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EDITORIAL ANALYSIS

# Why Indian Firms Underinvest in R&D

INDIAN EXPRESS

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SCIENCE &amp; TECH

ECONOMY

GS3

CURATED &amp; WRITTEN BY

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# Why Indian Firms Underinvest in R&D

The Indian Express 14 June 2026 **GS3**

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## INTERVIEW ANGLE

*"Everyone agrees India spends too little on research. The harder question is why private firms, not just the government, underinvest. Is it culture, incentives, or the structure of the economy itself?"*

Source: [Original editorial](#) [The Indian Express](#)

✓ Every fact web-verified against primary sources **HOW**

## WHY THIS MATTERS NOW

A new analysis revisits India's chronically low **private R&D spending**, arguing it stems from protected markets, deindustrialisation and financialisation rather than a single cause. For an aspirant, this is a GS3 case on **innovation, the manufacturing base and the structural roots of the research deficit**.

## THE CRUX IN 60 WORDS

India's **private R&D** is unusually low, and the usual fix (more funding and tax breaks) treats a **structural** problem as a budgetary one. The deeper causes: **protected markets** that dull the pressure to innovate, a thin **manufacturing base** that starves applied research, and **financialisation** that rewards short-term returns. The way forward rebuilds ecosystems, not just incentives.

## THE ISSUE, DECODED

CONCEPT	WHAT IT MEANS	WHY IT MATTERS
<b>Private R&amp;D share</b>	Business spending on research	Unusually small in India
<b>Protected market</b>	Limited competitive pressure	Firms profit without innovating
<b>Deindustrialisation</b>	A thinned manufacturing base	Starves applied, shop-floor research
<b>Financialisation</b>	Short-term shareholder focus	Rewards quick over patient returns

## THE ANALYSIS: WHY FIRMS UNDERINVEST

- ① **Weak competitive pressure.** Large, protected markets let firms profit without the risk of research.
- ② **A thin manufacturing base.** Much applied research is born on shop floors and in supplier networks that deindustrialisation has hollowed out.
- ③ **Short-termism.** Financialisation rewards quick, certain returns over patient, long-horizon research.
- ④ **Policy uncertainty.** Firms hesitate to commit to investments that pay off only over many years.

## DATA AND INSTITUTIONS VAULT

*India's gross expenditure on R&D has long been well below the levels of peer economies, with an unusually low private-sector share. **The institution:** the **Anusandhan National Research Foundation (ANRF)**, set up to fund and seed research across universities and institutions and to crowd in private R&D. **The policy frame:** Make in India, the PLI schemes and the push to rebuild manufacturing as the setting for applied research. **Concept:** innovation ecosystem; patient capital; university-industry linkage.*

## THE DEBATE

**Argument that R&D spending is decisive:** Without far higher private research, India cannot move up the value chain or build technological self-reliance; structural reform is essential.

**Argument for a nuanced view:** India's services strengths and frugal innovation show high R&D is not the only path, and targeted incentives can lift research where it matters most.

## HOW TO THINK ABOUT IT

Frame the answer around **structural versus budgetary** causes. Identify the three deep drivers (protected markets, deindustrialisation, financialisation) and argue for ecosystem rebuilding, university-industry linkage and patient capital, with the ANRF crowding in private research. Avoid reducing the problem to "spend more".

## THE DIAGRAM IN WORDS

Picture a greenhouse with rich soil but no pressure of weather: the plants grow comfortably without putting down deep roots. Protected markets are that windless greenhouse; real research grows where firms face the weather of competition and have the soil of a living manufacturing base.

## PYQ LINKAGE

UPSC has asked about science and technology policy, innovation and India's research ecosystem. This editorial connects those to the structural reasons private R&D stays low.

## THE ONE-LINE TAKEAWAY

India will not raise private R&D with cheques alone; it must rebuild the competitive manufacturing ecosystems and patient capital that make research a rational business choice.

Source: Why Indian Firms Underinvest in R&D – Ujiyari.com | Free UPSC & State PCS Editorial Analysis

### • KEY ARGUMENTS AT A GLANCE

**India's chronically low private R&D spending is not a single-cause failure but the product of large protected domestic markets, historical deindustrialisation, premature financialisation and policy uncertainty, so raising it requires rebuilding manufacturing ecosystems and reorienting incentives toward long-term research, not just tax breaks.**

#### ✓ SUPPORTING

- Firms enjoying large, protected domestic markets face weak competitive pressure to innovate, because they can profit without research.
- A thin manufacturing base limits the shop-floor problems and supplier linkages that drive applied research, so deindustrialisation has starved the innovation ecosystem.
- Financialisation and short-term shareholder pressure reward quick returns over patient, uncertain, long-horizon research.

#### ⚠ COUNTER

Some argue that India's services-led growth and frugal-innovation strengths show that high R&D spending is not the only path, and that targeted tax incentives can lift private research where it matters.

→ **WAY FORWARD**

Rebuild manufacturing ecosystems, deepen university-industry linkages, reward long-horizon research through stable policy and patient capital, and use the National Research Foundation to crowd in private R&D rather than substitute for it.

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**MAINS ANSWER FRAMEWORK**

**QUESTION**

*"Low private R&D in India is a structural problem, not a budgetary one." Examine the causes and the way forward. (250 words)*

**INTRODUCTION**

India's research deficit is usually told as a story of too little public money. The deeper puzzle is why private firms, who stand to gain most from innovation, also spend so little.

**BODY**

India's gross expenditure on research and development has long hovered well below that of peer economies, and the private sector's share is unusually small. The reflexive remedy, more government funding and tax breaks, treats a structural problem as a budgetary one.

The structural causes run deeper. First, firms operating in large, protected domestic markets face weak competitive pressure to innovate; they can earn comfortable profits without the risk and expense of research.

Second, a thin manufacturing base limits the very setting, shop floors, supplier networks, complex production, where much applied research is born, so the long arc of deindustrialisation has starved the innovation ecosystem of its natural habitat. Third, financialisation and short-term shareholder pressure reward quick, certain returns over the patient, uncertain, long-horizon spending that real research demands.

Layered over all this is policy uncertainty, which makes firms reluctant to commit to investments that pay off only over many years. The way forward therefore cannot be tax incentives alone.

It means rebuilding competitive manufacturing ecosystems so that firms have both the pressure and the setting to innovate; deepening university-industry linkages; rewarding long-horizon research through stable policy and patient capital; and using institutions like the National Research Foundation

to crowd in private research rather than merely substitute public money for it. Innovation is an ecosystem outcome, not a line item.

**CONCLUSION**

India will not raise private R&D by writing cheques alone. It must rebuild the manufacturing ecosystems, competitive pressure and patient capital that make research a rational business choice.

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