A comparative Analysis of India's Global Economic Integration

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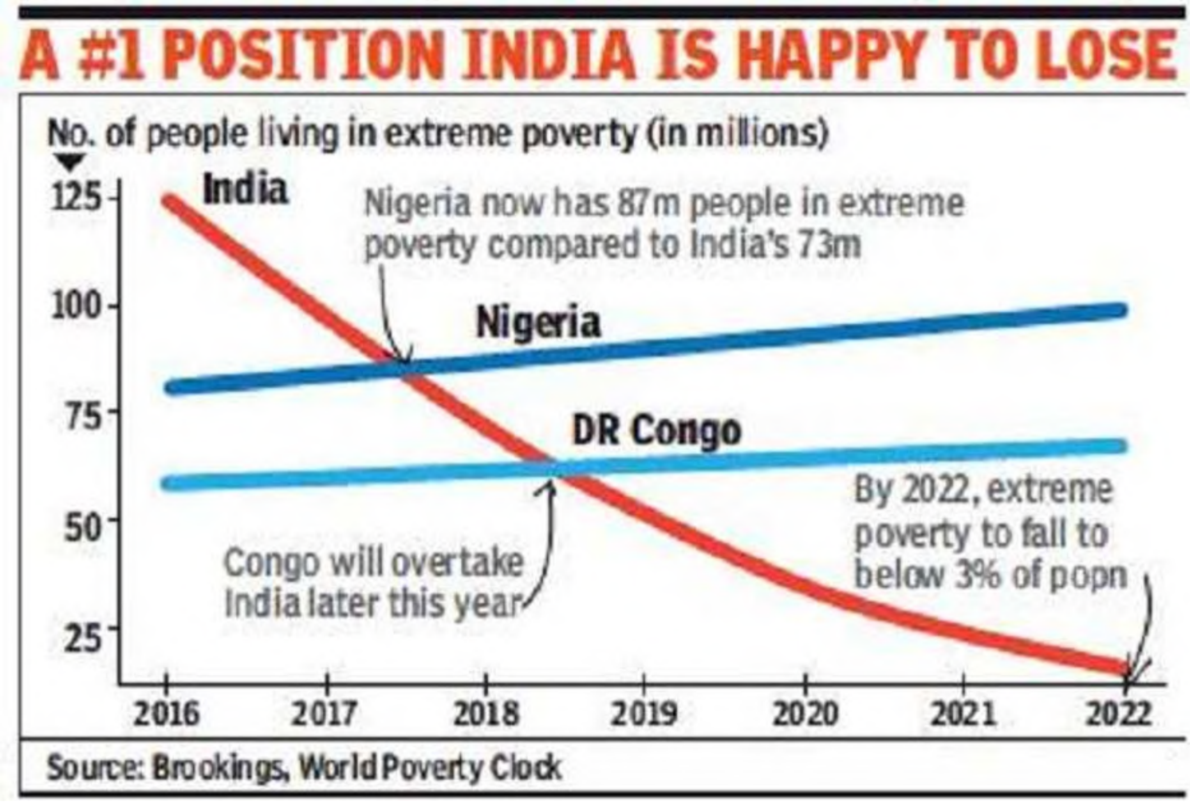
Mukul Asher and Siddharth Gupta (https://www.myind.net/Home/authorArchives/2407)

This column argues that common perception of India as a fairly closed economy, not integrated with the rest of the world, is unwarranted and not supported by empirical evidence. The column also argues that in analysing India's global figures, absolute figures and not just the relative figures need to be taken into account, as the former is also a relevant measure of the impact on India as well as globally.

The World population Review, based in the United States, has reported that India became the fifth largest economy in nominal terms, with a GDP of USD 2.94 trillion, in 2019, overtaking U.K. and France. In purchasing power parity (PPP) terms, India's GDP (PPP) is USD 10.51 trillion, exceeding that of Japan and Germany.

This improvement has been combined with rapid reduction in extreme poverty in India as exhibited in chart 1.



For India to continue to improve its rankings, especially in per person GDP, which was only USD 2170 in 2019, and to continue to reduce poverty, India needs to accelerate its integration with the global economy, even as it meets the challenges of weak and uncertain global economic environment.

