

**COMMENTARY** By DR. DHANPAUL NARINE

# Make in India: The New Deal



Dr. Dhanpaul Narine

The man sitting next to me was upbeat. He had just returned from Mumbai and was impressed by what he saw. ‘We are on the move,’ he said. ‘We have the latest technology. They are building roads, airports, and railways at a brisk pace. If you want a passport you don’t have to wait long and everything is going digital. This is not the India of long ago.’

The man was a banker and he had a point. India is one of the fastest growing economies in the world and the Modi government is pulling the stops to cut the red tape and make business easy to do.

It was a high-powered meeting at the Asia Society in New York that discussed the latest project of the Modi government. It is called ‘Make in India: The New Deal’ and the panel consisted of some of the big names in the corporate and business world. They were Kevin Rudd, former Prime Minister of Australia, Dr. Naushad Forbes, President, Confederation of Indian Industry, Mr. Arun Kumar Singh, India’s Ambassador to the United States, Mr. Shaktikanta Das, Secretary in the Ministry of Finance, and Mr. Arun Jaitley, the Minister of Finance, Corporate Affairs, Information and Broadcasting in the Government of India.

Dr. Forbes spoke of India’s economic trajectory and said that India has come a far way in the last two years in terms of fiscal management. The rural economy has been stable despite two monsoons and the projections are good for a growth in the GDP. This is as a result of good macroeconomic policies. The young population is becoming increasingly skilled and this has led to an increase in consumer demand. Dr. Forbes says that the GDP growth for 2016 should be around 8 percent.

The long-term initiative includes ‘Make in India’ which is a key driver in the growth process. The idea is to make it cheaper to do business in India and to have more entrepreneurs from disadvantaged backgrounds. By using India’s federal structure States can compete with each other and this will improve efficiency and

quality. The US is India’s top trading partner and there are plans to increase this in the future.

Ambassador Arun Singh highlighted India’s growing role in the global economy. He said that as far as the US relationship with India is concerned the signs are promising. According to the Ambassador, ‘President Obama has stated that the India-US relations is the defining partnership of the 21 century.’ The Ambassador stressed that security and defense cooperation have to be the basis of the relationship. But technology partnership is also important and India will participate in various events in the United States.

But what about trade and investment? It was pointed out that US investment in India amounts to \$28 billion and in the last five years Indian companies have invested \$15 billion in the US and this has created 100,000 jobs. There is a growing area in technology which will be a new field of cooperation. Mr. Shaktikanta Das echoed some of these themes and stated that India has recorded in 2015-16 ‘the highest ever output in gold and fertilizer and road construction, among others.’ The idea of ‘Make in India’ is to make the economy low cost and efficient. This will mean Mr. Arun Jaitley is the Minister of Finance in India. He said that ‘Make in India’ is given top priority by the Modi government. But there are drawbacks. According to Jaitley, ‘

agriculture is the most worrisome sector of the Indian economy with a contribution of about 16 percent of the GDP. You have over 55 percent of the population in agriculture and that is where the strength of the economy lies. We need to diversify and to get people to get involved in the manufacturing sector as well.’ India has realized that the manufacturing sector will play an increasingly important role in the future and that is why the government is placing much emphasis on it.

said that this is a thing of the past as market mechanisms have taken over and this has leveled the playing field. This has added to the credibility of the decision-making process in India. But how does one bring the administration and the tax levels down to global levels?

Mr. Jaitley said that steps have been taken to regularize the taxation system and the government is aware that investors prefer stability. As far as indirect taxation is concerned India is in the last stages before the

the place where railway manufacturing will take place. Contracts are being awarded and in another two years there will be 400 railway stations in India and they will be re-developed by the private sector. This will help in the modernization process. Mr. Jaitley says, ‘we have allocated more money for railways, roads and highways than has ever been done in the past.’

Seaports and airports too have been identified as areas that need work and plans are in stream for additional airports to come into being and most will be run by the private sector. Rural development is a sector that is engaging the attention of the government and part of the plan is to put more resources into it. Rural roads, housing and electrification have been identified as areas that need priority of attention. But urban development is also important.

The allocation of resources for Smart Cities is seen as one of the key areas of development. Each step will bring structural changes for manufacturing. But there are challenges that must be addressed. Despite the ‘noise of democracy’ Mr. Jaitley says that decisions are made quickly to hasten the pick up in the economy both in the urban and rural sectors. What is Mr. Jaitley’s vision for the economy? The Finance Minister says that ongoing reforms will help as will a good monsoon and a boost in manufacture.

But there are political issues that have to be addressed as well. The Modi government is in its mid-term so what other reforms can be implemented? Mr. Jaitley said that the quality of the discourse is changing and it can be felt in two areas: the first is the constituency that supports reform and secondly the regions in India are able to see the changes on the ground. The direction forward is that India needs structural changes but laws need to



India’s Finance Minister, Arun Jaitley, is upbeat about his country’s economy.

But there are realities that the Indian government has to face. Mr. Jaitley appears to be a realist when he says that in the transformation to a developed country India could do a little better. If this is the case what are the steps that can be taken? One such step is to open up the economy to permit foreign investment and they include defense, railways, real estate and medical appliances, food processing and the marketing of these products. ‘We removed the unnecessary conditionalities and simplified the procedures and placed most of them on the automatic route so that investment becomes more attractive and easier,’ according to the Minister.

While this sounds attractive India has the stigma of a society that is not transparent. How will this be corrected? Mr. Jaitley

goods and services tax is approved by Parliament and then it will be implemented.

What about the development of India’s infrastructure? Mr. Jaitley sounded optimistic about this saying that, ‘there are more than 233 national highways under construction and this indicates the magnitude of the economic activity that is taking place. This means that there could be more economic activity along the highways. This year we will spend more on rural roads and by 2019 every village in India should be connected by a rural road.’

One area in which there has been a lot of activity is the railways. It was pointed out that in several areas investments have been invited and particularly in locomotive building. Bihar has been identified as

be changed. Laws concerning dispute settlement have been changed for arbitration and commercial matters and they are now on a fast track basis.

There have been amendments to some of the onerous provisions of the companies act and laws have been enacted to take corporate tax to 25 percent. Public servants too have greater freedom to make decisions. The direction of the economy will be on rural development. India is a federation of states and this may pose difficulties as far as decision-making is concerned.

Mr. Jaitley said that some states are disadvantaged by virtue of their location and composition. Apart from West Bengal and Kerala the others have become revenue surplus and business friendly. But Kerala and West Bengal are beginning to change as well.

Land reform in Rajasthan has passed landmark legislation for ownership and this is encouraging. Transportation is one of the keys to national development. How long will it take for India’s transportation system to be world class? There are more than 300 road projects in India and there is a national highway program. Air travel is better but the railways need to be reformed. There will be freedom to set up a transport business and certain states have taken the lead.

What about the China India relationship? Mr. Jaitley says, ‘the economic relationship is improving daily. Trade is picking up and so are investments.’

On a personal note how does Mr. Jaitley navigate the bureaucratic maze and keep his cool? He invoked Confucius rather than Kautilya: ‘when in doubt walk straight,’ he said.