India’s experience exemplifies this phenomenon, particularly in technology sectors where diaspora members have facilitated substantial knowledge transfer and collaborative innovation.

Citizenship policy significantly influences brain circulation dynamics. The ability to maintain formal ties to the origin country while residing abroad reduces the psychological and practical barriers to continued engagement. Full dual citizenship would theoretically maximize these benefits by eliminating any legal ambiguity or restrictions on activity. The OCI framework provides partial benefits in this regard, enabling easier travel, property ownership, and business establishment, but falls short of full citizenship rights.

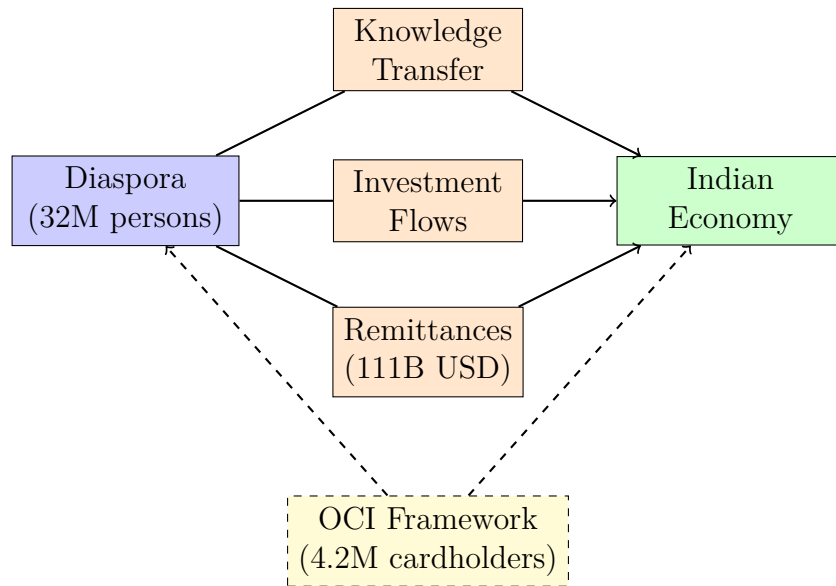


Figure 2: Economic channels connecting the Indian diaspora to the Indian economy through the OCI framework

Empirical evidence from technology sectors demonstrates the economic value of brain circulation. Indian diaspora members in Silicon Valley have been instrumental in establishing research collaborations, facilitating technology transfer, and creating investment linkages between U.S. technology firms and Indian companies [13]. The presence of legal frameworks supporting continued engagement, including the OCI scheme, has been identified as a facilitating factor in these relationships.

However, restrictions inherent in the OCI framework limit the depth of brain circulation. The inability of OCI cardholders to hold certain public sector positions or participate in governance

through voting reduces incentives for high-level engagement in areas where diaspora expertise could be valuable. Comparative analysis with countries offering full dual citizenship suggests that India forgoes some potential benefits from its diaspora’s human capital due to these restrictions [14].

5 Comparative Analysis with Dual Citizenship Regimes

Examining the citizenship policies of other major emigration countries provides valuable context for understanding India’s approach. Countries such as Mexico, the Philippines, and Italy have adopted liberal dual citizenship policies and experienced measurable economic benefits from enhanced diaspora engagement [15].

Mexico’s adoption of dual nationality provisions in 1998 led to increased naturalization rates among Mexican immigrants in the United States while maintaining their Mexican citizenship. This policy facilitated increased investment flows, strengthened business networks, and enhanced remittance stability [16]. The Mexican experience suggests that dual citizenship can strengthen rather than weaken ties to the origin country, contradicting concerns that permitting dual citizenship would reduce diaspora engagement.

The Philippines implemented a dual citizenship law in 2003 specifically targeting its overseas workforce. This policy has been credited with enhancing remittance flows, facilitating diaspora investment in Philippine businesses and real estate, and strengthening the overall economic relationship between the Philippines and its diaspora [17]. The Filipino case is particularly relevant to India given similarities in diaspora size, geographic distribution, and economic significance.

