FICCI's Twelve Point Action Agenda *for* Stimulating Indian Economy's Growth

June 2012

FICCI

The Current Economic Crisis in India

- India is in the midst of an economic crisis. This is substantiated by our growth trajectory over the last one year along with the trend movement in other critical macro-economic parameters.
- This is not our first brush with rough economic weather. We faced an economic crisis of equal proportions in 1991. We faced it again in 1997 as a result of the Asian crisis. The great recession of 2008 that engulfed the entire world also tested our resilience.
- **When faced with economic adversity, we, as a nation, have risen to the occasion.** Be it 1991, 1997 or even 2008, the country was ruled by coalition governments, which took tough decisions. **We are confident that the present government too is capable of taking tough decisions** in the interest of the country.
- **There has to be a clear recognition on part of the ruling parties and the opposition that we are in a crisis situation.** Natural calamities or external threats unite us. Economic calamities can be just as devastating and require a similar response. **We urge the national polity to stand united and strengthen the hands of policy makers to act proactively and decisively.**

Factors Behind the Crisis

- The combination of low growth, high inflation, high fiscal deficit and highest ever trade and current account deficits has raised a lot of concern.
- The deterioration in the economic situation can be only marginally attributed to developments taking place abroad.
- While the sovereign debt crisis in the EU and the general weak economic situation in the developed world do have a bearing on us, **our current economic problems, in FICCI's view, are largely as a result of domestic factors.**
- Excessive monetary tightening, delays and uncertainty over key economic legislations, project delays on account of various factors, including stalled environmental clearances, problems in land acquisition, prolonged pause in reforms and an atmosphere of unwillingness in decision making in bureaucracy need to be urgently reversed. **We would like to particularly highlight deterioration in the state of public finances during the recent past.**
- In 2007-08, tax and other revenue receipts amounted to Rs.5.4 tn while total expenses were Rs.7.1 tn, implying a shortfall of Rs.1.7 tn. This was funded largely by Government borrowings of Rs.1.3 tn (other capital receipts like loan recoveries and fresh deposits in Government saving schemes, contributed the balance). Effectively therefore, the Government over-spent its income approximately by a third and financed nearly one fifth of its expenditure through borrowings. Over a period of four years, this situation drastically worsened.
- In 2011-12, Government revenue stood at Rs.7.7 tn while expenses were Rs.13.2 tn. This amounted to a shortfall of Rs.5.5 tn which again had to be funded largely by borrowings (Rs.4.4 tn). As a percentage of GDP, the fiscal deficit was 5.9 per cent but as a percentage of

revenue, it was 68 per cent. Effectively therefore, the Government now borrows almost two thirds of what it earns and one third of what it spends.

- The reality is that a large chunk of Government expenditure comprises committed payments - for instance, interest payments at Rs.2.8 tn, defence spending at Rs.1.8 tn and appallingly, subsidies at Rs.2.2 tn. Additionally, the welfare programmes instituted over the past few years will entail spending commitments to service the NREGS, oil and fertilizer subsidies and now, the food subsidy bill which will cost Rs.1.5 tn per annum. This alone is three times the NREGS expenditure. These leave little room for the government to channelize monies into investment.
- **It is difficult to imagine that with such a weak fiscal position we can drive the growth engine.** Mending the fisc is therefore important. **Growth is important for overall social cohesion.**
- When we say social cohesion, we refer to the all important objective of **creating jobs and meaningful employment opportunities for the millions who join the work force every year in India.** With 550 million people below the age of 25 years, whose aspirations are fuelled by the pervasive electronic media, **our requirements are so huge that we need to evaluate all policy decisions in the light of this single overarching objective.** If we fail to do so then we shall in India face a situation what *Aung San Suu Kyi* recently described (at the WEF meeting on East Asia) in the context of Myanmar - that the problem of youth employment is like a 'time bomb'. Our demographic dividend may become a demographic disaster.

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- The challenges we face are not insurmountable. Tough and bold decisions are required.

