

# When will Indian Economy turnaround?

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Turn Around India

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Everybody is desperately waiting for 'Acchhe Din' and the 'turnaround' in the Indian economic condition. We need sizeable investments to fulfil public aspiration, and government resources alone, are not sufficient. Private investors are still hesitant due to current status of the invested capital. We must convert those investments as profit centres to regain investors' confidence through big reforms. Let us not live in the FDI mirage, which will mature if domestic investors are happy and sovereign rating is comfortable.

**R**ecent data of 5.7% growth for Q1 of FY15 might be a relief, but it should not be construed as a sign of revival. The upturn was an outcome of Government & Election spending. It is not sustainable unless major steps are taken to cure the ailing economy. At best, we can infer that decline below 5% growth is arrested. Global rating agencies are also advising for cautious optimism in the absence of structural reforms. We have lots of expectation from the new government, particularly for generating jobs and controlling inflation. Expectations on Infrastructure & Human Development front are also high. Various promises during pre and post-election have fuelled the public aspirations. But truth remains, all these need sizeable investments. The question arises, who will invest and fulfil our dreams?

No doubt that our leadership has a proven track record and government has all good intentions. Several steps have been taken to boost the sentiment of bureaucrats and cutting layers in the

decision making hierarchy. Coordination among various ministries has improved. The Central-State relation is also cultivating positive trend. The feel good factor is just sinking in. And it means that the platform is almost ready. Now, it is a high time for the government to show political courage and announce revolutionary reforms those are long awaited. Baby steps can only arrest decline, but it can't reverse the scenario. We must realize that the disease has become chronic and now it needs a higher dose.

Government doesn't have enough room for meeting entire investment need due to high Fiscal Deficit, Subsidy & Debt Burden. Dependency on FDI alone i.e. by increasing its limit is only going to create a mirage. FDI is primarily guided by friendly business laws and the environment. Healthy operation of domestic companies will automatically attract global companies without any persuasion. Therefore, investment cycle must start from domestic companies only and then FDI will follow the suit. We must improve the entrepreneurial



spirit of Indian companies, both big & small. Despite the constraints of capital resources, they are capable of delivering subject to congenial atmosphere and due recognition.

Unfortunately, entrepreneurs have burnt their fingers. Intervention of Investigation agencies, Central audits and Judiciary in economic activities has brought about huge risks, including criminal prosecution. Tax terrorism has expanded its dimensions. Raising huge demand from retrospective effect has indeed created an atmosphere of uncertainty. It is not just limited to tax demands, but spread to many areas. Cancellation of Coal blocks, mining leases and 2G spectrums has shattered confidence among investors. The digging of the past economic decisions is indeed a big dampener. It will cause long term damage.

Several small and mid-sized companies have been running the show somehow, by leveraging their assets and increasing debt burden. But the delay in economic revival has turned their loan accounts as NPA for banks. Unfortunately, promoters are blamed without appreciating genuine issues that they have been facing. They are now equated to criminals that are indeed quite frustrating and their contributions to the economy have been totally ignored. With such a state of affairs, how do we expect to revive investment cycle? If Indian investors will not come forward, then how do we expect foreign companies to invest here? Let us not live in an illusion.

We must ease out operation of the existing units who are the victims of economic turmoil. We must restart mines and plants those are closed due to regulatory hurdles. Concession agreement with infrastructure developers may be eased to make their operation viable. Priority must be given to convert existing investments as remunerative instead of running after new investments. In effect, this will also improve ICOR (Incremental Capital Output Ratio), which has

tumbled to 6.8 in FY14 from 4.0 during 2002-2010. It will be prudent to make best productive use of existing capital assets in a capital starved country like India. Idling of productive assets has dragged Global Competitive Index of India from 48th in the year 2007 to 71 in 2014, against 28th for China as per the World Economic Forum.

Government should quickly amend laws, rules & regulations, which are big impediment in the revival process. NPA norms must be relaxed, taking a practical view and liquidity must be infused to normalize the operation. Non-serving debt for 3-6 months should not cause a death penalty for any productive assets in adversity. Retrospective demands, may be taxation or others must be reviewed. All such actions will re-impose tremendous confidence among investors & entrepreneurs. Thereafter, one will see a long queue of domestic & foreign investors and the 'Turnaround' will indeed happen.

It will not be prudent to push consumption led growth through fiscal expansion or retail finance. We must cut imports and produce more that will yield a productive income for the citizens by the citizens. Consumption from this productive income will not only push growth, but it'll cool inflation as well. Such income generating cycle must start from the core sectors, which are growth engines. At the same time, we must spend heavily on infrastructure, particularly on logistics & energy. Such spending shall not only kick start the growth, but also reduce logistics & energy cost and check inflation. This will be the right choice for turning around India, which is currently suffering from Stagflation. Other economic activities will follow the suit. Incidentally, it will control fiscal & trade deficit to some extent.

So as to give impetus to core sectors, we must ease out Mining laws along with Forest & Environment laws. Such

restrictive laws craft artificial shortage of minerals & coal and then increases production cost of all basic goods. Its impact travels into the entire economy. Similarly, for giving impetus to infrastructure, we must allocate additional land with any Road, Rail, Port or Airport project. This will improve the viability and reduce user fee & facilitate investment. But, this needs radical changes in land-use laws which are big bottlenecks in the development process. Recently enacted land acquisition bill is practically stalling all development projects. This must be rewritten. Concession agreements must be banked and transferable after completion. Tenders must be invited only after acquiring land and obtaining all approvals to cut implementation delay.

Industries in the core sectors and infrastructure projects are capital intensive. We must ensure availability of long term capital resources through innovative methods as discussed in the chapter 8.0 of the book 'Turnaround India'. Interest cost must be reduced by 250-300 basis points. Financial savings may be encouraged in lieu of physical savings and gold consumption as discussed in chapter 15.0 of the book. IPOs may be encouraged in capital market through friendly regulations. Foreign funding will automatically enter if we bring all these reforms as discussed above.

However, there are even chances of facing tough criticism from all corners while extending support to Indian entrepreneurs. This is due to past legacy and our mindset, which is not in the favour of private investment, particularly domestic. We must create awareness about their necessity at all levels. This is a tough challenge, but it is believed that the government will succeed considering its credibility. If government succeeds; sooner Indian economy will turnaround and that too, in a sustainable manner. Time has come to demonstrate political courage before it is too late. Let all of us extend a supporting hand and fulfil the dream of all Indians. ■