

India should attract foreign investment in sectors with export potential

Government of India and various state governments are taking steps to promote India as an attractive investment destination for foreign companies. Reports suggest that the central government is engaged in discussion with foreign companies to attract investment and thereby strengthen the domestic manufacturing sector. This initiative is part of the government's mission to make India Self-Reliant under the ambitious Atma Nirbhar Abhiyan.

It is important that the government attracts foreign investment in those sectors where India depends considerably on imports, for instance, in active pharmaceutical ingredients, defense manufacturing, electronics, heavy industrial machineries, among others.

The government should also attract investments in those sectors where India has strong competitive advantage in the export market. According to a study conducted by leading think tank ICRIER in 2019, India is highly competitive in exporting 74 intermediate products (which are used as inputs for further processing) in 42 markets, in Europe and Asia. Some of these products are benzene, line pipes used for oil and gas projects, cast articles of iron or steel, vegetable saps, cotton yarn, dyes and pigments, medicaments, etc. The report found that India can potentially outcompete other exporters of these 74 products, such as Germany, China, Italy, US, UK, Netherlands, Belgium and France.

Specifically, the report finds that India has clear cost competitiveness in export of organic chemicals to Belgium, glass products to Denmark, pigments (used in paint manufacturing) to Germany and Poland, cotton yarn to Latvia, plastic packaging materials to Ireland and Sweden, essential oils to Singapore etc.

According to the report, government and industry associations should handhold local MSMEs to explore these potential markets for the identified goods. The state governments should hold stakeholder consultation with associations in these identified sectors and address the challenges faced by them in increasing production capacity.

India can enhance its exports of these 74 intermediate goods by supporting these sectors in all ways. The government can also attract foreign direct investment into these sectors so that domestic production capacity can be increased to meet demand in the potential markets.

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RBI

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<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11934&Mode=0>

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<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11925&Mode=0>

CBIC

Exchange rate notification

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