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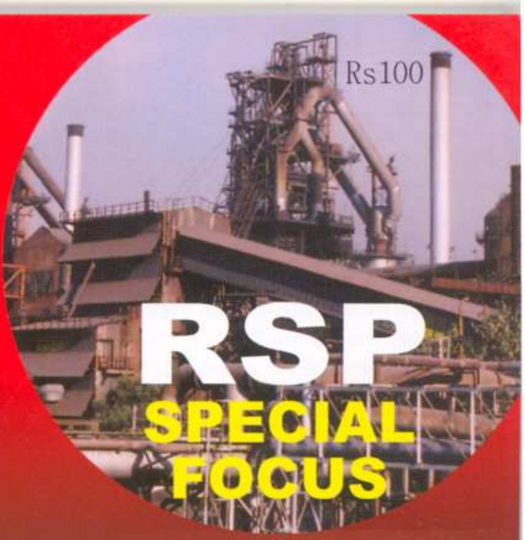
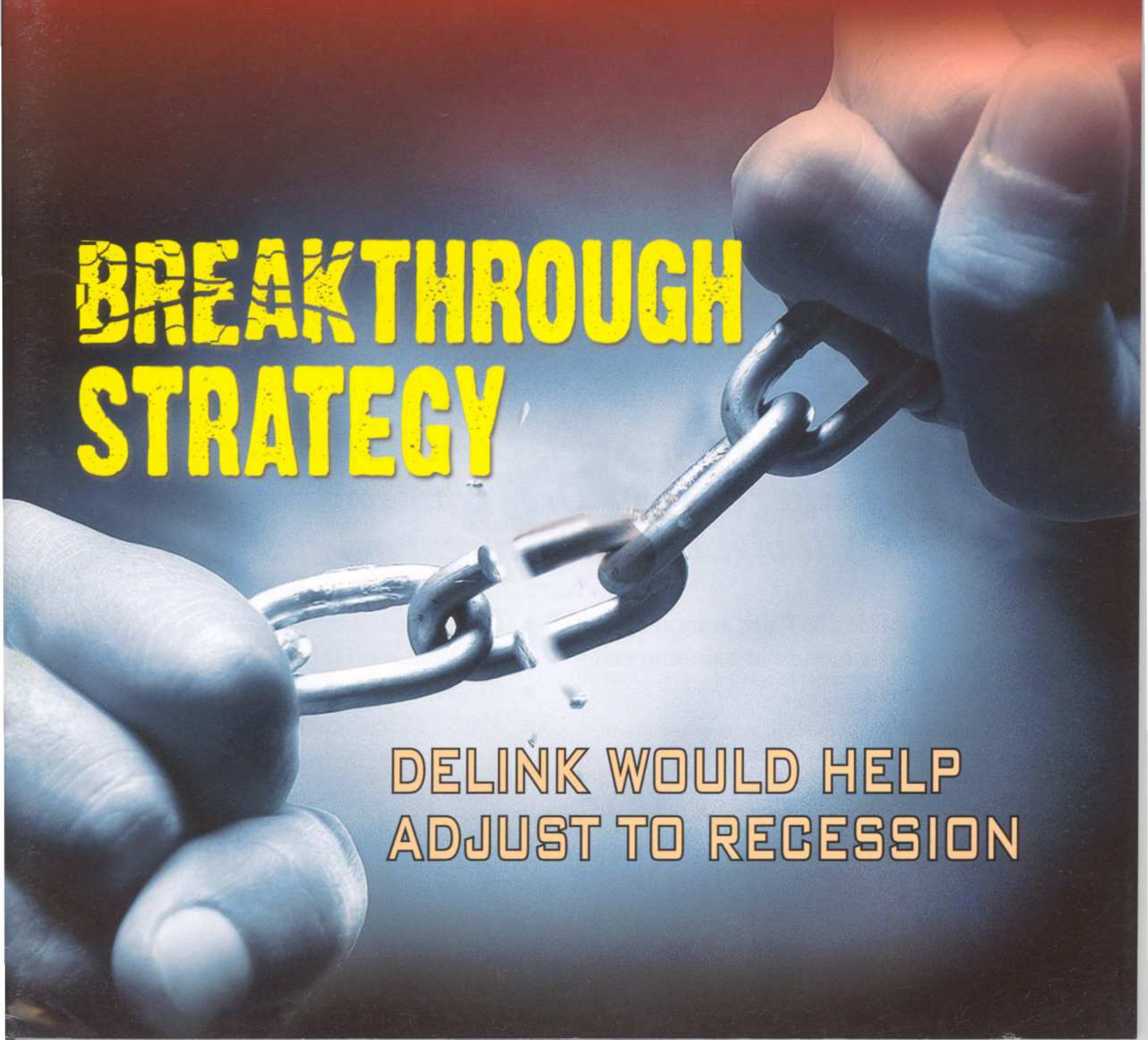
SOURCING INSIGHTS

