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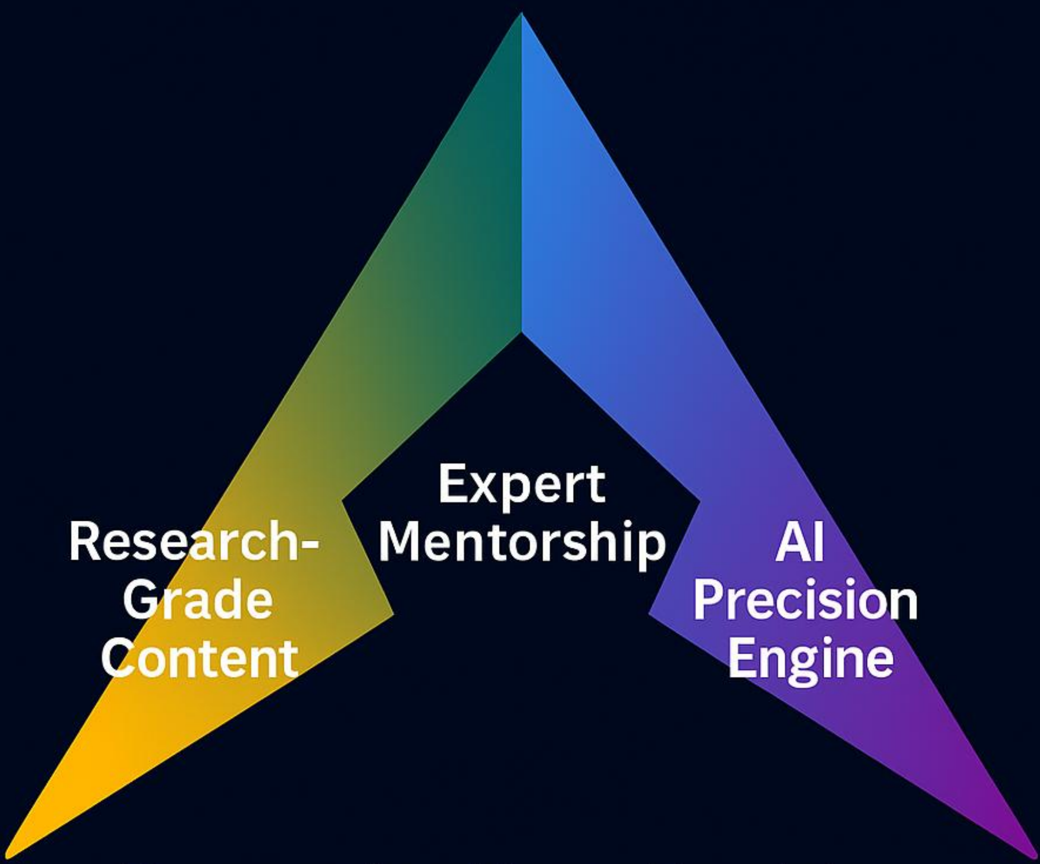

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DAILY CURRENT AFFAIRS DATED 12.06.2026

