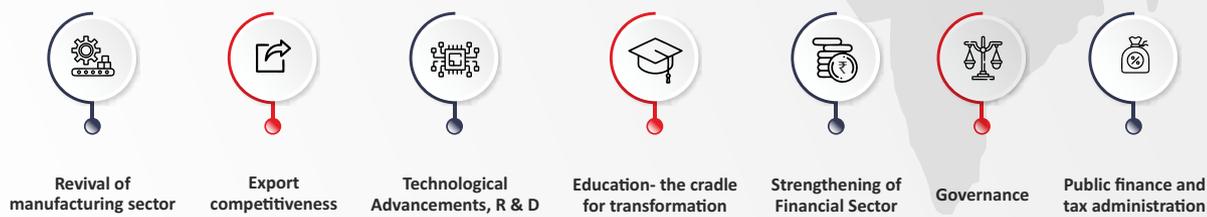


Towards A Resurgent India



Sharad Musalay CEO, UJA

To say that the year 2020 has been eventful would be an understatement. The Corona virus has jolted us into the realization of many unfolding happenings not imagined for. It has given a new perspective towards emerging risks forcing us to plan and anticipate for future events, whether foreseeable or not.

In a globally connected economy, the pandemic has adversely affected the global supply chain and services industry with global exposures. For India, this provides a golden opportunity to accelerate India's growth and progress. To achieve this, we need a co-ordinated and focused approach from Policy makers, the Governments and other stakeholders like politicians, business community and the citizens.

How can India progress towards an economic prosperity? What are the factors that can drive this growth?

In a country like India, the economic development is influenced by variety of factors such as political, social, technological, natural, administrative, etc.

It is also important to understand the constraints that face a multi-faceted country like India namely, Scarce resources allocation to developmental, Social welfare and non-developmental expenditure and its efficient use, a balancing act to address the equitable development of all strata of a very large population, slow response or resistance to economic reforms, political opportunism, bureaucratic hurdles and ease of doing business, instability in tax regime, etc.

Some of the crucial areas that need attention in a fundamental way for economic growth are addressed below:

Revival of manufacturing sector

In order to make the 'Make in India' initiative successful, it is important to make the manufacturing sector a robust growth engine. The Government policies in terms of supporting a globally competitive domestic supply chain with innovative fiscal and tax incentives at each stage is the need of the hour. Production of items qualifying to Import substitution must be incentivized.

Extending subsidized low cost loans with long term moratorium for eligible units wanting to revive, reduced cost of operations by way of duty free electricity, duty free import of high tech capital equipments, tax moratorium, GST moratorium or lower GST rates, sourcing of key raw materials, Power with low/nil duties/GST, subsidizing power of high energy consuming industries like steel manufacturers, etc. are some of the measures that can extended to a manufacturing unit having potential for revival. This will result in lowering of the input costs making products globally competitive, ensure employment generation and export earnings as well as reducing the trade deficits against import substitution.

Government has to adopt favorable and innovative policies for FDI in technologically focused industrial

ventures, Global supply chain joint ventures and Companies who want to make India their export hub. These can be in the form of Export incentives, Tariff free import of high tech equipments imported by the Manufacturing companies for exports to their parent/sister ventures in global supply chain, Duty free inputs on Power, government duties and levies, etc.

Export competitiveness

For India to be a global economic achiever, it would have to significantly improve its export performance and move up the value chain from traditional exports like textiles and clothing to medium and high technology goods. Niti Ayog, the government think tank, has formulated 17 measures for improving the trade capabilities of India's foreign trade. A National Commercial Network (NTN) has been established which will improve the flow of information, and will also assist in making the custom process as well as the Information Technology system more efficient. Development of NTN will have a significant impact on the export efficiency and transparency.

