Flagship Seminar

India’s New Growth Recipe

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Know More Details: https://csep.org/event/flagship-seminar-26-indias-new-growth-recipe/

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Rakesh Mohan:

Let me welcome all of you to our flagship seminar on a subject that I think all of us should be interested in which is India's new growth recipe. Shishir, I hope you are not doing any false advertising. In that first of all there is a recipe, second if it is about growth and third whether it is new. So, you have a lot of things to prove in the presentation. I think just in terms of the subject very clearly, we need to remind ourselves particularly having gone through covid and everything else associated with covid and also all the uncertainties in the world today and something happens, just when we think we have gone over uncertainties, something else happens. But I think in that we still need to keep our eye focused on faster economic growth because that is really the main recipe for improving the wellbeing of all people in the country. So, as I understand it, during very fast growth years of say, 2002 or thereabouts till the mid-2010s we had high growth, very high growth. According to some calculations multi-dimensional poverty as they call it reduced significantly from 55% to 28%. Again, you know, these numbers are all subject to all kinds of measurements, assumptions etc. But the point is I think any which way you measure the fallen poverty in those years it is very, very large. It is just to say that… often people say look growth is not important. That you need to think of all welfare and so on. So, I think that point is that to improve the wellbeing of everyone, growth at least according to our thinking or I should say my thinking is very important. Now of course particularly going into the next five ten fifteen twenty years, there are all kinds of headwinds that the world is facing, therefore we are facing. One of course if the huge demographic change in terms of certainly it has already happened in Europe, it is happening in China in a big way, it will happen with us, still have already beginning, but it happened in a big way as we go along. But everywhere, so that there is a headwind in the sense that there'd be lower incremental demand for goods and services all around the world. So, one can expect a global trade slowdown which has already been taking place. So, now it is very, very important to keep our eyes focused even more on growth. Because given the Russia Ukraine war, the whole change in geopolitics, one of the ways I put it in terms of geoeconomics is that after 200, 250 years we are entering a new epoch where the fulcrum of the global economy is in the process of moving from the mid-Atlantic to somewhere between the Indian ocean and the Pacific Ocean. So, this is after 250 years, so, this is really a big deal actually. The world has got to get used to it and we are already seeing the impact of that on some of the global trading systems, global economic governance. So, all of this is going to cause difficulties and therefore, now it is even more difficult to attain consistent high growth than it was 20 years ago. And therefore, we have to give more focus on that internally. I don't want to take the rest… I could actually spend the whole lecture time on this issue. So, to summarize we need comprehensive policy emphasis on economic growth and other objectives along with specific attention to enhancing health and education in particular. Now, I am not sure whether I should introduce people one by one or all together. I may introduce everyone at the same time so that I don't have to come up again. So, let me first introduce our presenters who I know very well. But I don't know how to describe them. There is Shishir Gupta who is our senior fellow and chief operating officer at CSEP. He manages all of us and yet does some research. How he does it I have never understood. But he is quite wide ranging in…he has worked in economic growth, he has worked in governance, he has worked in institutions, he has worked urbanization, he has worked in solid waste disposal, subnational economic reforms and so on. Even he has done some work on the media actually. There is proof of all this in the papers outside. I am not just saying that he has done all this work. He was with the McKinsey global institute. Unfortunately for as long as 14 years. But he finally saw the light and came here. He is of course, an economist by education from Delhi school of economics. Rishita Sachdeva the co-author is a research associate, the growth finance and development at CSEP. She has been focusing with Shishir on macroeconomic subnational reforms and urbanization. We have also set up what they first called the monetary policy committee in CSEP. But I said, look, you are not doing any monetary policy, so, now it is still MPC but it is called Macro policy committee. So, they keep track everything that is happening in the economy on a consistent basis. And of course, when I have to give talks, they really do all the work. I just go off and spout off. She is also member of the macro policy committee. She has done developed economy from university of Sussex. And a BA from Delhi university. I should probably in the order they are sitting. Chief economic advisor, thank you very much Ananth for taking the time. Chief economic advisor since January 2022. I hate to say it, but I was in the same position 22 years ago. He was before this economic advisor a member of the economic advisory council to the PM for a few years. He has been a distinguished visiting professor of economics at Krea university. He has also been associated and he is a founder of one of the venture capital funds Avishkar venture capital fund. And also, co-founder to Takshashala institution. He is also had a corporate career which I think you must be the first chief economic advisor from a corporate career. I think. So, he actually spent 17 years as a currency economist to the union bank of Switzerland. UBS. So, since you have been a currency economist, I hope that the exchange rate will be managed well while you are CEA. Then he has also had research in credit Suisse before he had got UBS to take them over. He has been independent director on a number of boards. He has been writing widely. He has also written and co-authored four books. Essentially on finance and can India grow. One of the books – can India grow, that is why he is here today. Thank you once again and of course he went to Indian institute of management in Ahmedabad and the university of Massachusetts for his doctoral work. Next to him is Ajay Shriram who is one of our board members. So, one of the things we do is we even make our board members work. I requested him to come and be a discussant today. He is the chairman and senior managing director of DCM Shriram, business conglomerate of course, with 1.2 billion dollars turnover. He has been president of the CII. He has also been chairman of board of governors of the IIM. He is the chairman board of governors of IIM in Himachal Pradesh and chairman of the governing board of Shriram college of commerce. Ajay I am very curious how come you did your BCom in Sydenham college and not in the college of your name?

