

India Must Come Out of Past Legacy for True Revival of Economy

As per the new method, India's GDP growth in FY16 is estimated to be 7.4%. But the macro indicators and ground reality doesn't match this. Exports are falling. Investment led demand is dipping. IIP numbers are highly discouraging. Most industries are in financial stress and fighting for survival. Delay in remedial measures is causing frustration among existing entrepreneurs. Slowdown in job creation is causing discontent among the youth. Pro-business policies and regulations are needed for true revival of the economy. Instead of baby steps, structural reforms are desired to transform India in a true sense. For this, India must come out of the past legacy, that which we inherited after independence. Team spirit among all stake holders must be crafted; it will remove hurdles in the journey to development.

Pre-independence, India could not participate in the industrial revolution which was gaining momentum in western world. Post-independence, India adopted the soviet model of economy, which was mostly dependent upon public investments. Industrial licensing system, high taxation and forex control were big impediments. Most of the manufactured products were in shortage. Forex reserve



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was negligible. Private investment in infrastructure was beyond imagination. India was mostly dependent upon agro economy. The result - destitute poverty was prevailing; public finances were under stress; infrastructure deficit was too high.

India awakened in 1991 after facing acute forex crisis for meeting essential imports and repayment obligations. Narsimha Rao government took bold decisions announcing several economic reforms. Industrial licensing system was eased; private and global capital was liberally permitted. This was the beginning of a new era for Indian economy and industrial revolution thus began. Due to past legacy, reforms were half hearted, but Indian

entrepreneurs responded well. India came out of the syndrome of Hindu growth rate.

Atal Bihari Vajpayee government gave impetus to infrastructure spending by permitting private capital. Aviation, mobile telephone and road sector achieved phenomenal growth. Overall regulatory environment was conducive and entrepreneurs were encouraged investing risk capital in the productive and infrastructure sector. The result - Indian economy entered a bullish phase by 2002, which continued up to 2010. Considering India pro-business, global capital rushed in without any persuasion. President of USA and France visited India in 2011 seeking India's support for import orders for

reviving their economy. It was indeed a matter of pride for all Indians.

During 2002-2010, benefits of high growth were shared by all, may be, in different proportions. Poverty ratio declined. Substantial population shifted from poor to middle, middle to higher class. Despite resource crunch, entrepreneurs invested heavily in the industry, mines, service sector and also in infrastructure. State and central government revenues increased multifold. Salaries were hiked and new jobs were created.

That was the right time for fast-moving regulatory reforms and liberalizing economy in true sense. By then, business laws were under influence of old British colonial rules. Entrepreneurs were dependent upon the mercy of law enforcing agencies. Alas! Instead of easements, stringent laws were enacted in disguise of reforms. Manufacturing and mining sectors were the prime victims. Exorbitant penalties, closure of plant & mines became routine affair. Prosecution was initiated against established entrepreneurs. Past legacy dominated damaging entrepreneurial spirit. Agitation by civil society and the activism of judicial commissions added fuel to the fire. The result - economy growth reversal started in 2011. This worried every Indian. Domestic investment retarded and flight of entrepreneur and wealth started.

During general election 2014, new agenda of development politics was pushed, to which, Indian public responded well with a hope of revisiting those good days of high growth and prosperity. No doubt, India is headed by a capable and visionary leader. In short tenure,

India has succeeded in improving its global image. Competition among states is crafted; it will deliver long term gains. Forex reserves are stable with somewhat increase. Fall in crude oil price and partial rationalization of subsidy has eased public finance.

But somehow, job creation scenario is not promising. Depreciation of Indian currency is worrisome. Infrastructure spending is lacklustre. We are far behind spending target of USD 1 trillion during the twelfth five year plan (2012-17). Stress of manufacturing sector is aggravating. Instead of extending support, coercive actions are being opted; this will kill entrepreneurial spirit and new investments will shy away. Global FDI will remain a mirage in absence of conducive business environment for domestic entrepreneurs. Let us not rewind history, rather march ahead with team spirit.

We must admit that manufacturing and agriculture are the prime drivers of growth and creators of jobs. About 75% of services (transportation, communication, finance, trade, hotels etc) are the by-products of these prime drivers. Agricultural growth will escalate by boosting investment in Agro infrastructure and technology beyond budgetary support. Manufacturing share in GDP is falling. It is far behind the targeted 25% share. More so, manufacturing in India is not competitive due to high costs of capital, energy, logistics, minerals and compliances. Hence, exports are falling and cheap imports are swelling. In such a scenario, growth depending upon service sector alone will not sustain. Yes, export oriented services must be encouraged.

True revival of economy is indeed a challenging task for the government despite best efforts and good intentions. True solution lies in overturning past legacy, which is shaded with anti-business and anti-private capital. At this juncture, India needs regulatory easement which will promote entrepreneurship and productive activities. Simultaneously, team spirit among legislators, bureaucrats, entrepreneurs, media and judiciary must be crafted. Training centers must be opened across the country for creating awareness about economic needs of nation. Negative environment against productive activities and decision makers must end. Media can contribute a lot in this process.

Infrastructure spending must be boosted to 10-15% of GDP by all means. For this, monetary policy must be eased and low interest regime must be fetched comparable to other big economies. Instead of focusing on stress of banking system alone, stress of industrial borrowers must also be eased as a composite and long term solution. Existing NPA norms are not sacrosanct; those must change as per India's need. Such tough and impractical norms were not adopted even by western countries during their developing phase.

Till 1978, China was far behind India in terms of per capita income. Now it is more than six times as compared to India. This could happen with pro-business policies and heavy spending in infrastructure with an easy monetary policy. The capability of Indian entrepreneurs is superior and well established across the globe. Those must be included in Team-India. For this, India must come out of the syndrome of old legacy and liberalize economy in the true sense. ■