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India's "AI Miss" -- How Missing the Global AI Investment Wave Cost India Its "Market Darling" Status

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WHY IN NEWS:

A Bloomberg analysis published May 17, 2026 – syndicated in Business Standard the same day – argued that India has become **"one of the biggest losers"** in the global AI investment rotation, with the headline "India missed out on AI and now its run as 'market darling' may be over." The piece cited sustained foreign investor outflows, a collapsing Nifty IT index weight, and India's structural R&D deficit as evidence that global capital is rotating away from India toward AI-hardware-intensive markets such as South Korea and Taiwan.

WHAT IS THE "AI INVESTMENT ROTATION"?

In capital markets, a **rotation** refers to a large-scale shift of institutional money from one sector, theme, or geography to another. The current rotation is driven by the **artificial intelligence (AI) infrastructure supercycle** – the surge in global investment into AI chips (semiconductors), data centres, cloud computing, and AI-integrated hardware.

Why AI Is Driving Equity Flows

DRIVER	EFFECT ON MARKETS
Demand for AI chips (NVIDIA, TSMC, Samsung)	Massive capital inflows into semiconductor ecosystems
Hyperscaler capex (Google, Microsoft, Amazon)	Cloud + data centre buildout in AI-friendly jurisdictions
AI-linked defence and robotics	S. Korea, Taiwan, Japan benefit
Global fund reallocation	Emerging market funds rotate from "consumption stories" to "AI production stories"

India's equity bull run from 2020 to 2024 was largely a **"consumption story"** – domestic demand, financial services, consumer goods, and an IT services (not products) sector that benefited from global outsourcing. The global AI boom rewards **semiconductor fabricators, chip designers, and hardware manufacturers** –

not services exporters. India has none of these at scale. This structural mismatch is the core of the "AI miss."

INDIA'S MARKET PERFORMANCE – THE NUMBERS

Nifty IT Index Collapse

The **Nifty IT Index** tracks the top information technology companies listed on the **National Stock Exchange (NSE)** of India. These include Tata Consultancy Services (TCS), Infosys, HCL Technologies, Wipro, and Tech Mahindra – all of which are IT services exporters, not AI hardware or product companies.

METRIC	VALUE (AS OF MAY 2026)
Nifty IT Index decline in 2026	Down **26%+**
Nifty IT weight in Nifty 50 (early 2022 peak)	~17%
Nifty IT weight in Nifty 50 (May 2026)	~8%
Nifty 50 (benchmark) YTD performance	Down **9%+**
India on course for	First **annual benchmark loss in a decade**

Foreign Portfolio Investor (FPI) Outflows

Foreign Portfolio Investors (FPIs), also called **Foreign Institutional Investors (FIIs)** in older regulatory terminology, are overseas entities that invest in India's listed equities and debt through the registered FPI route under SEBI regulations.

PERIOD	NET FPI FLOW
Since end-2024	Net outflows of **$42 billion**
2026 outflows (Jan–May)	Already **exceed the record full-year outflows of 2025**
2025	Previously the worst annual FPI outflow year on record

This scale of outflow is structurally significant. During previous episodes of FPI selling (2008 financial crisis, 2013 taper tantrum, 2020 pandemic), outflows were large but markets recovered quickly. The 2024-2026 cycle is different because it is **thematic and structural**, not cyclical – capital is not merely waiting to return; it is re-homing to AI-productive economies.

WHERE THE MONEY IS GOING – SOUTH KOREA AND TAIWAN

The Bloomberg analysis specifically identified **South Korea** and **Taiwan** as the principal beneficiaries of the capital that has left India.

