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Foreign Direct Investment into India: An Anatomy of Issues and Challenges

Srinivasa Madhur[1]

Abstract

India is getting younger while the world is ageing. This provides the country with both opportunities and challenges. Of course, it presents the country with a potential demographic dividend. At the same time, providing productive jobs to the increasing numbers of Indian youth is becoming a formidable challenge for the Indian policy makers. One of the time-tested modality of addressing this challenge is by attracting foreign direct investment (FDI). To make India attractive for FDI, there is much merit in the country easing the overall environment for foreign direct investment, strengthening its infrastructure, forging partnerships with other countries, simplifying the tax system along with a reduction in the tax burden on investors, and harnessing the benefits of Artificial Intelligence technology.

Key Terms: Invest India; Infrastructure; Tax Reforms; Hiring and Firing; Land Acquisition; Labor laws; Innovation; Artificial Intelligence.

[1] Srinivasa Madhur is an Adjunct Professor at the Faculty of Social Sciences and International Relations at the Pannasastra University of Cambodia, Phnom Penh and a former Senior Director at Asian Development Bank, Manila, Philippines. The views expressed in this paper are entirely those of the author and should not in any way be attributed to the Pannasastra University of Cambodia and/or Asian Development Bank. Moreover, the author would like to confirm that no funding was received to finance the paper from any financing agencies and thus no conflict of interest in any form is involved. The contact email of the author is: srinimadhur@gmail.com

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1. Introduction

India now has a huge working age population. While the world is ageing, India is getting younger. However, the unemployment rate among the Indian youth is estimated to be 40% (Madhur 2024, September). If capital and labor were mostly mobile across countries, something close to what existed before the imposition of large scale immigration restrictions in the early 20th century, the young Indian youth may have migrated to the rest of the world where their services may have had a demand. Indeed, this is what had happened during the first wave of globalization approximately dating back to the period between 1870 and 1914 (Baldwin and Martin 1999, January).

It was so well put by none other than John Maynard Keynes: " What an extraordinary episode in the progress of man that age was which came to an end in August 1914!... The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth …he could at the same moment and by the same means adventure his wealth in the natural resource and new enterprises of any quarter of the world … he could secure forthwith, if he wished it, cheap and comfortable means of transit to *any country or climate without passport or other formality*" (quoted in Baldwin and Martin 1999, January, Italics added by this author).

It is, of course, true that the orders Keynes could place by phone in 1914 could now be placed over the internet. Instead of having them delivered in a few weeks, they would now arrive at one's doorstep in a few days. "What is more, the internet has allowed a further integration of value chains across countries. You could do R&D in one country, sourcing in others, production in yet another, and distribution all over the world… The result has been a globalization on steroids" (Vanham 2019, 17 January).

However, "transit to *any country or climate without passport or other formality*" that Keynes mentioned has become enormously more difficult over time for the unemployed Indian youth, especially those who are at the lower end of the skill spectrum (even with passport and other formalities). Given this predicament, Indian policy makers will have to make the rest of the world come to India to utilize the skills of its unemployed youth.

Put in the economic jargon, India has to attract much more foreign direct investment that could provide employment opportunities to its youthful population. That way, one could facilitate a marriage between India's ample supply of workforce and the rest of the world's capital. Against this backdrop, this paper: reviews India's current policy on foreign direct investment and examines the need for India to attract more foreign investment (Section 2), then comes up with policy options that could be considered by Indian policy makers (Section 3), and finally provides a summing up of the key conclusions of the paper (Section 4).

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2.India's Need for Foreign Direct Investment

As labor is not able to move around freely, a route that most countries with abundant workforce prefer is to attract foreign capital, especially in the form of foreign direct investment. That route, in turn, could provide productive employment to the huge number of Indian youth. In particular, foreign direct investment flows into highly labor-intensive sectors could provide better employment opportunities to the somewhat less skilled Indian youth. Thus, there is much merit in India's policy makers focusing on attracting FDI, especially into highly labor-intensive manufacturing sector.

A country that receives FDI benefits from the capital and technology of the foreign investor. It then accelerates the host country's economic growth, generates employment, helps managerial innovations, and upgrades its technological capabilities. That said, "the flow of FDI is not automatic: it is subject to many factors including regulatory policy, investment environment, competitiveness, market size and political stability in the host country" (Rai 2021, 28 February). Other studies echoed the same view on FDI (Phillips et. al. 2022; Krishnaveni 2023, March).

In 2009, ***Invest India*** was established as a public private joint venture company of the former Department of Industrial Policy and Promotion (DIPP) of the Ministry of Commerce and Industry, the Federation of Indian Chambers of Commerce and Industry (FICCI), and state governments. "However, it was not until 2015 that Invest India was empowered to ramp up its investment promotion efforts, with the resources and reach to be fully active in the FDI marketplace" (Phillips, et. al. 2022).

