An Agenda for 9% Growth

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The happy days of 9% plus GDP growth in the Indian economy are not long past. Those were the days when P. Chidambaram was Finance Minister. Only a couple of years. And, yet, the decline in growth over the past 18 months has led to both pessimism, doom and gloom analysis and forecasts as well as fall in confidence levels.

This, of course, is typical of Indian psychology. A little bit like the euphoria-excessive-when India wins the World Cup in cricket and the doomsday statements when India subsequently loses to England and Australia. Quite a bit is due to the low level of self-esteem and self-confidence Indians suffer from. A hangover of the two centuries of colonial rule and the fact that it took the Information Technology sector, at the turn of the Century, to enable Indians, especially Indian Industry, to look the world in the eye and stand shoulder to shoulder with the best. That was a huge turning point for India's self-esteem but only a beginning.

The last ten years have seen a transformation of India, its economy and industry, which has been unprecedented. Competitiveness and confidence came. Comfort with globalization came. Investment and acquisitions came. And, all of it, together, took India to earlier unimaginable heights of 9% plus GDP growth.

But, the global economy and its deep crisis had more challenges in store for the Indian economy. Plus, the fact that since 2009 the focus shifted from high economic growth to social reforms, social development and social inclusivity, to help build a more equitable society. In effect, a different developmental and growth model from many other countries. Unfortunately, whilst the idea was great, the pre-requisite for all of this has to be high economic growth to generate the resources which are essential for social reforms.

Its now a turnaround Job. To get back to 9%. Not impossible. Certainly, possible. But, the constant refrain by many seeking "bold reforms" seems unnecessary and unwise. Likewise, the song of passing fresh legislation since bipartisan support in Parliament is the exception and certainly not anywhere near the rule. And, even new policies, such as opening Multi-Brand Retail to FDI, are fraught with challenges because of divergent political views.

So, what is the way forward? Or, rather, back to 9% growth levels? Is it a pipedream? Is it impossible? Is it feasible? Here are some suggestions to make it happen. None of these are earth-shaking but just focusing on specifics, the micro, rather than the macro. On execution and implementation. On moving ahead where there is space and opportunity.

First, the Public Sector industries in the country are still a very significant part of the economy, especially in Manufacturing, Steel, Capital goods, Defence production etc. Their weightage in Indian's industrial production is significant but they seem to be the orphans of the Indian economy. Many of the PSUs have the ability to enhance their investment, capacity, production and export, given support by way of quick approvals and facilitated implementation.

This just does not happen. These orphans are subjected to political and bureaucratic interference, many demands, huge delays in approvals and the country loses out. The economy suffers. Some of the finest corporates in the country are NTPC, BHEL, BEL, HAL, etc, to name just a few. If the owner and parent could give positive attention to the Public Sector and free them, equip them with truly independent strong Boards and autonomy, this group could help add nearly 1% to India's GDP growth.

There is urgent need to review the handling of PSUs by Government. Right now, there are several Ministries and Departments "administering" PSUs. The need now is for an independent "Public Sector Authority" (PSA) to deal with all of the PSUs in a coordinated manner. Ministries are supposed to be for policy-making, not to manage or oversee management. Let the PSA be formed to deal with this aspect, mandated to build a strong, competitive Public Sector.

This may sound like heresy but, around the world, there is increasing acceptance that the mixed economy model is the way to go-a strong private sector and a strong public sector. France is an excellent example of this model. India was. India needs to get back to its roots.

The Public Sector is in heavy investment industries and sectors. Not easy for private sector to generate the huge resources required for very long term returns to accrue. Therefore, to safeguard India's National Security, the Public Sector has to continue to play a significant role in the national economy. There is no choice. This is a "given".

Another aspect of Public Sector rebuilding is the Disinvestment process. This needs to be re-started so that the people of India have shares in PSUs, are actually and directly, shareholders, seeking strong corporate governance and accountability. This is just not about generating funds for the deficit to be reduced though this, too, is very critical. It is also for the long term sustainable viability of the PSUs. In the short term it also aids the deficit reduction challenge which the Finance Minister faces currently.

