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N K SINGH

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Reforming India into a powerhouse

In looking at the Indian economy, one cannot ignore the ‘‘reform accelerator effect’’. This is crucial for the gains from the four dividends to be realised.

A stable macro-economic framework of high economic growth — with agriculture registering seven per cent growth, industry six per cent and services eight per cent — modest inflation, growing foreign exchange reserves and a soft interest rate regime underlines the multiplier reform initiatives. The strength of the Indian economy is evidenced by key macro-economic indicators.

• Infrastructure is being qualitatively improved. The deregulation of the telecom sector is designed to rapidly increase tele-density, making telephony and data transmission available at internationally competitive costs.

Telecom subscribers have grown from 9.8 million in 1995 to 65 million, with nearly two million new subscribers added every month. The subscriber base is expected to exceed 180 million by 2010.

• An ambitious roads programme, envisaging a Golden Quadrilateral of 5,700 km and connecting the four major metropolitan cities, has been substantially completed. A credible north-south east-west spine of 7,600 kms, cutting across the length and breadth of India, is under implementation.

With upgradation of the existing national highways of 48,000 kms and a major rural roads programme, road connectivity is improving significantly.

A model concessionaire agreement seeking private investment through BOT, BOO and various forms of financial engineering provides a fillip to growth and employment, apart from the multiplier benefits of a more integrated large common market.

• Power sector reforms had two false starts, seeking private investment through payment guarantee mechanism without addressing the endemic issues of a distortionary tariff regime, high T&D losses due to non-payment and theft, leading to insolvency of state electricity boards. Since then, credible regulatory institutions are in place in most state governments.

The new Electricity Bill, 2003, effectively deregulates generation, transmission and distribution. An Accelerated Power Development Reform initiative catalyses investment in distribution and lays the foundations of securing large investments in energy.

• The increased privatisation of port activity has brought about a significant improvement in turnaround time, from 10 days to five days. Newer ports are being built on corporate principles. Further reforms await the passage of an important legislation to convert port trusts into corporate entities.

• Civil aviation reform is on the anvil, with Parliament having enacted the privatisation of airports. Development of two greenfield private airports, in Bangalore and Hyderabad, has already been awarded to the private sector.

The Civil Aviation Policy, round the corner, will substantially deregulate the sector and the prime minister's recent announcement of an ''open skies policy'' with ASEAN countries has significant multiplier effects through easier connectivity.

• A major railway upgradation programme is underway, leading to improved safety standards, high-speed rail connectivity in the dense corridors, progressive reduction of the distortionary tariff regime by making freight movement more affordable.

• There is a move towards total deregulation of the external trade sector and elimination of QRs. It will lead to a significant reduction in import tariffs with a clear programme to bring this down further to align itself with tariffs in the rest of the regions. An initiative for free trade agreements with neighbouring countries and with ASEAN will foster regional integration.

• Banking and financial reforms are underway.

Banks have substantially complied with the BASEL II norms and significantly reduced NPAs, which according to some estimates are around eight per cent of GDP and compare favourably with international peer benchmarking. The reduction in NPA levels has been facilitated by credible debt recovery tribunals.

Further reforms are awaiting the passage of an important legislation that will reduce government equity in nationalised banks to 33 per cent. Some recent measures now enable foreign banks to have equity upto 74 per cent.

A vibrant capital market, where the paperless National Stock Exchange undertakes massive transactions, is in operation.

• Independent regulators have also been set up for various industries, including insurance, capital markets, telecom, power, ports.

• An increased emphasis on agricultural reforms by permitting freer movement of goods and services, giving the advantage of large common market, easing of local federal restrictions, the proposed adoption of modern food processing laws and a programme for crop diversification in accordance with changing consumer preference will enhance agricultural productivity and secure larger investments.

• Urban sector reform, with progressive adoption of modern transfer of property laws, rent control restrictions and moderation of stamp duty on property transactions, will progressively free the construction sector.

• There is increased emphasis on tourism. The new civil aviation and road connectivity improvements, in conjunction with tourism-related infrastructure, will enable India to become an important tourist destination.

• The Indian entertainment sector is on the verge of a breakthrough, of being able to secure credible finance at competitive rates through venture capital arrangements.

Having said all this, are there serious risks? Are there constraints endemic to the system that are difficult to overcome? Some daunting challenges need to be addressed.

One, there is need to upgrade our capability to impart skills to millions of young Indians, to allow them to benefit from the new opportunities. This will need improvement in existing vocational training institutes and centres of technical excellence, investing in new institutions, reform in primary and secondary education.

Two, there is the challenge of governance, particularly to address a regional divide in growth patterns and to mainstream the reform agenda from divisive regional politics.

Three, the persistence of a large fiscal deficit will dampen growth potential. Issues like improving the tax-GDP ratio, rationalisation of tax administration, revamping the food procurement system, application of user charges and phasing out non-merit subsidies pose challenges to the political leadership.

Four, sustenance of political support for key pending legislation in the banking, ports and mining sectors — and persuading federal governments to mainstream economic policies — represent daunting challenges.

The competitiveness of the Indian economy would need to be substantially improved through a continued soft interest rate regime, reducing cost of financial intermediation, credible labour reforms and managing expectations about the appreciation of the rupee — in the face of rising reserves — to prevent erosion of export competitiveness.

However, if the past is any guide the political leadership of successive governments has broadly adhered to the reform programme. We may have moved with caution but never moved backwards. The wider social consensus through which these reforms are being implemented assure their sustainability.

India has reached critical mass. It is the mass required perhaps to skip a stage in the typology of development, moving a large demographic entity into a growth pattern increasingly driven by science and technology and innovation.

India cannot afford to ‘‘limit the realisation of a better tomorrow to be deterred by our doubts of today but must move forward with strong and active faith’’. It offers exciting investment and trade opportunities.

Do bask in the warmth of the long Indian summer that awaits you.

Concluded

(The author is member, Planning Commission. The article is an edited version of his speech at a recent high-level seminar organised by the French Centre for

External Commerce, at the Senate, the upper house of the French Parliament, in Paris)