Setting up ***Invest India*** and endowing it with increasing responsibility for attracting FDI in 2015 has been a landmark policy decision by the Government of India. "Since its rejuvenation in 2015, ***Invest India*** has received several awards in investment promotion from UNCTAD, WAIPA and the Annual Investment Meeting (AIM)" (Phillips et. al. (2022). The Agency has also built up a pipeline of FDI projects into the country. Now, on to some recent data on FDI into India and the evolving policy regime on FDI (Figures 1A and 1B).

In the fiscal year 2010-11 (April 2010 – March 2011), Gross FDI inflow to India was less than $40 Billion, but rose to $71.4 Billion by fiscal year 2022-23. During the same period, net FDI (gross minus repatriations) increased from about $25 Billion to $42 Billion. In 2023-24, Gross FDI just about remained the same as in the previous year. However, Net FDI declined to $26.5 billion. The 2023-24 Economic survey, presented in July 2024, attributed the decline in the net FDI to a softening of global FDI flows.

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Figure 1A: Foreign Direct Investment (in Billions of Dollars)

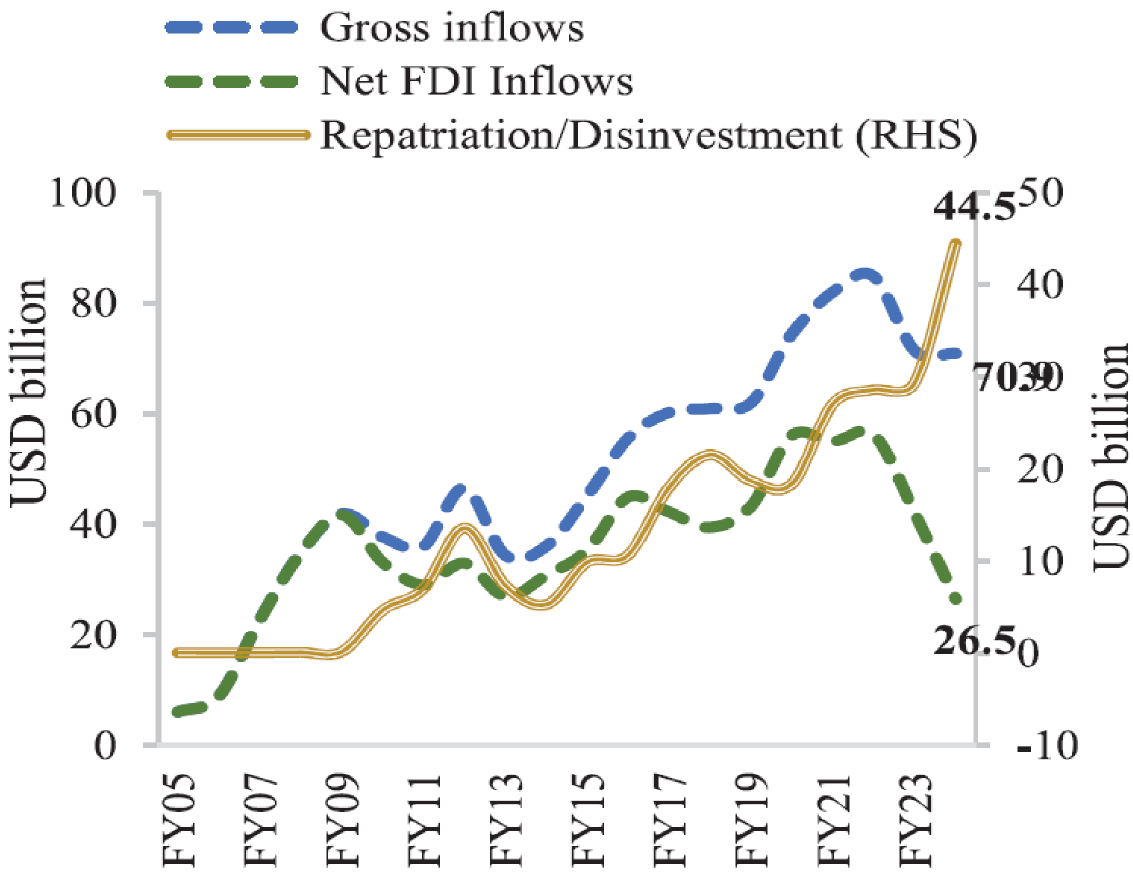
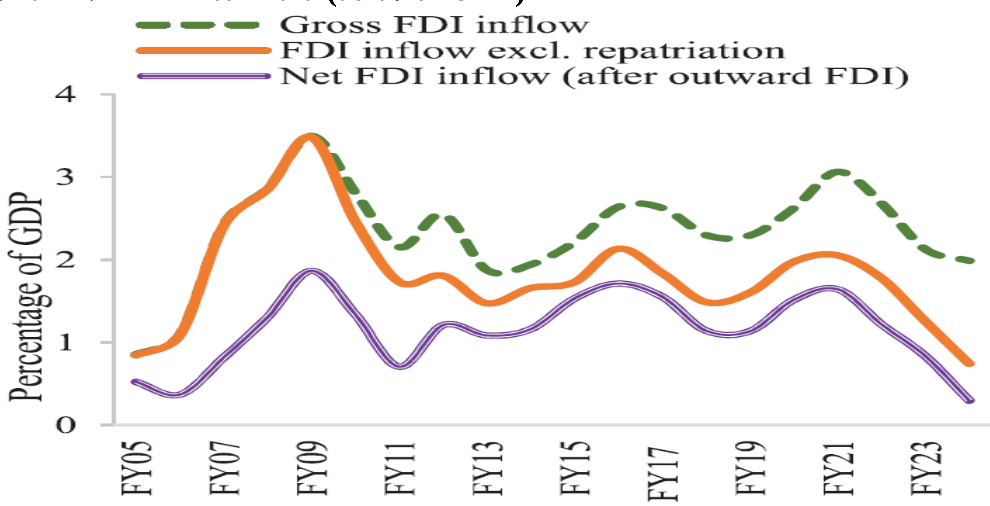


