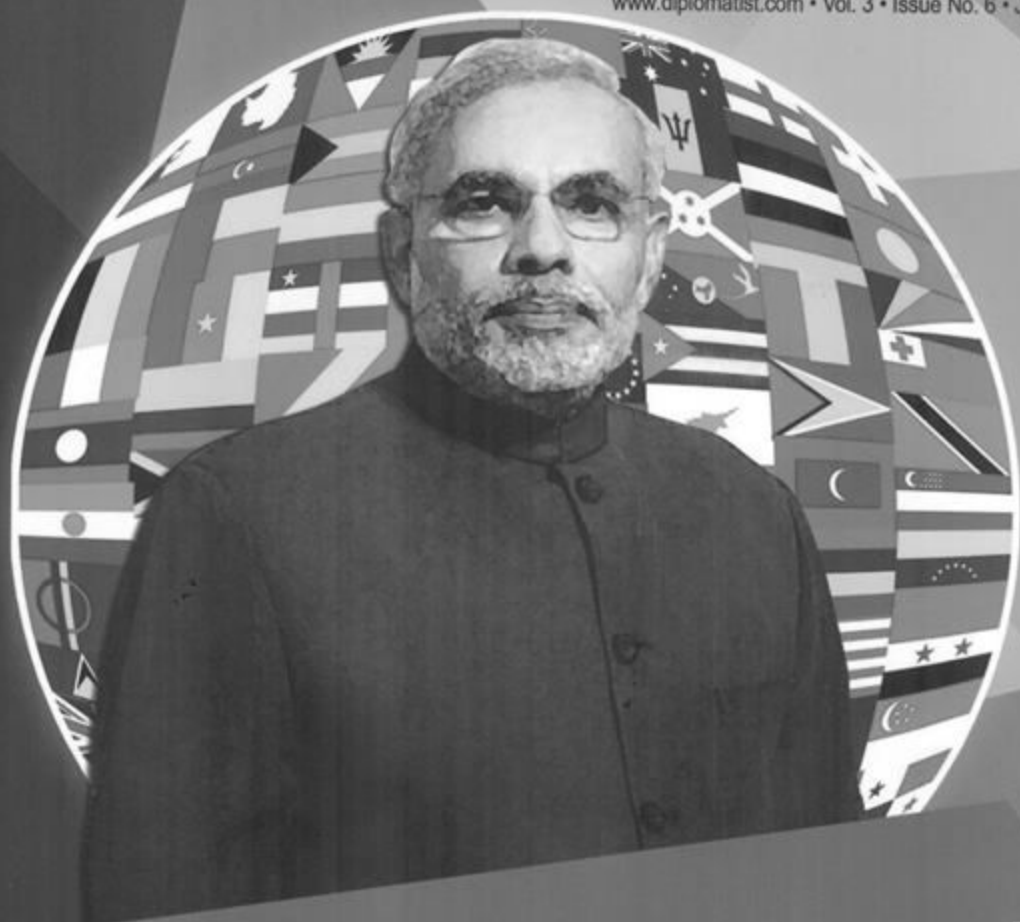


ISSN 2349 557X

EXTRAORDINARY AND PLENIPOTENTIARY DIPLOMATIST

www.diplomatist.com • Vol. 3 • Issue No. 6 • June 2015 • ₹60



Diplomacy & Beyond

A Spectacular Debut Year

Special Report SLOVENIA

The Success Story of 2015

In a recent statement, Moody's stated that India's policymakers are establishing a framework that will most likely allow India's growth to continue to outperform that of its peers over the medium term and improve India's macro-economic infrastructure and institutional profile. **Gopal Krishna Agarwal** explains

India is back in the global spotlight for all the right reasons. It is not just fervent hope but an assertion grounded in reality. The government has taken a number of steps to put the growth story back on track and the effects are there for everyone to see. India's GDP forecast for 2015 has been revised significantly from 6.4 to 7.5 percent by the International Monetary Fund (IMF), while China's growth forecast was revised from 7.1 percent in October to just 6.8 percent. This means that for the first time since 1999 India is projected to grow faster than China. It also means that India is going to be the fastest growing major economy in the world this year. The IMF expects India to continuously grow faster than China until 2020. According to new data from IMF, India is poised to surpass Russia this year in size and nearly equal Brazil in 2016.