FROM SMART SELLING TO STRATEGIC SOURCING





BREAKTHROUGH STRATEGY

DELINK WOULD HELP ADJUST TO RECESSION

Economic Revival: Challenges Before The Govt

R.P. Gupta

There are tough challenges before India to maintain its GDP growth rate under the present conditions. Nevertheless, without the global meltdown as an excuse, our growth rate has been too low in the past five decades.

Poverty cannot be eradicated without a high growth rate and if we are sincere about elevating the bottomline of the population for sustainable income, the only solution is to increase GDP in double digits. Once GDP increases vis-à-vis the country's income, it is bound to percolate down to the needy, that is people below the poverty line.

The basic principle of economy is "expenditure by one person is income for others." Hence, benefits are bound to percolate to the lowest level. We need to ensure the income of the privileged class does not take flight to other countries through official/unofficial channels. In other words, the income is to be invested in our country to facilitate percolation.

A series of stimulus packages declared by the government was definitely helpful in arresting the freefall. However, these were more of short term measures. More has to be done to accelerate the growth rate. Stimulus at the cost of a heavy fiscal deficit is not a long term solution as higher fiscal deficit will ultimately lead to inflation. High GDP growth comes from investment in the productive or infrastructure sector only. Confidence in the system is a prerequisite. The investor gains confidence from good governance and a friendly investment climate or the general attitude towards the productive sector.

On introspection, it can be seen that we are lacking in these areas, which must be set right through new generation reforms. It requires a strong political will. Public opinion must be created in favour of the productive sector. Awareness of the government machinery must reach the grassroot levels.

Eastern India must maximise entry of investment to utilise its huge natural resources. An improvement in these factors on an all-India basis will lead to higher overall growth and minimised disparity among different states.

Our country has the latent potential to become an economic powerhouse. Indian human resources are the best in the world and do not need any certification. Our democracy is very strong and finds favour with foreign investors over China. Thus, the new government needs to give priority to investment through reforms. There are many ways in which they can do this.

Monetary measures

Liquidity in the system must be utilised for credit expansion, giving specific priority to trade, industry, agriculture and services. Preference must also be given to SMEs. Banks must firm up credit lines and bring down PLR 4 percent. Home loan lending rates should be below 8 percent up to Rs 40 lakh to stimulate demand in other sectors. Other consumer loans (except educational loans) must be discouraged through higher margin and higher interest rates.

RBI and other banks must relax NPA norms from 90 days to 180 days, besides other preventive measures. Working capital enhancement must be more liberal. Brownfield expasnion should be given priority over greenfield. Also, it is important to re-think how to manage our forex reserves, instead of curbing capital inflow. There should be no restrictions on external commercial borrowings.

Savings must be increased to up to 50 percent of GDP, against the present 35 percent approximately, to generate an additional $150 billion every year for the infrastructure/productive sector. Savings can be increased by raising income tax exemption limits, fiscal incentives for banks/corporate deposits and revitalising capital markets. Debt instrument trading should also be promoted. Savings in physical gold must be discouraged by imposing duties. Investment-led spending is better than consumption-led spending.

Meanwhile, foreign investment needs to be encouraged through administrative reforms, a better investment climate, healthy capital markets and so on. A stronger rupee will also help increase forex inflow. NRI deposits are stable and reliable and should be promoted. Importantly, flight of capital to other countries must be minimised.

Capital markets are essential

Equity funds equally essential as credit expansion for fresh investment vis-à-vis growth. Hence, a vibrant and favourable capital market is needed for a growing economy. Withdrawal by foreign institutional investors (FIIs) should be gradually nullified by sovereign funds, long term funds of insurance companies or pension funds to arrest a steep fall.

Investor confidence is also shaken by volatility, which must be kept away, along with speculation. Imposition of circuit filters (up to 5 to 10 percent) on all scrips may arrest volatility. Heavy margins on F&Os and derivative may curb speculation. Also, there must only be delivery-based transactions on commodity exchanges.

Trade moves

It is important to be a net exporter in long run, wherin the strong rupee will attract huge capital inflow. Imports must also be discouraged and exports increased. The former can be limited to raw materials and intermediate products since they are subjected to value additions. However, there must be fewer imports for consumption and more domestic production.