Figure 1B: FDI in to India (as % of GDP)



Source: Reproduced from Government of India, Ministry of Finance, Economic Survey: 2023-24, p.139

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Indeed, as per the 2024 World Investment Report (by the United Nations Conference on Trade and Development but rebranded as United Nations Trade and Development effective 9 April 2024) in 2023 FDI inflows to developing Asia declined by 8% (UNCTAD 2024).

Total FDI inflows into India in the 23 years (from April 2000 to March 2023), amounted to $919 billion. Out of that total, $595 billion, or equivalent of one-third of the inflows, came in the recent 9 years (from April 2014 to March 2024). In 2022-23 the top five Indian States that received the FDI were: Maharashtra (29%), Karnataka (24%), Gujarat (17%), Delhi (13%), and Tamil Nadu (5%). Country-wise, the top five countries that invested in India in 2022-23 were: Mauritius (26%), Singapore (23%), USA (9%), Netherland (7%), and Japan (6%) (Make in India 2024).

Be that as it may, Moody's – the global credit rating agency – noted that "FDI into India has also seen better days, falling in recent years despite the country's push into manufacturing and notable investments from tech giants such as Apple Inc." (quoted in Kundu 2024, 28 August).

The 2024 India Employment Report jointly written by the International Labor Organization and the Institute for Human Development noted that the recent high-growth period has not generated equally high employment growth. Indeed, the Report went on to say that the "production process has increasingly become capital-intensive and labor-saving… the share of manufacturing was stagnant at around 12-14 percent… and employment is dominated by poor-quality employment in the informal sector" (International Labor Organization 2024, 29 March).

The need for a vibrant labor-intensive manufacturing sector to provide productive employment to the growing young workforce cannot be overemphasized (Madhur 2024, September). "About a decade ago, some optimists thought India could leapfrog over the manufacturing and physical infrastructure stage of development (widgets) to build the whole economy around digital (bits). Today, it is clear that, while India's tech sector is fantastic and growing, the whole, massive country will have to develop the old-fashioned way with better infrastructure and more manufacturing" (Garrett, 2015, 3 December).

Quoting from various studies, a 2006 paper by the International Monetary Fund noted that: "FDI is not debt creating, is less volatile than portfolio flows, and is relatively resistant during financial crises . FDI has also been associated with positive spillovers through technology transfer and training to local industry , and may lead to enhanced export performance and growth" (Purifield and Schiff 2006, 29 August).

Another expert explained the justification for India attracting FDI so eloquently: "FDI inflows represent a long-term commitment of foreign investors… FDI inflows, especially of the green-field type, augment gross fixed capital formation in the host country and can have a positive impact

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on income, employment, and balance of payments… Because of the potential positives, most governments actively court FDI inflows through promotion and facilitation besides incentives and concessions" (Kumar 2024, 18 September).

The 2006 IMF study went on to add that " FDI flows into India have risen since the 1990s but remain low, compared with other emerging market countries" (Purifield and Schiff 2006, 29 August). Indeed, Indian FDI numbers do not compare favorably with, say, China. Around 1985, total FDI inflows to China was just under $1 billion, but it continuously rose to about $140 billion by 2018 (Garnaut et. al. 2018).

Attracting foreign direct investment is, more often than not, the first step in a country's active participation in the global production networks and supply chains (West 2020,18 February). At present, India maintains two routes for foreign direct investment: the automatic route and the Government route. The first route allows foreign investment without approval from the Government. Under the second Route, foreign investment proposals have to be approved before the actual investment –more specifically by the respective Ministries/Government Departments (NEXTIAS 2024, 3 September).