GS Paper II: Current Affairs

1. FCRA Amendment Bill, 2026 and the Regulation of Civil Society

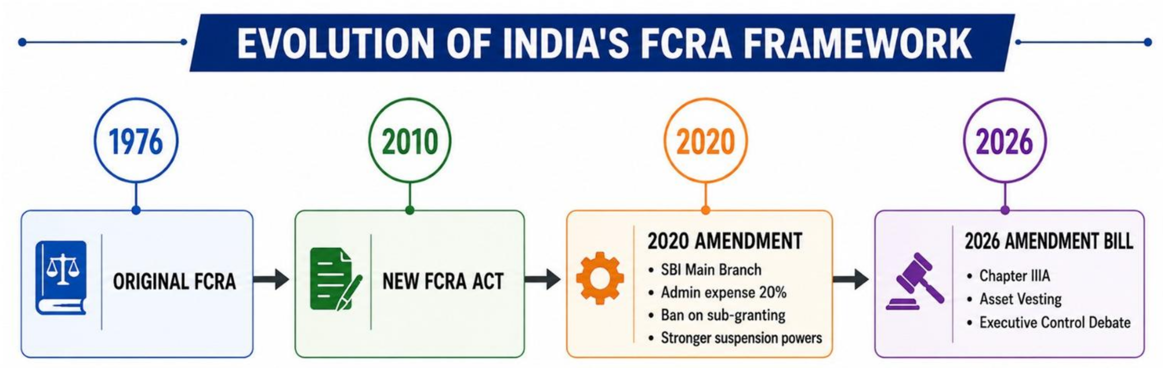
a. Introduction

The Foreign Contribution Regulation framework occupies a sensitive space in Indian governance. It deals with the regulation of foreign contributions received by individuals, associations, non-governmental organisations, charitable trusts, educational institutions and religious bodies. Since foreign funding can influence public mobilisation, institutional activity, religious organisations, welfare delivery and even political discourse, the State has a legitimate interest in ensuring transparency and preventing misuse.

However, the Foreign Contribution Regulation Amendment Bill, 2026 has raised serious concerns because it appears to move beyond ordinary regulation of foreign funds and towards stronger executive control over civil society institutions. The Bill proposes a new Chapter IIIA and introduces provisions that may allow assets linked to foreign contributions to vest, even provisionally, in a government-designated authority after cancellation, surrender or deemed cessation of registration.

The issue is therefore not whether foreign contributions should be regulated. They certainly should be. The deeper constitutional question is whether such regulation remains proportionate, transparent and rights-sensitive, or whether it gives the executive excessive power over institutions that perform important democratic, social, educational, religious and welfare functions.

Thus, the debate around the 2026 Bill must be understood as a question of balancing national security and financial transparency with civil society autonomy and constitutional freedoms.



b. Background: FCRA and the Logic of Regulation

- **Purpose of the FCRA Framework:** The Foreign Contribution Regulation Act regulates the acceptance and utilisation of foreign contributions by individuals, associations and organisations. Its basic purpose is to ensure that foreign money does not adversely affect national security, public order, electoral processes, sovereignty or social harmony.
- **Earlier Tightening Through the 2020 Amendments:** The earlier amendments of 2020 had already tightened the compliance framework. Foreign contributions were required to pass through a single State Bank of India branch in New Delhi. The permissible administrative expenditure limit was reduced from 50 per cent to 20 per cent. Sub-granting to smaller organisations was prohibited, and suspension powers were expanded.
- **Impact on Civil Society Organisations:** These changes significantly altered the working environment for civil society organisations. Many small organisations, which depended on larger institutions for financial and technical support, faced difficulties after the ban on sub-granting.
- **Shift Introduced by the 2026 Bill:** The 2026 Bill now appears to take the framework further by introducing stronger asset-control provisions.

This background shows that the present debate is not isolated; it is part of a longer trend towards stricter regulation of foreign-funded civic activity.

c. Major Features Raising Concern

- **Automatic Cessation of Registration:** The proposed Section 14B provides for automatic cessation of Foreign Contribution Regulation Act registration if renewal is denied, delayed, or not applied for within the prescribed time. This provision is significant because it can affect organisations not only in cases of proven wrongdoing, but also where procedural delays, administrative uncertainty or renewal-related issues arise.
- **Provisional Vesting of Assets:** The proposed Section 16A allows foreign contributions and assets derived from such contributions to provisionally vest in a government-designated authority once registration is cancelled, surrendered or deemed to have ceased. The Designated Authority may manage, transfer, sell or dispose of such assets. In some cases, sale proceeds may be credited to the Consolidated Fund of India.
- **Range of Assets Affected:** The assets affected may include schools, hospitals, orphanages, religious institutions, vehicles, buildings, equipment and unspent funds. During suspension, organisations may also be prevented from managing assets without prior approval.
- **Heart of the Controversy:** This is the heart of the controversy. The Bill does not merely regulate the flow of foreign contributions. It creates the possibility of direct executive control over institutional assets, including those connected with education, health, charity, welfare and religious activity.

Therefore, the Bill raises concerns because it moves from financial regulation towards possible institutional control.

d. Significance of Regulation

Legitimacy of Regulating Foreign Funding

- Regulation of foreign funding is legitimate in principle. Foreign contributions may be used for welfare, education, health and humanitarian purposes, but they may also raise concerns if used for unlawful activities, political mobilisation, money laundering, conversion-related controversies, separatist activities or activities prejudicial to national interest.

