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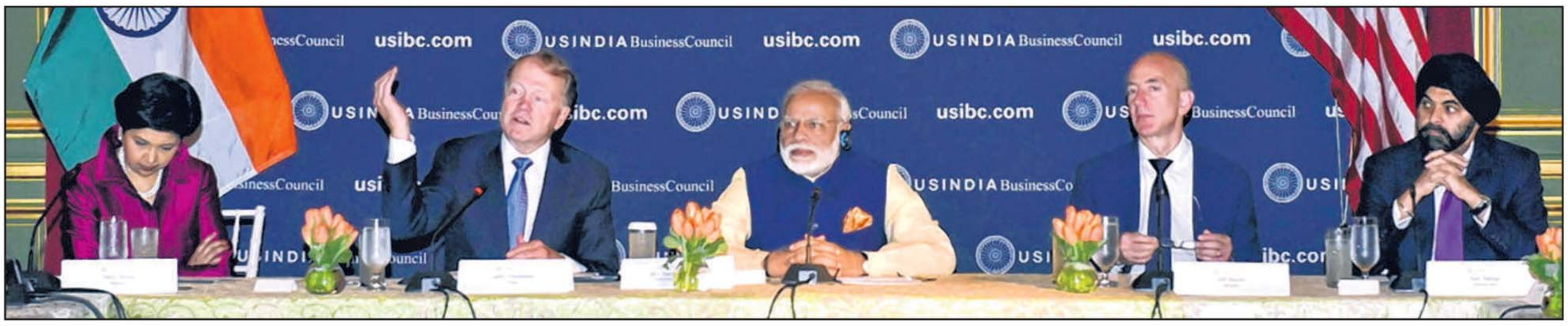
Bright prospects for investments in South Asia



Attracting investments... Mr Modi with the top Amercian CEOs as he attends the USIBC Round-table, in Washington DC, USA. PHOTO: IANS

Expanding private investment has been a major challenge for South Asian economies

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AFTER the resounding success of the business-friendly Mr Narendra Modi and his party – the BJP – in the Indian general elections in May 2014 – India was expected to witness a surge in investment inflows. There was indeed a turnaround in foreign investment inflows. The first year after Mr Modi's election witnessed euphoric trends in the Indian equity market due to robust buying by Foreign Institutional Investors (FIIs). Since then, however, volatile conditions in global financial markets, particularly the economic slowdown in China, heavily affected FII investments leading to considerable withdrawal from the Indian market, in line with the trend in other emerging markets. This led to a sharp decline in overall foreign investment inflows into India.

However, the good news for the Indian economy is the steady pace of long-term foreign investment inflows (FDI). During 2015-16, FDI inflows to India were reported at US$44.8 billion (S$60 billion). This is an improvement over the much smaller inflows witnessed in the early years of the decade. The inflows can be attributed to the positive response of international investors to India's signature initiative of "Make in India", and the relatively brighter growth outlook enjoyed by India among major emerging markets. This has resulted in several major global investors – Boeing, Airbus, Apple, Alibaba, Foxconn – taking keen interest in India.

However, major challenges need to be overcome by India before all the positive investment intentions can materialise into actual flows of funds. These challenges include implementing major economic reforms, such as the Goods and Services Tax, simplifying procedures for acquiring land by correcting some of the inhibiting features of the Land Acquisition Act and also improving the overall conditions of doing business in the country.

"Doing Business" conditions appear to be the biggest obstacle to greater investment inflows into the South Asian region. The four biggest economies of the region — India, Pakistan, Bangladesh and Sri Lanka — continue to be ranked low in global doing business rankings. While India, Pakistan and Bangladesh were ranked 130, 138 and 174 respectively, in the Doing Business rankings prepared by the World Bank in June 2015 for 189 countries, Sri Lanka was a shade better at 107. These rankings reflect the difficult regulatory environment that continues to prevail in the major South Asian economies for start-ups and new firms, and also the high opportunity costs businesses encounter.

These high business costs continue to be compounded by usual perception problems regarding the region, particularly that of it being one of the most "troubled" parts of the world. Ironically, despite a negative perception, South Asia is expected to be one of the fastest-growing regions of the world in the current year, and in the medium term.

India – the largest economy of the region – is currently growing at around 7.6 per cent. With the other major economies of the region showing stable growth rates, the region itself is expected to grow by more than 7 per cent, making it one of the economically brightest areas in the world.

There are positive developments in the region that are expected to translate its high growth prospects into major long-term investments in the member economies. The most positive among these is the cooperation of regional governments in expanding connectivity. India and Bangladesh have already operationalised commercial transport transit. Bangladesh, Bhutan, India and Nepal have also combined to expand sub-regional transport connectivity. These connectivity initiatives will have multiple positive effects. They will increase economic integration by increasing regional trade. They will help in greater role of South Asian businesses in regional value chains. And these in turn, will encourage foreign investors to park more funds in long-term investment ventures in the region. Most importantly, better connectivity between regional economies sends the signal to the rest of the world about the political will of the countries to cooperate with each other for long-term economic gains.

Combined with speedier domestic reforms, South Asia can indeed get as much investments as it deserves to in the days to come.

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