

## Indian Economy at the cusp of Change

Greetings to all the dignitaries, panel members and delegates

In 1985, Jagdish N Bhagwati wrote in the New York Times: *"few Americans are aware that India is no longer the "dust and ashes" of popular imagination. The Indian economy has progressed without the dramatic zigzags (such as the Cultural Revolution) that have plagued China's economy. Far more than China today, India is an economic miracle waiting to happen."*

There have been multiple instances of people saying that India is set to take off. There is something about an English speaking, democratic country of a billion people that attracts hope. Yet, India has continued to remain an enigma for outsiders, and has disappointed those hoping for a miracle. In 1985, when Mr Bhagwati wrote that article, China's economy was \$309 bn, while India's was \$232 bn. Now, China has moved to around \$13.6 trillion, while India is at \$2.7 trillion.

So what makes me say, again, that India is at the cusp of change? Especially at a time when the mood globally, as well as in India, is somewhat despondent. Of course, when we say at the cusp, it doesn't mean things are going to be dramatically different by next quarter or even next year. But if we take some crucial steps; and I'll talk about what those steps could be and why there is reason to be optimistic; we should finally be able to do something that can result in a major change, within a decade from now.

Coming to the reasons for optimism....

1. **Favourable Demographics:** At the cost of repetition, let me start with India's demographics.
  - a) As per India's Economic Survey (2018-19), India's working-age population will grow by roughly 9.7 million per year during 2021-2031 and 4.2 million per year in 2031-2041. There is ample empirical evidence from developing countries in the last few decades of this so called "demographic dividend" contributing to high growth in an economy. If, and that's an important if, we can gainfully employ all these young people, we can expect a major transformation in a decade's time.
  - b) Demographics provides another clue to possible higher growth for India in the future: as per the World Bank, the female labour force participation rate in India was 27% in 2018, while the global average was 48.5%. Actually, India's own domestic surveys showed the same at an even lower 23.3% in 2017-18. So just by increasing female participation in the work force to the global average, India can see a significant jump in its growth. By some measures, India's GDP will be 27% larger in such a scenario. Some of the social sector reforms being undertaken currently have the potential to drastically improve our ranking on this front.
2. **Social Sector Reforms:** One of the hindrances in harnessing the demographic dividend, for a large part of the population, has been the lack of even the basics like electricity, cooking gas, piped water, metalled roads, etc. In the last few years, the Indian government has

focussed significantly on ensuring that at least these basics are made available to all citizens of the country. The results are beginning to show.

- a) For example, India has jumped 73 spots to be ranked 26th in World Bank's electricity accessibility rankings, from a rank of 99 in 2014. And this ranking is based on 2017 data (latest available); since then, electricity connections have reached all of India's villages, with ongoing efforts to ensure 24x7 supply and connections to all households (Saubhagya Yojana).
- b) Another example is that of cooking gas. India's CPI index, which uses data from 2011-12 survey data for the basket and weight of items, has a higher weight for "firewood and chips" (2.07, Dung cake has another 0.44 weight) than for LPG (1.29), which isn't something that a developing country would want, either in terms of its health and environmental implications, or the time spent collecting firewood. Since May 2016, specifically to address this issue, the Indian Government has given out 7.4 crore free LPG connections (PM Ujjawala Yojana), an achievement that has been praised by both the WHO and the International Energy Agency.

These are just two out of the many examples, which we believe can have transformative impact on the so called "bottom of the pyramid" – and can help increase economic contribution of these populations in a significant way.

3. **Financial Reforms:** Continuing with the theme of reforms, the implementation of GST, and the new Insolvency and Bankruptcy Code, are two of the most talked about major reforms, which are already having wide reaching impact on the Indian economy. Then you have the so called second tier reforms like the financial inclusion initiatives like Jan Dhan Accounts, the focus on financialization of household savings, social security, universal basic life and health insurance, etc. Along with the existing robust financial system, and combined with autonomous regulatory institutions, these reforms are expected to have a major long-term impact on the Indian economy.
4. **Ease of Doing Business:** Government has focussed on improving Ease of Doing Business, with India's ranking improving from 142 in 2014 to 77 in 2018, and on improving credit availability through the Mudra and other schemes. One of the issues in giving credit to MSMEs has been lack of credit history. But Big Data Analytics is helping lenders generate credit scores for these entities using a variety of factors like utility payments, premium payments to insurance companies, transaction history on e-commerce portals and even social media activity.
5. **Strength in IT Services, Pharma, Auto:** India has already made its mark globally in IT services, with nearly all Fortune 500 companies getting some of their IT needs serviced by companies based in India. Global IT companies have also opened large centres in India. E.g. IBM has a centre with a workforce of 100,000 based in India. The growth of services industry has helped boost incomes, and consumption in India. It has led to the growth of other services industries, like aviation, telecom, which have generated further consumption. Along with other "sunrise sectors" like Pharma and Auto, where we are seeing increasing spends on R&D with a focus on innovation, we can continue to expect a leadership role played by these sectors in India's growth going ahead.

