Budget and Foreign Policy: RSTV – India's World

Background:

- This episode is focussed on analysing the key takeaways for India's foreign policy from the Budget of 2019-20.
- The Union Government has shown its intention to implement further reforms in FDI through a series of steps that have been announced in the 2019-20 budget.
- The govt. is looking to further liberalise key sectors of the economy such as – aviation, media, insurance and single-brand retail.
- These announcements are bound to have a significant impact on India's trade relationships and its image as an investment destination.
- India also plans to open 18 new diplomatic missions (embassies) in Africa to establish its footprint as a rising power and promote its national interests in the African region.
- In 2018-19, India has already opened 5 new diplomatic missions in Africa which includes – Rwanda, Djibouti, Equatorial Guinea, Republic of Guinea and Burkina Faso. The govt. is planning to open 4 more in 2019-20.
- The Finance Minister has also proposed to issue Aadhaar cards to NRI's with Indian Passport immediately upon their arrival instead of waiting for a minimum period of 6 months.

Impact of opening up the FDI sector:

- Opening up the FDI sector further has been a long-standing priority for subsequent governments, especially to bridge the financing gap in India.
- Reforms in this sector holds the key to creating more employment opportunities and promote economic growth.
- Each year, the whole budgeting exercise has been designed to introduce incremental reforms in the FDI sector.
- India has been making consistent efforts to improve its ease of doing business ranking in order to establish itself as an attractive destination for trade and investment.
- But the challenge of bridging the financing gap still has to be treated as a domestic challenge, because despite the quantum of FDI that India will receive this financial year, the gap must be largely bridged with our domestic resources itself.

Development through the FDI route:

- The biggest requirement for FDI has been in the infrastructure sector. It has been said that India would need around a trillion dollars over the next few years in order to ramp up its infrastructure.
- But such huge finances cannot be raised by mobilizing our domestic resources alone.
- Even if the private sector is roped in through the public-private partnership route, India will have to rely heavily on the FDI route to raise the required investments and for this to happen, India will have to offer attractive terms to foreign investors.
- Until now most of the FDI flow has been into the services sector. India would like to shift this focus to the manufacturing sector considering its export and job creation potential.
- Within services the priority areas for FDI investment would be aviation, insurance, retail, etc. and in future India plans to establish itself as a hub for financial services as well which can offer services such as wealth management for not just Indian clients but foreign clients as well.
- The advantage of pushing for more FDI in these sectors is that it not only brings in the much-needed investment but it can also bring the required technology and managerial best-practices.

Why is the budget focussed on aviation, media, insurance and single-brand retail?

- In general, India has adopted a liberal policy towards FDI over the years except for in a few sensitive areas such as gambling, lottery etc.
- Especially in the manufacturing sector, India has been aggressively pushing for more foreign investment with a liberal policy. In furtherance of this policy India has already increased the limit to 100% in several sectors and it has pushed keys areas from the approval route to automatic route.
- Some areas such as aviation, media, insurance and single-brand retail were held back over the years. Hence the government is looking to prioritise these sectors for bringing in more FDI.
- The global investor community as well has been keen to bring its capital, skills, technology and managerial abilities to India, considering that it is one of the largest markets which can offer lucrative returns.
- Allowing FDI in single-brand retail has been controversial because of the concerns of the domestic players and the mom and pop stores (kirana stores).
- Earlier India had been very stringent about local sourcing requirements because of these concerns and hence foreign investors were hesitant and they even branded India to be acting in violation of WTO norms.
- But recently India has relaxed the local sourcing requirements as per the Trade-Related Investment Measures (TRIMs) of WTO. This sends out the right message for the global MNC's looking to enter India in the single-brand retail sector.
- In the recent budget, India has even brought down the custom duties on essential items which should be an attractive proposition for foreign retailers looking to invest in India.

India's experience with FDI:

- In general, India has had a positive experience while attracting FDI but the overall experience has been mixed. Because when we look at the size of the Indian market and its requirements there is a lot more that can be done.
- If you at the external environment, the foreign players are very keen to enter India in a big way. But the hurdles and roadblocks have prevented the anticipated scaling up of investments.
- A concrete way of addressing these challenges include – improving India's ease of doing business index, creating a corporate culture which is welcoming of foreign investments and expertise and third is to have predictable rules and procedures that are open and transparent.
- So clearly, there is lot left for India to do in this regard.

What should India do?