The Export Preparedness Index (EPI) 2020 emphasizes on better domestic capability and competition, readiness at state/regional level, exploring the export potential strength at state level. At the state level, the issues of poor trade support, gaps in export infrastructure, lack of access to financial facility and low export credit need to be addressed to remove the disparity amongst states performance to tap their competitive advantage and potential.

To encourage and compete in Exports, it is important that the Government policies have to be supportive on a sustained basis with necessary support and incentives for evolving technology absorption.

Beyond the Government measures, the Made in India exports from India have to address the perception of poor quality image, high costs, unreliability, etc.

The Stakeholders have to focus on these issues in order to develop an Export-eco system which can compete at global level and tap the vast potential.

“In a globally connected economy, the pandemic has adversely affected the global supply chain and services industry with global exposures. For India, this provides a golden opportunity to accelerate India's growth and progress.”

Technological Advancements, R & D

The evolution of technology has been the backbone of the technological and industrial progress. The Industrial and technology companies have to be at the forefront to embrace the changes that are unfolding every day. Agility is the key. The turnaround time in bringing the new fields in science and technology into the commercial use has to be rapid in order to have the first mover advantage.

To be competitive, a favorable environment for technological advancement by way of Research & Development has to be created and sustained by way of nurturing the efforts through focused Government policies. The role of the Government is to support the Industry by way of necessary planning, allocation of resources for the technology absorption, facilitate in the creation of necessary skill-sets through Industry-Education collaboration.

Beyond Government, the Business community have to contribute in developing a culture of Innovation and Research. There is a need for endowment funding towards these efforts with necessary collaboration by way of Incubation support and to generate returns on these investments arising out of the commercial exploitation of technology. Business community with ample resources can be encouraged to exploit opportunities arising in sunrise and green field sectors like alternative energies, nano-tech, etc. which have enormous commercial applications and also reduce imports.

Though there are tax benefits under the Income Tax Act, Incubation funding/Grants, assist in IP protection, subsidizing R&D costs by way of financial support/sharing of direct costs and investments incurred are some of the concrete steps that can be taken by the Government on a sustained basis to improve its R&D efforts, currently at a meager 0.7% of GDP.

Education - the cradle for transformation

Modern education system has to keep pace with the new developments in the world. The students coming out of the education system must be equipped and fit to be employed with the skill-sets required for new technological advances applied in the businesses and processes.

Our education system especially at University level are not in sync with the demands of the businesses and the technologies being adopted. To prepare capable and employable prospects, the Policy makers have to anticipate much in advance about the skill-set gaps & demands in the light of new developments in various work disciplines and draw up and execute the action plan to prepare the skill-sets meeting industry standards. This is especially true in a scenario of new technologies and processes replacing human work e.g. AI, Machine learning.

Industry-Education collaboration is vital on a continual scale to formulate and plan and develop an action plan to revamp the education system. The involvement of Tech think-tanks, academicians who are constantly monitoring the technological advances and developments around the world is vital in this planning exercise.

On a broader scale, the Government resource allocation towards education has to improve from current 4.6% to at least 7%. There has to be greater accountability and monitoring on the ways this expenditure becomes productive to make more people educated. Illiteracy fosters exploitation and inequality. Progressive education should lead to social and economic upliftment, generate skills and a workforce that can develop the economy. Greater focus on vocational training to generate more employable workforce in areas of skill shortages, develop the economy and standards of living.

Strengthening of Financial Sector

The performance of the financial system is a barometer on underlying real economy and the macro-economic balances. Its significance also arises from the transformational function it performs on intermediation of funds in the economy and the public trust and dependence on banking and financial markets functioning. With the increasing integration of Indian economy with the Global economies and the international focus and linkages, regulation of the financial sector to ensure stability, maximum transparency, disclosure and accountability and adhering to prudent norms matching international standards assumes importance.

Governance

Economic development is also a part of the political process that challenges vested interests. Shrewd power politics can be bad economics. These are very much evident in India and have resulted in push and pull effect in the economic development since long.

