

WELCOME

To

Chapter ONE of Vol.1

## Private Investment as the Key Driver



Before we go through the details, let's go through a

Quick Summary

summary

- During the **last five years**, India's economy has performed well.
- By opening up several **pathways for trickle-down**, the government has ensured that the benefits of growth and macroeconomic stability reach the bottom of the pyramid.
- To achieve the objective of becoming a **USD 5 trillion** economy by 2024-25, India needs to sustain a real GDP growth rate of 8%.
- Such growth can only be sustained by:
  - savings,
  - investment
  - exports
  - favourable demography
- **Investment**, especially private investment, is the “**key driver**”.

**Now, it's time for the  
Details**



## ACCOMPLISHMENTS IN LAST FIVE YEARS



- India became the **sixth largest economy** and the fastest growing major economy in the world between 2014-18.
- Average inflation in these five years was **less than half** the inflation level of the preceding five years.
- A Monetary Policy Committee (MPC) was constituted in 2015 with the mandate to target a headline inflation of around **4 per cent**.
- Since April 2015, when the MPC was first convened, the monthly headline inflation has **always remained within the target** except for one month.
- The Fiscal Responsibility and Budget Management (FRBM) Act determines the ratio of Gross Fiscal Deficit (GFD) to GDP to reach an eventual target of **3 per cent**. The ratio declined from **4.5 per cent** in 2013-14 to **3.4 per cent** in 2018-19

- **BENEFICIARY FOCUS AND TARGETED DELIVERY:**



- By assigning a unique identification number to every individual, the government now has the ability to provide targeted support. Presently, **Aadhaar** coverage stands at **more than 90 percent** of the country's population.
- Another pathway for the trickle-down is the Pradhan Mantri Jan Dhan Yojana (**PMJDY**), a financial inclusion initiative. The linking of mobile numbers with bank account numbers and subsequently Aadhaar, created a JAM (Jan Dhan, Aadhaar, Mobile) trinity that further secured Direct Benefit Transfers (DBT) to the intended beneficiaries.
- A key initiative for last-mile delivery was the Pradhan Mantri Ujjwala Yojana (**PMUY**) that was launched in 2016. The PMUY had originally targeted to provide **5 crore** LPG connections over a span of three years to **BPL families** with a support of **Rs 1,600** per connection.
- In 2018, another effort to provide a basic safety net was launched through the Ayushman Bharat Yojana (**ABY**), which provides an insurance cover of **Rs 5,00,000** for cashless treatment to each of the **100 million BPL families** at a nominal premium of **Rs 100 per month**.

- **INFRASTRUCTURE**



- The construction of national highways (NH) proceeded at a rapid pace with **more than 20 per cent** of the existing highway length of **132,000 km** being constructed in the last four years alone.
- The **UDAAN** scheme was launched in 2017 to foster regional connectivity by extending flight connectivity to **Tier-3** and **Tier-4** towns in the country.
- The 4.94 km long **Bogibeel bridge** in Assam was inaugurated in December 2018; it is the **second longest rail-cum-road** bridge in Asia.

- **FEDERALISM**



- Fiscal federalism strengthened significantly when the **Fourteenth Finance Commission** increased the share of states in the divisible pool of central taxes from **32 per cent to 42 per cent**.

- The launch of the **GST** in July, 2017 added a new dimension to centre-state and inter-state financial relations.
- **Niti Aayog** has helped institutionalize cooperative federalism by setting up teams from both the states and the central government to jointly evolve strategies for addressing development challenges.
- States have also been involved in a friendly competition to improve their **Key Performance Indicators (KPIs)**.

### • CORPORATE EXITS



- When the Insolvency and Bankruptcy Code (IBC) was introduced in 2016, it consolidated the insolvency resolution process into a **single law** by repealing/ amending multiple rules and processes earlier in operation.
- Following the operationalization of IBC since 2017, a significant number of **non-performing assets** have been brought under its ambit.

## THE NEXT FIVE YEARS



- India aims to grow into a **USD 5 trillion** economy by **2024-25**, which will make India the **third-largest** economy in the world. This requires real annual growth rate in GDP of **8 per cent**.
- **INVESTMENT AS KEY DRIVER**



- The overwhelming evidence across the globe, especially from China and East Asia in recent times, is that high growth rates have only been sustained by a growth model driven by a virtuous cycle of **savings, investment** and **exports** catalysed and supported by a favourable **demographic** phase.
- **China** has relied primarily on **savings and investment** with consumption decreasing significantly as a share of GDP. China remains an **investment-driven economy** even today



with its investment and savings rates reaching about 45% of GDP even in 2017.

- **JOBS**



- A general apprehension is that high investment rate will substitute labour. This thinking has led to much debate about labour-intensive versus capital-intensive modes of production.
- However, the Chinese experience illustrates how a country with the highest investment rates also created the most jobs.
- What matters most is whether or not investment enhances productivity and thereby international competitiveness.
- Job creation can indeed be fostered by encouraging investment.

- **EXPORTS**



- With the share of **consumption** in GDP constrained by the high level of **savings**. So, where would the final demand for



the large capacities created by high investment come from?  
The answer is **exports**.

- Average productivity of firms in the economy becomes crucial to export competitiveness. **Capital investment** enhances total factor productivity, which in turn enhances export performance. Therefore, investment becomes crucial to enhancing export performance.

- **DATA**



- Having set out the broad strategy for achieving the goal of a US\$5 trillion economy, continuous **re-calibration of policies** to achieve this goal is necessary. Data-driven evidence enables this re-calibration.
- While **private sector** does a good job of harnessing data where it is profitable, **government intervention** is needed in social sectors of the country where private investment in data remains inadequate.

- **LEGAL SYSTEM**



- India's legal system, burdened by **3.5 crore pending cases**, is now the single biggest constraint to doing business in India and thereby fostering investment.
- The World Bank's latest **Ease of Doing Business Report** ranked **India at 163** for contract enforcement.
- Every other field of economic reform, be it property rights, taxes and insolvency, eventually flounders because it gets entangled in the legal system. This is why the **legal sector reforms** must be a top priority.
- Use of technology, increase in working days and administrative/ process reforms can help solve the problem.

## BEHAVIOURAL ECONOMICS



- The insights from behavioural economics need to be integrated into policymaking to foster productivity and economic growth.
- The **Beti Bachao, Beti Padhao** campaign has helped in improving child sex ratios, particularly in large states where the child sex ratio was poor.
  - **BADLAV** (Beti Aapki Dhan Lakshmi Aur Vijay-lakshmi) can enhance contribution of women in the workforce and the economy.

- The **Swachh Bharat Mission** has helped increase the percentage of villages that are Open Defecation Free and has enhanced access and usage of toilets. This improvement in sanitation has helped improve health outcomes.
  - The idea of taking off from the Swachh Bharat Mission into "Swasth + Ayushman = **Sundar**" **Bharat** would enhance labour productivity and enhance savings and thereby investment.
- The creation of the **Insolvency and Bankruptcy (IBC)** process has helped bring a large number of non-performing assets into the IBC process. Further, the threat created of losing control under IBC is helping change the credit culture.
- Several changes brought through the use of **technology in tax administration** have decreased manual intervention in tax administration, and have thereby improved the experience of a largemajority of taxpayers.
  - Behavioural insights can be leveraged to transform the tax culture from one of tax evasion to **tax compliance**.

## CONCLUSION

A growing number of domestic Indian enterprises are developing solutions aimed at managing and solving various challenges. Continuing the creation of an ecosystem for **private investment**, especially in the new economy, is therefore critical to enable the **virtuous cycle of investment, demand, exports, growth and job**.



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