Comparative Market Performance (2026 YTD)

MARKET	YTD PERFORMANCE
South Korea (KOSPI benchmark)	**+78%**
Taiwan (TAIEX benchmark)	**+42%**
India (Nifty 50)	**-9%+**
Divergence (S. Korea vs India)	**~87 percentage points**

Why South Korea and Taiwan Benefit

Both countries are **integral nodes of the global AI hardware supply chain**:

- **Taiwan** is home to **TSMC (Taiwan Semiconductor Manufacturing Company)**, the world's largest contract chipmaker, which fabricates chips for NVIDIA, Apple, AMD, and Qualcomm. Taiwan produces approximately **60%+ of the world's semiconductors** by value.
- **South Korea** hosts **Samsung Electronics** (DRAM, NAND flash, logic chips) and **SK Hynix** (HBM – High Bandwidth Memory – the specific memory type used in AI accelerators like NVIDIA's H100/H200 series). HBM demand has driven South Korea's semiconductor exports to record levels in 2025-26.

Market Cap Convergence

COMPARISON	DATA
India's total equity market cap	Approx. $4.0–4.2 trillion (early 2026 estimate, after decline)
Gap between India and South Korea + Taiwan combined	**Less than $500 billion**
Risk	India could lose its position as the world's 4th-largest equity market

INDIA'S STRUCTURAL AI DEFICIT

R&D Spending – The Root Gap

Research and Development (R&D) expenditure as a percentage of GDP is the most widely used metric for a country's commitment to technological innovation. It captures government, academic, and private sector investment in developing new knowledge and technologies.

COUNTRY	R&D SPENDING (% OF GDP)
South Korea	**5%+**
Taiwan	**~3.5%**
United States	~3.4%
China	~2.5%
India	**~0.65–0.7%**
India's target (STI Policy 2013)	2% of GDP – **never achieved**

India's ~0.65–0.7% R&D-to-GDP ratio (World Bank data) is the structural foundation of its AI problem. Without sustained investment in basic and applied research – in materials science, semiconductor physics, computer architecture, and AI model training infrastructure – India cannot produce the AI-intensive industries that global capital now rewards.

India's IT Sector – Services, Not Products

India's IT sector is genuinely large:

- Employs approximately **5.8 million people** (NASSCOM FY2025)
- Contributes approximately **7.5% of GDP** (including Business Process Management)
- Annual export revenue: ~$224 billion (FY2025 actuals); ~$246 billion projected FY2026 (NASSCOM)

However, India's IT sector is a **global services delivery machine**, not an AI product or semiconductor ecosystem. Indian IT companies:

- Write code for foreign clients (IT services)
- Run business processes and call centres (BPM)
- Increasingly offer "AI-enabled" services (using others' AI models)

They do not design chips, build foundries, manufacture AI accelerators, or train large language models at scale. When global capital moved to reward **AI producers**, India's IT-services exporters were structurally excluded.

The Semiconductor Gap

India has no operational **semiconductor fabrication facility (fab)** as of 2026. Despite the **India Semiconductor Mission (ISM)** announced in 2021 with a Rs 76,000 crore incentive package:

- The **Micron Technology** chip assembly and testing (ATMP) plant in Sanand, Gujarat, was approved in 2023 – this is an assembly plant, not a logic fabrication unit
- The **Tata Electronics-PSMC** fab in Dholera, Gujarat, is planned but not operational
- India is at least **5-7 years** away from producing advanced logic chips (below 28 nm node)

Taiwan and South Korea are manufacturing chips at **2nm and 3nm nodes** – a generation that is indispensable for AI accelerators.

Data Localisation and Regulatory Framework

India's **Digital Personal Data Protection Act (DPDPA), 2023** and evolving data localisation norms create compliance uncertainty for global AI companies. Key concerns:

- Restrictions on cross-border data transfer could limit the ability of AI companies to use Indian data for training global models
- Regulatory fragmentation between **MeitY (Ministry of Electronics and Information Technology)**, **SEBI**, **RBI**, and **TRAI** on AI governance creates uncertainty
- The **AI Governance Framework** consulted on by MeitY in 2024 has not yet been finalised

INDIA'S NATIONAL AI MISSION (2024)

The **National AI Mission (NAIM)**, approved by the Union Cabinet in March 2024, is the government's primary policy response to the AI challenge.