Need for Transparency

- A democratic State cannot remain indifferent to such risks. Transparency in foreign funding, proper accounting, audit trails, beneficial ownership disclosure and compliance with national law are essential.

Three Principles of Legitimate Regulation

However, legitimacy of regulation depends on three core principles.

- Due process means that adverse action should follow fair procedure and reasoned decision-making.
- Proportionality means that punishment should correspond to the seriousness of the violation.
- Institutional safeguards mean that executive discretion must be checked by review, appeal and judicial oversight.

Regulation Without Excessive Control

- A law designed to ensure transparency should not become a mechanism for excessive control over civic institutions.

Thus, the issue is not regulation versus freedom, but proportionate regulation versus executive overreach.

e. From Oversight to Control

- **Normal Regulatory Oversight:** The main concern with the 2026 Bill is that it may shift the regulatory framework from oversight to control. In a normal regulatory system, the State checks whether funds are properly received, accounted for and used. It may impose penalties, suspend permissions, cancel registration or prosecute serious violations.

- **Asset-Vesting as a Stronger Power:** However, the proposed asset-vesting framework goes further. It may allow the State to take control of assets associated with foreign contributions even before final judicial determination of wrongdoing.
- **Risk of Disproportionate Consequences:** This raises the risk of disproportionate consequences. A procedural delay in renewal or an administrative refusal may result in an organisation losing control over assets used for public welfare. The consequences may be especially harsh where institutions have built schools, hospitals, orphanages, hostels, community centres or health facilities over decades.
- **Problem of Vague Expressions:** The concern becomes sharper because terms such as “public interest” can be broad and subjective. If such expressions are not clearly defined, they may expand executive discretion and weaken protection against arbitrary action.

Therefore, the Bill’s asset-control provisions require stronger safeguards to prevent ordinary compliance issues from becoming institutional disruption.

f. Impact on Civil Society and Welfare Delivery

- **Role of Civil Society:** Civil society organisations play an important role in Indian democracy. They often complement the State in areas where public service delivery is weak or uneven. Their work is especially important in education, public health, child protection, nutrition, tribal welfare, orphan care, disability support, disaster relief, women’s empowerment and community mobilisation.
- **Impact of Operational Paralysis:** If Foreign Contribution Regulation Act cancellations lead to asset takeover or operational paralysis, the impact will not remain limited to the organisation concerned. Vulnerable communities that depend on such services may face direct harm. A school may stop functioning, a hospital may be unable to operate, an orphanage may lose financial support, or a tribal welfare programme may be disrupted.
- **Beyond a Compliance Issue:** This is why FCRA regulation cannot be viewed only as a compliance issue. It has a direct connection with welfare delivery, social capital and democratic participation.
- **Shrinking Civic Space:** Excessive restrictions may shrink civic space and reduce the ability of communities to organise, advocate and receive support.

Thus, regulation of foreign funding must be designed in a manner that protects both national interests and welfare continuity.

g. Minority Institutions and Constitutional Sensitivity

- **Impact on Minority-Run Institutions:** The Bill also has implications for minority-run institutions, especially those that manage schools, hospitals, colleges and charitable bodies. Many Christian institutions, for example, have historically played a major role in education and health care in several parts of India. Such institutions often serve the wider public, not only members of their own religious community.
- **Religious Freedom and Educational Rights:** If asset-control provisions are applied broadly, they may affect not only religious freedom but also educational rights and public welfare. Minority institutions have constitutional protection, particularly in relation to their right to establish and administer educational institutions.
- **Regulation With Constitutional Care:** Regulation must therefore be carefully designed so that financial accountability does not become indirect institutional control.
- **Accountability Without Excessive Penalty:** This does not mean that minority institutions are exempt from financial regulation. They must maintain transparency and comply with law. However, regulatory action must respect constitutional protections and should not impose penalties that are excessive in relation to the alleged violation.

