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India has to compete to gain from 'China Plus One' strategy: Eswar Prasad

Companies, investors around the world looking at India's policy trajectory, says the professor of trade policy at Cornell University

Asit Ranjan Mishra | New Delhi | December 06, 2022 Last Updated at 19:04 IST



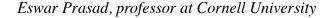
The challenge for India is to show the path for longer-term fiscal sustainability, and the upcoming budget should lay out a path of rationalisation for public sector enterprises not doing well, said *Eswar Prasad*, professor of trade policy at Cornell University. Prasad, the author of 'The Future of Money', told *Asit Ranjan Mishra* in an interview that the Central Bank Digital Currency (CBDC) at best will have some positive effects on the margin.

Here are edited excerpts from the interview.

There is much talk about the 'China Plus One' strategy of multinational companies and its benefits to India? Is the hype worth it?

There is a little bit of reality to the hype but certainly the hype might be getting a little ahead of the story. There is a desire in many parts of the world to try to dissociate the

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supply chains from China. There are concerns related to geo-political tensions and the vulnerability of supply chains that run through China. All of this again suggests the

potential for more diversification and there is a real opportunity for countries like India to benefit from their alliance with many Western countries. Also India is seen as a friendly country with a young labour force that could very well meet some of these demands.

But having said that, it is not very easy to find alternatives to China because many American companies, and many companies in other parts of the world too, rely on China to a very significant extent as part of their supply chains and it is not easy to make substantial changes in a short period.

Do you think the stars are perfectly aligned for India or India needs to make an all-out effort to benefit from the geo-political changes?

Certainly while the Indian government has done a lot in the last few years to increase India's capacity to serve as a component in the global supply chain, there are still some significant reforms needed. Banking is still not working very well. There are still some concerns about whether there is enough policy stability related to the tax regime, capital account regime and the financial markets. So companies and investors around the world are really looking for what India's policy trajectory is going to look like. Among major economies, India has very strong growth potential, partly fuelled by domestic demand but potentially also diverse export markets around the world. There is an opportunity here and it will need some work for India to be able to realise this opportunity.

The other important point to keep in mind is that India is not the only alternative, there are competitors including countries such as Vietnam and even Bangladesh in Asia who are also trying to increase their presence in global supply chains. So India doesn't have the playing field clear to itself. It needs to compete, and to do so effectively requires some additional reforms on the part of India.

The government is going to present its last full Budget before the 2024 elections. What can the upcoming budget do to put the economy on a higher growth trajectory given the current geopolitical situation?

The key challenge for India is to show the path towards longer term fiscal sustainability. Unfortunately, a huge increase in government expenditure through debt financing can work well for advanced economies but is going to be very difficult for emerging market economies like India, where concerns about fiscal sustainability are rampant.

One of the other key priorities for India is to lay out a path of rationalisation of many public sector enterprises that are still not doing so well. One-shot privatisation of many of these enterprises is probably not quite in the cards, but again hardening of budget constraints improvement in corporate governance in these enterprises would certainly go a long way towards increasing their attractiveness to potential buyers in the future and in the short run reduce the drain on the budget. What we need to see is the reform path and the push forward in many areas where there is still progress to be made.

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What should be the priorities for India under its G20 presidency?

That is for the Indian government to decide. India given its neutral role, sitting between advanced economies and many of the emerging market economies on the other side could think about ways to bring these two groups together and there are many shared interests such as financial market regulation, how to increase the benefits of cross border flows by mitigating the associated risks, how to deal with climate change, many of these are problems where there is common interest and I believe and hope that the Indian presidency will find ways to move forward on these areas.

Many central banks have started pilot projects on Central Bank Digital Currency (CBDC). Do you think there is a strong use case for retail CBDC or is it just an experiment at present?

There seem to be a range of motivations at play in the countries that are already experimenting with CBDC. What India has done which is setting up the payment infrastructure, UPI, on top of which private payment providers can compete on a level playing field so long as they ensure interoperability is the right way to go. Whether the digital rupee is really going to have value given how well the UPI is working is certainly a valid question. At the margin, it can provide some degree of stability to the payment system because it provides public payment option and having a central bank provided CBDC which will be in the form of a digital token provides one additional payment mechanism which I think will not necessarily crowd out private payment providers so long as it is designed in the right way, so it can be seen as one among many payment options. I don't think it is going to have any negative effect. It could, on the margin, may have certain positive effects.

How do you view the meltdown of FTX and what it means for the crypto-currencies?

There were always questions on crypto as a durable asset class. Crypto such as Bitcoin were meant to serve as mediums of exchange and didn't require central bank money or other types of payment providers, instead they became pure speculative assets. What we are seeing is the crypto edifice really crumbling block by block. FTX was supposed to provide very basic services in terms of providing an exchange that could more easily facilitate trade among crypto currencies and between crypto currencies. It was also supposed to provide a place where people could keep their crypto currencies in digital wallets. Those very basic custodial functions of crypto assets turned out to be very fragile in this ecosystem. This is causing a reconsideration by both retail and institutional investors about crypto as a viable and durable asset class. We are certainly going to see a regulatory response both in terms of limiting the risks within these ecosystems itself and also making sure there are no spillovers of risk from the crypto ecosystem on to the traditional financial markets.

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