Foreign investment is prohibited in sectors such as lottery business of any kind, gambling and betting, Chit Funds, Nidhi companies, real estate business including farm houses, and the manufacture of all tobacco products or tobacco substitutes, irrespective of these are run by the private or the public sector. Then there are sectors that are not open to private investment – irrespective of whether these are domestic or foreign (other than those permitted activities mentioned under the Consolidated FDI Policy (NEXTIAS 2024, 3 September).

In India key sectors that require government approval include the multi-brand retail trading sector, where FDI of up to 51 percent is permissible assuming certain regulatory conditions are met; and the brownfield pharmaceutical sector, where any FDI above 74 percent must obtain government approval (Hsiao and Tan 2024).

Although the rejuvenation of "Invest India', has dispensed with some of the bureaucratic delays, India is yet to become a 'magnet for foreign investors' like China was during its high-growth period. One expert highlighted the issue very well: "India's restrictive FDI policy as major trap for the country" (Bhalla 2024, October). He went on to add: "foreign direct investment rates (% to GDP) have significantly declined since the abolition of Bilateral Investment Treaties (BITs) which began in 2017; policy now is for FDI investment disputes to be settled in India, not third party; India's legal system is still at poor country level; estimates suggest that about 30 % of the decline in FDI can be attributed to suspension of Bilateral Investment Treaties; FDI helps in not just adding

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to investment rates, but also significantly to innovation and technical change; we need to get back to status quo ex-ante at the earliest" (Bhalla 2024, October)

3. Policy Issues and Challenges

3.1. Developing the Infrastructure

In the last decade, India has done well in strengthening its overall infrastructure including highways, railways, ports, airports, power supply, and internet connections: "India has almost doubled its national highway system … from 91,000 kilometers in 2014 to 175,000 kilometers in 2023…the number of functional airports…from 74 to 148. Between 2019 and 2023, port capacity… rose from 1,534 metric tons per annum to 2,600 tons. In addition, 208,000 of the 250,000 panchayats (village councils) in India have been connected by a high-speed fiber-optic network. The total laid length of fiber optics increased from 1.06 million kilometers to 3.90 million kilometers" (Lahiri and Mitra 2024, July).

Moreover, the Digital India Act of 2023 is a new law that replaces the 2000 Information and Technology Act. Effective implementation of this new law has the potential to raise the overall digital standards in the new-age technologies including artificial intelligence, data protection, online security, and cybersecurity (NEXTIAS 2024, October 7)

These are really notable achievements that should encourage more investments – both domestic and foreign. To quote from the Government's July 2024 Economic Survey: "India has a well-established infrastructure to attract FDI in select sectors, i.e., greenfield projects such as renewables, digital services such as telecommunications, software and hardware, and consultancy services" (Government of India 2024, July, p.142). The Survey went on to add: While several low-hanging fruits with respect to the 'Ease of Doing Business' have been plucked already over the years, further work may lie in details across all levels of government – national, state and local - and across regulators" (Government of India 2024, July, p.142).

While presenting the Union Government's Budget for 2024-2025, the Finance Minister has promised to facilitate the development of: "investment-ready "plug and play" industrial parks with complete infrastructure in or near 100 cities, in partnership with the states and private sector, by better using town planning schemes. Twelve industrial parks under the National Industrial Corridor Development Program also will be sanctioned" (Government of India 2024, 23 July, pp.10-11). Moreover, Budget allocated interest-free loans of Rs.1.5 trillion (approximately equivalent to $18 billion at the current exchange rate) to enable the state governments to build infrastructure (Government of India 2024, 23 July, p.15).

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3.2. Liberalizing the FDI Policy Regime

India has been continuously liberalizing its policy regime on FDI in recent years. In particular, “simplified processes, like single-window clearance and the Goods and Services Tax (GST) implementation, have eased the bureaucratic burden on businesses and foreign investors in India, thereby enhancing the ease of business in the country” (Forbesindia 2024, 2 September). Other experts echo this assessment: “India's tax laws have been geared toward simplifying and lowering the tax cost linked to inbound M&A and FDI. The 2016 implementation of the Goods and Services Tax created a unified tax regime, simplifying the tax structure and reducing compliance burdens for businesses. Additionally, the reduction of corporate tax rates has made India an attractive investment destination” (Tiwari and Shah 2024, 22 August).

India now allows 100% foreign ownership in many sectors, such as manufacturing, infrastructure, and retail, with restrictions on sensitive sectors like defense, insurance, and media. In 2021, foreign investors were allowed to invest in companies that are being privatized or divested (the process of reducing public sector’s equity share in companies). For example, in 2021 foreign investment up to 20% was allowed in the Life Insurance Corporation of India. During 2022 and 2023, the Government divested its equity holdings in quite a few companies, including Hindustan Aeronautics, Indian Railway Catering and Tourism Corporation, Oil and Natural GAS Corporation, and Pradeep Phosphates (Hsiao and Tam (2024). Effective 24 February 2024, India took a major decision to permit up to 100% FDI in space sectors like satellite manufacturing and operation (Government of India 2024, 21 February).