Therefore, the Bill must be assessed through the lens of both financial accountability and constitutional protection of minority institutions.

h. Constitutional Dimension

- **Article 14 and Arbitrariness:** The Bill raises several constitutional questions. Article 14 guarantees equality before law and protection against arbitrary state action. If asset vesting occurs through broad executive discretion without adequate safeguards, it may raise concerns of arbitrariness.
- **Article 19 and Associational Freedom:** Article 19(1)(c) protects the right to form associations. Funding restrictions do not always directly violate this right, but excessive restrictions on functioning, assets and institutional continuity may indirectly weaken associational freedom.
- **Articles 25 and 26:** Articles 25 and 26 protect religious freedom and the right of religious denominations to manage their own affairs in matters of religion. If religious or charitable institutions are taken over through broad administrative power, these protections may be implicated.
- **Articles 29 and 30:** Articles 29 and 30 protect cultural and educational rights of minorities, including the right to establish and administer educational institutions. State control over minority institutions due to FCRA-related procedural issues may therefore raise serious constitutional concerns.
- **Article 300A and Property Protection:** Article 300A provides that no person shall be deprived of property except by authority of law. While the Bill itself may provide legal authority, constitutional fairness requires that deprivation or control of property should not be arbitrary, excessive or procedurally unfair.
- **Constitutional Balance:** Thus, the issue is not merely administrative. It concerns the constitutional balance between national security, civil liberties, religious freedom, minority rights and property protection.

This makes the FCRA Amendment Bill a major test of rights-sensitive governance.

i. Governance Dimension

- **Preventing Misuse Without Weakening Civil Society:** The larger governance challenge is to design a regulatory framework that prevents misuse of foreign funds without weakening democratic participation. Civil society cannot be viewed only through the lens of security suspicion. It also represents social initiative, community trust, voluntary action and participatory democracy.
- **Duties of Civil Society Organisations:** At the same time, civil society organisations receiving foreign funds must uphold high standards of transparency. They must maintain proper accounts, disclose sources and uses of funds, follow audit requirements and avoid activities prohibited by law.
- **Need for Smart Regulation:** The solution therefore lies in smart regulation. Smart regulation distinguishes between serious violations and minor procedural lapses. It protects national security without paralysing welfare institutions. It enables accountability without producing fear. It uses transparent procedure rather than vague discretion.

Therefore, India needs a regulatory model that is strict against misuse but fair towards genuine civic and welfare institutions.

j. Way Forward

- **Ensure Strong Due Process:** The first requirement is strong due process. Asset vesting should occur only after independent adjudication or a clearly reasoned process with adequate opportunity to be heard. Mere administrative cancellation or procedural lapse should not automatically result in loss of institutional control.
- **Define "Public Interest" Clearly:** The expression "public interest" should be clearly defined. Vague grounds should be narrowed so that executive action is based on objective criteria and not subjective preference.

- **Protect Essential Services:** Essential services must be protected. Schools, hospitals, orphanages, shelters, welfare centres and health programmes should not be paralysed for minor procedural violations. Where violations are technical or curable, compliance correction should be preferred over institutional disruption.
- **Strengthen Appeal Safeguards:** There should be strong appeal safeguards. Time-bound review mechanisms and access to judicial remedies must be built into the framework so that affected organisations are not left without effective recourse.
- **Adopt Graded and Proportionate Penalties:** Penalties should be graded and proportionate. Minor lapses in filing, renewal or documentation should be treated differently from serious violations involving money laundering, national security threats or diversion of funds.
- **Ensure Transparency in Adverse Action:** Transparency in suspension and cancellation is essential. Reasons for adverse action should be disclosed unless there are narrowly defined and legally justified security grounds.
- **Protect Minority Institutions:** Minority institutions must be protected within the constitutional framework. Regulation should ensure financial accountability while respecting Articles 25, 26, 29 and 30.
- **Promote Compliance Support:** Finally, the State should promote compliance support. Smaller organisations often lack legal and accounting capacity. Digital filing assistance, audit support, renewal reminders and help desks can improve compliance without adopting a punitive approach.

A balanced way forward must therefore combine transparency, due process, proportionality, welfare continuity and constitutional safeguards.

Conclusion

The Foreign Contribution Regulation Amendment Bill, 2026 reflects a deeper tension in Indian governance: the need to protect national security and financial transparency on one side, and the need to preserve civil society autonomy and constitutional freedoms on the other.

Foreign funding cannot be left unregulated. However, regulation must not become a means of excessive executive control over civic, charitable, educational or religious institutions. Provisions allowing asset vesting and possible disposal by a government-designated authority raise serious concerns of due process, proportionality, minority rights, property protection and welfare continuity.

