India Must be Globally Competitive to Sustain Growth Momentum

India must improve efficiency of its economy by boosting productivity and ensuring productive use of resources; so that, production cost of Indian goods and services are globally competitive. This does not depend upon the producers alone, but upon a host of factors influenced by government policies and regulations. An efficient economy will boost export and keep inflation in check. This will ensure consistent growth without hiccups and keep Rupee stable. All these factors will attract entrepreneurs and investors, which will keep the nation growing. Isolated reforms might push growth for a short-while, but growth momentum will not sustain without global competitiveness.

A modest recovery in growth by 0.4% in FY15 (7.3%) compared to FY14 (6.9%) should not be construed as reversal of decline. Current year (FY16) growth is also expected to be almost static. More so, new series of GDP reflects growth numbers higher by about 2% compared to old series. India has to do lot more for sustaining the growth momentum which started in the year 2002, but is now losing steam.

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As per World Economic Forum (WEF), Global Competitive Index (GCI) of India has slipped from rank 48 in 2007 to rank 71 in 2015 among 144 countries. While comparing BRICS nations, we find that India is far behind China. India's rank was to an extent comparable to China in 2011-12, which has been on continuous decline after 2007. Hence, the growth momentum, which started in 2002, could not sustain after 2010. India must acknowledge and take remedial measures.

Most economists agree that continuous growth of GDP is the only route of bringing prosperity to a nation. WEF has identified 12 pillars that influence GCI index and GDP growth. First four pillars are Institutions (Government), Infrastructure, Macroeconomic Environment and Health & Primary Education; these are the basic requirements for any nation as per WEF.

The other six pillars viz Higher Education, Goods Market, Labor Efficiency, Financial Market, Technological Readiness and Market Size are termed efficiency enhancers. Remaining two pillars viz Business Sophistication and Innovations are more relevant for the developed countries. For India, the weightage of first four pillars is 60%, next four pillars 35%, and balance two pillars is 5%. This differs for other countries depending upon their current status. Ranking of BRICS nations on these sub-indexes (pillars) is tabulated below.

Global Competitiveness Index (GCI) Ranking of BRICS Nations

Year	India	Brazil	Russia	China	South Africa
2014-15	71	57	53	28	56
2013-14	60	56	64	29	53
2012-13	59	48	67	29	52
2011-12	56	53	66	26	50

Source: WEF Report on Global Competitiveness 2014-15

The above data reveals that India should improve on multiple fronts. Current regulations by Institutions (government) detract entrepreneurs and craft barriers on new entries. Instead of improving productivity and efficiency, entrepreneurs are engaged in protecting their businesses from regulatory and tax hazards. Business laws must be simple, compliable and conducive for growth with efficiency. They must deliver developmental outcome and not cause hindrances in economic activities. For this, mindset must change at all levels. This alone will initiate changes in GCI ranking of India.

Protective labor laws are hampering productivity and efficiency. They are hindrances in generating new jobs. Principle of job security must be replaced with need based employment. Wages and promotions must be linked with productivity. By this, young work force will surge productivity and take India to new heights instead of engaging in agitations.

Logistics cost in India is exorbitant.

Sub Index Ranking of BRICS Nation

Item	India	Brazil	Russia	China	South Africa
Basic Requirements	92	83	44	28	89
Institutions	70	94	97	47	36
Infrastructure	87	76	39	46	60
Macroeconomic Stability/Environment	101	85	31	10	89
Health & Primary Education	98	77	56	46	132
Efficiency Enhancers	61	42	41	30	43
Higher Education & Training	93	43	39	65	86
Goods Market Efficiency	95	123	99	56	32
Labor Market Efficiency	112	109	45	37	113
Financial Market Development	51	53	110	54	7
Technological Readiness	121	58	59	83	66
Market Size	3	9	7	2	25
Innovation and Sophistication	52	56	75	33	37
Business Sophistication	57	47	86	41	31
Innovation	49	62	65	32	43

Source: WEF Report on Global Competitiveness 2014-15

Road transport is based upon the imported and costlier fuel. Old dated MV Act, too many check posts and bad roads are aggravating problems. Truck unions and cartels are compelling industrial consumers to pay high freight. Right choice is Railway transport. But Railways is investment hungry and not increasing capacity. Its efficiency is remarkably low. On top of it, goods tariff is loaded with cross subsidy. India must bring radical change in Railways by encouraging private participation and bringing competition; somewhat similar to the aviation industry. Logistics cost must be reduced severely, making Indian economy competitive. Eventually, this will also improve goods market efficiency.

Importance of energy in modern economy is well known. High dependency on the imported energy like coal, oil and gas is indeed worrisome. This is causing shortage and high price. Cost of power (secondary energy) is also prohibitive. Frequent and long interruptions in power supply are idling capacity of productive assets. But alas! These sectors are not yet fully open. With shortage and high cost, production cost is shooting up. Then, how will India compete?

Needless to say that high interest policy in India is the biggest impediment for commercial viability of any infrastructure project, may be logistics, energy or others. It amplifies production cost in spiraling manner. India must revisit its monetary policy; they must support productive activities and ensure low cost funds so that India can compete globally.

India's policy for allocation of natural resources like land, water & minerals has crafted artificial shortage. Industries use below 3% of country's land and water. Mining uses barely 0.06% of country's land. Their sizeable contribution to GDP is ignored. Mineral and coal production is curbed by several restrictive laws. Royalty and other levies are increased many folds. As a consequence, mineral based industries are becoming non-competitive and inviting imports.

Macro-economic stability of any nation contributes to efficiency of economy in the indirect manner. The combined budget of central, state and local government is about 28-30% of GDP. Consumption spending by government can be equated with overhead expenses of country. This adds to the cost of every goods and service. But infrastructure spending improves efficiency and cuts production cost. Therefore, budgetary resources must be deployed in a judicious manner. Multiple and high taxation must end. Consumption spending must cut and infrastructure spending must escalate. However, there should be no compromise on basic education, primary health and sanitation. For developing higher education, private and global investments may be promoted.

India is reasonably placed in financial market development. But our financial resources are not adequate to meet investment needs of the nation. Savings (domestic and corporate) must be increased by reducing direct taxes. Physical savings must be curbed through innovative schemes. We must channelize these savings in productive use. India must cut consumption funding; such funding is adopted by developed countries to generate demand. India doesn't need this considering the adequate market size here. Rather, adequate funds at lower cost must be ensured for productive sector.

By improving on these fronts, Indian products will be competitive and export will surge without any fiscal incentives. Inflation will be under check. Rupee will strengthen, which will boost confidence of global investors without persuasions. Thereafter growth momentum will sustain without hiccups. ■