In February 2024, India and the United Arab Emirates (UAE) inked a bilateral investment treaty, during Prime Minister Modi’s visit to the UAE. As part of this bilateral treaty, UAE is expected fund a $2 billion food processing facility in India. This facility is aimed at sourcing high quality food products from India to the UAE, and more generally to the Gulf markets. “It could thus create jobs, and improve farmer incomes. Small working groups will oversee progress, ensuring alignment with both nations’ economic visions” (Rao 2024, 30 October)

On 10 March 2024, India and the members of the European Free Trade Association – Iceland, Liechtenstein, Norway, and Switzerland –signed a Comprehensive Trade and Economic Partnership Agreement (TEPA). This Agreement is expected to leverage EFTA’ s expertise in sustainable energy and India’s IT-related skills. Moreover, an India-Nordic Summit is scheduled to be held by the end of 2024. The summit involves Denmark, Sweden, Finland, and Iceland, and offers a platform for deepening ties between India and these Nordic countries. According to the media reports, discussions are expected to cover trade, investment, technology transfer, climate innovation, and sustainable development (Rao 2024, 9 October).

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On 24 September, India and Singapore signed a bilateral Memorandum of Understating. "Singapore's semiconductor industry, despite its prominence in global production (contributing 10 percent of the world's semiconductor output), faces limitations in terms of land and labor constraints. On the other hand, India, with its abundant land and skilled labor, holds the potential to integrate into Singapore's semiconductor value chain. While Singapore focuses on mature-node chips for appliances and industrial equipment, the production of high-end AI logic chips remains outside its current capabilities. Rising costs and global competition may challenge Singapore's position in the semiconductor market over time" (Rao 2024, 5 September).

Initiatives such as these should help India boost the country's attraction for foreign investors. "India has a great opportunity to allure many more international companies to relocate their labor-intensive manufacturing production to India" (Madhur 2024, September). There is much merit in vigorously continuing the trend in policy liberalization on FDI. "India needs to focus on changing global dynamics, and create an environment where investors feel confident about committing long-term capital" (NEXTIAS 2024, 3 September).

Recently, Apple set up its iPhone assembly line in its India's Foxconn plants in Karnataka and Tamil Nadu. "These plants produced $14 billion worth of iPhones in India during financial year – April 2023 to March 2024 -- constituting 14 per cent of its global iPhone production (Government of India 2024, July, P.143). According to media reports, this move could lead to the creation of over 600,000 jobs in the country by the end of the ongoing financial year 2024-25 (Rao 2024, 29 August). In the 2017-18 (April 2017 to March 2018), India imported $3.6 billion worth of mobile phones while exporting $334 million worth of mobile phones. By 2022-23, India imported $1.6 billion worth of mobile phones but exported $11 billion worth of mobile phones (Banerjee 2024, 20 March).

More recently, Unilever announced that it will invest in a variety of projects in India. Unilever's Chief Executive Officer acknowledged that "in India it is not going to be a linear path. I am very upbeat about the long-term prospects and looking at the opportunity that there is, but I am also realistic and cautious about the bumps that will inevitably happen in the short-term. We will double down in every category" (quoted in Times of India 2024, 6 November).

The production facility for the automobile parts and components set up earlier in and around Chennai in Tami Nadu and the more recent iPhone assembly lines in Karnataka and Tamil Nadu perhaps provide good models to be emulated across the entire country. Let the entire country be a large Special Economic Zone for external trade and foreign investment (Madhur 2024, September). Among other things, it would also reduce the burden of land acquisition for setting

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up the factories and obviate the need for obtaining consent from the various states in a federal political system like India's.

Unlike India, "when the Chinese government wants to build a high-speed rail line, they just acquire the land and move and compensate the adversely affected people. There is often pushback, but it seems rarely enough to stop a major project going forward. Think the Three Gorges Dam, the world's biggest hydroelectric power generator" (Garrett 2015, 3 December).

In comparison, in a federal democracy like India's, land acquisition for setting up industries, especially for large scale labor-intensive industries is much more complicated. For firms employing a large number of employees in India, they have to acquire contiguous slices of land from many small land owners. This keeps the firm sizes small inhibiting them from reaping scale economies (Lahiri and Mitra 2024, July; Madhur 2024, September). Moreover, "firms cannot agilely adjust their employment in response to demand and technology shocks. *The firing restrictions effectively become hiring restrictions*" (Lahiri and Mitra 2024, italics by this author).

Just witness the long drawn-out labor strike by workers in the Samsung's electronics production plant in Tamil Nadu. It is a good case of 'firing restrictions' becoming 'hiring restrictions' over time. Samsung mentioned that the annual earnings of the Samsung workers in India are higher than in Samsung's plants in Southeast Asia. These earnings are also higher than those in Tamil Nadu's staggeringly long list of minimum wages that were revised on 11 September 2024 (https://www.simpliance.in/minimum-wages/tamil-nadu).