1) **First, government should eschew the temptations of a premature welfare state and announce an immediate moratorium on any additional expenses on doles.**

   Given the present state of its finances, the country can ill afford handouts. Under NREGA, greater emphasis should be laid on focused need based asset creation such as infrastructure, and wages should not exceed productivity of labour in agriculture and other rural activities.

   The sums already allocated for welfare schemes should be distributed in an efficient manner as envisaged under the 'direct transfer of subsidies' program linked to the Aadhar platform.

2) **Second, expedite the implementation of the Goods and Services Tax (GST).**

   A major landmark reform that could alter the dynamics of Indian industry and exports - making both more competitive - is the introduction of Goods and Services Tax. The move to GST has been inordinately delayed. This should change and GST should be introduced at the earliest. **We reiterate that in a crisis situation the national polity needs to come together and the government owes it to the nation to build consensus.**

   GST would be a permanent stimulus for the Indian industry and economy and according to reliable studies add two percentage points to our growth going forward. Tax administration and tax collection will also become simpler as the very concept and nature of GST is

based on self policing and tax compliance at each stage of value addition.

3) **Third, ease the monetary policy and bring down interest rates by 200 bps and CRR by 100 bps.**

It is acknowledged that inflation in India is largely a supply side problem. To deal with such a problem using monetary tools may not be the right approach. Rather, **at a time when more supplies - both for agri-commodites and industrial raw materials - are needed, a high interest rate environment, by disincentivising investments and hence greater supplies, may actually worsen the inflation situation.** The RBI needs to fine tune its monetary policy stance and start bringing down interest rates. A beginning in this direction has been made but we need to see further movement here with a calibrated cut of 200 bps in interest rates over the next few months. A simultaneous 100 bps cut in CRR is also required to combat the tight liquidity situation.

4) **Fourth, do not pass the Land Acquisition Bill in its present form.**

The Bill restricts the use of 'irrigated multi-cropped land' for infrastructure development (except linear projects) to merely 5 per cent of the multi-crop irrigated area in a district. This clause of the Bill will effectively render about 55 million hectares, or 40 per cent of arable land beyond the scope of acquisition. Further, the Parliamentary Standing Committee has suggested to replace 'multi-cropped land' in the Bill with 'any land under agriculture cultivation' to ensure food security. **This would effectively render 142 million hectares (or 43 per cent of total land area of the country) out of the purview of acquisition for industry or infrastructure.** Most of this land falls in the Indo-Gangetic plains, which encompasses areas of Punjab, Haryana, Uttar Pradesh, Bihar and West Bengal, **the most densely populated regions of the country and also in the maximum need of development.**

If the conditions in the Land Acquisition Bill come into force we will find it **extremely difficult to achieve the targets that we have set for**

ourselves for investments in infrastructure and manufacturing sectors over the coming years. The consequent impact on job creation could be devastating.

FICCI is of the opinion that private sector should be allowed to acquire land directly from the land owners on 'willing buyer willing seller' basis irrespective of the area of land to be acquired. In some cases where large tracts of land need to be acquired there may be a problem when a marginal number hold out. In such cases, Government should facilitate the acquisition of land for private sector. In a densely populated country like India, States must necessarily have such a facilitating role in land acquisition for industry.

In the Land Acquisition Bill, while the definition of 'public purpose' includes facilities like highways, railways, ports, power and irrigation it does not include industrial zones/corridors. Report of the Parliamentary Standing Committee has further reduced the scope of 'public purpose' by excluding all PPP and private sector infrastructure development. This would have serious implications for infrastructure development in the country.

The Land Acquisition Bill in its present form would stop in its tracks the gradual shift in labour force we are seeing today from agriculture to industry and services. Does the government, by its own actions, wants to condemn agricultural labour to low paying unskilled jobs. We think all implications of the Land Acquisition Bill have not been thought through with the focus being only on solving immediate problems. **We feel that this Bill should not be passed in its present form and be comprehensively reviewed.**

5) **Fifth, provide fiscal stimulus for investments across sectors.**

CSO data shows that growth rate of Gross Fixed Capital Formation during the period 2006 to 2008 was in double digits (between 13 to 16 per cent). In the last two years this figure has come down to 7.5 per cent (2010-11) and 5.6 per cent (2011-12) respectively. The slowdown in

growth in investments is deeper in case of the private sector. This trend must be reversed and we urge the government to look at measures such as **providing accelerated depreciation, re-introducing investment allowance and scrapping MAT for infrastructure projects** as all of these would give a fillip to investment activity without significantly affecting government finances. In fact, given the state of play in the economy, the government should take a fresh look at the concept of MAT and in any case restrict it to not more than 50 per cent of normal tax rate.

