India

A. Medium-term economic outlook (forecast, 2019-23 average)

GDP growth (percentage change):	7.3
Current account balance (% of GDP):	-1.9
Fiscal balance (% of GDP) (central government):	-5.7

B. Medium-term plan

Period: 2018-32

Transform India into a prosperous, highly educated, healthy, secure, corruption-free, energy-abundant, environmentally clean and globally influential nation by 2031-32.

C. Basic data (in 2017)

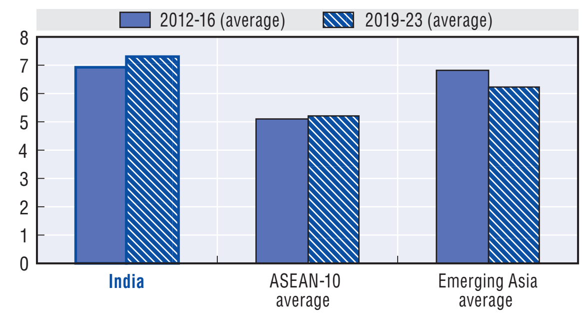
Total population:	1 316.0 million*
Population of Delhi:	19.0 million*
Nominal GDP (US dollar):	2 602.3 billion**
GDP per capita at PPP:	7 194.0 (current International Dollar)**
Exchange rate in the first half of 2018 (period average):	65.7 (INR/USD)

Note: * Population data are year-end government estimates. Indian data are based on fiscal year ending in March. Population data in 2016 refer to fiscal year 2016/2017 ending in March 2017.

** IMF estimate.

Sources: OECD Development Centre, national sources, CEIC and IMF.

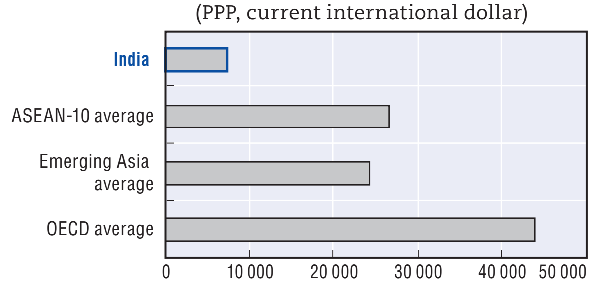
GDP growth rates (percentage change)



Source: OECD Development Centre, MPF-2019.

GDP per capita, 2017

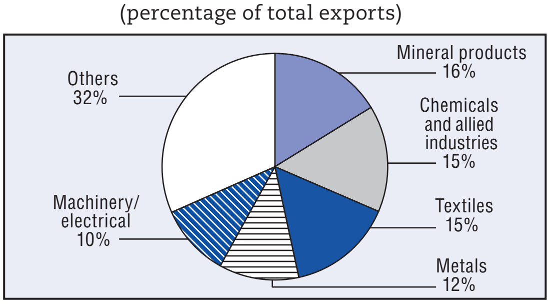
(PPP, current international dollar)



Source: IMF.

Composition of exports, 2017

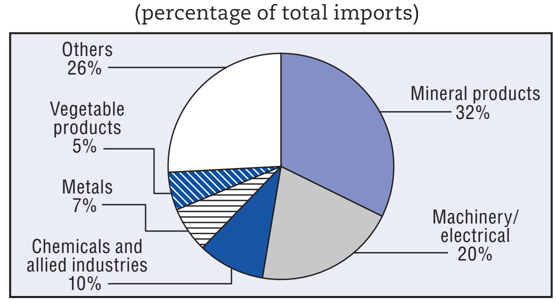
(percentage of total exports)



Source: Trademap.

Composition of imports, 2017

(percentage of total imports)



Source: Trademap.