For instance, crude petroleum comprises 4 to 5 percent of our GDP. We have to device fiscal/administrative measures to curb this. Domestic production is to be encouraged by opening up of these sectors and incentives. Self-reliance is essential to protect our economy from any future price rise in crude.

There must be a level playing field for global companies and Indian producers and farmers. The costs of basic inputs such as power, fuel, interest and logistics should be brought down to compete. Remittances by Indians working abroad must be encouraged through administrative or fiscal measures. Moreover, agro imports must be reduced as exports of services in the areas of health, tourism, legal services, accounting and consultancy are developed.

How fiscal measures can help

Tax laws can be simplified. Corporate tax can be cut to to promote investment while the income tax limit is relaxed to promote savings. Tax on agricultural produce must also be brought down to promote agricultural sector. The best option would be a single tax by merging excise, VAT, service tax, Octroi and royalty, with a suitable sharing formula with the states.

A high import duty on all products - except raw material, intermediate products and high tech equipment - will also help the cause. In the industry, efficiency must be high and costs low to stimulate demand. Lower production is, after all, only a deterrent to GDP growth. The industry must also increase revenue compliance and minimise job cuts to aid the government. Corporate governance also helps build up investor confidence.

Administrative reforms

Facilitation must replace regulation in trade and industry. Barriers in the way of fresh investment need to cut down as far as possible through a total review by the government. Minor clerical mistakes or mistake arising from ignorance lead to severe penalties/harassment and hence, promote corruption. This is a deterrent to fresh investment.

Environment clearances for up to Rs 500-crore project should be based on self-certification. Laws relating to de-reservation of forests for mining sector must be simplified to increase mineral wealth. Land acquisition norms also need to be simplified. Replacement and simplification of obsolete laws is essential but time-consuming. Hence, the government must take a lenient view while the productive sector concentrates on efficiency improvement.

The role of the industries department in facilitating the productive sector is to be strengthened. It should mediate with other departments before taking coercive action to close down, which ultimately affects GDP growth vis-a-vis the country's growth. The productive sector should be treated as national assets. Farmers must get the right price for their products through an open market mechanism. All restrictions on movement of agro products should be removed or reviewed. Even export restrictions should not exist.

A friendly investment climate

Various government departments must increase their accountability and efficiency to avoid delay in clearances. There must be respect for income generators and job providers to increase entrepreneurship. Promotion of self-employment is better for the country. Productivity-linked bonus in the industry will also pave the way for a better work culture. The media can also do its bit by cutting down on negative publicity.

Infrastructure

Infrastructure spending could be key driver in the Indian economy as it creates demand and builds a platform for a higher growth rate. China achieved a high growth trajectory through this route. Our infrastructure spending needs to be jacked up to a minimum 10 percent of GDP. The government can utilise intangibles such as land rights and other statutory rights for part financing of infrastructure.

Better village roads, for instance, would benefit agriculture as well as rural economy. The housing sector can be included in infrastructure too. Resources may be mobilised through sovereign borrowing, forex reserves, LIC and pension fund, among others. Infrastructure bonds through tax immunity (like bearer bonds issued earlier) could be a solution. Private investment in infrastructure should be promoted with fiscal and administrative support. External borrowings by infrastructure companies may be backed up by sovereign or bank guarantees.

Tax immunity may be provided to general/public shareholders subscribing to infrastructure, power or banks initial public offerings up to Rs 10 lakh. Total proceeds may be subjected to capital gain tax as and when shareholders sell these shares. This helps bring inert or non-productive money into the mainstream without any major revenue loss; that too, for public interest.

Commercial infrastructure which can be implemented by the government through private investment and negative funding must not be delayed.

Summing up

The after affects of the global crisis can be reversed only with unified action and the government taking the lead. There must be a conducive environment in the productive sectors as well increasing awareness at all levels. Besides monetary measures, fiscal support and administrative reforms are essential to fight out the recession.

A strong rupee, low trade deficit and higher savings can prevent too much dependence on forex. Additionally, fiscal support and administrative reforms are essential. Support from political leaders and trade unions is very important. Let us not highlight the misdoings of a few but instead publicise everyone's positive action . Let us opt for a morale raising exercise instead of being demoralising.

India has a long way to go in eradicating poverty. High GDP growth is the only solution, which comes from the productive sector and fresh investment. A positive attitude and dedication to the nation by all of us is the one line solution. Let us stand firm to accept this challenge and become an economic powerhouse of the world. ■

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