- India should focus on rationalising and bringing down tariffs and duties especially on the import of essential raw materials that are needed for the growth of our domestic industry and our exports.
- The Budget has rightly brought down the customs duties on gems & jewellery and petroleum products, because these industries account for one of the largest shares in India's exports. Reduction in duties will boost domestic growth and exports as well.
- Such increase in earnings for the domestic industry will also help bring down their opposition to the entry of foreign players.
- Others issues that need to be addressed, for reducing import tariffs, would be to deal with the slight liquidity crunch in the market and the interest burden on working capital requirement.
- So the budgetary announcement of Rs 70,000 crore for recapitalization of banks is a welcome step. It will go a long way in addressing the liquidity problems.
- The Budget also provides a few solutions to resolve some of the challenges being faced by the NBFC's. This is again crucial because of the extent of lending NBFC's provide for the manufacturing sector.

Potential for India- Africa ties:

- Historically, India's economic ties with Africa has been relatively weak compared to its strong

trading relations with North America, Europe and off late South-east Asia, which is thanks to India's Look East-Act East Policy.
- In the recent past, initiatives such as the India-Africa Forum Summit and unilateral tariff concessions have led to a slight improvement but the quantum of trade is still way below its potential.
- The budgetary focus on opening new diplomatic missions in Africa is a welcome step and also the renewed thrust on Development Partnership will position India to leverage its soft power and the goodwill it enjoys to push for closer trading relationships with African countries.
- Especially the ITEC program of the MEA has been a great success in Africa in providing for capacity building and training of African students.
- The Modi government had earlier initiated the Indian Development Assistance Scheme (IDEAS) to streamline the flow of Line of Credit to smaller countries, especially in Africa, to expedite the timely completion of India-sponsored projects.
- In recent years, the India-Japan partnership for Africa was launched and it shows that India is quite serious about augmenting its economic partnership with Africa.

<u>The future for India-Africa ties:</u>

- Traditionally, India has enjoyed strong political and diplomatic ties with most African countries and since the very beginning, India has enjoyed closer ties with Eastern Africa & Southern Africa and to some extent North Africa as well.
- This was an outcome of a shared colonial past under the British and common political ideas post decolonisation.
- On the other hand, India's ties with West Africa is slightly weaker because of the historical and cultural differences. Large parts of West Africa was under the French and other European empires, hence language and cultural barriers had hindered closer relations with India post de-colonisation.
- So the renewed thrust towards Africa that has been highlighted in the Budget is mainly focussed on West Africa, where India is looking to set up new diplomatic missions.
- This new outreach will help India to harmonise diplomatic ties across the African continent and bridge the deficit areas. It will provide new venues for the implementation of ITEC and other developmental partnership initiatives that can cement India's influence over the continent.
- Due to paucity of resources, India's earlier outreach to Africa has been limited. It had set up diplomatic missions only in few large countries and the same mission would look after India's political and economic relations with 4-5 small neighbouring countries.
- Now with increased allocations the MEA is looking to set up 18 new missions over the next 4 years out of which 5 have already set up in 2018.
- This is very much needed, because China, which is India's main strategic rival in Africa, has a strong diplomatic presence in almost every country which has enabled it to position itself as a predominant player in the African region.
- The opening of new missions will help India to closely examine those countries and identify their problems, so that India can step in and help them with capacity building, training, technical assistance and line of credit.
- This would establish India as a serious player in Africa and will further boost trading relations with one of the most important regions, because Africa is expected to register the highest population growth and economic growth over the next 5 decades.

<u>The African Great Game between India and China:</u>

- If you look at the budget document, it allocates a higher share of developmental assistance to Mauritius, Maldives and Seychelles. This is significant because these island countries form the bridge between India and Africa that are separated by the vast expanse of the Indian Ocean.
- This acquires greater significance in the context of China's presence in the region. Hence India's policy reallocation towards Africa represents a major economic outreach.

Concluding Remarks:

- The Budget promises to provide Aadhaar to NRI’s with Indian passport immediately after their arrival without the mandatory waiting period.
- These measures which improve the delivery of government services is a welcome step as they enhance the ease of doing business in India.
- NRI’s and PIO’s have played a tremendous role in India’s growth story through the remittances they send and the projection of India’s soft power abroad.
- So such measures not only enable their wellbeing but it is also a recognition of the contribution of the Indian diaspora. It could also give the diaspora a sense of belonging and an opportunity to reconnect with their homeland.
- If NRI’s can acquire the Aadhaar card easily, it will smoothen the process of KYC verification and their integration into India’s financial system. This hopefully, should drive up their investments in the Indian economy as well.
- In conclusion, the budget appears to be focussing on the global audience and as well as on the NRI’s. It is trying to harness most of the external linkages of economic variables such as – FDI, FII, portfolio investments etc. The thrust given to electric vehicles will also significantly alter the geopolitical outlook of India as it starts to reduce its dependency on imported oil. The budget is also focussed on pushing India’s soft power through improved people to people linkages and tourism. Overall, it is a well-rounded attempt at improving India’s foreign economic engagement.