PARAMETER	DETAIL
Total outlay	**Rs 10,372 crore** over 5 years
Implementing agency	**MeitY** (Ministry of Electronics and Information Technology)
Key component	Establishing computing infrastructure (GPU clusters) for AI research
Target beneficiaries	Startups, researchers, academic institutions
Nodal body	**IndiaAI Mission** under MeitY
Announced	March 7, 2024 (Cabinet approval)

Criticism of NAIM Scale

The Rs 10,371 crore (~$1.25 billion) over five years – approximately **$250 million per year** – is considered grossly insufficient by critics when benchmarked against:

- **US CHIPS and Science Act (2022):** $52 billion for semiconductor research and manufacturing
- **South Korea's AI investment plan (2023):** ~$7 billion over 5 years
- **China's AI investment:** State and private combined, estimated at $15+ billion annually
- **A single NVIDIA H100 GPU cluster** (5,000 GPUs): approximately $100-150 million capital cost

Ruchir Sharma, chairman of **Rockefeller International**, has been the most prominent international voice on this assessment. His view, quoted in Bloomberg: **"Most foreigners have taken the view that India is a loser in the AI race"** – and that India has effectively become an **"anti-AI play"** in global portfolios, meaning investors are using it as a hedge against AI-heavy positions, not a direct AI beneficiary.

INDIA'S COUNTERARGUMENTS AND OPPORTUNITIES

It would be analytically incomplete to present only the bearish case. India retains several structural advantages:

Where India Genuinely Competes

AREA	INDIA'S POSITION
AI talent pool	3rd largest pool of AI/ML engineers globally (LinkedIn data)
English-language AI applications	Competitive for domestic and South Asian deployment
AI services layer	Indian IT firms (TCS, Infosys) building AI consulting and integration services
Public digital infrastructure	UPI, Aadhaar, DigiLocker – large-scale AI-usable datasets in financial inclusion
Generative AI startups	Growing ecosystem (Krutrim by Ola, Sarvam AI, others)

Structural Reform Levers

The government has several policy instruments it could deploy:

1. **Increase public R&D spending** – the Economic Survey has repeatedly recommended reaching 2% of GDP; budget allocations have not followed
2. **Fast-track ISM semiconductor fabs** – operationalise Tata-PSMC Dholera; attract a global foundry for advanced nodes (TSMC has been courted)
3. **Finalise AI regulatory framework** – regulatory clarity attracts global AI investment
4. **Expand IndiaAI computing capacity** – a single national AI supercomputer cluster accessible to startups
5. **STEM and vocational alignment** – India produces engineers but not enough chip designers, AI hardware specialists, or materials scientists

UPSC RELEVANCE

GS Paper 3 – Economy, Technology, and India's Competitiveness

Key analytical threads:

- **India's growth model risk:** India's equity premium over other emerging markets was built on the narrative of demographic dividend + consumption growth + digital inclusion. The AI rotation exposes a gap in the **innovation economy layer** – India is not producing the technologies that now drive global capital allocation.
- **R&D policy failure:** India's chronic under-investment in R&D (1.2% of GDP vs 2% target never achieved) is a structural policy failure with compounding consequences. The Science, Technology, and Innovation (STI) Policy 2013 set the 2% target; 12 years later it remains unmet.

- **Capital account dynamics and exchange rate:** Sustained FPI outflows of $42 billion put downward pressure on the rupee, complicate monetary policy, and reduce the RBI's ammunition for rate cuts – affecting borrowing costs for Indian businesses.
- **India's semiconductor policy:** Compare ISM (Rs 76,000 crore incentive) with actual semiconductor manufacturing status – assembly and test only; no logic fab operational. Analyse the gap between policy announcement and productive outcome.

