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OPPORTUNITIES AND CHALLENGES FOR DIASPORA INVESTMENTS IN INDIA

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It is said that 'you can take an Indian out of India, but you cannot take India out of an Indian'. Indians, anywhere in the world and irrespective of their citizenship, retain a lot of their 'Indianness'. It is certainly true of overseas Indian workers and it is also true of first generation migrants. I find that it is also true of the children of first generation migrants. One would have to wait some more years to see whether this unique characteristic of Indians is preserved by the children of children of first generation migrants.

Nowhere is this more true than in Singapore. There is a 'little India' in Singapore. The sights, the sounds, and the flavour of that sweet spot in this international city are almost totally Indian – even while the residents are genuinely proud of being citizens or long-term residents of Singapore. Singapore represents a plural society at its best. Is it any wonder therefore that the diaspora in Singapore is perhaps among the most diverse and most progressive diaspora of the great cities of the world? I am therefore truly happy to be part of the second South Asian Diaspora Convention and to address you on 'Opportunities and Challenges for Diaspora Investments in India.' I compliment the Institute of South Asian Studies of the National University of Singapore for bringing together the region's policy makers, business persons, authors, journalists and leaders of civil society on the platform of SADC 2013.

The Indian diaspora is heterogeneous. There are descendants of those who migrated in the 17th century and again in the 19th century to South Africa and further to the west. There are Indian families who travelled to other South Asian and South East Asian countries for work or trade since the beginning of the 20th century and have happily settled down there for several decades. There are first generation migrants and their children and grandchildren who live in developed countries such as the United Kingdom, the United States and Canada. In the last forty years, a very large number of unskilled and skilled workers have found job opportunities in the Middle East and live and work for long years in those countries. Recent years have witnessed another wave of migration to countries such as Australia, New Zealand and Hong Kong, China.

Each of these segments has a distinct view of India and the India Opportunity. These views are, understandably, moulded by the country and the environment in which they live and by their own perceptions of what is good policy and what is good governance. However, it is important to remember that India is a country of 1.3 billion people. Three hundred million at the top can be described as the aspirational class, but there is an equal number that looks towards the Government for help and support – and subsidies – to climb out of poverty. It is not a mean achievement that India has, in a period of ten years between 2002 and 2012, reduced the incidence of poverty by over 15 percent. I would urge you to keep that context in mind while you draw your conclusions and make your choices.

Let me begin by speaking to you on the India Opportunity.

India's potential growth rate is 8 percent and above. In the best year, the savings rate was 36.8 percent and the investment rate was 38.1 percent. In the worst years, the savings and investment rates were 30.8 percent and 32.8 percent respectively. Between 2005 and 2008, India achieved its potential – in fact exceeded it – and recorded growth rates of over 9 percent. During the 20-year period from 1991 to 2011, the average growth rate was 7 percent.

The key to sustain a high growth rate is investment. Other factors are also important. The fiscal deficit must be contained below the widely-accepted norm of 3 percent of GDP. The Current Account Deficit must be capable of being financed safely. Inflation, even allowing for the space required by a developing economy, must be moderate. The exchange rate must be resilient even while it is insulated against speculative attacks and excessive volatility. Any Government must be fully alive to these fundamental requirements of a stable and progressive economy. Given these fundamentals, it is investment that will determine the growth rate of an economy.

I believe that there is no country in the world that requires so much investment as India does in virtually every sector of the economy. On infrastructure alone, the 12th Plan document covering the period 2012-2017 envisages an investment of USD 1 trillion, of which one-half is expected to come from the private sector. A few examples will illustrate the magnitude of the need and the challenge. In the power sector, the 12th Plan document projects an addition of 88,577 mega watts of capacity during the period of five years. In railways, we intend to add 10,000 kilometres of rail track while doubling 5,344 kilometres of rail track. In steel, we plan to enhance capacity from the current level of 84.4 MnT to 142.3 MnT. In the port sector, total capacity of our ports will increase from 702.8 MnT in 2012 to 884.6 MnT by 2017. We are now engaged in building 34 non-metro airports.

I may also give you the example of Delhi Mumbai Industrial Corridor. It will entail an investment of USD 90 billion. Together with the dedicated western freight corridor being built by the Railways, it will link Delhi to Mumbai's ports. It will cover a length of 1483 kilometres and pass through six States. There will be nine mega industrial zones of about 200-250 sq. kms each, high speed freight lines, and a six-lane intersection-free expressway connecting India's political capital to its commercial capital. Along the corridor, there will be three ports, six airports, a 4000 MW power plant, and a plug-and-play environment to promote manufacturing industries. Other corridors that are in the planning stage are the Chennai Bengaluru Industrial Corridor and the Bengaluru Mumbai Economic Corridor.