Structural policy challenges discussed in previous editions of the Outlook

2014	Education	Improving teaching and national assessment systems to raise education standards
2015	Manufacturing	Restoring growth to reverse the trend of slower growth (and even negative growth in 2013-14) in manufacturing over the past few years
	Education	Widening access to secondary education in order to meet the goal of universal secondary education by 2017
	Health	Strengthening the public health system. Improving access to curative and preventative healthcare facilities
	Infrastructure	Accelerating the development of infrastructure, especially in rural areas
2016	Financial literacy	Strengthening financial-education initiatives
	Education	Enhancing education in terms of both access and quality
2017	FDI	Encouraging foreign direct investment (FDI) and promoting the made-in-India brand
	Entrepreneurship	Strengthening the set of initiatives known as Startup India
2018	Innovation	Fostering inclusive innovation to boost growth and development

Recent developments in policy areas covered by previous editions of the Outlook

Education: reforming the National Policy on Education

- The National Policy on Education under development is to be implemented by the end of 2018, according to Union Human Resource Development Minister Prakash Javadekar.

Manufacturing: fostering the development of manufacturing

- In November 2017, the government announced that export incentives for textile and garment manufacturers under the Merchandise Export from India Scheme would be increased. The programme offers duty exemptions, pegged at certain percentages of total export values, to exporters.
- A new defence production policy under development by the government targets turnover of INR 1.7 trillion in military goods and services by 2025, with exports from the sector totalling INR 350 billion. Major platforms currently imported are expected to be developed and manufactured domestically under the plan. The procurement process is also to be simplified under the plan.
- The Ministry of New and Renewable Energy announced plans in July 2018 to foster the development of local manufacturing in supplying planned solar power projects to meet renewable energy capacity targets.

Health: expanding health coverage

- The Minister of Finance unveiled in February 2018 the new Ayushman Bharat, or National Health Protection Scheme. The programme is intended to cover over 100 million vulnerable families for up to INR 500 000 in hospital care per year. Beneficiaries are to receive family health cards that can be used for cashless treatment at public and private hospitals across the country. Costs are to be shared between central and state governments. The programme was launched on 25 September 2018 and subsumes the Rashtriya Swasthya Bima Yojana and the Senior Citizen Health Insurance Scheme. A network of health and wellness centres is also to be established under the scheme.

Infrastructure: increasing annual investment in infrastructure

- The government's 2018 budget increased infrastructure spending by INR 1 trillion to INR 5.97 trillion. In his budget speech in February, Finance Minister Arun Jaitley said that additional investment in infrastructure was needed in the country, estimating that INR 500 million would be needed. The Minister suggested that infrastructure financing could be raised from equity markets.

FDI: liberalising investment rules

- In January 2018, the Union Cabinet of India approved measures to liberalise the Foreign Direct Investment Policy in selected sectors, including single brand retail trading, construction development, civil aviation, real estate and pharmaceuticals. The reforms allow higher levels of foreign investment through automatic routes and remove other approval requirements.

POLICY FOCUS

Continue FDI reforms and develop opportunities for technology transfer

As a percentage of GDP, inflows of FDI into India declined from a recent peak of 3.8% in 2008 to 2% in 2016. This rate was lower than in most other Emerging Asian countries, with smaller relative inflows seen only in China (1.2%), Thailand (0.4%), Indonesia (0.3%) and Brunei Darussalam (-1.2%). Still, FDI has an important role to play in India's growth and development. It can help drive economic growth by improving access to knowledge and technology, increasing trade, enhancing competitiveness, and spurring companies to develop. India will need to continue with reforms – both to FDI policy and to policy areas of broader scope – in order to make the most of the opportunities that FDI can herald, and to ensure that FDI inflows contribute to making growth more inclusive.

In the context of the Make in India initiative, the country has recently sought to reform its policies in order to attract additional investment. The government launched this programme in 2014, aiming to foster design and manufacturing activities in India by implementing economic reforms and attracting higher levels of FDI. As part of this initiative, India is reforming its rules on the restriction of FDI, and on business more generally. India is also developing six industrial corridors across the country, in which it plans to encourage the growth of industrial cities.