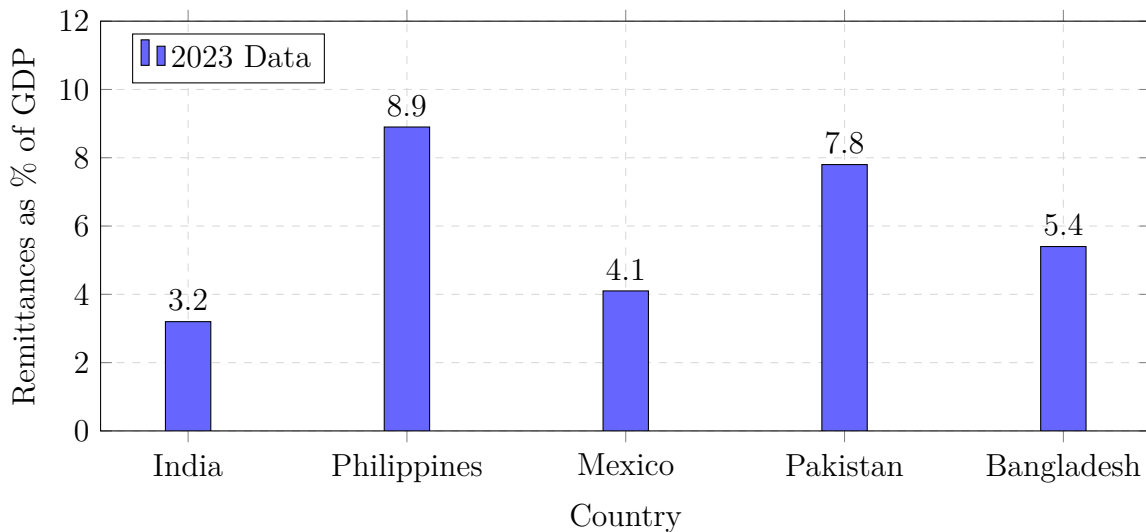


Figure 3: Remittances as percentage of GDP for major emigration countries (2023)

These comparative cases suggest that India’s prohibition on dual citizenship may constrain economic benefits relative to a more permissive regime. While the OCI scheme captures some advantages of dual citizenship, the retention of significant restrictions limits the depth of diaspora integration into India’s economy. The experiences of Mexico and the Philippines indicate that full dual citizenship need not undermine national sovereignty or loyalty, while potentially enhancing economic benefits from diaspora engagement.

6 Sectoral Impacts and Investment Patterns

The effect of citizenship policy on India’s economy varies substantially across sectors. In technology and business services, where diaspora engagement has been most intensive, the OCI framework has proven relatively effective in facilitating investment and collaboration. However, in sectors where land ownership or long-term stability is more critical, restrictions on OCI cardholders create barriers to investment.

Real estate represents a particularly important sector where citizenship restrictions have economic implications. While OCI cardholders can purchase residential and commercial property, they are prohibited from acquiring agricultural land or plantation property. This restriction limits potential investment in agricultural development, agro-processing, and rural enterprises where diaspora capital could be beneficial [18].

The startup ecosystem provides another lens through which to examine citizenship policy effects. Indian diaspora members have been active participants in India’s technology startup boom, both as investors and as returning entrepreneurs. The OCI framework facilitates this engagement by enabling flexible residence and business establishment. However, restrictions on certain activities and the psychological barrier of not holding full citizenship may deter some diaspora members from deeper commitment to India-based ventures.

Foreign institutional investment represents another dimension where citizenship considerations intersect with economic policy. While institutional investors operate largely independently of individual citizenship status, the concentration of diaspora wealth in countries such as the United States and the presence of diaspora members in financial sector leadership positions suggest that citizenship policies may have indirect effects on institutional investment flows through network effects and information channels [19].

7 Policy Considerations and Reform Proposals

The economic analysis of India’s citizenship framework suggests several considerations for potential policy reform. First, the evidence indicates that the OCI scheme has successfully facilitated increased economic engagement with the diaspora relative to the previous regime, demonstrating the economic value of policies that reduce barriers to diaspora participation in the Indian economy.

Second, comparative analysis and sectoral evidence suggest that India continues to forgoes some potential economic benefits by maintaining restrictions inherent in the OCI framework rather than adopting full dual citizenship. The experiences of comparable countries indicate that concerns about loyalty or sovereignty need not preclude dual citizenship adoption, and that economic benefits can be substantial.

Third, the heterogeneity of effects across sectors suggests that sector-specific reforms might be warranted even in the absence of broader constitutional change. Expanding OCI cardholders’ rights in areas such as agricultural land ownership, public sector employment in non-sensitive positions, and political participation could enhance economic benefits while maintaining the current constitutional framework.

Fourth, the demographic and economic profile of the Indian diaspora, concentrated in high-income countries with strong rule of law, suggests that dual citizenship would likely attract economically productive engagement rather than creating fiscal burdens or security risks. The selectivity inherent in successful emigration to developed countries provides a degree of screening that reduces potential concerns.