Indeed, the Tamil Nadu's list is so humongous that it classifies minimum annual wages/remuneration by various types of industries, the Zones it belongs to within the State, and the job titles of positions held by the employees. Perhaps, such complexities may have prompted Apple to set up its research development center more recently in Shenzhen, despite all the political talk of de-risking and decoupling from China (Foster 2024, 18 October).

3.3. How About FDI from China?

Be that as it may, how should India look at the possibility of attracting FDI from China? India has been adopting "a cautious approach towards FDI proposals involving China-based entities due to perceived security, financial, and data risks" (Fox 2022, 18 August). Somewhat similar views were expressed by other experts (Pant and Mankikar 2024, 31 August). China is moving up the global production networks and supply chains – from being an imitator to an innovator (Madhur 2024, February; Madhur 2024, September). One study put it more starkly: "China is rapidly becoming a *leading* innovator in *advanced industries"* (Atkinson 2024, September, italics by this author).

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Government of India's July 2024 Economic Survey put the issue quite appropriately: "The dynamics of India-China economic relations continue to be extremely complex and intertwined. The Chinese domination over the global supply chains across product categories is a key global concern, especially in the wake of supply disruption accompanying the war in Ukraine. Even though India is the fastest-growing G20 country and is now recording growth rates that outpace China's, India's economy is still a fraction of China's" (Government of India 2024, July, p.161)

The Economic Survey then posed a couple of issues: "The questions that India faces are: (a) is it possible to plug India into the global supply chain without plugging itself into the China supply chain? and (b) what is the right balance between importing goods and importing capital from China? As countries attempt to reshore and friendshore, India's policy choices concerning China are exacting" (Government of India 2024, July, p.161). Interestingly, The Economic Survey then went on to add: "Replacing some well-chosen imports with investments from China raises the prospect of creating domestic know-how down the road. It may have other risks, but as with many other matters, we don't live in a first-best world. We have to choose between second and third-best choices" (Government of India 2024, July, p.161).

"In sum, to boost Indian manufacturing and plug India into the global supply chain, it is inevitable that India plugs itself into China's supply chain. Whether we do so by relying solely on imports or partially through Chinese investments is a choice that India has to make" (Government of India 2024, July, p.163). These statements coming from the Economic Survey is a huge improvement over the strategic ambiguity that India had followed before.

On 21 October 2024, India and China reached an agreement on joint-patrolling over their disputed Himalayan frontier, resolving a four-year standoff (Nikkei Asia 2024, 21 October). The announcement of this agreement came ahead of Prime Minister Narendra Modi's and Chinese President Xi Jinping's two-day visit to Kazan in Russia to attend the 16th BRICS summit. Both sides have appreciated this agreement. The Indo-China Chamber of Commerce noted that this Agreement could enhance opportunities for Indian businesses (Jha 2024, 21 October).

India's Prime Minister and China's President followed up the Agreement with a bilateral meeting on the sidelines of the 16th BRICS Summit. After the bilateral meeting, Prime Minister Modi was quoted as saying: "It should be our priority to maintain peace and tranquility on the border… Mutual trust, mutual respect, and mutual sensitivity should be the basis of our relationship" (quoted in Pasricha 2024, 23 October).

Meanwhile, the United States Institute of Peace noted that: "U.S policymakers should appreciate that this India-China Agreement is on balance good for the United States. It reduces the likelihood of a major military escalation between nuclear armed states and alleviates costly pressures on India

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to defend every inch of its border at some expense to its maritime operations" (United States Institute of Peace 2024, 31 October)

Indeed, the Indo-Chinese Agreement could lead to better economic ties between the two major countries in the world – world's largest democracy and worlds largest communist country. It has the potential to increase China's investments in India and at the same time pull China out of its drastically slowing economy. That said, it is important that India should welcome China's investments on its terms and conditions. China is known to invest in other countries based on 'secretive clauses and terms and conditions'. Such deals from a rising 'communist hegemonic power' would be unacceptable to a democratic India (Madhur 2024, February).

China's investments under its well-known Belt and the Road Initiative have been typical examples involving such clauses (Madhur 2024, July). Chinese firms are also known for bringing in Chinese workers and managers for implementing the China-financed projects. These projects, in turn, became 'closed-loop' projects offering limited opportunities for the host-country's workforce (Madhur 2024, July)

Moreover, China itself is going through tumultuous political and social tensions within its borders. The economy is slowing anyway. In addition, it seems that a domestic socio-political turmoil is brewing too (The Economist 2024, 26 September). Somewhat similar concerns were raised earlier on too. One of the experts on China did recognize China's miracle-like economic growth and development for decades, yet raised the concern that: "The abuse of office for personal enrichment has been a continuing and increasing source of resentment, eventually growing into a threat to the Communist Party rule" (Garnaut 2018). Meanwhile, on 28 October 2024, the Biden administration announced that: "it is finalizing rules that will limit U.S. investments in artificial intelligence and other technology sectors in China that could threaten U.S. national security" (CNBC 2024, 28 October).