In the context of this initiative, recent reforms to FDI rules have expanded opportunities for foreign investors by making ownership limits less restrictive in a number of new sectors, while also making the approval of investments faster and easier in a broader range of sectors. Railways, defence, insurance and medical devices are among the sectors in which India has relaxed limits on FDI. Of the 35 sectors in which the country permits foreign investment, there are 28 sectors in which either all of the sub-sectors, or at least some of them, have no caps on foreign ownership as a share of equity (Table 3.12.1). The automatic entry route, in which government approval is not required, is open to investments in 31 sectors, though the government route may be required in some subsectors or above defined foreign ownership shares in these sectors. FDI is prohibited in only eight sectors: lotteries; gambling; chit funds; nidhi companies, which engage in non-bank finance; trading in transferrable drawing rights; real estate businesses and the construction of farmhouses; manufacture of tobacco products; and activities closed to private sector investment, such as atomic energy and railway operations.

These reforms are the latest steps in a series of measures to liberalise foreign investment. India's score in the OECD's FDI Regulatory Restrictiveness Index has been declining for some time. The index takes into account factors including limitations on foreign equity, screening and approval mechanisms, restrictions on the employment of foreigners as key personnel, and operational restrictions. Between 1997 and 2016, India's score declined from 0.480 to 0.212. Indeed, the primary, secondary and tertiary sectors have all experienced considerable declines in their performance in this regard over the past two decades, although restrictions remain higher in the tertiary sector than in the other two.

In addition to taking some steps towards liberalising investment rules in India, the government has sought, as part of its Make in India initiative, to implement reforms to improve its business environment – as measured by the World Bank's Doing Business rankings. From 2017 to 2018, India's greatest improvements in these rankings were in paying taxes (for which the score rose from 47.7 to 66.1), getting credit (from 65.0 to 75.0), and resolving insolvency (from 32.8 to 40.8). Indeed, the evaluations pointed to improvements in all of the areas they examined. Among the central government's recent reforms in the areas of tax payment, credit access, and the resolution of insolvency is the development of an online system for return-filing and payment by the Employees' State Insurance Corporation, and also an e-verification system. Other reforms have included amending central registry rules to make it easier to access credit. Moreover, 2016 saw the roll-out of a new Insolvency and Bankruptcy Code, India's first comprehensive legislation on corporate insolvency. Although its implementation in July 2017 encountered short-term challenges, a goods and services tax should also help to improve the investment environment in the Indian economy by addressing the problem of tax cascading.

It does this by facilitating a common market across the country, and by reducing the administrative costs of tax compliance.

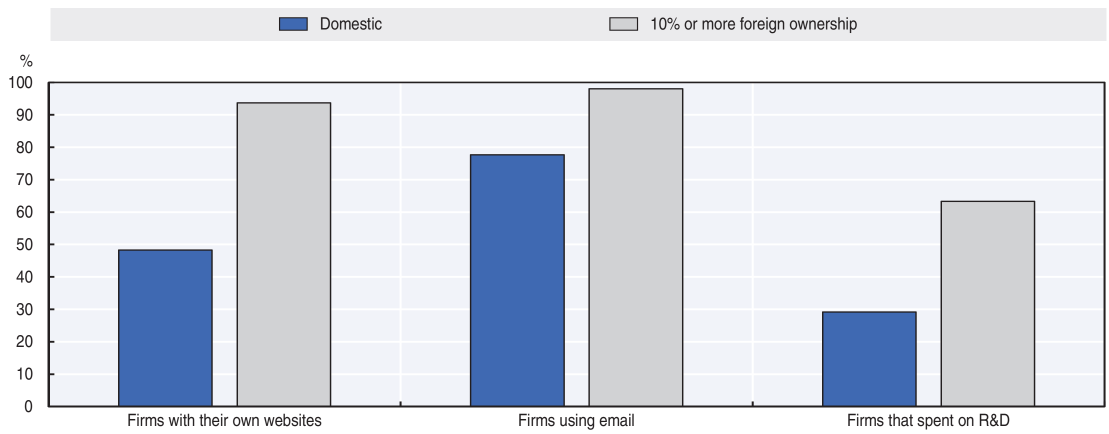
Table 3.12.1. **Entry routes and FDI caps in different sectors, 2017**

