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OECD India Investment Roundtable
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*OPPORTUNITIES AND POLICY CHALLENGES
FOR INVESTMENT IN INDIA*

**Remarks by Richard Hecklinger
Deputy Secretary-General, OECD**

Opening ceremony, OECD-India Investment Roundtable

It is my great pleasure to thank Minister Nath and the Confederation of Indian Industry (CII) for co-organising this important event and the Global Forum on International Investment which will commence tomorrow. We have received excellent co-operation from both the Ministry of Commerce and Industry and the CII in preparing this substantial programme and providing the necessary logistics.

This Roundtable continues the OECD-India dialogue that began in 1993

We are grateful to the Government of India for its hospitality and for providing this valuable forum for the interchange of ideas and experience with regard to investment policies at a time when the focus of world attention is turning to India and its booming economy. Although this is the first OECD Roundtable on investment to be held in India, it is by no means the first interaction between India and the OECD. India participates regularly in the OECD sponsored discussions on many issues, such as taxation, corporate governance, sectoral policies and development issues. India became a full member of the OECD Development Centre in 2001 and takes an active interest in its activities. I believe that there is great potential for further co-operation between India and OECD, especially in the area of investment policies, which has emerged as a priority in advancing our mutually beneficial dialogue.

Perceptions of India are changing

This roundtable focuses on Opportunities and Policy Challenges for Investment in India. It takes place in a context of dramatically altered perceptions. India has come to be seen as an economic powerhouse, an increasingly attractive host for investment and, last but not least, a country that has itself become a source of outward investment.

The foundation of this success has been the implementation of economic reforms, of which Prime Minister Manmohan Singh was one of the chief architects,

beginning in 1991. A major aim of these reforms has been to free the economy by dismantling bureaucratic constraints and by opening the country to international trade and investment in order to promote market-based economic growth. India's GDP growth rate is now among the fastest in the world, and investment, both domestic and foreign, contributes over 20 per cent of GDP. The country is now commonly cited in the media as a pole for software development and the knowledge-based industries, as well as a centre for the outsourcing of services, with steadily growing skill levels. The comparisons with China are now increasingly favourable to both countries.

The investment environment in India has improved, resulting in more foreign direct investment (FDI) inflows and higher GDP growth

A key element of these reforms has been the liberalisation of regulations governing investment, including in many respects foreign investment. Most sectors of the economy have been opened to private investment and areas previously restricted to small-scale enterprises have been delicensed. Trade policy has been liberalised, with quantitative restrictions removed and some reduction in tariffs achieved, though the average level of tariffs remains rather high. As a result of this improvement in the investment climate, foreign direct investment has been flowing into India in greater quantities.

India, however, remains poor and its economic growth constrained by infrastructure inadequacies

India has embarked on a long voyage of reform. It has achieved rapid economic growth, but its GDP per capita in 2003 was still about USD550, compared with an average of USD25,600 in OECD Member countries. In addition, regional and other income disparities mean that many Indians continue to receive incomes of less than a dollar a day. There is also room for improvement in other areas of human development such as health and education.

Improvement in these indicators depends on continued economic growth, which in turn depends on the easing of bottlenecks in infrastructure and energy. Investment therefore has a vital part to play in ensuring the continuation of rapid economic growth. In addition to investment capital mobilised within India, a much greater role can be played by India's FDI inflows. This is an area where India does not yet compare favourably with China, a country of similar size and level of development, which receives significantly higher inflows of FDI. Indeed, foreign direct investment per capita in India is small in comparison not just with OECD countries but also with many developing countries.

In this context, I suggest that consideration be given to the extent to which FDI could be more effectively encouraged by the further relaxation of formal restrictions on foreign ownership of enterprises in India and by the improvement of the business environment to the benefit of both domestic and foreign investors. Peer reviews would be a valuable tool for developing a comprehensive investment policy agenda to address these issues.

The GFII will take place in the context of the OECD's Initiative for Investment for Development

We believe that foreign direct investment (FDI) is a vital driver of economic development and that it has proven to be a powerful catalyst for innovation, sustainable growth and poverty reduction. Good investment policies attract FDI, which in itself promotes economic and employment growth. It also encourages domestic investment via the supply chain. Governments can maximise the spill over effects of FDI on the domestic economy by removing bureaucratic hurdles and providing access to know how and finance to local entrepreneurs.

The OECD therefore launched its Initiative for Investment for Development last November to develop effective policy frameworks for investment, draw lessons on the use of Official Development Aid (ODA) in support of countries' efforts to mobilise investment for development and share the OECD's experience with capacity building mechanisms. These themes will be explored in the Global Forum on International Investment which begins here tomorrow.

Today's Roundtable agenda

Today we shall be looking at the progress made by India in developing its policies towards investment and considering the possibilities for continuing that progress. We shall do so from a multistakeholder perspective, sharing experiences of India's national and state governments, OECD member countries, the World Bank and foreign investors. We will focus our experience-sharing more specifically on a major sector of the economy that currently constitutes a constraint on economic growth but can instead, with increased investment, provide a springboard for continued rapid economic development: infrastructure and public utilities.

I am sure that the OECD India Investment Roundtable will not only provide an opportunity for us to share experience in investment policies today but will also promote a closer relationship between India and the OECD in the months and years to come.