A study of PSU Boards does show that many respected persons are members of such Boards. Inspite of this, the perception is strong that PSUs are not independent, are subject to political and bureaucratic direction and intervention. Creating a separate, independent Public Sector Authority will go a long way towards freeing PSU chiefs from the day-to-day harassment from different quarters. The PSA will not eliminate this challenge but, at least, the variations in demands and pressures would be greatly minimized.

The Public Sector, therefore, is a big part of the answer to bring back 9% GDP growth and the sooner PSUs get this recognition and support, the sooner the target will be achieved.

A second major area for action is infrastructure –roads and highways, railways, ports, airports, waterways, housing, urban development, etc. These are huge areas of economic activity often managed by single authority, eg, NHAI roads and highways; Railways; Airport Authority of India (AAI)/airports except where private sector has taken over, such as Hyderabad, Bangalore, Mumbai and Delhi; Port Trusts/Ports; Inland Water Transport Authority/Water; National Housing Bank and HUDCO/Housing; JNUURM/Urban development. There are others such as DMIC/Delhi Mumbai Industrial Corridor.

What is their implementation record? How are these functioning? From all accounts, not too well. Hence, “Construction” of infrastructure which is a huge lever for economic activity and employment, is at a level far below potential.

Across the country, these agencies, and others in similar areas, need to increase Construction activity through implementation of projects and programmes. The Finance Minister, who is, the most efficient and competent Minister-level “Manager” needs to review the situation, agency by agency, and get them moving faster forward.

Infrastructure, especially construction, of any kind, anywhere in the country, can add 1% to GDP growth. No question about that. And, it can be done. Its all about management of implementation. Its all about the “How” (to do), going beyond the “What” (to do). This is actually strength of the private sector-getting projects done on time and within budgets. But, there is no reason why the various agencies mentioned earlier cannot do likewise. If there is need, and there may well be, external expertise can be associated or inducted to strengthen and deepen the implementation and execution capability.

A third area of attention is the Private Sector.

Before the deregulation of the early 90s, the private sector was a “bit” player in the economy. A general perception-that the private sector was either out of or in the corner of the economy “room”. But, over the last 20 years, the private sector has evolved and is located in the centre of the room. It, therefore, can make a huge difference to the economic growth of India.

Today, the Private Sector is not investing or indicates that the problems are such that investment is not possible. How is this to be tackled? Macro-statements, speeches and talk have no value. No conviction. Confidence and Investment will happen only if there is action and problems, perceived or real, are addressed and resolved. This, again, calls for “Micro” action. Take the Top 100 companies/groups (Tata Group alone has, reportedly around 100 companies) and the top echelons of the Finance Ministry, supported by other relevant Ministries, need to engage each major corporate group in an urgent dialogue.

The dialogue is not to be “academic”. It is to be very practical and focused. What project is planned? Where is the bottleneck? How is it to be resolved? And, resolve it FAST.

This is only the Top 100 but their tentacles connect with thousands of ancillaries, vendors, suppliers, and partners. So, in the process of clearing the implementation of the Top 100, the SME Sector in the country will benefit.

And, if this exercise is extended beyond the Top 100 to the next 100 and so on to touch 500 companies of the private sector, India will gain another 1% or more in GDP growth.

The final suggestion in the area of manufacturing and infrastructure relates to Defence Production. It is slightly more long-term in impact but hugely important.

India’s Defence budget is massive. India’s requirements of Defence Equipment are enormous. For the Army, Air Force and Navy. Not to mention the paramilitary and other security forces.

Currently, India’s needs are met largely through imports essentially from the private sector MNCs overseas. It is commonly said that over 70% of defence equipment needs are imported. Less than 30% made in India. This ratio can be reversed. 70% made in India, 30% imported. The result, huge additionality of production, skills, technology and employment within the country.

One key issue is Technology. India needs and wants upto date, advanced Technology. Not outdated. Not obsolete. Not inefficient. Not good enough to deal with possible conflict situations.