Raising India's credit rating outlook by Moody's is further confirmation of the right steps being taken by the government. Moody's ratings revised India's sovereign rating outlook to "positive" from "stable". It expects that the actions by policymakers will enhance the country's economic strength in the medium term. There is a precursor to a rating upgrade by Moody's and other credit rating agencies. This will reduce the cost of external borrowing for Indian business. It will also increase Foreign Portfolio Investment (FPI) in the Indian capital market. For an economy that is short of capital, this is a major positive development.

A Key Engine for Global Growth

Labour, capital and natural resources are the three main factors that help economic growth. We have abundant labour and natural resources, but are short of capital. If the economic outlook for the country improves, we will be able to attract international investments.

Every developed country's main strategy is to attract resources from across the world. Some recent developments show that we are moving in this direction. PM Narendra Modi's foreign policy has achieved this impossible feat in a short span of time.



Labour, capital and natural resources are the three main factors that help economic growth

The statements of the IMF and Moody's point toward a strong economic outlook in the near future. The IMF lauded the economic policies of PM Modi's government. "The conditions are ripe for India to reap the demographic dividend and become a key engine for global growth", Christine Lagarde, Managing Director IMF, said at an event in New Delhi. According to the World Bank's bi-annual South Asia Economic Focus report, India's expected growth acceleration is "driven by business-

oriented reforms and improved investor sentiment" and that growth could reach 8 percent in the fiscal year 2017-18.

Renewed Hope for a Better Future

The reason for India's economic resurgence is a decisive government under a strong leader. The sense of despondency and despair has been replaced by a can-do belief and by a renewed hope for a better future. For the first time in the last 30 years, a political party was voted to power with complete majority in the Lok Sabha. It was a positive vote for change by a young and restless population that was not willing to let its leaders squander opportunities.

The role of the government cannot be overemphasised. Factors like a young population, high savings and investment rates were very much present under the previous regime as well, yet the economy faltered due to weak political leadership.

The break from the past was quite visible right after the elections. Though the new government took a number of measures to put the economy back on track, it is the large vision for the country and the confidence in its executive abilities that inspires confidence and optimism in the economy. The attitude of the government towards big business has been of a participatory nature for economic regeneration. Earlier, investments had been crippled due to lack of certainty and transparency. The government is trying to restore the confidence of the corporate sector. The complaint, if any, has been the 'slow speed' of reform measures.

With a firm realisation that no piecemeal approach will work, the government is taking steps to address structural problems of the economy and is not hesitating to either take politically tough decisions or truncating its own powers and privileges in the larger national interest. This courage to take tough decisions comes from the conviction that national interest must prevail over fights based on narrow political considerations. This explains the government's resolve to amend the Land Acquisition Act. The government has also relaxed foreign investments in sectors such as defence, insurance, E-commerce and railways, and is focusing on ease of doing business.

The government, which came to power in May 2014, has promised faster growth, more jobs and quick clearances, and has taken measures to fast-track clearances for projects, boost infrastructure investment and

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remove policy uncertainty in mining and coal sectors. The target of the Modi government is to increase the contribution of the manufacturing sector to the GDP from the present level.

Major Initiatives

The paradigm shift in approach is to address focused growth issues and propel economic growth. The major initiatives of the government to achieve these objectives include the following:

a. Make in India: Accepting the fact that agriculture alone cannot provide gainful employment to the vast population currently dependent on it, and to pull people out of poverty, the government has made 'Make in India' its credo and has taken a number of steps to boost the manufacturing sector, including reforming labour laws, availability of capital and skilled manpower. It is hoped that a host of measures being taken by the government will make India a preferred destination for setting up a manufacturing base.

b. Mudra Bank (Micro Units Development Refinance Agency): Prime Minister Narendra Modi launched Mudra Bank, which will benefit small and micro entrepreneurs and will also act as a regulator for Micro-Finance Institutions (MFIs). The role envisaged for MUDRA includes refinancing, accreditation and rating requirements.

c. Ease of Doing Business: The government is committed to ensuring that starting, running and winding up of an enterprise does not continue to be a regulatory nightmare and entrepreneurs are not harassed due to the burden of unnecessary regulatory compliances.