The coronavirus (COVID-19), whose epicentre is in Wuhan City in Hubei province in China, has added to the fragility and uncertainty of the global environment. As of February 21, 2020, there were officially reported (suspected to be under-estimates) over 76,000/ cases in China, with death toll of 2345/. Over 1000/cases have been reported outside China. The period over which the virus will continue, and its spread globally are unclear as of February 20, 2020.

There are fears that coronavirus could become a pandemic (from Greek pan "all" and demos "people") which is an epidemic of disease that has spread across a large region; for instance, multiple continents, or even worldwide.

This column provides a comparative analysis of the key indicators of India's global integration. These are trade to GDP ratio; India's FDI (Foreign Direct Investment); investments in India's capital markets by FPI (Foreign Portfolio Investors), and FIIs (Foreign Institutional Investors); and India's ranking in select global indexes.

India's Trade to GDP Ratio

Using WTO (World Trade Organization's (WTO) trade profiles of countries for 2019 (1)

The following observations about India's trade openness may be made. All data refer to 2018, and are from the above source.

- India's total exports and imports of goods and services to GDP ratio was 45 percent. Among the nine comparators selected, India ranked sixth. Thailand (131 percent), Germany (88 percent), Philippines (74 percent), France, and South Africa (65 percent) ranked higher. Indonesia (42 percent), Brazil (28 percent), and the United States (27 percent) ranked lower.

- The rankings for imports were similar to the ranking for total goods and services to GDP rankings.
- But for total exports to GDOP ratio, India (at 20 percent), ranked seventh, with only Brazil (15 percent) and the United States 12 percent) ranked lower.

The above rankings do suggest that India is fairly integrated with the global economy, though it needs to strive harder to improve on these comparative rankings.

Importance of Absolute Size

A measure which ranks the nine comparators according to their share in global exports and imports, thus bringing out the importance of their absolute value, provides somewhat different perspective, highlighting India's greater importance in global trade.

a. India's share in Global exports of goods was 1.67 percent. Among the nine comparators, only the United States (8.54 percent), Germany (8.01 percent), and France (2.99 percent) had higher share of global exports. All other comparators ranked lower.
b. Similarly, for import of Goods, India's global share was 2.57 percent. Again, only the United states (13.16 percent), Germany (6.47 percent), and France ranked higher.
c. For export of services, India accounted for 3.54 percent of the global exports, United States (14.01 Percent), Germany (5.64 percent), and France (5.04 percent) were the only comparators with higher share. Thailand, with its very well organized and developed tourism sector, accounted for 1.45 percent of global services exports.
d. India accounted for 3.20 percent of global imports of services. Again, only the United states (9.78 percent), Germany (6.37 percent), France (4.68 percent) accounted for a larger share. The share of Thailand was 1.0 percent. The argument is that when measured from the absolute size perspective, India's contribution to global exports and imports of services is significant, and does not warrant it being labelled as relatively closed economy.

India exports defence products to 42 countries, including, Israel, Australia, Germany, USA, Sweden, and Singapore. India's defence exports have increased seven-fold in the last two years from INR 15.2 billion (USD 0.2 billion) in 2016-17 to INR 107.5 billion (USD 1.5 billion) in 2018-19. India aims to raise its defence exports to USD 5 billion in next several years.

It is also taking initiatives to compete globally in its traditional strong areas. In 2019, India provided about fifth of the global generic medicines.

To help strengthen its competitiveness, in February 2020, India set up Export Cold Zone - Agro and Pharma Excellence Centre at Mumbai Airport. It is among the largest airport-based controlled facility.

India's FDI

According to UNCTAD (United Nations Conference on Trade and Development), in 2018, India's inward FDI was USD 42.3 Billion (5.3 percent of GDP), and its outward FDI was USD 11 billion (1.4 percent of GDP).

In comparison, the corresponding figures for Indonesia were USD 22 billion (6.7 percent of GDP); and USD 8.1 billion (2.5 percent of GDP) respectively (2).

