# ECONOMIC REFORMS IN EMERGING INDIA AND ITS IMPLICATIONS

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The Distinguished Guest of Honour Dr. Bobby Srinivasan, The learned Principal and the Members of Faculty of GSS Jain's College for Women, Distinguished guests, participants from various Institutions, Ladies and Gentlemen:

It is a pleasure to be part of this august gathering and I would like to express my gratitude to the organizers of this National Conference on the theme of **"Socio-Economic Reform in the Emerging India and Its Implications"** for its relevance to the present day youngsters of this Nation and the timely initiative taken to organize this conference on a massive scale.

The economy of India, which is poised to take a great leap forward and being the second fastest growing economy of the emerging countries. After the period of global meltdown, India experienced a sharp fall in growth, even though it did not go into a recession and later its reversal to high growth trajectory. India, is now seen as a driver of World recovery with its sharp V-curved growth recovery, which is expected to grow at 8.6 per cent in 2011.

A sustained economic growth has always been a priority in the emerging economies. India should emulate the East Asia and South East Asian countries which have focused on institution building and promoting industrialization after the financial crisis in 1997-98. Institutions have been established to plan, drive and monitor the laying of necessary economic foundations; while aiming at promoting environment conducive to growth. Industrial policies of these countries targeted at enhancing efficiency, higher productivity and competitiveness. Incentives and some domestic protectionism have become necessary at the initial stage to advance the industrialization process.

Another important feature is country's high rate of savings, exceeding 30 percent of gross national product (GNP) and the increasing middle class as in most Asian economies, which enable the public and private sectors to fund capital accumulation from domestic sources. The

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combination of efficient capital and productive labour in turn, generated higher value added activity, accelerating economic growth.

The other Asian economies by and large adopted an outward only –oriented development path rather than depending only on domestic path. Whereas India developed mostly on domestic demand, and as a result it was not affected by global recession as much as its neighbours.

By 2032, India will be among the three largest economies in the world after China and U.S.A. Increasing presence of multinationals, with a larger number of professionals within the country and an upswing of the IT exports, are the major driving forces for its economic growth.

The employment potential of Indian economy for the next two decades would be at the highest in Asia with 30.2 per cent of the World's new jobs created.

**New Jobs in the World Economy 2005-2020**

| New jobs in the developing world | In millions | % of world increase |
|---|---|---|
| Developing Asia | 315.5 | 67 |
| China | 65 | 13.8 |
| **India** | **142.4** | **30.2** |
| Latin America | 45 | 9.5 |
| United States | 12.5 | 2.6 |
| EU 25 | 8.4 | 1.8 |
| Total | 471.3 | 100 |

Source: Economist Intelligence Unit

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While India is surging ahead as a major economy in the world, the challenges ahead are enormous:

1. High Food Prices, prolonged inflation and a surge in the Oil-prices is adding concern of everyone, attracting to protests by the people, while taking into streets.
2. Energy and Food Security
3. Managing Urbanization
4. Accelerating Physical and Social Infrastructure investments
5. Coping with demographic challenges
6. Developing human capital for sustainable livelihoods through application of knowledge economy.

The Indian Economy is prospering with its own sturdy domestic demand and a high level of poverty.

**Financial Resources:**

A rough estimate indicates that India's Tax department is losing almost 11 billion $ a year in terms of the revenue and the unorganized sector is the major contributor to the tax evasion. During the last 15 years, Indian Taxation System has undergone reforms but lack of transparency in the tax policy is still leading to the higher loss of tax revenue. The recent debate over the implementation of Direct Tax Code from FY- 2012-13, would improve the tax laws and simplify it further.

India still has to go a long way to bring taxation reforms in order to prop-up tax revenue to cut the fiscal deficit because in the year 2010 when Government was able to raise huge amount to the tune of 66,000 Cr through the sale of 3G Spectrum mobile technology to mobile operators and most importantly India was able to cut its over spending (fiscal deficits).

The Thirteenth Finance Commission gave its recommendations on sharing of Union Tax Revenues and the share of States in net proceeds of sharable central taxes shall be 32 per cent in each of the financial years from 2010-11 to 2014 -15. Both Centre and the States would conclude a grand bargain to implement the model GST, possibly from 2012. The shift to GST is expected to significantly improve buoyancy from indirect taxes owing to the opportunity, it provides for further convergence and moderation of rates and substantial expansion in the base which would extend beyond manufacturing all the way to retail. But it will take some time for the increase to materialize because of teething trouble in implementation.

With the implementation of FRBM Act from 2004 and buoyancy in tax revenues, the fiscal and revenue deficits came down. With the economic downturn in 2007-08, the fiscal and revenue deficits shot up once again to an estimated 6 per cent and 4.4 per cent respectively in 2008-09. The increase was attributed to the fiscal stimulus measures. However this will come down owing to the quick recovery.