Technology is the most precious asset to any company which has developed it, owns it. It takes years of R&D to develop State of the art Technology and no company is going to part with it under any circumstances. Sales-yes. Transfer or sharing? No. and, yet India needs local manufacture. For this, the companies must be allowed to manufacture in India with management and ownership control. 26% FDI is no good. 49% FDI will not work. 51% to 100% has to happen. Plus, long term stability assured. No retrospective changes ever!

And, this can change the Defence Production scenario in India. Plus, 1% additional GDP growth just from the Defence sector because the numbers are so big as to be almost frightening. Massive industrial assets would be created in India. Costs would fall. People would get jobs and training, from the blue- collar to the top manager. This is a huge win-win for India. And, enhance National Security.

The impact of rapid growth of the public and private sectors in manufacturing, as well as defence production, would lead to an explosion of new enterprises in the small and medium industry sector, so vital to entrepreneurship building and employment. At a conservative estimate the whole range of manufacturing and infrastructure industries can add at least 2 percentage points to India's economic growth and several points to its industrial growth.

The Indian economy currently has a structure very different to 25-30 years ago. The new players, and a significant one at that, is the Services Sector. Not just information technology. Engineering, Consulting, Legal, Accounting, Maintenance, Retail etc etc etc. This segment of the economy has truly exploded with growth and entrepreneurship over the last 10-15 years, representing nearly 60% of the country's economy.

Though the Services Sector growth has slowed over the last 18 months, any pickup of the economy, signs of which are emerging, will automatically bring an upswing in the services sector. Representing, as it now does, well over 50% of the economy, its growth rate reverting to double digit figures, will add significantly to the GDP growth of India.

And, this growth is not necessarily dependent on Government action except to provide an enabling environment for enterprise and growth. After a lapse of 3 years, since 2009, there are clear signs of Government initiatives to do just that.

Finally, Agriculture which was 40% of GDP, 30 years ago, but is now only 15%, an annual growth of 3% per annum is a reasonable expectation, given the actions being taken for modernization, storage, prevention of waste, expansion of food processing industries, etc. Whilst Agriculture will not add big numbers to the GDP growth rate, its steady growth itself is an important benchmark for higher growth.

So, a brief review of industry, infrastructure, services and agriculture shows the way to get back to the much higher rates of growth, 9% and above, which India experienced in the 2004-2008 period. The structure of the economy has changed enormously in recent decades which provides the framework for higher growth. In this, the private sector plays a much larger role but the public sector, too, has a major part to play.

In addition, the savings and investment rates, currently are way higher at more than 30% of GDP, compared to just over 20% in the 1980s. The current level reflects a decline over the high 30s a few years ago but it is still much higher. Also, the private sector’s share in savings and investment is much more than before. Its efficiency of use of capital is higher which, again, adds strength to the economy, giving cause for confidence in achieving the high growth rates which India has achieved.

What is it that Government needs to do? Or, <u>not</u> to do?

A number of things- -more space and freedom to all of industry and entrepreneurship making business easier to do. This applies to both the public and private sectors. And, this would include a de- freeze on issues such as environment, and land, both of which have held back growth and investment.

A critical way forward for Government, which has started with the increase in diesel prices, is to control the deficit, in fact, reduce it and bring back balance in the economy’s financial and fiscal health. This is all the Government needs to do, allowing the rest to happen in a free flow.

The Economy is again poised for a confident return to 9% growth with the leadership team in place in North block, managing the Finance Ministry, a proactive Prime Minister and his team and a expert advice coming in from the fiscal consolidation and tax sides. Already, confidence levels are rising and sentiment on an upswing.

The agenda for 9% growth is neither unreal nor unachievable. Practical, steady policies, management and implementation, which are already in evidence, under the leadership of P.Chidambaram are showing the way to a renewal of the 9% legacy. First, get back to 7 per cent growth in 2013. And, then, the higher, tougher jump to 9 per cent. The dream team is in place. India is on the way back.