1. Do you think India's reliance on foreign capital for economic growth is sustainable? Justify your answer with examples.

Foreign capital flows refer to the movement of money across countries for the purpose of investment, trade, or business operations. These flows indicate how capital is transferred between countries in the form of financial investments or economic transactions. Gross Foreign Direct Investment inflows recorded a revival in FY25, increasing from USD 47.2 billion in the first eight months of FY24 to USD 55.6 billion in the same period of FY25, a YoY growth of 17.9 per cent, says the Survey.

India's reliance on foreign capital for economic growth presents a complex picture, with both benefits and potential risks. It has been a significant driver of its economic growth, especially since the economic liberalization in 1991. Foreign Direct Investment (FDI) has played a transformative role in shaping India's economic landscape, contributing to capital inflows, technology transfer, and job creation.

Reliability of Foreign Capital for Economic Growth

1. Boosts Investment and Infrastructure Development:

- Foreign capital, including Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), can fill the investment gap in developing economies like India.
- **Example:** India received $49.3 billion in FDI inflows in FY 2022-23, contributing to infrastructure development and job creation.
- Sectors like telecommunications, IT, and renewable energy have benefited significantly from foreign capital.

2. Technology Transfer and Skill Development:

- FDI often brings advanced technology and managerial expertise, which can enhance productivity and innovation.
- **Example:** The entry of global companies like Amazon, Google, and Tesla in India has led to technology transfer and skill development in the IT and renewable energy sectors.

3. Stabilizes Forex Reserves:

- Foreign capital inflows help maintain adequate forex reserves, which are crucial for stabilizing the currency and meeting external obligations.
- **Example:** INDIA'S FOREIGN EXCHANGE RESERVES STOOD AT USD 640.3 BILLION AT THE END OF DECEMBER 2024

4. Government Schemes to Attract Foreign Capital:

- Schemes like Make in India, Production Linked Incentive (PLI), and National Infrastructure Pipeline (NIP) aim to attract foreign investment.
- **Example:** The PLI scheme, with an outlay of ₹1.97 lakh crore ($26 billion), has attracted significant foreign investment in sectors like electronics, pharmaceuticals, and automobiles.

Unsustainability of Over-Reliance on Foreign Capital

1. Volatility of Foreign Portfolio Investment (FPI):

- FPIs are highly volatile and can lead to economic instability during global financial crises or geopolitical tensions.
- Example: According to the data with the depositories, Foreign Portfolio Investors (FPIs) offloaded shares worth Rs 23,710 crore from Indian equities so far this month (till February 21, 2025)

2. Debt Servicing Burden:

- Excessive reliance on foreign loans can increase the debt servicing burden, especially if the rupee depreciates.
- **Example:** India's external debt rose to $ 682.3 billion as of June 2024, up 2 percent over March 2024 and 8.5 percent over June 2023, data released by the Reserve Bank showed.

3. Loss of Economic Sovereignty:

- Over-reliance on foreign capital can lead to a loss of control over key sectors, as foreign investors may influence policy decisions.
- **Example:** In the past, disputes with foreign investors, such as Vodafone and Cairn Energy, have led to arbitration cases and reputational risks.

4. Impact on Current Account Deficit (CAD):

- While foreign capital can finance the CAD, excessive reliance can make the economy vulnerable to sudden stops or reversals of capital flows.
- **Example:** India's Current Account Deficit (CAD) moderated to 1.2 % of GDP in Q2 FY25 against 1.3 % of GDP in Q2 FY24

5. Uneven Regional Development:

- Foreign capital tends to flow into developed regions and sectors, exacerbating regional disparities.
- **Example:** States like Maharashtra, Karnataka, and Gujarat receive the majority of FDI, while poorer states like Bihar and Odisha lag behind.

Balancing Foreign Capital with Domestic Initiatives

To ensure sustainable economic growth, India is focusing on reducing over-reliance on foreign capital by strengthening domestic industries and promoting self-reliance:

- **Atmanirbhar Bharat (Self-Reliant India):** This initiative aims to boost domestic manufacturing and reduce import dependence. For example, the Indian National Space Promotion and Authorisation Centre (IN-SPACe) launched a ₹5 billion fund to support early- stage space technology startups, aiming to reduce reliance on imports in the space sector.
- **Make in India:** This program encourages both domestic and foreign companies to manufacture their products in India. Apple's expansion of manufacturing operations in India, with significant increases in exports, exemplifies the success of this initiative.
- **Green Economy Investments:** India is attracting foreign investments in sustainable projects, with opportunities exceeding $500 billion by FY 2030 in sectors like renewables and electric vehicles.