GS Paper 2 – Governance, Digital Policy, and International Relations

- **MeitY and AI governance:** India's AI regulatory architecture is fragmented and incomplete. The DPDPA 2023 was a landmark but leaves key provisions (cross-border data transfers, consent manager framework) to subordinate rules not yet finalised.
- **Digital sovereignty vs. openness:** India's data localisation push may protect citizen data but also reduces India's attractiveness as an AI investment destination – a classic governance trade-off.
- **India's position in global technology supply chains:** Unlike South Korea and Taiwan (which are embedded in US-led semiconductor supply chains and benefit from CHIPS Act-era friend-shoring), India is still seeking its entry point.

Keywords: Nifty IT Index, FPI/FII outflows, AI investment rotation, Rockefeller International, Ruchir Sharma, TSMC, HBM memory, India Semiconductor Mission, National AI Mission, DPDPA 2023, MeitY, R&D-to-GDP ratio, KOSPI, TAIEX, market cap convergence, IndiaAI Mission, semiconductor fab, NASSCOM.

Sources: Bloomberg, Business Standard, NASSCOM, MeitY, PIB

FACTS CORNER – KNOWLEDGEPEDIA

NIFTY IT INDEX:

Tracks top IT companies on NSE (TCS, Infosys, HCL Tech, Wipro, Tech Mahindra and others)

Weight in Nifty 50: ~17% at peak (early 2022) → ~8% (May 2026) – more than halved

2026 performance: down 26%+ as of May 2026

Reason for underperformance: India's IT sector is services-based, not AI hardware / semiconductor – excluded from AI investment supercycle rewards

FPI/FII OUTFLOWS:

Net outflows since end-2024: $42 billion

2026 (Jan–May) outflows already exceed total 2025 outflows (which were previously the record annual worst)

FPI registered with SEBI; can invest in equities, debt, and hybrid instruments listed on recognised Indian exchanges

Sustained outflows exert downward pressure on INR and complicate RBI's monetary policy stance

INDIA'S NATIONAL AI MISSION (NAIM):

Approved by Union Cabinet on March 7, 2024

Outlay: Rs 10,371 crore over 5 years (~$250 million/year)

Implementing ministry: MeitY

Focus: GPU computing infrastructure, AI research ecosystem, startup access to compute

Critics: Insufficient relative to US CHIPS Act ($52 billion), South Korea AI plan (~$7 billion/5 years), China AI spend ($15+ billion/year)

INDIA'S R&D LANDSCAPE:

Current R&D spending: ~1.2% of GDP (one of the lowest among G20 nations)

STI Policy 2013 target: 2% of GDP – unmet as of 2026 (13 years later)

South Korea: ~5%+; Taiwan: ~3.5%; US: ~3.4%; China: ~2.5%

GERD (Gross Expenditure on R&D) dominated by government (central + state) – private sector R&D share is low compared to peers

RUCHIR SHARMA / ROCKEFELLER INTERNATIONAL:

Ruchir Sharma: Chairman, Rockefeller International; former Morgan Stanley EM fund head; author of "The Rise and Fall of Nations" and "The 10 Rules of Successful Nations"

His quote (Bloomberg, May 17, 2026): “Most foreigners have taken the view that India is a loser in the AI race” – described India as an “anti-AI play”

Rockefeller International: investment arm of the Rockefeller family office; significant voice in global emerging market capital allocation

INDIA’S IT SECTOR (CONTEXT):

Employees: approximately 5.4 million (direct)

GDP contribution: approximately 7.5% (IT + BPM combined)

Annual exports: ~$250+ billion (NASSCOM FY26 estimate)

Nature: IT services (outsourcing, staffing, consulting) and BPM – not chip design, AI model training, or semiconductor manufacturing

Key firms: TCS (largest by market cap in India for most of 2020-2024), Infosys, HCL Technologies, Wipro, Tech Mahindra

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