Ajay Shriram:

Never got admission.

Rakesh Mohan:

So, he got his BCom from Sydenham college. And he also had been programing management development at the Harvard business school. He has been chairman of a whole lot of industry associations which I won't list. Finally, Ireena Vittal, an old friend. She was also with McKinsey which is when I first met her, I think, for 16 years. You were there for 14 years? She was there was 16 years. So, I took her longer than you to see the light. I had not known that she has a bachelor's degree in electronics from Osmania. That is something that we have in common. Because my first degree is also in electrical engineering. Then of course, she also was at the IIM and I didn't know this before today that you were classmates.

Anantha Nageswaran:

I am sure she was classmate with someone.

Rakesh Mohan:

She worked at McKinsey, apart from doing McKinsey consulting, she worked on reports related to economic growth, agriculture and urbanization. Again, that is what qualifies her for being a discussant today. She is on various very important boards like HDFC, Wipro, Godrej consumer, Diageo and Compass. And also, advisory board on non-profits as well. Working in education, legal reform, rural livelihoods, water and urbanization. And as a consequence, she is busier now than she was when she was in McKinsey. There was something else I was going to say but I won't. Shishir, do you want to make the presentation for what, 20 minutes? You and Rishita?

Shishir Gupta:

Good afternoon, everyone. Thank you so much for taking the time to come today for this event. And I feel absolutely honored to be standing here and presenting to such an illustrious panel and audience. Both in person and online. Over the next 20 minutes we are going to present key findings of our paper on India's new growth recipe, that we released a couple of months back. Let us see how true we stand to the title that we have given to the paper as Dr Mohan was asking. So, motivation for the paper was simple, right? There is broad unanimity now that India's growth was slowing down even before the pandemic. Dr. Mohan alluded to it that we need to accelerate growth going forward since we are now out of covid hopefully. Because it helps us achieve provide gainful employment to people, poverty reduction etc. When we talk of faster growth one of the things where there is a lot of debate is what is needed for faster growth. There is a whole set of unfinished agenda of reforms, right from reforming the labor market to capital markets, to improving human capital in terms of education, health to physical infra, right? Even governance. Now the question is are these the binding constraints, that is, if we don't improve these then we will not get to faster growth? We were not sure that is the case. Because these weaknesses have been with India even during faster growth years. The question is now going forward what is the key to unlock faster growth in the future. That was the question we asked ourselves. The time frame we have taken for the study to analyze India's growth performance historically is from 94 to 2020. So, we took out two three years immediately after 91 crisis and we have not incorporated the covid years. We see that there are four distinct growth patterns. The line indicates the real per capita growth annual and we see four distinct growth patterns. The first decade from 94 to 04 is what we call consolidation. The next four years is what we call surge followed by corrections and the last phase is the slowdown. The terms are intuitive. But I will give a bit more context to explain why we have given them these names. So, consolidation is the phase lot of us know is when there were lot of structural reforms that India went through. And it also resulted in prudent macro policies during this phase. As a result, at the start of 91 our inflation was around 10%, by 2004 it was 4%. Average tariff rate at the start of the decade in 90s was around 56 or 55 to 60% by the time year 2004 it was around 20. The point is lot of reforms took place in this phase and that really consolidated Indian economy. As a result of these reforms coupled with unprecedented growth in the global market from 2005 onwards is what caused almost the fastest growth in a four five year period that India has seen since independence at 7.3% GDP per capita. This is really unprecedented. Beginning of 2008-09 is when we saw decline in global trade starting with the North Atlantic financial crisis, along with corporates holding back on investments. Because what had happened is that because of structural reforms corporate started investing, it sorts of created an excess capacity, so they were holding back investment. Because of these two reasons we saw a correction in growth. Post 2012 is when we see a slowdown, more particularly actually from 2016 onwards. That is the motivation for the paper as to now how do we accelerate growth going forward. We started by looking at the expenditure side of the GDP to understand the growth dynamics. I will not spend a lot of time because this is a familiar chart to most of us. Which is that there are four components of expenditure, the gross capital formation and savings as a percentage of GDP, export and import, the private final consumption expenditure and government final consumption expenditure. As one would expect to see, during faster growth years from around 2001 to 2012 we see investment savings rising as a percentage of GDP along with trade which includes both export and import. They have been coming down consistently actually from 2012 onwards, which we call the slowdown phase. Since savers and investors are not the