

A strong show amid varied challenges

Chandrajit Banerjee

Coming to power in May 2014, the two most significant challenges faced by the Modi Government were a sharp slowdown in the investment cycle and a loss of faith in government institutions. In the face of such difficult circumstances, it has shown single-minded focus on development and growth, building its strategy around well-designed campaigns such as 'Make-in-India' and 'Swachh Bharat'. Its economic philosophy has been to make India a stronger manufacturing base by easing business conditions within the country, and encouraging foreign investment.

These policies have shown results with investments picking up and the economy showing definite signs of a recovery. Industrial growth has turned around, and the stage is set for a spurt in industrialisation as our competitiveness has improved. Take the case of the power sector where the country has achieved significant capacity additions. Once transmission and distribution constraints are taken care of, industry will be able to reduce its excessive dependence on diesel generators. The entire process of e-auctioning of coal blocks has provided much-needed transparency to the coal allocation process while mining, in general, is expected to revive with competitive bidding being introduced following the passage of the

Mines and Minerals (Development and Regulation) (Amendment) Act.

Perhaps the government's biggest achievement on the economic front has been its ability to tackle inflationary pressure. The sharp moderation in inflation should not be attributed purely to the happenstance of falling oil prices but also to determined policy action. These include using excess food stocks to cool down food prices and limiting the profligate increase in minimum support prices. Sticking to the process of fiscal consolidation has itself helped in curbing inflationary pressure. It is to be hoped that further reduction in subsidies and a move towards direct benefits transfer will help keep a lid on inflation, especially as oil prices have begun climbing up.

So far, the government has been somewhat fortunate in the external circumstances that determine the economy's short-term performance. Thus, the sharp fall in the price of oil and other commodities has helped in moderating inflation and controlling the fiscal deficit. However, adverse



weather conditions at home have dealt a blow to the country's agricultural production and uncertainty about the coming monsoon continues to weigh upon the performance of the agricultural sector. This underlines the importance of investing in long-term assets so that dependence on rainfall is reduced, agricultural productivity is enhanced and the agricultural supply-chain is developed.

A key piece in the domestic strategy has been greater empowerment of States. It is increasingly apparent that key areas of reform ranging from labour to land and infrastructure lie within the domain of the States. States are also responsible for improving peoples' access to critical social sectors including education and health-care. The government has, therefore, increased the percentage of tax revenue transferred to States while doing away with their dependence on Plan-based fund transfers. This is a major advance in fiscal federalism wherein states will become responsible for their own development. At the same time, the implementation of the Goods and Services Tax (GST) will introduce a uniform tax system in

The Union government's policies have shown results with investments picking up and the economy showing definite signs of a recovery. Industrial growth has turned around, and the stage is set for a spurt in industrialisation.

the country. The challenge for the government in the medium-term is to tackle the issue of creating livelihoods to fulfil the aspirations of people. It is by now well appreciated that while the Indian economy did well after the initial reforms in the 1990s opened it to greater competition, it has so far failed to leverage its demographic strength. Employment has remained a concern, and many young people remain locked into low productivity jobs. Enterprises in India remain small with various disincentives to growth. These include the large number of clearances and permits that are still required to start and operate a business as well as labour laws that kick in once an establishment grows beyond a certain size. The lack of well-developed infrastructure only adds to the constraints.

Policies are being drafted keeping in mind the need to remove such impediments to growth. Measures have been taken to facilitate infrastructure building on a large scale where the challenges are many. Significant new initiatives include work on high speed trains and modernisation of railways stations, focus on urban infrastructure through the smart cities programme and introduction of the hybrid annuity model for road

building. The bill on land acquisition is critical for implementation of large infrastructure projects, as it aims to ease procedures in critical areas such as industrial corridors, PPP projects, rural infrastructure, affordable housing and defence. Ultimately, the provision of better infrastructure will be critical for the successful implementation of the 'Make-in-India' project.

What is heartening is that a clear direction has now been set for the growth and development of the country. Industry has found new energy to participate in programmes such as Smart Cities, Digital India and Sanitation of schools.

CII, for example, is working with its member companies to construct 10,000 toilets in government schools by March 2016. Much progress has also been achieved in developing a skill curriculum that is aligned to industry's needs. Greater prevalence and acceptance of vocational education has made college students employable by industry.

With these developments, the partnership between government and industry has become one of shared responsibility towards building the nation.

(The writer is Director General, CII)