Entry route	FDI cap as a percentage of equity	
	100%	<100%
Automatic	• Agriculture and animal husbandry • Plantation sector • Mining and exploration of metal and non-metal ores • Coal and lignite • Petroleum and natural gas* • Non-defence manufacturing • Defence** • Broadcasting carriage services • Broadcasting content services*** • Airports • Air transport services** • Other services in the civil aviation sector • Construction development: townships, housing, built-up infrastructure • Industrial parks • Telecom services** • Trading • E-commerce activities • Single brand product retail trading** • Duty-free shops • Railway infrastructure • Asset reconstruction companies • Credit information companies (CIC) • White-label ATM operations • Other financial services • Pharmaceuticals**	• Private security agencies** • Infrastructure companies in the securities market • Insurance • Pensions sector • Power exchanges • Private-sector banking**
Government	• Mining and mineral separation of titanium-bearing minerals and ores, plus value-added and integrated activities • Print media* • Establishment and operation of satellites	• Multi-brand retail trading

Notes: (*) FDI cap is less than 100% in one or more subsectors. (**) Government route is required in one or more subsectors and/or investments are subject to FDI equity shares, as defined above. (***) FDI cap is less than 100% in one or more subsectors and government route is required in one or more subsectors.
Source: OECD Development Centre's compilation, using DIPP (2017).

Still, there is still plenty to do to realise India's full potential to attract FDI inflows. This is notably the case when it comes to international transfers of technology, which could make a stronger contribution in India to upgrading technology and improving productivity, as in many other countries in the region. According to a survey in 2014, firms with foreign ownership are more likely than domestically-owned firms to have their own websites, to use email to communicate with clients and suppliers, and to spend money on research and development (R&D) (Figure 3.12.1). Indeed, there is a link between a higher incidence of technology and investment in R&D and the higher overall rates of innovation among foreign firms. Compared with domestically-owned firms, firms with 10% or more foreign ownership are more likely to introduce new products or services (73.0% versus 41.5%), and to innovate with processes (74.9% versus 56.2%). The foreign firms also had better rates both of real annual sales growth (11.1% versus 2.1%) and annual labour productivity growth (5.0% versus -3.1%). However, domestically-owned firms are more likely to introduce products or services that are new to their main markets (74.8% versus 35.8%).

Figure 3.12.1. **Innovation and technology use among Indian firms by ownership, 2014**



Source: OECD Development Centre's calculations, using World Bank (2017).
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It is generally the case that FDI inflows – particularly those that come from advanced economies – can have positive effects on productivity in less-developed and emerging economies. Along with effects on trade, competition and growth, these can originate from technology spillovers and backward and forward linkage effects between foreign firms and their suppliers and clients (Lee, Lee and Kim, 2011). The presence of foreign firms and demonstration effects have been shown to be a greater factor in technology transfer in India than the purchase of foreign technology (Pant and Mondal, 2010). These transfers are also dependent on the absorptive capacities of domestic firms and other factors such as the degree of competition, with greater technology spillovers in more competitive industries.

Policies that relate to companies' capacities to absorb international technology transfers can help. These include training and education, protecting intellectual property rights, the promotion of FDI in technology-intensive sectors, performance requirements linked to the transfer of technology, investment incentives, and policies concerning the restriction of FDI. Efforts to improve the capacity of domestic firms to absorb technology transfers are likely to have limited distortionary effects. However, few studies suggest that either targeting FDI promotion at technology-intensive sectors, or joint-venture requirements, are effective tools in this regard. Furthermore, performance requirements may have significant effects on competition, and investment incentives can have considerable distortionary effects (Kowalski, Rabaioli and Vallejo, 2017).