According to UNCTAD's Global Investment trend Monitor, India was among the top 10 recipients of Foreign Direct Investment (FDI) in 2019, attracting $49 billion in inflows, a 16% increase from the previous year, while global investment flows were subdued in 2019.

The UNCTAD estimates total STOCK of inward FDI as at end 2018 at USD 386.4 billion for India, equivalent to 14.2 percent of GDP; and USD 226.3 for Indonesia, equivalent to 22.1 percent of GDP. The outward FDI stock was estimated at USD 166.2 billion for India, equivalent to 6.1 percent of GDP, and USD 72.3 billion for Indonesia, equivalent to 7.1 percent of GDP.

India's Ministry of Commerce and Industry estimates the Cumulative amount of FDI inflows (Equity inflows +'Re-invested earnings' +'Other capital') at USD 642.4 billion as at end September 2019, a much higher figure than the UNCTAD which appears to only estimate equity inflows (3).

India is taking major steps, such as a shift to globally competitive corporate income tax rates in September 2019; and opening up of many areas for FDI, including in privately owned train routes, in airports and highway, in mining sector, in defence sector, and permitting 100 percent ownership of national carrier Air India, to generate investments.

The effective tax on profits of companies in India, or the actual taxes paid after availing various exemptions and deductions allowed in the Income Tax Act, 1961, dipped about 165 basis points in 2018-19 to 27.84 per cent from the preceding year after rising continuously for six years.

India is also developing newer dynamic growth nodes in Uttar Pradesh state, India's largest state by population (232 million in 2019), in North East states, in Uttarakhand, in Odisha, and in Telangana.

It is also opening newer sectors for FDI. These include the mining, defence, aviation, new and emerging technologies and railroad sectors for attracting FDI and creating new growth nodes.

FPI/FII Inflows

FII indicates Institutions as investors, while FPI has not such indication, so FPI should mean to include foreign investors investing directly or through institutional investors. However, because foreign natural persons are not allowed to invest directly, but only through institutions, FPI and FII acquire a common meaning in the Indian context.

According to Capitaline data, the Foreign Institutional Investors (FIIs) holdings in 409 firms in the BSE 500 index which contributes 90 percent of India's stock market capitalization of INR 158.4 trillion on February 10, 2020 (USD 2.23 trillion), was 21 percent in October-December 2019 quarter, as compared to 20 percent in the corresponding period in 2018. There were only six countries globally, including India, with market capitalization of over USD 2 trillion.

The total stock of FPI (Foreign Portfolio Investors)/FII investment is estimated to be USD 440 Billion in Jan 2020, about one-fifth of its GDP.

During week ending February 7, 2020, India's foreign exchange reserves were USD 473 Billion, about 21 percent of its GDP, and seventh highest in the world.

India's efforts to Adopt Global Norms and Improve Ranking in Global Indexes. India is increasingly adopting global norms, including key areas assisting coping with climate change.

As an example, India is to make a switch from April 1st 2020, to the petrol and diesel quality meeting Euro-VI emission standards, containing just 10 parts per million of sulphur. This has been accomplished by India in just three years. It is among the few countries globally to adopt this norm.

India's improved ranking in EODB (Ease of Doing Business) from 134th in 2014 to 63rd in 2019 has been widely discussed (4).

India's initial goal is to be in top 50 in EODB rankings, and eventually in the top 25. This will be very challenging as other countries are also making similar efforts.

India is taking measures to deserve further improvement in its ranking. As an example, the reported initiative by the Customs Department to introduce the concept of faceless assessment of cargo across the country, whereby consignments will be assessed by a virtual group irrespective of where the Bill of Entry is filed, could assist India in further improving its ranking in the next round. A Bill of Entry is a document filed by an importer or an exporter specifying the nature, quantity and value of goods that have landed or are being shipped out.

Concluding Remarks

Analysis of India's integration with the world economy must take into account not just the conventional trade, FDI, and portfolio flows to GDP ratios, but also the absolute size. For trade, this involves examining India's share in total global exports and imports of goods and services.

India should continue to make focused outcome-oriented efforts and continue to take initiatives to further integrate with the global economy.

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