India needs a transparent, proportionate and rights-sensitive FCRA framework. Such a framework should prevent misuse of foreign funds without shrinking democratic civic space or disrupting institutions that serve vulnerable communities. The aim should be accountability without intimidation, regulation without overreach and national security without weakening constitutional democracy.

GS Paper II: Current Affairs

2. India's R&D Underspending and the Innovation Challenge

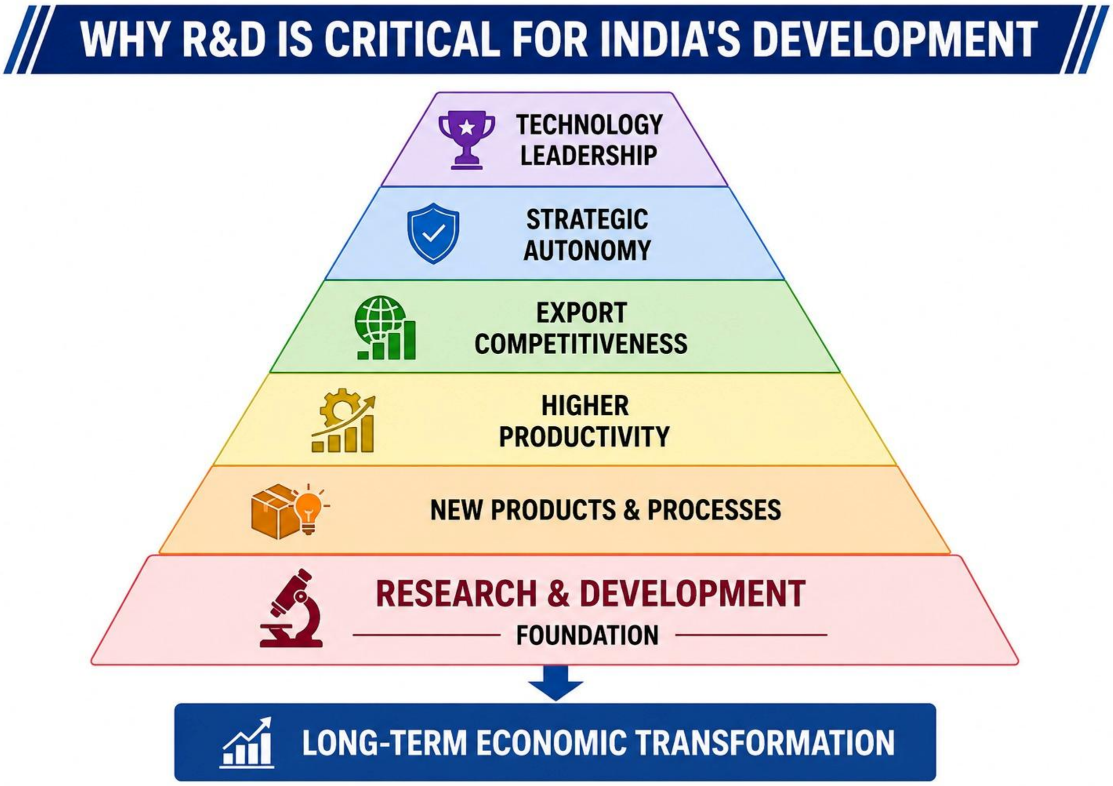
a. Introduction

Research and development is one of the foundations of long-term economic transformation. Countries that move from low-cost production to high-value innovation usually do so by investing steadily in technology, design, engineering, scientific research and industrial capability. For India, this question has become increasingly important because the country aspires to become a major manufacturing power, a technology leader and a resilient economy in strategic sectors such as semiconductors, defence, green energy, pharmaceuticals, artificial intelligence and advanced materials.

A recent analysis by the Chief Economic Adviser argues that India's chronic underinvestment in research and development is not caused by one factor alone. It is shaped by a combination of structural, historical, financial and cultural factors. Here, culture does not mean a fixed national trait. It refers to historically shaped business behaviour, incentives and institutional habits that influence how firms make long-term investment decisions.

The central issue is that India's growth model has often rewarded market expansion more than capability-building. Firms have been able to grow by serving a large domestic market, but this has not always created strong pressure to innovate, compete globally or invest patiently in research. As a result, India's innovation challenge is not merely about increasing expenditure. It is about changing the incentive structure of the economy.

