

Clear tax laws, superior infrastructure, better investment climate will help re-route FDI to India

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India has all the necessary elements for an economic renaissance, but the new government can help boost growth to the levels that are required to provide not only sustainable long-term improvements to the lives of our 1.2 billion citizens but also to supply jobs to the 13 million young men and women who are entering the workforce every year, by making India more attractive for foreign investors.

In recent years, India has lost out on much of the benefits of foreign direct investment (FDI). Between 2009 and 2012, FDI into India fell by a third — in China, it almost doubled. Regaining the confidence of foreign investors, particularly the longterm investors who are willing to put money into solid revenue- and employment-generating businesses on the ground, will not be easy. But it is far from impossible.

The market will look first to the individuals named to key positions in the new government. Investors and businesspeople will want to see that the leadership of the new government is signalling that it means business by appointing officials with the vision to prioritise longterm growth over short-term political gain.

We believe there are four key areas for reform.

The first is to establish a legal and taxation infrastructure that supports investment. Businesspeople need a reasonable degree of certainty and predictability in order to invest. While one has the sense that the final outcome of a legal process is generally fair, the process takes too long to be of practical benefit.

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(Wired) Power to the People

Much has already been written about the tax uncertainties in India and they are a real impediment to investment.

There are, however, some short-term wins. Early passage of the goods and services tax should be a priority and will give the market a signal that the new government is decisive and can work effectively with the states.

Secondly, the government needs to concentrate on creating a solid stock of physical infrastructure. Without access to a sufficient and reliable supply of power, there is little incentive for investors to put their money into factories, processing plants or logistics chains, and the same is true of roads and water. It is incomprehensible that what should be the most attractive sector for investment in India is actually one of the worst.

The government needs to take steps to create a more attractive environment for infrastructure investment, for example, tight centralisation of approvals and a sense of urgency around getting the job done.

Targets need to be set — and achieved — for reducing red tape in every department of government. There is a huge opportunity here: India is ranked 134 (behind Bangladesh and Pakistan) in the World Bank's Ease of Doing Business index.

Thirdly, the government needs to provide active support for investment into manufacturing in key sectors, with a particular focus on export industries. The services sector alone cannot provide sufficient jobs for the burgeoning population. India needs a balanced industrial policy that encourages businesspeople — domestic and international — to invest and build here, providing jobs and creating value in India.

India's young and educated population is a key competitive advantage and it needs to be put to work more effectively. When it does not conflict with national security, the FDI regimen should be made more flexible. Foreign investors are ready to invest in many sectors from which they are presently excluded, such as railways.

Make the Markets Attractive

And last but not least, we need a robust financial system to provide the capital and funding to support investment.

It is essential that the new government works to deepen the debt and equity capital markets, further opening to foreign investors.

Rethink State Banks

It also needs to reform the state bank sector. This task will be not be easy, with some estimates indicating that Indian banks will require an additional Rs 1.75 trillion of equity capital if they are to meet the challenge of funding India's growth while meeting the new, higher Basel-III capital norms. This, in turn, poses interesting questions for the government in respect of its ownership of banks.

These are huge strategic challenges, but the good news is that overseas investors are hungry to buy into the India story and ready to play their part in India's future. With the right combination of firm leadership, good policy and a sense of urgency on the part of the new government, they will be able to do precisely that, creating growth and jobs for India in the process.

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