8 Conclusion

India’s prohibition of dual citizenship, while rooted in post-independence concerns about loyalty and national integration, has measurable economic implications. The Overseas Citizenship of India scheme represents a pragmatic compromise that has demonstrably enhanced diaspora engagement and economic flows relative to the prior policy regime. Evidence from remittance patterns, foreign direct investment data, and sectoral analysis indicates that the OCI framework has successfully facilitated increased economic interaction between the Indian diaspora and the Indian economy.

However, comparative analysis with countries offering full dual citizenship and examination of sectors where OCI restrictions create barriers suggest that India continues to limit potential economic benefits from its diaspora. The experiences of Mexico, the Philippines, and other countries demonstrate that dual citizenship can enhance rather than diminish diaspora engagement, while the economic profile of India’s diaspora suggests substantial unrealized potential for investment, knowledge transfer, and entrepreneurship.

Policy reform in this area requires balancing economic considerations against constitutional principles, national security concerns, and political feasibility. The evidence presented in this analysis suggests that the economic case for liberalizing citizenship policy is strong, but implementation would require constitutional amendment and broad political consensus. In the interim, incremental reforms expanding OCI cardholders’ rights in specific sectors could capture some economic benefits while maintaining the current constitutional framework.

As India continues its trajectory toward becoming a major global economy, optimizing engagement with its diaspora will become increasingly important. The intersection of citizenship policy and economic outcomes merits continued attention from policymakers, researchers, and civil society to ensure that India’s legal framework maximizes the economic potential of its global community while upholding appropriate protections and principles.

References

- [1] Ministry of External Affairs, Government of India. (2024). *Indian Diaspora Statistical Profile*. New Delhi: Policy Planning and Research Division.
- [2] Government of India. (1950). *The Constitution of India*. Article 9: Persons voluntarily acquiring citizenship of a foreign State not to be citizens.
- [3] Ratha, D., Mohapatra, S., & Scheja, E. (2013). Impact of migration on economic and social development: A review of evidence and emerging issues. *World Bank Policy Research Working Paper*, 5558.
- [4] Government of India. (2005). *The Citizenship (Amendment) Act, 2005*. Ministry of Home Affairs.
- [5] Ministry of Home Affairs. (2019). *Guidelines for Overseas Citizenship of India Scheme*. Government of India.
- [6] Kumar, A. (2018). Overseas citizenship of India: Evolution, policy framework, and implications. *Journal of South Asian Development*, 13(2), 180-203.
- [7] Ministry of External Affairs. (2023). *Annual Report 2022-23*. Government of India, pp. 67-72.
- [8] World Bank. (2024). *Migration and Development Brief 40: Remittances Brave Global Headwinds*. Washington, DC: KNOMAD-World Bank.

- [9] Docquier, F., & Rapoport, H. (2016). Globalization, brain drain, and development. *Journal of Economic Literature*, 50(3), 681-730.
- [10] Reserve Bank of India. (2023). *Foreign Direct Investment Flows to India: Annual Report 2022-23*. Mumbai: Department of Statistics and Information Management.
- [11] Pandey, A., Aggarwal, A., Devane, R., & Kuznetsov, Y. (2020). The diaspora advantage: Determinants of overseas Indian investment in India. *International Business Review*, 29(4), 101-119.
- [12] Saxenian, A. (2006). *The New Argonauts: Regional Advantage in a Global Economy*. Cambridge: Harvard University Press.
- [13] Kapur, D. (2001). Diasporas and technology transfer. *Journal of Human Development*, 2(2), 265-286.
- [14] Raghuram, P. (2009). Which migration, what development? Unsettling the edifice of migration and development. *Population, Space and Place*, 15(2), 103-117.
- [15] Escobar Latapí, A., Hailbronner, K., Martin, P., & Meza González, L. (2007). Migration and development: Mexico and Turkish experiences. *International Migration*, 45(2), 3-30.
- [16] Fitzgerald, D. (2006). Towards a theoretical ethnography of migration. *Qualitative Sociology*, 29(1), 1-24.
- [17] Lim, J. A., & Aguilar Jr, F. V. (2015). Philippine return migration and the changing definition of citizenship. *Journal of Ethnic and Migration Studies*, 41(9), 1475-1495.
- [18] Nayyar, D. (2016). Migration, remittances, and capital flows: The Indian experience. In S. M. Dev (Ed.), *India Development Report 2015-16* (pp. 89-105). New Delhi: Oxford University Press.
- [19] Kuznetsov, Y. (Ed.). (2006). *Diaspora Networks and the International Migration of Skills: How Countries Can Draw on Their Talent Abroad*. Washington, DC: World Bank Publications.

The End