

India unlikely to benefit from US-China trade tensions

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India is not likely to benefit from the US-China trade tensions, largely owing to existing policy barriers to large-scale production, strict labour laws and difficult land acquisition process, says an EIU report.

The US-China trade war has prompted some global companies to diversify their manufacturing base and moving some production out of China, but India is unlikely to be at the receiving end.

India may lose out on investment to regional peers because of policy barriers to large-scale production, strict labour laws, difficult land

acquisition and permitting processes and a limited number of free-trade agreements (FTAs), Mr Sarthak Gupta, analyst at the Economist Intelligence Unit (EIU), said.

"While the recent corporate tax cut is likely to improve the attractiveness of the Indian business environment, we believe that the country is likely to remain relatively far down the list of favoured manufacturing alternatives to China," Mr Gupta noted.

As the US-China trade war continues to disrupt global commerce, South-East Asia, especially Vietnam and Thailand, has emerged as the leading destination for firms seeking to reduce their reliance on production bases in China.

"Brazil, East Africa and Bangladesh may also become more attractive manufacturing destinations than India over the medium term if their respective policy environments continue to improve at a more rapid pace than India's," Mr Gupta noted.

As per the report, even though India's ranking has improved dramatically in the World Bank's Ease of Doing Business index for 2019, and infrastructure investment has increased, acquiring land for large industrial projects remains time-consuming and expensive and labour laws remain restrictive.

Besides, obtaining permits and approvals can still be "challenging," Mr Gupta said.