Given all these circumstances, there is merit in India following a strategy towards China that is well summarized by an English proverb: "Love your neighbor, yet pull not down your hedge".

3.4. Reforming the Tax System

India is one of the few countries that have the highest tax-GDP ratios among quite a large number of countries in the world (Bhalla 2024, October). Yes, there was a time in the 1970s, when the statuary marginal income tax rate on people in the highest income tax bracket about 98%. That time has somehow passed. The rates have come down substantially over time, especially since the early 1990s, as part of the IMF reform package that the country implemented.

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India has also made a huge progress in reducing its average MFN (Most-Favored-Nations) customs duty from 84.11% in 1990 to 18.06% in 2022 – the latest year for which comparable figures across countries are available. Even with that huge reduction, India's average customs duty is one of the highest in the world: Malaysia (5.53%), Philippines (6.15%), Sri Lanka (6.45%), China (7.65%), Thailand and Vietnam (9.65%), South Korea (13.95%), and the World (8.54%). After all, a tax on imports ultimately becomes a tax on exports, external trade, and foreign investment.

As of October 2024, India had four rates of General Sales Tax: 5%, 12%, 18%, and 28%. Compare this with China with three rates (6%, 9%, 13%); Malaysia (10% VAT plus 5% Sales Tax); Philippines (12%); Indonesia (11%); Vietnam (8%); and Thailand (7%). The picture on personal and corporate tax rates depicts a similar story: India has the one of the highest personal income and corporate tax rates (https://worldpopulationreview.com/country-rankings/highest-taxed-countries).

The Thirteenth Finance Commission (which submitted its report to the Government of India in December 2009), "had recommended a flawless 'GST at a single rate'" (Rao 2022, July). That advice somehow did not reach its implementation stage. "The problem with multiple rate structure is that it is easily prone to misclassification" (Rao 2022, July). More recently, "the GST Council meetings have become routine, tinkering with goods and services tax (GST) rates and making minor administrative changes as needed by the exigencies, rather than transforming the tax structure towards the best-practice approach…There is no attempt to take a long-term view to direct the structure towards minimizing the three costs associated with taxes, namely, collection costs, compliance costs, and economic distortions" (Rao 2024, 12 September).

Indeed, there is much merit in India simplifying its tax system – irrespective of whether it is customs duty, Goods and Services Tax (GST), personal income tax, or corporate income tax.

3.5 Harnessing the Benefits of AI Technology

India has done well in providing competent internet-based services to a large number of international companies. In terms of an Innovation Index, developed by the World Intellectual Property Organization (WIPO) covering 113 countries, India tops the list among lower-middle income countries while China tops the list among the upper middle income countries (WIPO 2024). In terms of the actual ranking out of the 113 countries covered by the WIPO Report, India's rank is 39, behind, say, Malaysia (33), South Korea (6), and Japan (13), but ahead of Indonesia (54), Philippines (53), Vietnam (44), and Thailand (41).

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Building on the country's robust innovation capabilities, there is much merit in the country harnessing the benefits of the newest technology on the horizon – Artificial Intelligence (AI). "In 2017, Russia's President, Vladimir Putin, reportedly told the Russian people that 'artificial intelligence is the future…for all humankind…Whoever becomes the leader in this sphere will become the ruler of the world'. A year later, Google's Chief Executive Officer (CEO), Sundar Pichai put forward a different vision of AI, asserting that it was more important than fire or electricity " (quoted in Aaronson 2024).

At the same time, some experts are sounding an appropriate cautionary note on AI: "Without a proper set of policies, we may end up with the worst of three worlds – low productivity, worse income inequality and a huge concentration of power. However, with the right set of policies, an emerging or developing market economy could end up with higher productivity, more inclusivity and less market concentration" (Sheng 2024, 21 September).

A 2024 IMF study developed an 'AI Preparedness Index' for 174 countries, "based on a rich set of macro-structural indicators that cover the countries' digital infrastructure, human capital and labor market policies, innovation and economic integration, and regulation and ethics" (IMF 2024). Most of the data covered in the study refer to 2023. The index ranges between 0 (the worst) and 1 (the best).

As per the IMF study, India's AI Preparedness Index is 0.49, slightly above the average for the emerging market economies (0.46). However, there seems to be a large scope for improvement for India. For example, India's figure is higher than that of Bangladesh (0.38), Sri Lanka (0.44), and Cambodia (0.37), but lower than that of China (0.64), Malaysia (0. 63), and Thailand (0.54) (IMF 2024). Among the components of the index, India's figures for digital infrastructure (0.11) and innovation and economic integration (0.11) are the same as the average for emerging economies, but lower for the human capital and labor market subcomponent. Encouragingly, India score of 0.15 in terms of regulation and ethics is higher than the average for emerging economies (0.12).