Thus, India's R&D problem must be understood as a deeper issue of industrial behaviour, market incentives and national capability-building.



b. Why R&D Matters for India

- **Moving Beyond Low-Cost Production:** Research and development allows firms and countries to move beyond imitation and low-cost production. It supports new products, better processes, higher productivity, quality improvement, technological self-reliance and export competitiveness.
- **Strategic Autonomy:** A strong research base also reduces dependence on imported technology and strengthens strategic autonomy. This is especially important in a world where technology supply chains are increasingly shaped by geopolitics.
- **Relevance for Future Growth Sectors:** For India, research and development is especially important because several future growth sectors are technology-intensive. Semiconductors require design capability, precision manufacturing and materials research. Defence production requires continuous innovation in electronics, propulsion, sensors, drones, cyber systems and weapons platforms. Green technologies require advances in batteries, hydrogen, grid systems, solar efficiency and recycling. Pharmaceuticals require drug discovery, biotechnology and clinical research.
- **Risk of Remaining in Lower Value Chains:** Without a strong research and development base, India may remain dependent on imported technology even if it expands manufacturing. This would limit value addition and keep India in lower stages of global value chains.

Therefore, R&D is not a luxury expenditure; it is a core requirement for India's transition from market scale to technological strength.

c. Captive Domestic Market and Weak Innovation Pressure

- **Domestic Market as Strength:** India's large domestic market is often described as a major economic strength. It gives firms access to a billion-plus consumers and allows scale without immediate dependence on exports.
- **Domestic Market as Comfort Zone:** However, the same advantage can also reduce innovation pressure. When firms can grow by selling to a large domestic market, they may not feel compelled to continuously improve quality, reduce defects, upgrade technology or meet demanding global standards.
- **Market Capture Over Capability-Building:** Domestic demand can therefore create comfort. Firms may focus on distribution, pricing, branding and market capture rather than deep technological capability.
- **Comparison with Export-Oriented Economies:** This is different from the experience of countries such as South Korea, Japan and Germany. These economies had to compete in export markets and therefore faced intense pressure to meet global standards of quality, productivity and innovation. Export discipline forced firms to invest in research, design, process improvement and technology absorption.
- **Innovation Version of Dutch Disease:** In India's case, the abundance of domestic demand can produce what may be called an innovation version of Dutch disease. In the usual economic sense, Dutch disease refers to a situation where abundance in one sector weakens competitiveness in others. Similarly, a large protected domestic market can weaken the discipline that export competition imposes on firms.

The result is growth without sufficient innovation, which makes India's domestic market both an advantage and a policy challenge.

d. Colonial Deindustrialisation and Business Orientation

- **Historical Background:** India's low research intensity also has a historical background. Colonial deindustrialisation weakened many indigenous manufacturing capabilities, especially in sectors such as textiles. Colonial policy encouraged India's role as a supplier of raw materials and a market for manufactured imports rather than as an independent industrial power.
- **Impact on Business Behaviour:** This historical experience shaped the evolution of Indian business. Many commercial groups became more oriented towards trade, intermediation, finance and arbitrage than towards manufacturing-led technological innovation. In such an environment, returns from commerce could often be quicker and less risky than returns from production and research.
- **Indian Enterprise and Sectoral Strengths:** This does not mean that Indian enterprise lacks capability. Indian firms have demonstrated strength in pharmaceuticals, information technology, automobiles, space-related supply chains and several services sectors.
- **Path Dependence:** However, historical conditions influenced the direction of business incentives. They made commerce-led returns more attractive than long-term production-led innovation in many sectors.

Therefore, India's research and development deficit must be understood as a problem of path dependence. Earlier economic structures continue to influence present business behaviour.

e. Premature Financialisation

- **Meaning of Financialisation:** A major concern is the premature financialisation of India's corporate sector. Financialisation refers to the increasing dominance of financial motives, financial markets and short-term returns in corporate decision-making.
- **Practical Corporate Manifestation:** In practical terms, it may involve greater focus on dividends, share buybacks, stock-price management, cost-cutting and immediate profitability rather than long-term productive investment.
- **Difference from Advanced Economies:** In advanced economies, financialisation became prominent after decades of industrial capability-building. Firms in those countries had

already built strong manufacturing, technological and export foundations before financial returns became dominant in corporate strategy.