## Infrastructure Growth

India economic growth trigged by economic reforms in 1991 which led to a huge growth in services, manufacturing and global trade. The infrastructure development not kept pace with the growth in manufacturing and services sector leading to a bottleneck. Momentum of private participation is picking up.

Indian infrastructure spending at present accounts for just 4 per cent as against a per cent of GDP in China. This emphasizes need to step up expenditure in this sector. This is possible with significant private sector participation. The feasibility of infrastructure projects in Ports, Roads, Air-ports and Railways with private sector majority ownership is already evident – a key difference between the Tenth and Eleventh Plans with substantive increases.

India’s infrastructure capacity is woefully inadequate- Ports capacities are extremely structured as a thumb rule it should not exceed 70 per cent as this raises inefficiencies. Against this, most ports, in India operate at close to 100 per cent utilization. To add to this, traffic is growing at 20 per cent annually, for which new capacities need to be added.

## Urban Infrastructure

Urban infrastructure is reeling under pressure with the transport infrastructure crumbling and a short fall of over 20 million housing units. Besides water supply and sanitation systems in most cities are in urgent need and up gradation. Access to long term infrastructure financing is limited with Commercial Banks averse to taking long term exposures. Over the next five years, the government’s investment target is 1.5 trillion $ compared with $ 2 billion in the past five years, one of the biggest challenges facing the sector is the flow of long term funding both equity and debt.

## Opportunities ahead:

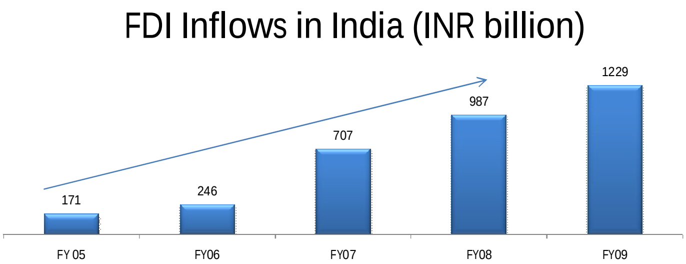
There is no doubt that Indian Infrastructure is poised for a great leap forward for a long term investor, the investment opportunities are significant across a wide spectrum of infrastructure assets. Government plans to spend $63 billion on Railways in XI Plan to increase the carrying capacity of Railway network. Railways also targeting $25 billion on PPP investment in XI plan. Dedicated Freight corridor is proposed to connect the four metropolitan areas of

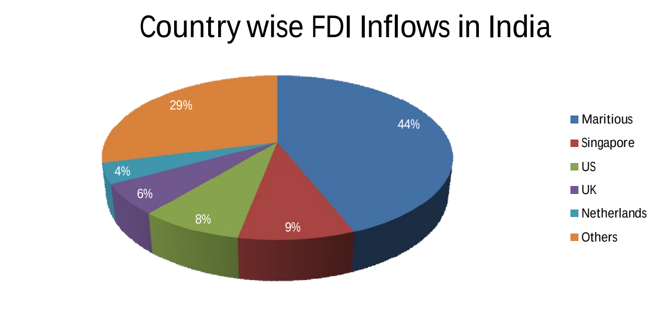
Delhi, Mumbai, Kolkata, and Chennai to enhance the capacity of railway network. The work on Mumbai- Delhi corridor has started already.

The highways sector received much fillip when Government announced NHDP and first 2 phases of Golden Quadrilateral Corridor funded by NHAI. For the subsequent phases i.e III, IV and V Government decided to involve private sector on BOT model. One key factor acting as a deterrent is paucity of funds.

**FDI Flows:**

The cumulative inflows of FDI equity to India is to the tune of 124.43 billion$ for April 2000 to November 2010. The major shares of top investing countries are Mauritius 42 per cent, Singapore 9 per cent and USA 7 per cent.




Source: Dept. of Industrial Policy & Promotion

The 1997-98 Asian financial crisis exposed several structural weaknesses, and following this, these countries have undertaken wide ranging financial reforms, while developing more stable, resilient and affective financial systems. This promoted the Banking sector to broaden access to credit to other economic agents. The once bank dominated financial systems have become more diversified and competitive with strengthened governance, disclosure and regulation.

The current global crisis, the most severe in the post world war II period revealed weaknesses to the current global system. While signs of economic stabilization are now emerging, the prospects of recovery are slow and gradual in advanced economies. Asia's relatively strong and resilient financial systems are in a sound position to accelerate growth much faster in this region, for ensuring sustainable economic growth, Asia's regional and global integration and inclusive development contributed for its success.

Indian economy is with vast diversity in populations, ethnicity and social structure have made remarkable progress, despite challenges from urbanization, rising income inequalities and social instabilities. This miracle was achieved not by chance, but by pragmatic policies, ensuring sound economic fundamentals and strong institutions. A long-term growth depends on supply factors, not just demand. A country's long-term potential growth rate with out igniting inflation is determined by growth in its labour supply and productivity. Sustainable growth in India is possible only with a long-term concerted effort with more regional co-operation and greater understanding within the neighbouring countries.