The Role of Foreign Investment in making India a global economic power

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In his last visit to India, Amazon Founder Jeff Bezos famously announced that the 21st century belonged to India. While it could be a publicity stunt, there is a lot of merit to Bezos' claim. India's bullish spree has inspired a positive business sentiment that is reverberating globally. At the start of 2021, global credit rating agency Moody's projected that India's GDP will grow at 12% in 2021. Since then, owing to the disastrous third wave that forced the nation to be on lockdown mode again, several revised projections have been issued. However, despite muted activity for almost 4 months, India's economic growth projections are constantly being pitched at 7% or higher.

Hiring has picked up with e-commerce leading the charge – and considering that most of India's e-commerce providers are either owned by foreign investors or have a sizable foreign investment – FDI is crucial in scripting India's economic growth story. As per the latest UNCTAD report documenting global FDI inflows, India attracted $63 billion worth of FDI in 2021 - the highest ever and the 5th highest in the world.

India is on a bullish spree and flush with employable and cheap labour buoyed by positive intent signalled by the central government. Despite a bureaucratic system, the message that India is open for business is being articulated loud and clear.

But is it enough?

A developing India is spending liberally. Nirmala Sitharaman's latest budget is a strong example. In the budget and other governmental blueprints to develop India, the promised infrastructure spend over the next 5 years alone amounts to $1.8 trillion – 70% of India's current GDP. Add to that the immediate spending in healthcare as the government rushes to vaccinate over one billion people against COVID. The government debt to GDP ratio already stands at 90%, and the rate at which welfare and business spending is projected, this will only go higher. The quest for a larger GDP is bringing with the familiar trappings of mammoth debt and despite its best intentions, the Indian government continues to fall short of money.

To fulfil the aspirations of 1.35 billion people, it is imperative that India turn to global private money. Estimates indicate that there is approximate $30 trillion worth of money available for investments at negative or low interest rates globally. Out of this in 2020, India was only able to extract $63 billion while China, despite the immense diplomatic isolation and hostility that it faced in 2020, topped the global FDI rankings with $163 billion.

This has actually been the case since the 1990s – China has consistently outperformed us when it comes to FDI. For a long time, almost till 1989, India's GDP was higher than that of China. Then, thanks to an aggressive and open foreign investment program that leveraged the soft power of Chinese nationals settled across the globe and extensively marketed China's mass manufacturing capabilities, FDI to China shot up monumentally. Since 1980, China despite being a communist nation with a fiercely protected domestic market has received 273 Lakh crores of FDI while India which is a democracy with an open market, has received just 44 lakh crores approximately – this amount is perhaps the key differentiator between the pace of the economic growth between the two nations.

Similarly, the tiny island nation of Singapore threw itself open for business from the 1960s. First as an import-export hub and then rapidly scaling up its services industry to become the gateway of Asia. Today, 41% of the global top 50 Fortune 500 companies have their Asia-Pacific headquarters in Singapore and the city has been ranked the top city in the APAC region in the 'Asia-Pacific cities of the future 2020' index. This stands in stark contrast to Indian cities. Despite India being one of the biggest markets of almost every Fortune 500 company looking to expand into Asia, Indian cities are not host to most regional headquarters of MNCs. Global conglomerates prefer to remote control operations from the plush environs of Singapore, Shanghai, Shenzhen or even Dubai.

India has been open for business since the economic liberalisation of the 1990s. But since then, by how much have we progressed? India continues to languish in the middle of the global 'ease of doing business' rankings. Moreover, Indian laws relating to personal taxation for foreign personnel are cumbersome and make foreigners prone to litigation. Currently foreign investors living or working in India get taxed on their global income if they exceed their stay in India beyond a specified limit. Since this limit is not enough for anyone to set up and nurture a new venture or even further development of existing international conglomerates, so expatriates and investors who have pioneered new industries choose to leave India before they have had a chance to positively contribute to the Indian business ecosystem.

This stands in stark contrast to such laws governing foreign investors living and working in Singapore, China or Dubai – each of which are more liberal in their approach to global citizens. Consequently, it has resulted in a cumulative loss to the national exchequer over the years.

It is now imperative that India's economists to go back to the drawing board and figure out – how do we get a lion's share of global investment? What do we need to learn from our neighbours? Augmenting FDI is not about reinventing the wheel. We simply have to look around to benchmark the best international practices for increasing FDI, customise it to the Indian ecosystem and reap the rewards. To succeed in a dynamic world laden with disruption, India needs to attract more global strategic investors who have the money, and more importantly the knowledge expertise of the latest technologies such as Robotics, AI, space exploration, AR/VR etc.

According to a report on Foreign Investment in India by EY India in 2020, India needs to prioritise three key factors to increase global private investment. First, the country needs to attract higher FDI in manufacturing and other strategic sectors; Second, it needs to make India a place for businesses to locate international offices and develop financial centres in the country; and third, India needs to liberalise the norms for personal taxation for individuals wishing to live in India for extended periods of time. In short, India needs to create a holistic environment that promotes 'ease of business' as well as 'ease of living'.

Ease of business does not only mean creating an easily navigable system of compliances but also luring foreign investors with lucrative and innovative projects. A not-so-good example would be the 100 Smart Cities Project which piqued considerable domestic and global interest when it was launched in 2016 but has progressed little since then. But real projects in new sectors that can be followed through can be a big source of attraction for foreign investors.

In the same strain, 'ease of living' for foreign investors implies a smart globalized environment like that which is the objective of the Smart Cities project. Foreign investors can help make such projects a reality with their investment and also be one of the biggest consumers of such projects thereby increasing domestic revenue. Another crucial component of 'ease of living' is a feeling of Peace of mind to the global investor by make investor friendly policies pertaining to personal matters such as taxation, visa requirements etc. To reiterate, Foreign investors must be allowed to stay in India for longer periods of time to tend to their investments without being taxed on their global income. Of course, all income generated by them within India will be taxable. This could be a key marketing strategy in which India has nothing to lose. In fact, the Indian exchequer is slated to gain as more people get attracted by such laws. Leveraging global private money has several advantages that can be poignant for a developing India.

Ease of doing business and ease of living are two sides of the same coin – together they create a holistic ecosystem that encourages foreigners to come, invest and continue to remain invested in India. India needs to adopt a fresh mindset towards global investment if it has to become a Global Economic Leader, it must play by the rules of the world till the time comes when it rules the world.