same entities and they followed similar patterns in terms of period in which they were rising and falling, it is important to understand who provides savings for the country and who is responsible for their investments. So, this is a breakup of aggregate saving and investment for these illustrated years between the key components. The household sector, the private corporate sector and the public sector. What is stark is that households provide a bulk of our savings, around 60 to 70% of all savings come from the household sector. Now, I would like to point to this trend which will become an important element of discussion later on, is that, for a longest period in history, households were saving more and more. But over the last few years or last five nine years there is a dip in household saving. We will elaborate on this later on. On the investment side it is important to note that when India was growing fast, we discussed that between 3 to 4, to let us say 11 to 12 during surge and correction phase, it is the corporate sector investment which really picked up. So, the investment was led by the corporate sector whereas households have been providing bulk of the savings. Now, this gives us three proximate indicators of growth. Namely, exports, corporate investments and household savings. We will now try and explain what drives these proximate indicators of growth in terms of fundamental drivers. The transmission mechanism through which it happens, because that is then the key to understanding the role of large firms. It is important to realize that large firms have already played a big role in driving India's growth so far. And what we are talking about is their next phase where they will become globally competitive. So, we start with GDP growth, we talked about exports, corporate investment and household savings. Exports are driven by two basic big elements. What is the global economic environment in terms of world trade and what is the level of reforms in terms of encouraging competition and macro management of the domestic economy? Corporate investments, I want folks to pay more attention to this, corporate investment to GDP can be broken down into two neat elements. What is the share of corporates in GDP which is formalization and a business cycle element which is how much corporates invest as a percentage of their sales? This is important because when we talk of corporate investment to GDP, we normally talk about corporates investing or not investing without realizing that part of it is also driven by the size of the corporates. Now this structural element which is formalization is as one can imagine is also driven by reforms. So, things for example like de-reservation which is when industries that were earlier reserved only for MSMEs were opened up for large corporates, that we saw resulted in significant increase in corporate sales to GDP. So, it is a structural driver driven largely by the reforms. Business cycle element is driven by essentially what is the outlook of growth in the domestic economy and what is the stance with respect to global economy. The last is household savings as a function of what is the growth or the income growth of the country and the demographics. So, this is the transmission mechanism, these arrows indicate the transmission mechanism and the three red boxes, global economic environment, reforms and demographics is what we call as the fundamental drivers. I will just try and explain these briefly and then we will wrap up. So, first on exports. This chart shows annual growth of world exports which is the grey line and annual growth of India’s exports which is the red line from 1971 onwards. These are all annual growth numbers in nominal USD. Two big messages come out from this. One is it moves one for one, India’s export growth moves one for one with global exports. The correlation is 0.8 and when we looked at it for some of our peer countries like Bangladesh, Vietnam, this stands far higher. The second important thing to note is that there is almost a complete collapse in the pace of global trade. World exports have gone down from growing at 15% to 4% to 1%. So, other things remaining constant with such exponential decline in world exports puts pressure on our exports and hence on our growth. Something that Dr. Mohan was alluding to. I mean, some headwinds that we are facing, especially when outlook on global exports doesn’t look as good. Now the second element of pushing our exports is to improve our competitiveness. So, in the paper we refer to competitiveness through a simple proxy which we call as the export multiple. Which is essentially a growth of our exports relative to world growth. These bars indicate what is that proportionality. For example, between 1970 to 80, for this 10 year period our export growth to world export growth was 0.87 and it moved up marginally to 1.22 from 80 to 94. The point is, before the reforms, if the world export growth grew by let us say 1%, its own impetus on our growth or our export growth was almost unity. Post the reforms this export multiple which is our proxy for competitiveness significantly improved and almost doubled to around 2. But this has remained static since 2004 or thereabouts. The point is from an export perspective either the global economy or the global trade needs to pick up which it is unlikely and/or we can become more competitive. Right now, from this metric that doesn’t seem to be the case. Let us talk briefly about the role of large firms for exports because we have to live up to our title. Large firms are critical for exports. They are a critical vehicle for exports. On the left panel you see the share of exports