Indian Economy – Waiting for the Sustainable Solutions

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Abstract:
This paper provides a comprehensive review of almost all-important aspects of the Indian economy. It also conveys much of the flavour of the current debate on economic issues in India, with its usual diversity of views. In this paper I propose to examine what this review adds up to in terms of the present state and future prospects of the Indian economy and the evolution of economic policies in India.

Keywords: Economy, *Economic policy, Evolution*

It has not been long when Indian economy was facing the problem of high Current account deficit, high Fiscal deficit, Inflation hovering over 10 %, big investment projects stuck due to problems of Environment clearances and bureaucratic bottlenecks slow down in manufacturing, falling rupee and so on.

Steps by the previous government have brought relief to the economy. The narrowing of Current account deficit to $ 31.1 billion (2.3 % of GDP) during the first half of the year (April – December 2013) from $ 69.8 Billion (5.2 % of GDP) during the same period in the previous year is worth noting. Last Finance minister has been able to contain the fiscal deficit below the target red line of 4.8 % and inflation has also shown signs of moderation with a good agricultural produce. Rupee appreciation after touching a low of 68 Rs / $ has made RBI change its course from selling dollars in the market to buying dollars to sustain 60 – 62 levels of rupee dollar exchange rate. Cabinet Committee on Investment is also moving fast forward in clearing big ticket investment projects over Rs 1000 crores and has been lauded for its transparency. But are these green shoots taking Indian economy in the right direction or in the sustainable direction. If we dig deep down, there is a flip side to almost all the green shoots.

CAD has come down to manageable levels due to measures like severe clampdown on gold imports through tariff and non tariff measures. But there has been a spurt in gold smuggling with its deleterious consequences. The government loses revenue which would have come if the trade had remained above ground. Hawala trade has revived. Besides, India's considerable export of jewellery has been hit by the clampdown on gold imports. Another contributing factor to a softening of CAD is favourable trade balance but it has not come from a spurt in exports but due to fall in Capital goods an import which is not a positive sign for the economy.

Retail inflation is still high and Inflation expectation remains high consequently. Inflation has softened due to good agricultural produce but agriculture is still heavily dependent on monsoon and weather exports are expecting EL- Nino to hit Indian monsoon this time and if that happens – whole Inflation story would change upside down..

Fiscal deficit has been contained but only through emergency steps which are not sustainable. Postponing of subsidy payments to oil marketing companies and taking interim dividends from PSUs are not sustainable but such troubleshoots are required in such difficult times.

The ambitious National Manufacturing policy seeks to make India a global leader in manufacturing, Manufacturing's share has remained stationary at 15-16 % for more than three decades now, far lower than the 25-35 % of the east Asian economies and providing just around 10 % of the total employment.. Major hurdles such as stringent labour laws, infrastructure bottlenecks, high tax rates and compliance cost and so on were to be tackled by provisions in the NMP 2011 but not much headway has been made on the concerned areas and manufacturing sector is still tottering.

Energy crisis is looming large. Even though India possesses a rich heterogeneous mix of energy components, deterring policies have created a difficult environment for potential investors. Coal will continue its dominant position in India's energy Mix for many years to come but recent developments such as mining ban and importing huge amount of coal is magnifying the problem of high imports and external dependability for coal when India also has huge coal reserves. The constitution of Coal regulatory authority has been a step in the right direction but it will not be independent as it would be under the overall administration of Union Coal ministry - defeating the purpose behind the entire exercise.

These challenges have to be taken as opportunities to make the growth of Indian economy sustainable. Need of an hour is visionary leadership, sustainable policy and the right and long term intent to pursue the ultimate objective of eradicating unemployment and poverty in the country.

History of USD/RS reveals that once rupee value goes down, it never returns back. This is the right occasion to enhance our exports and restrict non essential imports to correct CAD in a more sustainable way. Long term export promotion strategies have to be developed and efforts have to be made to reduce the transaction and logistics cost of international business which is among the highest in Asia. Sincere efforts are required to increase inward remittances like issuing dollar based long period bonds. Preserve the foreign exchange reserve to protect the value of rupee in unexpected market conditions.

China's manufacturing powerhouse is slowing down due to reasons like rising wages and international investors are likely to look at alternatives like India to relocate manufacturing bases. This presents a huge opportunity to India both in terms of FDI and to boast the manufacturing sector of country. India still has good investment spending but the problem lies in the fall in productivity of capital due to delay in critical infrastructure sectors like power and roads. This can be resolved if there is less arbitrariness in decision making.

There are good news on India's farm front. An exceptional monsoon will raise food grain production to a record 263.3 million this year. Farm sector growth would be 4.6% compared to 1.9% last year. Higher output will buoy rice and wheat exports. However, Government should address structural constraints on supplies. The policy focus should also shift from food grains to superior foods, whose demand has surged due to rise in incomes at the bottom rungs of the society. Government should also focus on increasing public investments rather than wasteful subsidies. Another major booster for farm sector would be to liberate the farmers from the shackles of state mandated middlemen in the Agricultural Produce Marketing Committees, and encouraging producer companies.

We are fortunate as a nation that we are blessed with abundant natural resources that are available for our development and prosperity. Our natural resources can be utilised in the most sustainable manner, with a focus on environment and towards our development. India has the potential to become world's third largest economy, after the USA and China, with increased investments in manufacturing, including in the exploration of our substantial natural resources and higher production in mining. The key to this simple revolution lies in a simple regulatory framework, based on transparent policies and processes, emphasizing self declaration and strong deterrents and penalties.

National Manufacturing Policy 2011 has a proposal of flexible labour laws on which not much success has been achieved. What we need is a comprehensive Labour code that subsumes onerous labour laws. The entire implementation focus of the policy till date has been on the NIMZs while the policy's larger agenda of easing business regulations across the country and focussing on strategically important sectors has been ignored. Focus of the government has to be wholesome and long term.

Energy crisis needs to be tackled with a focus on Wind and solar energy. India has a huge dependence on coal for energy and it is expected that this dependence will stay for a considerable period in the future. We are sitting on world's fourth largest deposits of coal, but the concentration of supply through just one state owned company is hampering thermal power generation, depriving India of its energy security. The government should divest 51% stake in public sector undertakings to the public at large for better governance and accountability. Divestments should be such that no institution or individual can hold more than 10 % of equity.

We compete with China as our economic rival. China is ahead of India on lot of grounds and we need to leverage china's extraordinary rise. India can hugely benefit from Chinese investment and expertise in improving our woeful infrastructure. We need to adopt the approach of Co-petition (cooperation and competition) with china to progress, all these efforts are required to be made by the recently elected government to grow in the most sustainable manner and make a mark on the world's economic front.

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