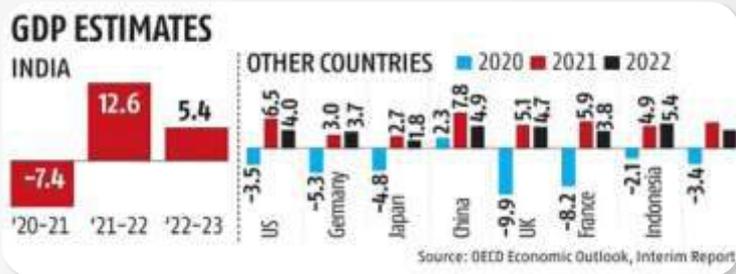
This is the result of after-effects of "Flawed democracy" (refer Democracy Index by Economy intelligence Unit of Economist group, UK) driven by narrow political interests rather than national good. Much of good governance efforts are lost in divisive political opportunism especially in a government with weak mandate, bureaucratic hurdles, corruption, lack of accountability, autonomy and other malaise. This creates challenges to the nation's progress, social disparities and inequalities apart from posing threats to internal and external security.

It is only when we transit from a 'Flawed democracy' to a 'Mature democracy' that we can see ourselves as a country graduating to being a developed country with high satisfaction index. For a country like India with diverse diaspora, this is going to be a slow process requiring a paradigm shift in societal and political conditioning and also government functioning.

India is ranked 63 out of 190 in the World Bank's Ease of doing business report, 2020. However, we fare badly in enforcing contracts (163), registering property (154) and paying taxes (115). Though progress is seen on many fronts since last decade,

but lot is desired especially in areas of streamlining clearances and speedy approvals, simplifying and reducing redundant and un-necessary laws, corruption, and slow justice delivery. Inefficient and high cost of governance is the other detriments that need to be addressed to ensure a seamless economic progress.

“OECD raises India's economic growth forecast to 12.6% for 2021-22.”



In the coming future, an important challenge before the Government will be to redefine its administrative role. The Political role of the government should be to ensure a stable and competitive environment with a strong external sector and an efficient and transparent domestic administrative system. While macro-economic policies can be decided by the Government through its think-tank Niti Ayog, the implementation must be delegated to autonomous regulatory and other institutions. Government role must expand in creating Infrastructure, Education and Health services and reduce in running of Commercial enterprises. Also the implementation of economic programmes must be devolved to the States.

Public finance and tax administration

Focused attention to channelizing resources on improved auditing, processes, Data analytics, overhauling of tax laws, reducing tax litigations to unlock huge tax disputes, etc. will help improving the Tax base and also Tax to GDP ratio on part with comparable economies.

In the past few decades, we have made some progress towards alleviating poverty and upliftment of lowest strata through public welfare and improving

education levels, however there are serious and critical issues concerning dwindling capital expenditure, small and inadequate allocations to social and economic infrastructure, the poor quality of spending, poor translation of outlays into outcomes and inadequate corrective measures. The Public finance functioning is seriously hampered by disregard to developmental priorities, lack of planning and delays in delivery and execution resulting in escalating cost, short term political considerations and political interference, red-tapism, etc.

Government spending administration needs to be overhauled and made more professional. Medium term expenditure framework must be integrated with Outcome Budget to provide a clear analytical link between inputs, outputs, and pre-determined outcomes, Robust and strong mechanism for Evaluation, accountability and monitoring, benchmarking performance and Incentives yardsticks need to be put in place and implemented with no political interference.

In order to make India a resurgent economy and achieve a sustainable developmental growth, a development strategy that will ensure creation of a progressive economic and social environment that will promote social and economic upliftment, reduce economic disparities and poverty and create a strong economy will require a collaborative participation by all the stake holders-Government, Policy makers, Political bodies, Business leaders.

“An eminent international economist has rightly expounded that “Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents”. The realization of this in the Indian context is evident in various factors that have affected our economic progress.”

- Prof.Ragner Nurkse