India can offer to the investor a variety of investment opportunities. There are Government securities and corporate bonds. There are mutual funds and Infrastructure Development Funds. We can offer equity in our public sector enterprises that are under the disinvestment programme. There is a clutch of projects in the oil and gas sector that will welcome strategic investors. Shortly, we will offer a public sector Exchange Traded Fund that will allow you to buy units backed by underlying equity shares. Private promoters have offered a number of specific projects in sectors such as roads, power, urban infrastructure, ports and water transportation, and in Special Economic Zones.

Just as India and other developing countries need investment, let us also remember that the capital surplus countries need to invest. They cannot invest in their domestic economies alone. Given the increase in their savings and their ageing populations, they need to find investments that will give them higher returns over a long term. They need to find avenues of investment for their growing pension funds and sovereign wealth funds. The Indian equity market has given a compounded annual growth rate of 15.8 percent over the 10-year period 2003-2013. Government securities have given a return of 7.92 percent, 8.52 percent and 8.36 percent in the last three years. I believe that there are few markets in the world which give comparable returns.

Mindful of the fundamental factors that I mentioned earlier in my speech, we have taken a number of measures to stabilize the economy and give greater confidence to the investors. Last year, after I returned to the Ministry of Finance, I announced a new fiscal consolidation path under which the fiscal deficit would be contained at 5.3 percent in 2012-13 and reduced every year until it reached 3 percent in 2016-17. At the end of March, 2013, we did better than the target and the fiscal deficit was contained at 4.9 percent. For the current year, I have drawn a red line at the original target of 4.8 percent and I have made it clear that the red line will not be breached under any circumstances. The Current Account Deficit for 2012-13 was at a challenging level of USD 88 billion. In the current year we have taken a number of measures – some of them like compressing gold imports have already yielded results – and I am confident that the CAD will be contained at a level well below USD 60 billion and that it will be fully and safely financed.

Inflation has been more intractable. Both the Wholesale Price Index (WPI) and the Consumer Price Index (CPI) are driven by food inflation. The weights of food items in the two indices are 24.3 percent and 46.2 percent, respectively. It may surprise you that there is reasonable stability in the prices of major commodities such as wheat and rice. Sugar prices have actually fallen by about Rs.6 per kilogram. However, prices of fruit, vegetables, meat, milk and eggs are elevated and are driving the inflation rate. Several steps, including increase in the policy rate, have been taken and we hope that the WPI-based inflation rate will moderate to a level below 5 percent.

The exchange rate witnessed a period of considerable volatility during May to August this year. The reasons are well known. Many currencies were affected. The Reserve Bank of India took a number of steps – some that were clearly emergency steps – and once volatility was contained, some of those steps were reversed. We believe that the exchange rate of the rupee today is a better reflection of its true value and we are confident that both volatility and speculation have been largely contained. The excellent market response to the rupee bond floated by IFC two days ago indicates market confidence in the Indian rupee, although I would hesitate to draw conclusions at this stage.

All these, in my view, augur well for attracting more investments.

Apart from the macro economic fundamentals that I referred to, I would ask the diaspora to look at some micro economic fundamentals of the Indian economy. The first is our young demographic. A little more than one-half of the people of India are below the age of 25 years. Literacy among children below the age of 12 years is 95 percent. There is a surge in enrolment in colleges and a full one-fifth of all 21-year olds have a college degree. We have launched an ambitious skill development programme that aims to skill 500 million youth by 2022.

The second is the integration of the Indian economy with the world economy. Gross flows on the current account are 63 percent of the GDP and on the financial account 55 percent of the GDP adding up to gross flows across the border of 118 percent of the GDP.

The third is the increasingly 'capable' financial system. We have drafted a new Indian Financial Code that will replace the fifty existing laws concerning finance. We have a brand new Companies Act and a statute-mandated Defined Contribution Pension system.

The fourth is the international clout – based on capacity and competitiveness – acquired by a clutch of Indian firms in steel, oil and gas, mining, power, information technology and hospitality.

The fifth is the famed consumption-led growth story. India's household final consumption is an impressive 57 percent of the GDP making it one of the few vibrant markets, in a sluggish world economy, for goods and services.

The sixth is the maturity of our democracy and our adherence to a model governed by the rule of law. India has entered into 72 Bilateral Investment Protection Agreements. India is also a partner country in four Comprehensive Economic Cooperation Agreements and is in the process of negotiating an RCEP with the ASEAN countries.

