Need to improve competitiveness to attract global investments

India’s GDP contracted 23.9 per cent in April-June FY21. It indicated the first economic contraction in about four decades, and the first quarterly decline since 1996. Global rating agencies have sharply cut their India’s growth forecast due to the sharper-than-expected GDP contraction in Q1 FY21 and a sluggish recovery in indicators thereafter.

Fitch expects India’s GDP to contract 10.5 per cent in FY21, compared to its earlier estimate of 5 per cent. Similarly, Goldman Sachs estimates India’s GDP to contract by 14.8 per cent as against its earlier estimation of 11.8 per cent.

The K V Kamath-led RBI committee has recently suggested key parameters for restructuring loans across 26 sectors based on its analysis of COVID-hit industries. The committee has identified power, construction, iron and steel, roads, real estate, wholesale trading, textiles, consumer durables, aviation, logistics, hotels, restaurants, tourism and mining, among others as the sectors that will require restructuring.

However, India also needs structural reforms for long-term growth. India had ranked 68th in the Global Competitiveness Index compiled by the World Economic Forum in 2019 and was among the worst-performing BRICS nations along with Brazil.

India had ranked high in corporate governance, shareholder governance, market size and renewable energy regulation. In terms of innovation, it was well ahead of most emerging economies and on par with several advanced economies.

However, it fell short on ICT (information, communications and technology) adoption, health conditions, healthy life expectancy, skills base and trade openness. The report also suggested that India’s labour market was characterised by a lack of worker rights' protections, insufficiently developed active labour market policies and critically low participation of women.

The World Economic Forum had said that in terms of healthy life expectancy, India was one of the shortest outside Africa and significantly below the South Asian average. India had also ranked low on meritocracy and incentivisation.

As against this, Singapore had become the world's most competitive economy in 2019, followed by the US, Hong Kong SAR, Netherlands and Switzerland. China had ranked 28th (the highest among BRICS countries) while Vietnam was the most improved country in the region in 2019 at 67th place.
The report showed that those countries which integrate into their economic policies an emphasis on infrastructure, skills, research and development, and support those left behind are more successful compared to those that focus only on traditional factors of growth.

The World Economic Forum had suggested that in order to come out of the cycle of low or flat productivity growth, which began with the global financial crisis of 2008, it was crucial for economies to rely on fiscal policy and public incentives to boost research and development, enhance the skills base of the current and future workforce, develop new infrastructure and integrate new technologies, among other measures.

With the advent of the COVID-19 pandemic, many countries are willing to move their trade and investments away from China, given that too much dependence on a single country has disrupted their supply chains. Further, the feud between the US and China, has opened doors for several countries wanting to encash this opportunity.

However, it is a matter of concern for us that it is easier to set shop in many other developing countries like Bangladesh and Vietnam, than in India. Further, these countries either have preferential market access or have signed FTAs with regional groupings like the EU, which leaves us with a comparative disadvantage.

We need to immediately address these challenges in order to attract long-term investments, and enhance our international trade. These measures are imperative if India wants to become a USD 5 trillion economy by 2025, especially since the COVID-19 crisis has exacerbated our economic challenges.
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