FDI flows likely to rise in India, Asean: HSBC

Foreign direct investment is likely to rise in India thanks to large labour force and strong domestic market, but weak infrastructure and restrictive policy pose a challenge, says a report by HSBC.

"In the past decade, FDI flows have started to shift to ASEAN and India to capitalise on their favourable demographics and fast growth rates," HSBC Economist Trinh D Nguyen said.

The countries which are likely to benefit from this structural shift in FDI from China to elsewhere include, India, Indonesia, the Philippines, Vietnam and Malaysia but obstacles remain for each of the above mentioned countries to attract investments.

India and the Philippines have huge potential but weak infrastructure and restrictive FDI policy are major hurdles.

Indonesia and Vietnam looks likely to benefit the most from a cost perspective. Thailand, with a sound business environment and a linked supply chain, is an attractive destination but risks include politics and wage costs.

"Multinationals also consider other factors when deciding where to invest, including the policy environment and the ease of doing business," Nguyen said adding that "Its (India's) cumbersome business environment, restrictive FDI policy and poor infrastructure can put off foreign investors."

Meanwhile, Asean countries such as Thailand, Malaysia, Indonesia, the Philippines and Vietnam, while not comparable in size, continue to offer opportunities to investors as they also have a good demographic story to tell.

While India has all the right ingredients to thrive (strong demographics, large domestic market) many obstacles remain. Inadequate infrastructure hampers productivity, the manufacturing sector needs to be developed and the employment growth rate is still too low, HSBC said.

HSBC said "although flows to India have increased significantly in recent years, the level of FDI is still considered low in comparison to its GDP," adding that "lifting restrictions on foreign equity ownership in many sectors, in particular the service industries can boost investor sentiment."

In addition to further liberalising regulations to attract manufacturing FDI, India in particular needs to create a legal and physical infrastructure that is industry friendly.

The government liberalised FDI policy in sectors like multi-brand retail, single-brand retail, commodity exchanges, power exchanges, broadcasting, non-banking financial institutions and asset reconstruction companies.

"These developments are positive and may pave the way for further reforms, such as raising the FDI ceiling in the insurance sector from 26 per cent to 49 per cent," HSBC said.

India's FDI inflows grew by over 65 per cent year-on-year to USD 1.94 billion in October, according to the Department of Industrial Policy and Promotion (DIPP).

(Financial Express)