The theoretical arguments in support of foreign capital are quite persuasive. The straightforward view of development economists is that capital is essential for the growth and its origin does not matter. Based on this view, capital deficient countries heavily restored to foreign capital as the primary means to achieve rapid economic growth. Empirical evidence also suggests that countries that are open to capital flows can enjoy more benefits of globalization. Problem arises when flows are largely in excess of the economy’s absorptive capacity and also when they are highly speculative in nature. The current flows of foreign capital from developed to developing countries are characterized by both: excessive and speculative. As the nations across Asia and Latin America still have a long way to go in terms of economic growth, foreign investment is quite welcome. The problem is that the sheer volume and composition of these flows (very high share of hot money in total capital inflows) implies that a long part does not go into productive investment. Another problem, in the current boom, starting in mid 2009, the quantitative easing in US and Europe was not mainly translated into domestic credit expansion but, instead the funds have been channeled mainly as speculative capital flows in search of higher yields to emerging economies and to the commodity markets. According to the Institute of International Finance, private inflows to China reached an all-time high of $227 billion in 2010. Despite restrictions, the State Administration of Foreign Exchange estimates that one-third of that was “hot money”. Large capital flows in search for high yield typically go into investment in assets leading to rapid and destabilizing build up assets prices. Since such flows are volatile by nature, they can impair orderly functioning of financial markets. When investors exist from the securities markets abruptly in a herd stock and bond prices get affected, and when investors take the redemption proceeds out of the country, the exchange rate gets affected. If central bank intervenes to stabilize the Forex market, the resultant tightened liquidity can affect the money market. Deficit countries including Brazil, India, South Africa and Turkey are now experiencing currency appreciations faster than surplus ones and relying on foreign capital to meet growing external shortfalls. Many of those that have been successful in maintaining strong payments positions are facing credit and asset bubbles. They are now all exposed to greater risk of instability than during the subprime debacle, though in different ways. Thus, speculative and volatile flows affect all markets-the security market and credit market, with the contagion spreading from the one market to another rapidly. If not contained, the swift developments can threaten financial stability and lead to output and employment losses. Moreover, such flows are likely to be reversed with significant damage to developing countries. Thus, the effective management of these flows is essential for developing countries to survive the global economic turmoil.

The problems of foreign investment in India have been an issue of outstanding importance even since the days of the East India Company and added significance after Indian Independence in 1947. With the introduction of reforms process in the early 1990s and after the announcement of New Industrial Policy, 1991, India has witnessed a significant increase in cross-border capital flows. Net capital inflows increased from US$1985 million in 1990-91 (2.2 percent of GDP) to US$ 28924 million during 2007-08 (9 percent of GDP). But, in 2008-09 net capital inflows decreased to US $1406 million because of global financial crisis. During the period (2008-09), net capital flows
plummeted to 0.5 per cent of GDP from 9 per cent in 2007-08. As the adverse impact of credit crisis in US ebbed, the capital flows into India again accelerated. During the first half of 2011, the net capital flows were US$ 36.7 billion, which is almost 59.6 per cent higher than the net inflows during the same period of previous year. From the above discussion it is clear that India has experienced both sudden surge and sudden declines of capital flows. Volatile foreign capital creates instability in capital inflows. The instability of capital inflows may retard economic growth and structural development, when there is a sudden increase in capital flows; it leads to increase in real exchange rate, inflationary pressures and deterioration in current account. But the sudden declines of capital inflows could push the country into insolvency or drastically lower the productivity of existing capital stocks and affect many macroeconomic variables like exchange rates, interest rates, foreign exchange reserves and domestic monetary conditions etc. When there is sudden reversal of capital flows then it reduces the growth rate of an economy, increases the interest rates and depreciates the currency among others. Further, the balance of payments identity establishes that the current account is equal to the capital account plus the accumulation of international reserves. Thus, both excess and sharp withdrawal of capital inflows is harmful for an economy. But, sudden declines of capital inflows are more harmful than the sudden surge. In fact, in the past few years, sudden declines aspect of capital inflows has sparked various macroeconomic issues and challenges before the Indian policymakers. Therefore, the study of various aspects of sudden declines of capital inflows is very important for India policy framework. Added to this, sudden declines aspect of capital inflows has been relatively less discussed in the economic literature. Keeping in view the above discussion, the researcher has made an attempt to study the problems of sudden declines of capital flows under the title “Siphoning-off of Capital Inflows: Causes, Consequences and Policy options for India”. In the present study, the researcher has made an attempt to explore the various aspects of capital inflows in India. But the main focus of the study is to explore the implications of sudden declines of capital flows and also to address the issues and challenges posed by sudden declines of capital flows. The study also provides policy options regarding the management of capital flows into India. The present study has been divided into 5 chapters and 4 Appendices. Although, there is a logical sequence, each chapter contents are fairly independent of the knowledge presented in the previous chapters. Each chapter addresses the concept as well as its applications. At the end of every chapter concluding remarks have been given. A title description of each chapter is given as under:

Chapter 1: An Introduction to Foreign Capital flows into India
Chapter 2: Review of Related Literature and Research Methodology
Chapter 3: Implications of Foreign capital Flows in India:
   Section A: Impact of Foreign Capital Flows on Economic Growth of India
   Section B: FII and Indian Stock Market: A Causality Investigation
Chapter 4: Causes and Consequences of Sudden Declines of Capital Flows into India
Chapter 5: Summary, Conclusion and Policy Options for India

Thus, the present study provides a comprehensive overview of the various important facets of siphoning-off of capital flows into India. It is hoped that the present study will prove to be beneficial for academicians, consultants, researchers and policymakers who have been discussing and reading about foreign capital and who are interested in knowing more about sudden declines aspect of capital flows and policy options to manage the risk of capital inflows.