6) **Sixth, push through with FDI policy reforms in areas where action is possible outside of the Parliament.**

   There are two areas where FDI policy action has been held in abeyance for a long time. These include **opening up the multi-brand retail sector to FDI and allowing foreign carriers to pick up stake in domestic airlines via FDI.** Discussions on each of these policy decisions are at various stages and do not require Parliamentary approval. **Government must ensure that these reach their logical conclusion as both these measures would enhance overall growth in the economy including creating farm to fork linkages for the benefit of agriculture.**

7) **Seventh, extend the price decontrol mechanism to diesel and other oil products.**

   India's rising deficit (trade and current account) is largely due to rising imports of oil products. Import of these commodities should be managed through policy action. Recently, price of petrol was increased by the government. FICCI welcomed this move. **Government should now think of decontrolling the price of diesel. If this measure cannot be implemented immediately, then government can consider imposing a higher duty on imported diesel cars.** Inadvertently the government is encouraging imports of oil products and also creating an automobile industry dependent on subsidy.

8) **Eighth, take steps to energize the coal sector by fostering competition.**

Availability of coal has become a major concern. This is hurting industry and taking a direct toll on power generation and manufacturing. **The government must consider introduction of commercial mining with participation of private coal production / coal mining companies.** Also, as the process of granting environment and forest clearances is stalling exploration plans government must come out with a mechanism that ensures time bound clearances for such projects.

Further, reforms like setting up of a coal regulator and allowing coal swapping as a tool to optimise physical movement of coal in the country should be considered. **Finally, a graduated and controlled break up of Coal India Limited will both create competition and ease the fiscal situation.** The market capitalization of Coal India Limited is approximately Rs. 2,50,000 crore.

Additionally, on the issue of fuel supply agreements it should be noted that in the last three years (2009-12), Coal India Limited has signed very few fresh fuel supply agreements (FSA) with the power companies. Also, the new model FSAs introduced by Coal India Limited do not address the concerns of the power companies as these hedge / protect Coal India Limited against all eventualities. **Government must ensure that the coal linkages required by power generating firms do not get delayed for far too long and that fuel supply agreements balance and serve the interests of all the parties involved.**

While energizing the coal sector is extremely important, there is an imperative need to look at the entire mining sector in its entirety. The share of the mining sector in country's GDP today is just 2.3 per cent. Given the potential resources in our country, this share can be taken up to 5 per cent. But for this to happen, **both centre and state governments need to take measures that would incentivize**

investments in the sector and result in effective and sustainable use of minerals.

9) **Ninth, strengthen frameworks for raising funds for infrastructure financing in the economy.**

Infrastructure is a key enabler for growth in the economy. Besides developing a robust inventory of bankable projects, we need to look at all possible avenues to raise long term funds for supporting such projects. We urge the government to lay greater emphasis on **developing the corporate bond market, leveraging insurance and pension funds for investments in infrastructure sector and for developing the municipal bond market for financing urban infrastructure.**

In India, as of March 2011, only 4 per cent of the total bonds issued were issued by the corporate sector. The corresponding figure in case of China is 19 per cent. The corporate debt market in India is constrained by cumbersome issuing guidelines and inefficient clearing and settlement mechanisms. These issues need to be addressed and government should initiate measures aimed at standardization of stamp duties on corporate bonds across states, encouraging public issuance and bringing in institutional investors in a big way. **Broadening and deepening the corporate debt market is very essential for generating adequate funds flow into the infrastructure sector.**

With regard to leveraging insurance and pension funds, there is an imperative need to make investment guidelines more flexible so that such funds can be used to support infrastructure development. Today, insurance and pension funds are constrained to participate in infrastructure projects as these are required to invest a substantial portion of their funds in government securities and also not allowed to invest in projects rated below a certain level. These limitations need to be somewhat eased.