that come from the large firms. And as you can see the share has increased from around 40% to 55 or 60% of late. This is comparable to the OECD average by the way which is 51%. So, we are doing ok in terms of the share of large firms contributing to our exports. It is the right hand panel which shows now what percentage of large firm revenue comes from exports. And this number it was 9% in 1995. Meaning that if large firms’ revenue was 100, only 9% was coming from export revenue. This increased with reforms, with faster growth to around 16% by 2012, but it has again remained or gone static if not declining. The point is for a country India’s share in global trade is around 2.5% and the argument is that if you are more competitive you should be able to increase your share in global trade and if that has to happen then this metric of how much large firms are generating revenue from exports should be significantly higher. When we look at other countries like France, Korea, this number is close to 2X. so, this is one bit again pointing to improve… the relentless focus on productivity and for our large firms to improve competitiveness to push exports. Now, let me briefly talk about the structural element of corporate investment which is the formalization bit that we discussed. And before we show our key findings it is important to understand that formalization is not universally defined, it doesn’t have a universal definition except it is everywhere. So, different people have defined formalization differently and why it is important to realize is because depending on the definition your inference could be completely different. So, for example, if you at the EPFO a number which for example Soumya Kanti Ghosh of SBI has been looking at and EPFO numbers are increasing. So, the conclusion is that formal economy is increasing at the expense of informal economy and I think his analysis is from 2017-18 onwards till date. So, according to his analysis if you look at formalization in terms of labor then it is increasing. But if you define formalization as a share of output of formal firms and overall output, then the picture is completely reversed. A lot of people have used this definition. What is the share of output of formal, listed, organized, large, whatever… these are all synonyms in our paper. And what they see consistently is that share of large firms in overall output has been consistently going down since at least 2012. There are multiple authors with that finding. With that context let us look at what we find in terms of formalization. We also find similar trends which is that formal output or output of large firms as a share of overall output for India remains steady at around 35% during the consolidation phase. Which if you remember was from 1994 to 2004. It picked up and increased consistently during the surge period especially. But even during correction phase. So, formal firms were becoming bigger and becoming bigger part of the national economy during these 8 years. But, since then their share is coming down and this is consistent as I just explained with what others are also finding using the same definition. It baffled us a lot actually to what can explain this decline. The increase in formalizations comes intuitive. Okay, once you are reforming the economy, giving space to large firms to grow, then their share will increase. But what can cause this share to decline. We argue in the paper that it is actually a lot of large firms going bankrupt creating NPAs, that is what caused this decline in formalization because it mirrors actually this increase in NPAs that we plot on the lower panel. The public sector NPAs are in grey and private sector NPAs are in red. So, one would ask what is so special in large firms that when their share increases growth increases. And then their share goes down, growth goes down. One, again a simple way to look at it is their relative productivity to informal sector. Labor productivity. These bars indicate what is the ratio of labor productivity of formal sector to informal sector for two years. 91 to 2018 because that is broadly the time frame we looked at and what is clear is that large firms or organized sector is at least around 4 to 8 times more productive than the informal sector. The numbers don't change if you take intermittent years as well. But we are just showing it for the ease of understanding. Again, while this is evident from the chart that large firms are more productive, what is also coming out from this is that large firms are not becoming more productive over time. So, ideally if that was the case then one would have expected this ratio to increase over time. But that has not happened. Again, pointing to the need for large firms to become more productive because they are critical for exports as we just saw. This chart, I have stolen from my earlier study from MGI which is basically showing what percentage of firms that were in top quintile in terms of profit making in 2001 to 2005 remained across a decade and what they are in 2011 to 2015 as well. These were top profit making firms in 2001 to 05. And remaining there across the decade. India seems to be an outlier in this. In India 60% of firms that were in the top quintile in terms of profits remained there for a decade. The number is far lower for other faster growing emerging markets. The argument, at least the inference for us is that if you are… it again indicates to lack of competition in the domestic economy amongst large firms. That which is what enables such high persistence of profit makers at the top. I will just stop here and hand it over to my co-author Rishita to take us through the final slides.