Strengthening education and training programmes will undoubtedly be an important element of any strategy to encourage greater technological transfers as part of inflows of FDI into India. Moreover, such policies have the scope to make a particularly significant contribution in technology-intensive sectors. In recent years, the composition of FDI inflows into India has favoured the sectors of services – both financial and non-financial – and information and computer technology. Over April 2000 to June 2017, large shares of total FDI inflows were made into other services (17.9%), computer software and hardware (7.6%), construction development (7.2%), telecommunications (7.0%), and the automobile industry (5.1%).

In addition to developing human capital and improving the capacity of domestic firms to absorb technology transfers, strengthening the other relationships between firms may facilitate these spillovers. While it is true that FDI has, for example, already played an important role in the growth of green technology both in India and China, new mechanisms could help. These could include international R&D partnerships and joint ventures (Lema and Lema, 2012). Such relationships are not very common among Indian firms. Indeed, only 9.2% of domestically-owned firms used technologies licensed from foreign companies in 2014. This share was significantly lower than in some other recently surveyed Emerging Asia countries, such as Indonesia (22.5% of domestic firms in 2015) and Malaysia (22.3% of domestic firms in 2015) (World Bank, 2017).

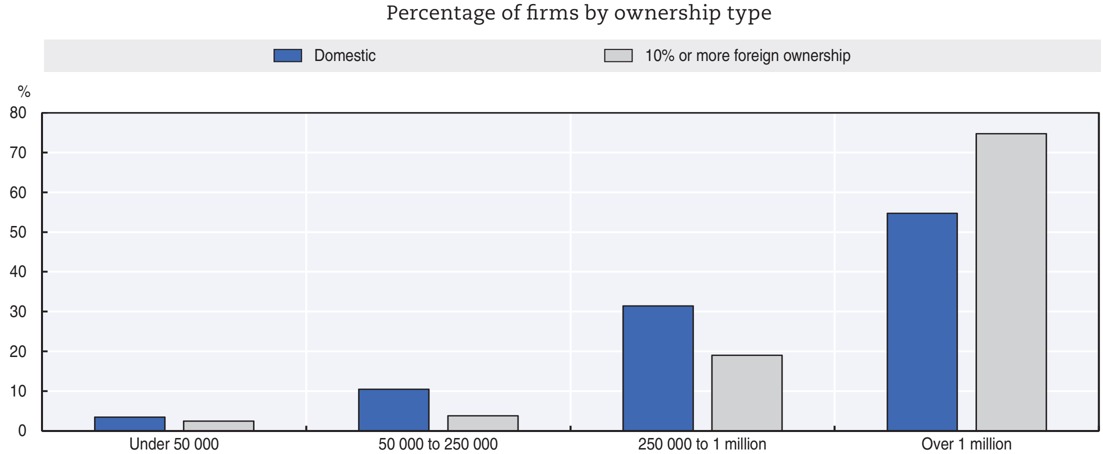
FDI can also generate employment and boost economic growth, and it is important to encourage the kinds of inflows that make growth more inclusive. In innovative and technology-intensive sectors, FDI can create good and high-paying jobs. However, these jobs often require high levels of skills and education. These considerations are made more important by the recent decline in employment in jobs requiring mid-level skills in India (OECD, 2017a).

Moreover, while there is evidence that FDI inflows in India have boosted the country's GDP, their effect on employment has been less clear (Mehra, 2013). India needs to invest more in improvements to access and quality in education in order to prepare workers with the skills they need. Indeed, literacy rates in India are below those for most other Emerging Asian countries. In 2011 – the most recent year for which data are available – the adult literacy rate stood at 86.1%, with youth literacy at 69.3%. More generally, employment growth in the formal sector tends to be low in India. If the country were to simplify its labour law to allow for more flexibility, this would help to encourage firms to invest, and to create more jobs. In addition, the production of timely data, the continued benchmarking of India's different states, and an increase in the sharing of best practices would also help to foster better policies across the country (OECD, 2017b).