d. Goods and Services Tax (GST): The government has already placed the final Bill in Parliament, which will, most probably, be passed in this session. Once implemented, it will create a common national market and also boost tax buoyancy. This will result in an increase of about two percent in our GDP.

e. Increase in FDI Limits: Foreign investment limit in defence and insurance

sectors has been increased to 49 percent. It is expected that the limits will be liberalised for other sectors as well.

f. Reinvigoration of the Federal Structure:

• **14th Finance Commission:** Under the present arrangement, the state governments have the responsibility for most of the developmental work and maintain the requisite state apparatus, but are dependent on the centre for financial resources. The government, by accepting the recommendation of the 14th Finance Commission, has ensured that the states' share in central taxes is increased to an unprecedented 42 percent. The states also get more freedom to determine the expenditure and to tailor them according to local needs. This will help them get out of the centre-sponsored straight jacketed fixed schemes.

• **NitiAayog:** The motive behind dismantling the Planning Commission and replacing it with NitiAayog is to make the developmental process more participatory. It is expected that NitiAayog will emerge as an institution to formalise the sharing of best practices of states. With increased financial allocation to state governments, it is a must that their institutional capacity is enhanced to spend this money judiciously.

g. Land Acquisition Amendment Bill: Armed with feedback from various state governments and other stakeholders on the impracticability of certain provisions of the Land Acquisition Act 2013, the government has placed an Amendment Bill 2015, making certain changes in the Act and will get the bill passed by Parliament.

h. Transparency in Resource Allocation: Successful allocation of spectrum and coalmines through auction has shown the way for the future. The robustness of the process also gives confidence to the corporate sector that the allocation can withstand the challenge in the Court of Law. This process is expected to be followed in the future as well. It has also led to huge increment to the exchequer.

i. Strong measures including a new act are being implemented to check and control black money generation in the economy and its parking in tax havens.

j. Farmers are the backbone of Indian Economy. With more than 60 percent of our population dependant on agriculture and contributing only about 15 percent to GDP, there is an ever increasing problem of disguised and under employment. We need a major boost for this sector. New focus is being given to development of rural infrastructure, establishment of cot-



tage and village industries, electrification and provision of irrigation facilities in rural areas, etc.

k. Setting up of 100 Smart Cities:

It is expected to bring in huge foreign investment and technology and make our cities better in terms of physical and social infrastructure, sustainable environment and geographical development across the nation. This will also prevent urban migration and over-crowding of urban clusters.

l. PradhanMantriJan DhanYojana (PMJDY): The Jan DhanYojana of the government was started for comprehensive financial inclusion with the goal of opening a bank account for every household in India. Apart from financial inclusion, this scheme is also expected to check leakages in subsidy and will make it more targeted for the poor. With the linking of health and accidental insurance, it has also become an instrument for social security. More than 13 crore (130 million) bank accounts have been opened in a short span and its success has been recognised internationally.

A Giant Leap

As must be expected, or even desired, there are some risks to this success story as well. The government lacks majority in the upper house of Parliament, and therefore, major legislative reforms cannot be passed without the support of opposition parties. While it has been the effort of the government to forge

The effort of the government is to create an ecosystem of institutions, systems and processes that will ensure that the economy continues to grow rapidly with the government playing a supportive role in the background

consensus even in the lower house (Lok Sabha) where it enjoys a comfortable majority, major legislative interventions can become hostage to narrow partisan considerations. Secondly, the government has also been fortunate to have low oil prices giving it some space for fiscal manoeuvring.

Moody's has understood the intentions of the government. In its recent statement, it has said that India's policymakers are establishing a framework that will most likely allow India's growth to continue to outperform that of its peers over the medium term and improve India's macro-economic infrastructure and institutional profile. The effort of the government is to create an ecosystem of institutions, systems and processes that will ensure that the economy continues to grow rapidly with the government playing a supportive role in the background.

The Finance Minister's statement in the US aptly sums up the strong fiscal numbers when he said that "... the inflation is down to 5 percent, fiscal deficit to 3.9 percent, current account deficit to around one percent and GDP poised to grow around 7.5 percent, India is in for a major leap on the economic front. As economists will agree with me strong economic growth is the answer to many of our socio-economic problems. We are all in for good times ahead".

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