While foreign capital has been instrumental in India's economic development, a balanced approach that combines attracting foreign investments with strengthening domestic capabilities is essential for sustainable growth. Initiatives like Atmanirbhar Bharat and Make in India are steps toward achieving this balance, ensuring that India's growth is resilient and less susceptible to global economic fluctuations.

2. How do financial markets and institutions contribute to resource mobilization in India? Analyze their role in economic development.

Financial markets and institutions are pivotal in mobilizing resources in India, channelling savings into productive investments, and thereby driving economic development. They serve as intermediaries between savers and borrowers, ensuring efficient allocation of financial resources across various sectors.

Financial Markets' Contribution to Resource Mobilization

- **Primary Market Contributions:** The primary market facilitates the issuance of new securities, enabling corporations and governments to raise fresh capital. This is achieved through instruments such as Initial Public Offerings (IPOs) and rights issues.

- **Public and Rights Issues:** In the financial year 2023, India witnessed resource mobilization amounting to ₹611 billion through public and rights issues. Although this was a decrease from over ₹1.3 trillion in the previous year, it underscores the market's capacity to support substantial capital formation.
- **Sectoral Participation:** The Small and Medium Enterprises (SME) platform has been instrumental in resource mobilization. For instance, during 2015-16, 50 issues raised ₹379 crore, reflecting the platform's role in supporting smaller enterprises.

Secondary Market Contributions

The secondary market provides a platform for the trading of existing securities, offering liquidity and enabling price discovery. A vibrant secondary market enhances investor confidence, encouraging more participation and investment.

- **Market Capitalization Growth:** India's stock market capitalization has seen significant growth, with increasing IPO activity and a diverse range of companies accessing public funds. This expansion reflects the market's maturity and its role in resource mobilization.

Mutual Funds and Retail Participation

Mutual funds aggregate resources from individual investors, directing them into various securities and thereby facilitating broader market participation.

- **Net Resource Mobilization:** In the financial year 2022, the net value of resource mobilization through mutual funds in India was ₹2.54 trillion, the highest since financial year 2020.
- **Systematic Investment Plans (SIPs):** To deepen equity market reach, the Securities and Exchange Board of India (SEBI) has encouraged fund houses to offer SIPs with monthly investments as low as ₹250 (approximately $3). This initiative aims to attract investors from smaller towns, promoting financial inclusion and enhancing resource mobilization.

Financial Institutions' Contribution to Resource Mobilization

Financial institutions in India are pivotal in mobilizing resources, channeling funds from savers to borrowers, and thereby facilitating economic development. Their contributions span various sectors, including banking, insurance, and capital markets.

Banking Sector

Banks serve as primary financial intermediaries by accepting deposits and extending credit. This process not only ensures the safety of public savings but also promotes economic activities through the provision of loans.

- **Infrastructure Bonds:** In the current financial year, Indian banks have raised a record ₹892 billion through infrastructure bonds to support long-term projects. However, increased supply has led investors to demand higher returns, raising the cost of funds for banks.
- **Certificates of Deposit (CDs):** To meet year-end credit demand, especially during festive seasons, banks have increasingly relied on short-term instruments like CDs. As of August 2024, the outstanding stock of CDs reached a record ₹5.15 trillion, indicating their significance in short-term resource mobilization.
- Insurance Companies

Insurance firms accumulate premiums from policyholders, creating substantial funds that can be invested in various sectors. These investments support long-term projects and provide financial stability to the economy.

Role of Financial Markets and Institutions in Economic Development

Financial Markets

Financial markets in India serve as platforms for raising capital and ensuring liquidity, essential for economic activities.

- **Capital Formation:** By enabling the issuance of stocks and bonds, financial markets provide avenues for businesses to access funds for expansion and innovation. This process of capital formation is crucial for economic development.

- **Liquidity Provision:** Markets offer mechanisms for investors to buy and sell securities, ensuring liquidity and fostering investor confidence. A liquid market attracts more participants, enhancing the availability of capital.

Financial Institutions

Financial institutions, including banks, non-banking financial companies (NBFCs), and development financial institutions (DFIs), play a central role in resource mobilization.

- **Credit Allocation:** Banks and NBFCs assess and manage risks associated with lending, directing funds to sectors with high growth potential. This credit allocation supports entrepreneurship and industrial development.
- **Development Finance:** DFIs focus on providing long-term finance for projects critical for economic development but may not attract immediate commercial interest. They bridge the funding gap for infrastructure and other priority sectors.

Financial markets and institutions in India play a crucial role in resource mobilization, driving investments, and fostering economic development. Through various schemes and initiatives, they continue to enhance their reach and efficiency, contributing to the nation's growth trajectory.