Indian Economy · GS - III

How can global technological investment trends influence capital flows and financial stability in emerging economies like India? Analyse the implications for India's equity markets.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 25/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Global portfolio flows, AI investment cycle, FII behaviour, exchange-rate volatility, market valuations, financial resilience

Model Answer

Global technological investment cycles influence international capital allocation. The growing interest in artificial intelligence may encourage investors to redirect funds towards technology-intensive markets, affecting emerging economies such as India.

Transmission channels

1. **Portfolio reallocation:** Foreign Institutional Investors (FIIs) may shift investments towards overseas AI-related companies when expected returns appear comparatively attractive.
2. **Equity market pressure:** Sustained foreign selling can weaken market indices, particularly when domestic institutional investment is insufficient to offset outflows.
3. **Currency depreciation:** Capital outflows may increase foreign-exchange demand, putting pressure on the rupee.
4. **Valuation correction:** High price-to-earnings ratios combined with weak corporate earnings can intensify market adjustments.

Structural implications for India

1. Greater volatility in foreign portfolio investment can complicate financial-market management.
2. Dependence on external capital may expose markets to global monetary and technological cycles.
3. Limited domestic participation in emerging technology sectors may reduce India's ability to capture investment opportunities.

Policy response

India needs deeper domestic institutional investment, stronger corporate earnings, sound market regulation and stable macroeconomic fundamentals. Developing competitive AI and semiconductor ecosystems can also attract long-term productive investment rather than relying excessively on short-term portfolio flows.

Thus, global AI investment presents both a capital-allocation challenge and an opportunity for India to strengthen its technological and financial competitiveness.

BECOME IAS
AI POWERED UPSC PREP