Rishita Sachdeva:

As mentioned before corporate investment has two components. One is the structural part which Shishir talked about. The other is the business cycle component. That is corporate investment to corporate sales ratio. This is the data we get from CMIE Prowess. What we noticed was and this is what corporates invest to build their capacity and to run their operations. So, what we noticed was during the high growth phase of 2004 to 08 this was significantly higher than the average. The average is the blue trend line that is going around with its peak in 2008 at 7% higher than average. Since then, it has been declining. However just prior to covid 2018 and 2019 we see that it averaged and in 2020 it was higher than average. This indicates that even though economic growth was falling and corporate investment was also declining business cycle, the part of corporate investment didn't have much contribution to it. It was more due to structural factors like formalization. This ratio of business cycle is driven by two factors. One profitability of firms and second growth outlook for India's GDP. So, one thing when we noticed was that projections are significantly higher than actual since 2017 onwards. That is the grey area and the difference between the projected GDP growth for India actually keeps on increasing. And businesses tend to increase their investments when they project a higher growth rate. So, once businesses rationalize their expectations this may not, though high upward trends of business cycles might not hold good. The third critical element of GDP growth for India has been household savings. Household savings have been consistently rising since 1950s. It was at 7% increase to 12% in 81, to its peak of 25% in 2010 consistently. Since then, it has been falling to 18% in 2016 and 20% in 2020. This consistent decline over a long term period of ten years has never been seen in India's history regarding household savings. Previously we have had a decline of 2 to 3%, but that is also over a short term period. Given that the household savings account for 65% of your national savings and savings are a necessary condition for corporates to invest, it becomes essential to understand why this decline is happening. In literature there is no consensus which explains this decline. The various reasons which people point out to, one it could be due to increase in unemployment or due to increase in out of pocket expenditure or due to implementation of demonetization and GST which was detrimental for quasi corporations. Quasi corporations for calculation's sake come in household sector. Or it could be due to increase in household debt. According to us one of the contributors to decline in household savings could be drop in share of young cohort in working age population. There are two major determinants of household savings. One, your per capita GDP which consistently is rising and your demographic dividend which is your working age population and total population. That is the age group between 15 to 65 years. This population share has been consistently rising over the years and currently we are about 65 to 68%. This cannot explain why we have experienced a dip in household saving. Literature also refers to this group as the savings class. According to us we broke down this working age population into two cohorts. The younger cohort of 15 to 44 year old population over the total working age, they have been experiencing a decline since 2001 from 77% they have dropped to 73% of total working age. We believe this is the population which has a higher saving rate compared to those above the age of 45. Global evidence also collaborates with this. In US share of saving as a percentage of income peak when at an age of 40 to 45 years. In Singapore people in the age group under 20 save 35% of their income higher than what older generations saves those in the age group of 55 to 65 at 29%. This makes sense for India as well. Because once a person reaches the age of 45 the financial burdens increase due to family obligations. For example, increased expenditure on their children's education or children's marriage. In India especially in rural India marriage costs can be 6 times that of family income. Now in terms of global standards, 20% savings rate, the household savings over GDP rate is pretty high. For example, in China in late 2000s this household savings to GDP ratio was 20%, while the working age population was 70%. So, it is good that our household savings ratio is high. But going forward, it is possible that households can no longer provide the impetus to savings which is needed for economic growth. Finally, we have in our presentation in our paper, we have narrowed down to three fundamental drivers of India's growth. First global economic environment which we don't expect to be as conducive as it was in the high growth phase. The demographic dividend which will probably not contribute to household savings or increasing national savings as it once did. The third important component was economic reforms. Economic reforms had accelerated India's growth by creating a competitive economy and provided us with macroeconomic stability. And large firms played a very important role in it. Given that our competitiveness is stagnating now, India's new growth recipe should focus on improving competitiveness of large firms by making them global champions. Thank you everyone.