To make growth more inclusive, India should encourage a more even geographical distribution of FDI. While about two thirds of India's population is rural, FDI is largely concentrated in a few parts of the country, notably in large urban areas. Indeed, over half of India's total FDI inflows from April 2000 to September 2017 were registered with the Reserve Bank of India's offices in Mumbai (which covers the states and union territories of Maharashtra, Dadra and Nagar Haveli, and Daman and Diu) and New Delhi (covering the states and union territories of Delhi, part of Uttar Pradesh and Haryana). According to a 2014 survey, while manufacturing and services firms of all types were more commonly found in places with a higher population, this bias was greater for firms with foreign ownership than for domestically-owned firms (Figure 3.12.2). The survey found that 54.7% of domestically-owned firms were in population centres with more than a million residents, a statistic that rose to 74.8% for firms with at least 10% of foreign ownership. Compared with the distribution of domestic firms, fewer foreign firms are to be found in smaller cities, towns and villages.

Figure 3.12.2. **Firm distribution by ownership and municipality population, 2014**

Percentage of firms by ownership type



Source: OECD Development Centre's calculations, using World Bank (2017).

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When looking state by state at the picture of FDI in India, a range of factors have been shown to affect inflows. There is greater foreign investment in states with larger markets, lower taxes and labour costs, and better infrastructure. Agglomeration effects and the size of the existing base in manufacturing and services also affect inflows of FDI. This suggests that states that have historically received less investment will also face greater challenges in attracting future investment (Mukherjee, 2011). Another factor to bear in mind is that while the whole of India needs more investment in addressing deficiencies with its infrastructure (ADB, 2017), this can be an even more serious constraint in rural and less-developed areas than it is elsewhere. Rural Indians have less access to quality transportation, communication and energy infrastructure. Policy makers in state and central governments should keep these rural-urban development gaps and other challenges in mind as they develop comprehensive strategies to attract and retain investment from foreign firms.

Key government ministries in India

Prime Minister	Narendra Modi
Agriculture and Farmers Welfare	Radha Mohan Singh
Chemicals and Fertilisers	Ananth Kumar
Civil Aviation	Suresh Prabhu
Coal	Piyush Goyal
Commerce and Industry	Suresh Prabhu
Consumer Affairs, Food and Public Distribution	Ram Vilas Paswan
Corporate Affairs	Piyush Goyal
Defence	Nirmala Sitharaman
Drinking Water and Sanitation	Uma Bharati
Electronics and Information Technology	Ravi Shankar Prasad
External Affairs	Sushma Swaraj
Finance	Arun Jaitley
Food Processing Industries	Harsimrat Kaur Badal
Health and Family Welfare	Jagat Prakash Nadda
Heavy Industries and Public Enterprises	Anant Geete
Home Affairs	Rajnath Singh
Housing and Urban Poverty Alleviation	Narendra Singh Tomar
Human Resource Development	Prakash Javadekar
Information and Broadcasting	Rajyavardhan Rathore
Law and Justice	Ravi Shankar Prasad
Mines	Narendra Singh Tomar
Minority Affairs	Mukhtar Abbas Naqvi
Panchayati Raj	Narendra Singh Tomar
Parliamentary Affairs	Ananth Kumar
Petroleum and Natural Gas	Dharmendra Pradhan
Railways	Piyush Goyal
Road Transport and Highways	Nitin Gadkari
Rural Development	Narendra Singh Tomar
Science and Technology	Harsh Vardhan
Shipping	Nitin Gadkari
Social Justice and Empowerment	Thawar Chand Gehlot
Statistics and Programme Implementation	D. V. Sadananda Gowda
Steel	Chaudhary Birender Singh
Textiles	Smriti Irani
Tribal Affairs	Jual Oram
Urban Development	Venkaiah Naidu
Water Resources, River Development and Ganga Rejuvenation	Nitin Gadkari
Women and Child Development	Maneka Gandhi
Governor of the Reserve Bank of India	Urjit R. Patel

Note: Valid as of 16 October 2018.

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