Likewise, the municipal bond market can play an important role in developing urban infrastructure. Absence of the secondary market for the municipal bonds, problems relating to rating of bonds, accounting practices followed by the municipal bodies, inadequacy of user charges for generating cash flows for servicing of bonds, non-availability of escrow mechanism are some of the issues which need to be addressed to develop the municipal bond markets.

Additionally, the government must look at evolving credit enhancement mechanisms with support from multilateral development banks and institutions and strengthening the risk assessment capabilities of trust based infrastructure development funds (IDFs).

All these measures could contribute towards achieving the target of investing US$ 1 trillion in infrastructure sector during the 12th plan period (2012-17).

10) **Tenth, pursue the objective of food security through productivity increase and agriculture marketing reforms.**

The recent bout of inflation has highlighted a weak spot in our planning process. This relates to shortage of food products whose demand is already on the rise. As income levels in the economy increase, the demand for food in general and protein rich items in particular goes up at a fast pace. We are already witnessing this in India and unless we take appropriate measures to increase supply of food items such as pulses, milk and milk products, meat, fish and eggs etc, food inflation would become endemic and derail the growth process. **The 12th plan presents a good opportunity for the government to focus its efforts on enhancing production of such items.**

Policy measures such as National Food Security Mission and Rashtriya Krishi Vikas Yojana have been quite successful in augmenting food production over the last few years. Similar focused measures should

be announced for increasing production of oilseeds, pulses and fruits & vegetables. The private sector should be involved in an extensive manner to improve yields in these crops.

Additionally, steps should be taken to **improve marketing and distribution of food products in the country.** One of the key reforms here is for the states to implement the amended APMC Acts in letter and spirit. **Here the central government should take the lead and demonstrate its commitment to agri-marketing reforms by implementing APMC Act in states ruled by the Congress party.**

FICCI is in the process of preparing a white paper on agriculture reforms as we believe this sector needs a comprehensive long term strategy to sustain the food needs of our population and the development needs of the people.

11) **Eleventh, fast-track implementation of critical policies and projects.**

There are several important policies that are awaiting implementation and which could (once implemented) give a boost to the manufacturing sector in the country. Some of these policies include the **National Manufacturing Policy and the National Electronics Policy.** These need to be expedited. Likewise the PCPIR and the Information Technology Investment Regions policy should be activated on a fast track basis.

We need to do a rigorous follow up on large scale private and public sector projects particularly in the infrastructure domain and ensure that outstanding issues are dealt with expeditiously. In this context, **FICCI welcomes the decision of the PMO to set up an investment tracking system for mega projects and would be happy to render all support it can for effective functioning of the same.**

12) **Twelfth, address the issue of repatriation of black money to immediately mitigate the BOP situation by entering into global revenue sharing agreements.**

The White Paper brought out by the government on the issue of Black Money alludes to a scheme whereby some governments between themselves have entered into special administrative agreements for revenue sharing. As part of these agreements, the government would get a share of taxes on assets held by their residents abroad without disclosing identity. **The government should urgently hold discussions on this subject and arrive at a methodology in a time bound manner to enter into similar agreements.**

The suggestions that have been outlined above are certainly not exhaustive but if acted upon with urgency will go a long way in boosting business confidence and in improving the investment environment in the country.

Our ultimate objective is to bring growth back to the 9 per cent mark and then push the frontier further. Our suggestions are aimed at improving the health of the national economy. **We understand that the need to maintain continuity in the growth process with suitable policy interventions is in the greater interest of common people of the country. We must grow and grow fast and generate sufficient employment opportunities for all.**

Industry's Voice for Policy Change

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry.

FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce.

FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

Our Vision

To be the thought leader for industry, its voice for policy change and its guardian for effective implementation.

Our Mission

To carry forward our initiatives in support of rapid, inclusive and sustainable growth that encompass health, education, livelihood, governance and skill development.

To enhance efficiency and global competitiveness of Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialised services and global linkages.

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