6. **Manufacturing:** But it is manufacturing, with just around 18% share of GDP, where significant changes are needed, given its ability to create jobs for the “bottom of the pyramid”. The Indian Government is targeting to increase the share of manufacturing from the current 18% to 25% over the next few years, through programs like Make-in-India. We have proved our manufacturing mettle in the auto-ancillary industry and it needs to be replicated in other areas.
- a) India is already the world's largest manufacturer of two-wheelers, and a major manufacturing hub for small cars.
  - b) Indian companies have distinguished themselves globally in high quality manufacturing. Many Indian companies have been consistently winning the Deming Prize - the benchmark for quality manufacturing - winning 8 of the 15 Deming Grand Prizes given out since the year 2000, and 28 out of the overall 67 prizes during the same period, the maximum for any country.

**Challenges:** There are a number of challenges here that India will need to address to really push manufacturing: Significantly high power charges for manufacturing units, low quality of electricity supply, high logistics costs (at around 14-15% of GDP, almost double of developed countries), low skill levels amongst the workforce, and low spending on R&D. All these are factors that need to be addressed. Once again there are reasons to believe that these long-standing shortcomings can be overcome: e.g. India peak power deficit has fallen from more than 10% about a decade back to just 0.8% last year.

7. **The Digital Economy:** Internet usage has been relatively low in India, even when compared to other EMs. With the availability of cheap 4G data connections, well as falling prices of smartphones, and Government’s initiatives under Digital India program, this is starting to change. Last year, SBI’s UPI app alone handled 12.9 billion transactions, and the growth in this segment is still exploding. This will improve delivery of Government services, lead to time savings, improve flow of information, especially in rural areas.
8. **Start-up Ecosystem:** Another significant change that has taken place, and which will likely lead to major changes going ahead, is the start-up eco-system in India. The number of start-ups in the country has gone up from 7000 in 2008 to 50,000 in 2018 (source: KPMG). India is ranked 3<sup>rd</sup> globally in terms of the number of start-ups and the jobs created by them. The Government is also providing a lot of support to these start-ups, including easier compliance, easier exit process, legal support, funding related incentives, and creation of incubation and innovation labs. We can expect much bigger contributions from this eco-system to the country’s economy within the next decade. Start-ups are not just generating jobs, but also solving many problems
- a. like providing quality education to masses, despite the lack of large number of teachers, especially in smaller towns and villages.
  - b. Some of the most promising electric mobility solutions, defence-related solutions, etc. in India are coming from start-ups.
  - c. There are many start-ups, which are working on providing solutions for mobile phone access in regional languages – which will help increase usage among the rural populations.

9. **Favourable Global Scenario:** Finally, a number of things are shaping up in other major economies that are likely to lead to better growth opportunities for India.
- a) The easy liquidity available in the global financial system is likely to persist, along with a lack of places to earn reasonable returns. Most of the European governments are issuing debt at negative yields, and yields in general across the developed economies are very low, which makes India with its 8% yields, a very attractive investment destination.
  - b) Secondly, the Chinese economy is slowing down. While its contribution to global growth will continue to grow for some more time, the sharp drop in Chinese working age population in the coming decade means that it will transform from a primarily producing nation to a consuming nation, making it a lucrative market for Indian firms, which will continue to reap benefits from a large workforce.
  - c) Even in the developed world, working age populations are falling off rapidly, even as per capita incomes continue to rise.

To conclude...

India's growth story remains intact, even though we have a number of challenges remaining to be addressed if India has to realise its potential. In recent quarters, growth has seen a dip due to factors like slowing global trade, stress in the NBFC sector, stress in the auto sector, etc. But over the next decade, given the large number of positives I have enumerated above along with the steps that are currently being taken, there is reason to believe that finally the Indian economy is on the cusp of change.

I place on record my appreciation for FIMMDA for arranging such a conference with an appropriate topic .

I wish the conference all success

Thank You.