Despite the government’s attempts to hide bad news, India’s economic slowdown is grave and visible. While a slowdown would understandably reduce trade prospects and investor interest, this reaction is not obligatory. In fact, a slowing economy can provide savvy business partners with new opportunities. But it also increases the chance that regulatory instability will alter the rules of the game in damaging ways.

India’s economic news is quite bleak. The International Monetary Fund (IMF) dropped its prediction of India’s economic growth by nearly a full point between July 2019 and October 2019 to 6.1 percent. The Asian Development Bank (ADB) is even more bearish on 2019, with growth estimated at 5.1 percent. On November 7, 2019, Moody’s downgraded India’s outlook to negative, “partly reflecting lower government and policy effectiveness at addressing long-standing economic and institutional weaknesses.” The automotive sector, in particular, has been hit hard with steep drops in vehicle sales in the latter half of 2019.

There are important risks to foreign firms during a period of economic instability in India, including:

- **Expanded Domestic Manufacturing Mandates**: A slowdown in manufacturing may add momentum to India’s existing mindset of adopting local content mandates in sectors with high levels of imports.
- **New Trade Barriers**: Like domestic content mandates, a manufacturing slowdown could cause the creation of new trade barriers—notably customs duties—in sectors India wants to protect.
- **Enlarging Price Controls**: A slowing economy could trigger populist moves that harm the business environment, notably through the establishment of price controls. While controls on pharmaceutical products and medical devices get the most attention, India has also adopted price controls in areas such as credit card fees, airline ticket prices to small cities, and other sectors.
- **Regulatory Interventions**: Beyond price controls, Indian regulators may look to intervene to control other perceived harms that stem from a slowing economy. As we saw after the 2008 financial crisis, a depressed stock market triggered India’s financial regulator to intervene on behalf of consumers to regulate fees and commissions for the sales of products.
- **Regulatory Tilt Towards Domestic Players**: Some sectors already see regulations that impair foreign investors even beyond foreign domestic investment (FDI) limitations, such as marketplace e-commerce. As India’s market cools, India’s domestic conglomerates could use their clout to further tighten competition rules to their benefit.
- **Tax Harassment**: If tax revenue is depressed, tax assessors could become incentivized to pursue higher collections. Foreign firms can become significant targets of aggressive tax practices, as we saw during the last substantial slowdown.

**KEY DATA**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.-India Goods Trade, 12-Month Comparison</td>
<td>+7%</td>
</tr>
<tr>
<td>Foreign Direct Investment, 12-Month Comparison</td>
<td>+4.1%</td>
</tr>
<tr>
<td>FII Assets Net Flows, Last 12 Months, PER NSDL</td>
<td>$20 bn</td>
</tr>
</tbody>
</table>
However, an economic slowdown can create interesting opportunities for foreign firms. Particularly those firms that believe in India’s longer-term economic prospects.

- **Lower Asset Prices**: If the rupee begins to weaken and the stock market dips, asset prices become cheaper for foreign investors.
- **Lower Land & Labor Costs**: Wage pressures should be reduced, and acquiring other inputs such as land could become less expensive. Presumably, such prospects are fueling India’s continued ability to attract relatively high levels of foreign investment, even in an economic downturn.
- **Exporting from India**: A weaker rupee can make exports out of India more competitive for firms that use India as a global manufacturing base.
- **Improving the Foreign Investment Climate**: Foreign investment can provide a quick “shot in the arm” for sector growth. India still has FDI limitations in many sectors such as insurance, retail trade, e-commerce, and more. The government would also be more proactive in reducing frictional impediments to investment, such as slow licensing approvals.

Not all of India’s economic news is grim. The rupee has remained stable at around 71 rupees per dollar. And the SENSEX stock index is up 13 percent in the year. In many other aspects, India’s economic slowdown has not yet impaired international trade and investment flows. For example:

<table>
<thead>
<tr>
<th>Data Point</th>
<th>Prior 12 Months</th>
<th>Recent 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Direct Investment</td>
<td>$45 bn</td>
<td>$47 bn</td>
</tr>
<tr>
<td>Foreign Portfolio Investment</td>
<td>($11.3 bn)</td>
<td>$19.4 bn</td>
</tr>
<tr>
<td>Goods Trade</td>
<td>$323 bn</td>
<td>$325 bn</td>
</tr>
<tr>
<td>Goods Trade Balance</td>
<td>($184 bn)</td>
<td>($153 bn)</td>
</tr>
<tr>
<td>India’s Services Exports</td>
<td>$198 bn</td>
<td>$214 bn</td>
</tr>
<tr>
<td>India’s Services Surplus</td>
<td>$75.7 bn</td>
<td>$78.6 bn</td>
</tr>
<tr>
<td>U.S. Exports to India</td>
<td>$31.5 bn</td>
<td>$34.6 bn</td>
</tr>
</tbody>
</table>

Sources: RBI (FDI), NSDL (FPI), Indian Department of Commerce (India Trade), and U.S. Census Bureau (U.S.-India Trade)

Groups like the ADB and IMF predict a substantial rebound in the economy in 2020. But nothing is certain; these groups did not accurately predict India’s economic breakdown this year. If the slowdown persists—or even deepens—it will present both opportunities and challenges for international firms looking at India as an economic partner.

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