I believe that, taken together, the macro economic fundamentals and the micro economic fundamentals make India an attractive and safe investment destination.

The Indian diaspora is estimated at over 20 million. While it is only 2 percent of India's population, their total wealth is estimated at USD 1 trillion which is nearly 50 percent of India's GDP. Of the USD 1 trillion, one-half is estimated to be financial assets. The income of the Indian diaspora is estimated at USD 400 billion a year.

We take the diaspora seriously. There is an exclusive Ministry of Overseas Indian Affairs. In 2007, the Ministry set up the Overseas Indian Facilitation Centre (OIFC) in partnership with CII, a leading industry association, as a non-profit body to guide and facilitate investments of Indians residing abroad. OIFC offers well-researched fact-files on different sectors of the Indian economy. The Government has also set up a Global Advisory Council that consists of the diaspora's scholars, scientists, business persons, and political and community leaders.

'Invest India' is our official agency dedicated to investment promotion and facilitation. It is a joint venture between FICCI, a leading chamber of commerce, and the Government. It is the first reference point for the global investment community and provides sector-specific and State-specific information to a foreign investor, assist in expediting regulatory approvals, and offers hand-holding services.

At present, we recognize a Non-resident Indian (NRI), a Person of Indian Origin (PIO) and an Overseas Citizen of India (OCI). An NRI has near-equal treatment with resident Indians and can invest in Government securities, Treasury Bills, domestic mutual funds etc. An NRI can also invest in the construction sector including townships and housing. A PIO may not be an Indian citizen but has parity with NRIs in the matter of investments except acquisition of agricultural property. A PIO does not require a visa to visit India. An OCI is of Indian origin but is a citizen of another country. He is entitled to a multiple entry, multi-purpose life-long visa and has parity with PIOs in the matter of investments.

Eleven million Indians live and work in Asia and the Middle East. Of these, 5.9 million are in the countries of the Middle East, there are 2.0 million in Malaysia and 500,000 in Singapore. The bulk of them are unskilled or semi-skilled workers. Nevertheless, they have high savings and they remit a large amount of money to their families in India. You are aware that, since 2003, India has been the largest recipient of overseas remittances. Remittances rose from a modest USD 2 billion in 1991 to USD 70 billion in 2013. Indian banks offer attractive products to non-resident Indians. Among them is the famous FCNR(B) scheme. Two months ago, the Reserve Bank opened a special window to attract more funds into FCNR(B) and I am happy to report that, as I speak to you today, the scheme, which will close on November 30, 2013, has received USD 16 billion. The FCNR(B) allows the account holder to retain his deposits in foreign currency and earn interest at a rate up to LIBOR plus 400 bps.

In recent times, we have turned our attention to the successful Indian-origin entrepreneurs and high networth individuals. Many of them are at the top of the pyramid. In the Silicon Valley alone, four out of 10 start-ups are promoted by NRIs and PIOs and seven percent of the valley's hi-tech firms are led by Indian CEOs. Some of the well-known names are Vinod Dham, Vinod Khosla, Bharat Desai, Gururaj Deshpande and KB Chandrasekhar. The Forbes list of the United States' Top 400 rich contains the names of three persons of Indian origin. It did not also surprise me to read that the Forbes list of Singapore's Top 40 rich contains the names of four non-resident Indians. There are over 40,000 Indian origin doctors in the US and over 15,000 Indian origin doctors in the UK. The number of engineers, chartered accountants and lawyers of Indian origin in the developed countries runs into several thousands. They represent the best of India that was chiselled and honed in the universities and institutions of those countries. India, the country of their origin or the country of their forefathers, is truly proud of them. A number of them are present in this distinguished gathering and I admire and salute your love and affection for India and the Indian people.

Ladies and gentlemen, planet Earth is home to seven billion people. No home can hold the very rich and the very poor together without addressing the question of inequality and poverty. The world is undergoing a rebalancing of economic power. Rebalancing of political power will, inevitably, follow in due course. The Asian countries are likely to become the pivot of the rebalanced world. The Asian diaspora, including the Indian diaspora, must therefore help the countries of their origin. Nothing can be more satisfying and rewarding than Indians living abroad connecting with Indians living in India. In a world committed to ending extreme poverty and sharing prosperity, that connection is best forged through investments.

Let me conclude by welcoming the Indian diaspora to seize the India opportunity, invest in India, and be part of the unfolding India story that will make India the third largest economy, even in nominal terms, by the year 2030.

I thank the Institute of South Asian Studies, and particularly Ambassador Gopinath Pillai and Professor Tan, for the opportunity to address this distinguished gathering. I thank you for your patience and courtesy.