NEXT IAS

DAILY EDITORIAL ANALYSIS

TOPIC

WHY INDIAN CAPITAL NEEDS TO INVEST DOMESTICALLY?

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Context

- The ongoing global economic uncertainty, marked by protectionist measures and trade distortions demands a shift toward an inclusive economic system—one that prioritizes public welfare alongside private capital interests.

About the Indian Capital Investment: Rethinking Growth and Demand

- Economic growth relies on expanding supply with robust and inclusive demand. Historically, **three processes** shaped the **global capitalist system:**
  - The creation of a wage-labour class;
  - Productivity gains from industrial mass production; and,
  - Rising demand through income growth.
- In the **modern and globalized world,** aggregate demand has both **domestic and external components.**
  - India's focus needs to turn inward — stimulating domestic demand through investment, fair wage growth, and innovation-driven productivity, with exports under pressure from global uncertainties.

Need of Domestic Investment

- **Reviving Private Investment:** Indian private investment has stagnated, despite record-high profits.
  - Between FY20 and FY25, public capital expenditure grew at a robust CAGR of 25%, while private investment lagged behind.
  - Domestic firms **accounted for 94% of private sector investment** announcements in the **first half of FY26**, up from **77% in 2018–19.**
  - Indian **outward FDI grew at a CAGR of 12.6%** — higher than domestic investment growth — indicating capital's preference for foreign markets.
- **Ensuring Moderate Wage Growth:** The **Economic Survey 2024–25** highlighted a widening gap between corporate profits and wages.
  - While **profits reached a 15-year high**, wage growth stagnated, weakening purchasing power and suppressing domestic demand.
  - Moreover, the **increasing contractualisation of formal sector jobs** has diluted workers' bargaining power.
- **Strengthening Research and Development (R&D):** India's gross R&D expenditure stands at **0.64% of GDP**, with only **36%** contributed by the private sector—**far below global benchmarks** where businesses drive over 70% of R&D spending.
- **Declining Trend of FDI:** Net FDI inflows have sharply declined—from $84.8 billion in FY 2021–22 to just $0.4 billion retained in FY 2024–25 after repatriations;
  - Disinvestments surged by 51% in FY 2023–24 and rose again in FY 2024–25;
  - Short-term profit-seeking behavior has replaced long-term strategic commitments;
- **Demand-Side Weakness:** Weak consumer sentiment and uneven post-pandemic recovery have dampened domestic consumption.
- **Regulatory and Policy Bottlenecks:** Issues like *land acquisition delays, complex tax structures, and inconsistent enforcement of regulations* continue to deter investment.

Why Does Domestic Investment Matters?

- **Stimulating Demand:** Domestic capital can fuel internal consumption, creating a virtuous cycle of growth.
- **Job Creation:** Investment in manufacturing and services directly translates to employment opportunities.
- **Resilience Against Global Shocks:** With FDI showing signs of retreat, domestic capital can anchor stability.
- **Confidence Signaling:** When Indian firms invest at home, it sends a strong message to global investors about the country's prospects.
- Domestic investment offers several advantages:
  - **Stability**: Less prone to sudden withdrawals;

- **Alignment With National Priorities:** More likely to invest in infrastructure, manufacturing, and employment-generating sectors;
- **Multiplier Effect:** Stimulates local demand and entrepreneurship;

Government Initiatives to Bridge the Gap

- **Make in India:** Promotes manufacturing and innovation;
- **Production-Linked Incentives (PLI):** Encourages domestic production in key sectors;
- **Ease of Doing Business reforms:** Simplifies compliance and reduces red tape;
- **Invest India:** A facilitation platform for investors
- **Special Assistance to States for Capital Investment 2023–24 Scheme** allocated 1.3 lakh crore in interest-free loans to states for infrastructure projects in health, education, transport, and water supply.
    - Public capital expenditure surged from 3.4 lakh crore in FY20 to 10.2 lakh crore projected for FY25—a compound annual growth rate of 25%.

Road Ahead

- Indian capital needs to evolve — beyond profit maximization — prioritizing **national development over narrow profit motives**. It means:
    - Investing in underserved regions;
    - Supporting innovation and startups;
    - Partnering with government initiatives;
    - Prioritizing long-term national interest over short-term returns;
- Inclusivity, innovation, and domestic reinvestment should define the new phase of capitalism that can help India achieve a **$30 trillion economy by 2047.**

Source: TH

Daily Mains Practice Question

[Q] Discuss the importance of domestic investment by Indian capital in the context of economic resilience, employment generation, and long-term national growth.