- **Indian Concern:** India's concern is different. Many firms appear to have adopted financialised practices before building deep manufacturing and technological capability. This is problematic because research and development usually lowers short-term profits. It involves uncertain outcomes, long gestation periods and the possibility of failure. The gains may arrive only after five to ten years, and sometimes even later.
- **Preference for Visible Returns:** If firms are rewarded mainly for quarterly performance and stock valuation, research becomes less attractive. The outcome is a corporate culture that prefers safe and visible financial returns over risky and delayed technological investment.

Thus, premature financialisation can weaken India's ability to build deep industrial and technological capabilities.

f. Short-Term Incentives in Corporate Governance

- **Innovation Requires Patience:** Research and development requires patience, risk-taking and tolerance for delayed returns. However, modern corporate governance often rewards short-term performance. Executives may be judged by quarterly earnings, market valuation, stock-linked compensation or near-term profitability.
- **Mismatch of Time Horizons:** This creates a mismatch between the time horizon of innovation and the time horizon of managerial incentives. The cost of research is borne immediately, but its benefits may arrive after several years. In many cases, those benefits may accrue to future management rather than the current leadership.
- **Preference for Safer Corporate Actions:** This encourages firms to prefer cost-cutting, incremental product improvements, dividends, buybacks or market expansion over uncertain research expenditure.
- **Weak Investment in Innovation Infrastructure:** It also discourages investment in laboratories, product design, advanced engineering, testing facilities and long-term technology development.

Thus, India's research and development problem is not simply a matter of willingness. It is also a corporate governance problem, because firms respond to the incentives they face.

g. Democracy, Uncertainty and the High Discount Rate

- **Political Economy Context:** The analysis also links low research and development spending to India's broader political economy. India is a large, competitive and diverse democracy. Policy must balance the demands of voters, States, interest groups, welfare needs, fiscal constraints, coalition pressures, environmental concerns and external security challenges.
- **Democratic Strengths and Investment Uncertainty:** Such a system has many democratic strengths, but it can also create uncertainty for long-term business investment. Firms may worry about changes in taxation, regulation, trade policy, land rules, environmental approvals, public procurement, judicial delays or geopolitical conditions.
- **Meaning of High Discount Rate:** When future conditions appear uncertain, firms apply a higher discount rate to long-term investments. In simple terms, they value future returns less because the future appears risky or unpredictable.
- **Impact on R&D:** Since research and development produces returns only after a long period, it becomes one of the first areas to suffer.
- **Firm-Level Rationality and National Cost:** This means that low research spending may not always be irrational from the viewpoint of individual firms. It may be a rational response to uncertainty. However, from the national viewpoint, it creates underinvestment in the very capabilities that India needs for long-term growth.

Therefore, policy stability and predictability are essential for encouraging private R&D.

h. Systemic and Cultural Nature of the Problem

- **Systemic Causes:** India's research and development deficit is both systemic and cultural. It is systemic because it arises from market structure, finance, regulation, industrial policy, export performance, education systems and public institutions.
- **Cultural Dimension:** It is cultural because firms develop habits over time about what kinds of investment are considered worthwhile, respectable or safe.
- **Culture as Incentive-Shaped Behaviour:** However, culture here should not be understood as permanent or unchangeable. Business culture is shaped by incentives. If the economy rewards trading more than production, firms will trade. If it rewards financial engineering more than technology creation, firms will financialise. If it rewards exports, quality and innovation, firms will invest in capability.
- **Need to Change Decision Environment:** Therefore, India's task is to change the environment in which firms make decisions. Innovation must become commercially rewarding, not merely morally desirable.

This shows that India's innovation challenge requires incentive reform, not only exhortation to spend more on R&D.

i. Governance and Policy Dimension

- **Beyond Asking Firms to Spend More:** India's innovation challenge cannot be solved only by asking firms to spend more on research. The State must create an ecosystem where long-term innovation becomes rational and profitable.
- **Elements of an Innovation Ecosystem:** This requires export discipline, stable policy, patient capital, university-industry collaboration, stronger intellectual property support and public procurement for innovation.
- **Link Between Research and Manufacturing:** It also requires linking research with manufacturing depth. If India lacks strong production ecosystems, research may remain disconnected from marketable products.
- **Role of the State in Early-Stage Technology:** The State has a crucial role in early-stage technology development. In several advanced economies, public funding, defence procurement, university research and mission-oriented programmes helped create technologies that later became commercially successful. India can adopt a similar approach in areas such as defence, health, clean energy, digital public infrastructure, agriculture technology and advanced manufacturing.
- **Performance-Linked Public Support:** At the same time, public support must be designed carefully. It should not become protection without performance. Incentives must be linked to innovation outcomes, exports, productivity improvement and domestic value addition.