Needless to mention, indices such as these certainly have a 'subjective element' in them. Therefore, these indexes serve as broad estimates of the phenomenon and should not be interpreted as providing 'cut and dried' answers. In the words of the IMF itself: "Be aware that the index incorporates several perceptions-based indicators, reflecting individuals' subjective assessments and experiences. Therefore, the index should be seen as an indicative measure, guiding policymakers in identifying areas for improvement rather than being used for ranking purposes" (IMF 2024).

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At the same time, it is good to remind ourselves that a country's national income or its annual rate of growth (that economists and policy makers use all too often) are also broad estimates/indexes. It is just that these indexes have been 'tried and tested' for decades (they have had 'long experience') unlike the IMF's AI-preparedness index (which belongs to the 'category of new arrivals'). That said, Indian software engineers are working elsewhere. As if it is a testimony to their skills, in July 2024 Tata Consultancy Services announced its collaborative mission to Japan: "to drive AI innovation and build cutting-edge software solutions for Japan" (Tata Consultancy Services 2024, 29 October). Japanese media like Nikkei Asia too gave good coverage to this initiative.

Semiconductors (as also superconductors) provide the necessary hardware for upgrading a country's AI-readiness, as they facilitate complex algorithm-based computations. On a positive note, the country has established a $10 billion India Semiconductor Mission (ISM). "The ISM program seeks to attract international semiconductor manufacturers, support local start-ups, and provide incentives for research and development" (Rao and Cyrill 2024, 23 September).

However, "a new fully equipped semiconductor plant costs $20 billion but it is the highly trained management and staff that make it work. At this time, Taiwan Semiconductor Company (TSMC) produces over 90% of the highest-performance chips in the world. Anyone looking to compete has to invest in the human resources needed, not just the equipment" (Kessel 2024, 1 November)

4.Summing Up

Attracting foreign investment has been a key focus area under the government's earlier 'Make in India' program and the recently launched 'Aatmanirbhar Bharat Abhiyan' campaign. Indeed, "India is in a pivotal phase of its development. There is plenty of reason for excitement about its prospects". True, its economy is on its way to becoming the world's third-largest economy. However, "India's ability to compete ultimately depends on the productivity of its workers and how their productivity compares with the productivity of workers in competing countries" (Lahiri and Mitra 2024, July).

"To say Indian democracy is vibrant is an understatement. That is a wonderful thing when it comes to passion for public debate and participation in public discourse. But it creates challenges when it comes to the types of economic reform that the Chinese state simply does not encounter" (Garrett 2015, 3 December). Foreign investors need to recognize this reality of decision-making in the world's largest democracy with a federal structure.

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At the same time, recent years have witnessed a warming up of relations between India and the United States, after Prime Minister Modi's visit to the U.S in June 2024 (The White House 2024, 22 June). The MOU with Singapore should also enhance India's positioning in Southeast Asia. In addition, the Joint Patrolling Agreement with China has the potential to have better economic relations between the two countries.

Overall, India seems to be maintaining a balanced relationships with the West as well as the East in line with the country's foreign policy of non-alignment. Meanwhile, the diplomatic row between Canada and India over the case of the murder of a Sikh terrorist in Canada needs to be resolved amicably. Indian Government has said it in no uncertain words/terms that India has no involvement whatsoever in the murder of the Sikh terrorist in Canada (The Economic Times 2024, 3 November).

That said, a November 6, 2024 Reuter's media report noted that: "Trump's victory adds to Trudeau's woes at a time polls show he would likely lose to his Conservative opponent in an election that must be held within a year. Canada's slowing economy and a rapid surge in the cost of living over the past few years are top campaign issues, which come against the backdrop of diplomatic disputes with China and India that have hampered efforts to diversify trade" (Reuters 2024 November 6).

Examining the full ramifications of this diplomatic row between Canada and India is outside the scope of this paper. For now, one hopes that the situation has already hit the bottom. It could only get better from now on. From India's perspective, it would enable the country to focus on development rather than divert its attention on such diplomatic rows.

"Prime Minister Modi has set a goal of India becoming a developed country by 2047, the 100th anniversary of Indian independence. While many experts are skeptical that this is possible, virtually all agree it will make substantial progress towards the goal" (U.S. State Department 2024). In this endeavor, India could follow a one-line strategy attributed to Swami Vivekananda: "Arise, awake, and don't stop until the goal is reached".

On his part, Prime Minister Modi, while addressing the Kautilya Economic Conclave in New Delhi on 5 October 2024, has reassured that: "India will continue with its program of structural reforms on its way to becoming a developed nation, describing the economy as a 'sweet spot' amidst global uncertainty. The government is following the mantra of Reform, Perform, and Transform" (quoted in The Economic Times 2024, 5 October). This, indeed, is a major reassurance for investors -- both domestic and foreign.

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