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How Budget 2006 can make 10 per cent plus growth a reality

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THE exciting reality is that India is at 8 per cent GDP growth. The challenge ahead is to push it to 10 per cent GDP growth, and then beyond. All this is not a dream. It is within reach.

Budget 2006 has to not just help sustain the 8 per cent rate but push for 10 per cent because February 28 is the flagship date in the economic calendar of India and the day has to, just has to, witness that push. This really implies several things which need to happen because we need multiple actions.

First, the food and agriculture sector must, and can, grow faster with deregulation, decontrol and direction towards investments in value-added products such as horticulture and floriculture and food processing industries. This sector has enormous potential. The reforms have only just begun.

Second, investment in manufacturing industry needs to grow and grow and grow with a vision of making this sector a global player and hub. Wherever there is an inverted duty structure, this needs correction. Wherever costs of production are enhanced because of duties and taxes, these need to be reviewed. Basically, input duties must fall and value addition by manufacture must rise.

By INVITATION

Third, the medium- and long-term sustainability of growth and competitiveness depends on technology development and R&D, which is an area of weakness. Four decades of protected economy prior to liberalization ensured lack of priority to R&D because there was neither pressure nor incentive for new products and processes.

This situation has changed. Competition is a reality. And, R&D has to be multiplied. For a few years, a 150 per cent weighted allowance for R&D—inhouse or outsourced—would be important to support this trend and need.

Fourth, the development of skilled human resources is as important—if not more—than the development of technology. Already, shortages are being faced. ITIs are unable to match needs both in terms of quality and quantity. A public-private partnership approach is key.

Education and technical training need to be completely deregulated and freed. In addition, corporate outlays on training and skills development should have the same treatment, for tax, as R&D expenditure. A start also needs to be made to set up credible accreditation agencies.

Fifth, another major challenge is to take a quantum jump in Infrastructure— of quality. This cannot happen only through government expenditure. Private sector investment, including foreign investment, is essential. The Budget needs to have a much tighter provision of funds for public outlays in terms of amounts and timelines. Each sector has uniqueness and one policy for all would be unwise and ineffective.

In addition, the question of social infrastructure needs recognition. Education and skills have been mentioned but healthcare is a crucial area which needs a policy frame to maximize and multiply quality healthcare infrastructure. It really needs to be treated on par with physical infrastructure.

An area of primary concern in the Budget is the Tax part. Clearly, Customs Duties which have been steadily reduced, need to continue down that road. One way to address the issue of anomalies and inverted duty structure is reduction of rates. In 2005-06, the peak rate is 15 per cent and the revenue over Rs 50,000 crore. Concurrently, import duties as a percentage of GDP is at 1.8 per cent as against 3.4 per cent in 1991-92.

High growth in GDP compensates largely for reduced customs duties and, since the outlook for 2006-07 is strongly positive, a further reduction in import duties is advisable, especially where products are taxed above the peak rate. There are still 14 rates above the peak rate which adds to complexity and non-transparency and confusion. Rationalization is critically needed.

A key component of policy is VAT which must be implemented by all states and Union Territories. A CVD may be considered to reimburse states which have provided VAT credit and a CVD also to compensate for CST where capital goods are at zero duty. Generally, zero customs duty should only be for lifesaving drugs and security-related items or those covered under FTAs/CECA. A 5 per cent duty is the minimum, otherwise.

The Finance Minister is not to be envied. Complex demands and pressures often or, usually, conflicting. Fiscal deficit to be held in line. Allocations to be enhanced. Taxes to be cut. He needs the nation's prayers!

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