Thus, India needs a mission-oriented but performance-linked innovation policy.

j. Key Concerns

- **Low Private R&D Intensity:** India's first concern is low private research and development intensity. Many firms still prioritise market expansion and cost advantage over technology creation.
- **Weak Export Discipline:** The second concern is weak export discipline. When firms are not exposed to demanding global markets, they may have less incentive to innovate continuously.
- **Short-Term Corporate Incentives:** The third concern is short-term corporate incentives. Buybacks, dividends and stock-price focus can crowd out long-term research investment.
- **Policy Uncertainty:** The fourth concern is policy uncertainty. Long-gestation research suffers when firms are unsure of future policy, regulation or market conditions.
- **Limited Manufacturing Depth:** The fifth concern is limited manufacturing depth. Weak supplier networks, testing systems, precision engineering capability and industrial clusters reduce the commercial usefulness of research.

- **Historical Path Dependence:** The sixth concern is historical path dependence. Trading and intermediary business models have often appeared more attractive than production-led innovation.
- **Strategic Capability Gap:** Finally, low research and development weakens India's strategic ambitions. Without stronger innovation capacity, India may struggle to achieve leadership in semiconductors, defence production, green technology, pharmaceuticals, advanced manufacturing and frontier technologies.

These concerns show that India's innovation deficit is both an economic and strategic challenge.

k. Way Forward

- **Create Export Pressure:** India should create export pressure by linking industrial policy with global competitiveness. Firms must be encouraged to meet international quality standards, productivity benchmarks and technology requirements. Export orientation can push firms to innovate in ways that protected domestic markets may not.
- **Promote Patient Capital:** Patient capital must be promoted. Long-term finance for technology development, product design, deep-tech startups, manufacturing research and advanced engineering is essential. Development finance institutions, venture funds, public-private innovation funds and sector-specific technology funds can play an important role.
- **Reform Corporate Incentives:** Corporate incentives should be reformed. Executive rewards can be linked not only to stock performance but also to innovation, productivity, patent quality, research outcomes, export growth and long-term capability-building.
- **Use Public Procurement Strategically:** Public procurement should be used strategically. Government can create early demand for indigenous technologies in defence, health, energy, railways, agriculture, space, digital systems and public infrastructure. Such demand can reduce market risk for firms investing in innovation.
- **Strengthen University-Industry Linkages:** University-industry linkages must be strengthened. India needs better applied research, technology transfer offices, collaborative laboratories, industry-funded doctoral programmes and platforms where firms and universities solve practical technological problems together.
- **Provide Stable Policy Signals:** Stable policy signals are essential. Strategic sectors such as semiconductors, clean energy, defence electronics, biotechnology and advanced materials require long-term policy certainty because investments are large and returns are delayed.
- **Deepen Manufacturing Ecosystems:** Manufacturing ecosystems must be deepened. Industrial clusters, supplier networks, testing facilities, certification systems, skilled labour and logistics infrastructure are necessary to make research commercially useful.
- **Build Capability-Driven Growth Culture:** Finally, India must build a culture of capability-driven growth. Firms should be rewarded not merely for size, valuation or market share, but for technology creation, product excellence, quality improvement and global competitiveness.

A strong way forward must therefore combine export discipline, patient finance, stable policy, manufacturing depth and innovation-linked corporate incentives.

Conclusion

India's research and development underspending is not the result of a single failure. It reflects the interaction of a large domestic market, historical deindustrialisation, premature financialisation, short-term corporate incentives and policy uncertainty.

The challenge is not only to increase expenditure, but to reshape the incentives that guide firms. India must move from market-size-driven growth to capability-driven growth. Its firms must be encouraged to compete globally, invest patiently, absorb technology, build manufacturing depth and create intellectual property.

For India to become a technology-led economy, research and development must be treated not as an optional cost but as a national capability. The country's long-term transformation will depend on whether it can convert domestic scale into global competitiveness and economic growth into technological strength.

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