

India can outcompete ASEAN economies in attracting FDI

The COVID crisis provided a rare opportunity to for Government of India to strike a reformist note and unleash bold economic policies that can transform the course of economic development, if implemented effectively. India's Finance Minister has announced a slew of economic reforms under the overarching theme of Atmanirbhar Bharat or Self-Reliant India Movement, with focus on – Economy, Infrastructure, System, Vibrant Demography and Demand.

The reforms in agriculture marketing, mining, aviation, defence, electricity, healthcare and education will open wide opportunities for Indian and foreign investors. Most of these reforms are the long pending demands of the Indian industry and some of them have already been initiated in the past with no remarkable success. For instance, the UPA government in 2004 deregulated production, supply and storage of onions and potatoes by removing them from the Essential Commodities Act. However, in 2014, the present government brought back these two commodities under this Act to to restrict hoarding and thereby control their prices.

Similarly, in 2018, Government of India opened commercial mining for private sector by auctioning coal blocks to bidders based on the price offer in rupees per tonne; however, there was not much response from the private sector for this move back then. Therefore, this time, the government changed the criteria for auctioning block to revenue sharing instead of the fixed rupee per tonne. The current policy reform does not require any eligibility condition for private parties to bid for a coal block and sell in the open market. Reform in India's coal sector is long overdue to bring competition in coal production, which has been the monopoly of the public sector company Coal India, since the sector was nationalized in 1973. On account of lack of competition, India's coal production stagnate in recent decades and we are forced to import coal to supply our power plants. India imported USD 22 million worth of coal last year because of shortage in domestic supply and we can save huge amount of foreign exchange by promoting local production. India should rely on imports only for coal used in metallurgy and for plants based in coastal areas.

Other remarkable policy initiatives announced last week are the increase in FDI limit under automatic route in the defence sector to 74%, liberalization in aviation sector, allowing private investment in strategic sectors (to be notified in future) and promoting reforms among state governments.

The central government has allowed additional borrowing power for only those states that implement reforms in ease of doing business and power sector, among others. This will force many laggard states to bring efficiency in power sector, reduce cross-subsidisation of power tariff, under which industrial consumers of power have to pay more for subsidizing household consumers.

These reforms, in the medium-to-long run will improve India's competitiveness in the global market and has the potential to attract investment. While these reforms are needed to attract foreign investment, we need to analyse the relative strength of India with respect to our competitors in the neighbouring countries. Some of these parameters are availability of workforce, ease of doing business, vulnerability to currency volatility etc. The following section analyses India's ranking with respect to key ASEAN countries in these parameters.

India's Comparison with ASEAN countries:

India compares favourably in terms of some indicators with respect to ASEAN countries, while it ranks poorly in terms of other indicators. For instance, India ranks 63rd in ease of doing business, which is worse than the position of Malaysia and Thailand, although it is better than Vietnam's 70th ranking. In terms of expected GDP growth in 2020, India's position is slightly lower than Vietnam and Bangladesh. All other Asian countries are expected to record negligible growth or contraction in 2020 (based on IMF estimate in April 2020).

Thailand and Vietnam are current account surplus countries, which means their short term foreign exchange receipts is higher than foreign exchange outgo. Thus, these countries are less vulnerable to currency volatility compared to India, which has a negative current account balance, although this balance is expected to contract in 2020. Foreign investors worry about currency volatility in a country as their investment returns in terms of dollar reduces if the currency of the host country depreciates.

India has been the largest source of FDI among ASEAN countries in 2018 because of its sheer size of the economy. However, in terms of total investment, Cambodia and Vietnam have a sizeable share of foreign direct investment.

The following table provides an overview of India's position with respect to other countries in terms of various parameters.

Key economic indicators of Asian countries								
Countries	GDP growth		Current Account Balance		Doing Business ranking 2020	FDI share in total investment	FDI (USD million)	% of working age
	2019	2020	2019	2020				
Bangladesh	7.9	2.0	-2.70	-2.2	168	4	3613	67.1
Cambodia	7.0	-1.6	-12.53	-22.2	144	60.2	3103	64.2
India	4.2	1.9	-1.13	-0.6	63	5.3	42286	66.8
Indonesia	5.0	0.5	-2.72	-3.2	73	6.7	21980	67.6
Malaysia	4.3	-1.7	3.29	-0.1	12	9.4	8091	69.3
Philippines	5.9	0.6	-0.13	-2.3	95	7.2	6456	63.9
Sri Lanka	2.3	-0.5	-2.15	-3.6	99	6.7	1611	65.3
Thailand	2.4	-6.7	6.86	5.2	21	9.4	10493	71.0
Vietnam	7.0	2.7	3.99	0.7	70	29.2	15500	69.6
Source: GDP growth, current account (IMF), Doing Business ranking (World Bank), FDI share (UNCTAD)								
Note: Data for FDI pertains to 2018								

On the whole, India's position vis a vis other ASEAN countries is not too bad in terms of the above indicators; In fact, India has a sizeable consumer market, which is far larger than other ASEAN countries. Therefore, India stands to benefit from the possible shift in global supply chain after the COVID crisis if the government implements the announced reform measures, along with other measures such as land acquisition and simplification of tax regime efficiently.

Notifications

Press Information Bureau, Government of India

Reforms across seven sectors under Aatma Nirbhar Bharat Abhiyaan

<https://pib.gov.in/PressReleasePage.aspx?PRID=1624661>

Relief package for sectors

<https://pib.gov.in/PressReleasePage.aspx?PRID=1624700>

Daily Bulletin on COVID

<https://pib.gov.in/PressReleasePage.aspx?PRID=1624722>

DGFT

Amendment in Export Policy of Masks

https://dgft.gov.in/sites/default/files/Notification%20English%20Final_0.pdf

Procedure for availing Transport and Marketing Assistance

https://dgft.gov.in/sites/default/files/PN%20eng_0.pdf

Extension of Interest Equalisation Scheme

<https://dgft.gov.in/sites/default/files/Trade%20Notice%2011.pdf>

CBIC

Fixation of tariff value

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-nt2020/csnt42-2020.pdf>