

Just The Beginning

The government has signalled its intentions with a slew of reforms, but much remains to be done

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The major policy changes on foreign investments and diesel prices announced last week have delighted industry and lifted the spirits of investors. Coming at a time when economic data on industrial activity, export performance and inflation continues to be disappointing, the big bang reforms raise hope that more policy announcements to boost economic growth are to come, and soon.

To begin with, government hiked diesel prices and restricted subsidised LPG consumption to bridge fiscal deficit which was reaching alarming proportions. In the short term, inflation will go up – but a high fiscal deficit not only adds to inflationary pressures but also pushes up interest rates and constricts available funds for investments. Over the long term, a holistic policy for fuel prices in alignment with shifting global commodity prices needs to be instituted, with better targeting of fuel subsidies to the needy. Electricity charges must also be realistically commensurate with costs.

Above all, there is never any right time for disinvestment. A 'systematic' disinvestment plan should be instituted without delay for the PSUs in which stake sale has already been approved by the cabinet, including the four last week.

The steps taken for promoting FDI are particularly welcome at a time when slow growth in investments and deferred projects have pulled down the pace of GDP

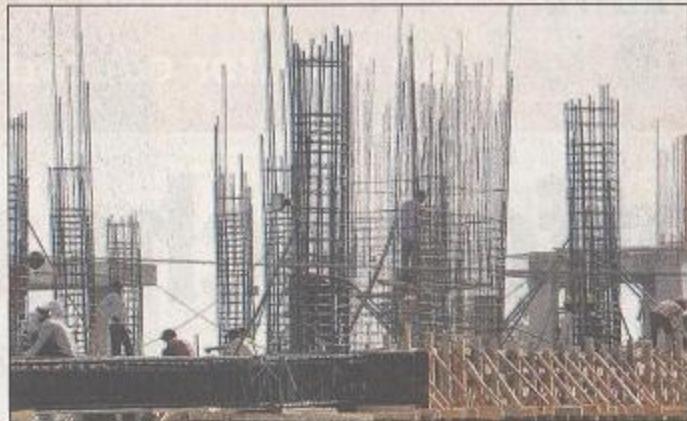
growth. The aviation sector is stressed, and adding FDI could help realise the potential that India's large market offers for its growth. The entry of FDI in multi-brand retail will finally add efficiencies to the supply chain and offer greater returns to farmers and producers, while keeping prices under check for consumers. The stipulations on both multi-brand and single-brand retail FDI are designed to create employment in rural areas, boosting entrepreneurship.

Some more policy moves could help build on the upbeat mood. Capital goods production should be encouraged by a

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25% accelerated depreciation on investments in plant and machinery, accompanied by 250% weighted tax deduction for expenditure on 'green' business. There is need to unlock participation of pension funds and insurance companies in infrastructure projects as well.

Reducing interest rates and cutting cash reserve ratio by 100 basis points each are urgently needed measures to add to investments. Flagship government programmes such as Bharat Nirman for infrastructure creation in villages and JNNURM in cities must be boosted.



The spur that the economy so badly needed

We have estimated that fast-tracking 50 high-impact infrastructure projects could rejuvenate some 100 industry sectors up and down the value chain. Hold-ups in project clearance have become endemic in the system, exacerbated by land disputes, clearances, taxation, etc. A board for mediation and alternate dispute resolution could facilitate project implementation.

Apart from these reforms, the General Anti Avoidance Rules (GAAR) have created confusion, and the Shome committee report goes a long way in addressing this. Deferring GAAR by three years, amending the definition of commercial substance, grandfathering of tax incentives, distinguishing tax mitigation from tax avoidance, treaty override, excluding GAAR from intra-group transactions, and including the private sector in the approving independent panel, among others, are positive recommendations.

Retrospective amendments to

income tax law are also avoidable. The impact of these amendments on 82 countries with which India has signed bilateral investment protection treaties needs to be elucidated. The provisions on indirect transfer proposed in the Finance Bill, 2012 require adjustments as well, on the lines of Direct Tax Code.

Land acquisition has emerged as a major challenge. The CII has been advocating government intervention in acquiring land for industry. While this was part of the draft legislation, a parliamentary panel has suggested that land should not be acquired by government for private companies, even for public-private partnership infrastructure projects – and also that agricultural land should not be acquired.

Such measures, if implemented, could greatly hamper economic development. Moreover, concerns have arisen regarding costs at which land is to be acquired,

and for resettlement and rehabilitation, which may turn out to be prohibitive. Deft handling of the land acquisition issue taking into account all sensitivities, particularly inclusive growth compulsions, is required at this stage.

The allocation of captive coal blocks has taken centre stage of late. Again, government should desist from cancellation of coal blocks allocated earlier as per due process. Where due process has not been followed, allocations may be reviewed and appropriate action taken. Almost two-fifths of revenue from coal mining goes to the government in the form of royalties and taxes, one of the highest such levels in the world. Thus, delays in production from coal blocks on account of land acquisition, clearances and supportive infrastructure must be resolved through a time-bound, single-window mechanism.

Finally, the fall in exports has emerged as a concern. The interest subvention scheme available to certain labour intensive exports should also be extended to key sectors such as engineering, automobiles and chemicals, where India is fast emerging as an exporter of note. Moreover, the SEZs created to boost exports are no longer competitive due to withdrawal of various incentives and must be reinstated. A clear and consistent policy for agriculture exports is needed too.

The government has signalled its intentions for reform and given the green light. Now it must jump into the driver's seat and fire the cylinders of economic growth.

The writer is an industrialist and president, Confederation of Indian Industry.