Rakesh Mohan:

Thank you very much Shishir and Rishita for a remarkably brief presentation on actually a very complex paper. As you know I don't agree with you on everything but many things I do. However, I am not a discussant so, I will keep quiet. Anant, can I ask you to start off.

Anantha Nageswaran:

Thank you, Dr. Rakesh Mohan, Shishir, Rishita and other members of CSEP for inviting me to this panel discussion. And to also have an opportunity to read the paper and the presentation before I came here. As Dr. Rakesh Mohan said, it was a good marketing click and bait title. New growth recipe. I think they fairly succeeded in living up to the expectations created by the title of the paper. But Shishir made a very good point at the beginning. He said some of the constraints that we routinely identify as holding back India's growth have been with us in the past, if anything, probably they were more binding than they are now. And that didn't prevent India from experiencing episodes of good growth. In the mid90s, in the mid-2000s starting from 2003 all the way until 2012 with the exception of 2008-09 etc. So, therefore we cannot point to them as the reason for growth stagnation because those constraints were there and were more binding, so, you must look at incremental factors that contributed to the growth slowdown in the pre-pandemic years. I think that is what we had attempted to do in the economic survey of this year which came out in January. Effectively some of the things that they identified there are right in terms of growth stagnation post 2012 and also stagnation in the capital formation and decline in the household savings. Of course, I was just telling Shishir that if the decline in household savings is attributed to the decline in the young population share of the workforce, that probably isn't likely the explanatory factor because golden age for savings normally occurs not in your early years of career but between 35 and 45 or 35 and 50. In fact, these days as retirement age goes beyond 60, the peak earnings probably continue until 55 or so. Then you start drawing down on your savings. So, the decline in the share of young workers from 77 to 73 in my opinion cannot be the explanatory factor. But be that as it may, post 2012 slowdown was effectively… even though Dr Rakesh Mohan would probably disagree with me and we had an email exchange on this some time ago… it was in my opinion and I sort of hold on to that. That, it is a classic financial cycle distress that India went through. And BIS statistics itself provides you enough information because they give you the breakdown of the non-financial private sector, non-financial private corporate sector, then the entire non-financial sector which includes government, the public sector as well etc. You can look at the debt ratios. And also look at India's own banking system credit to GDP ratio which you can get from RBI data or from BIS. So, between 1980 and 2000 are banking credit to GDP ration was stagnating around the mid-20s or mid to high 20s as a percentage of GDP. Then in the decade between 2000 and 2010 it jumped. The ratio jumped from 28% to 55 or 58% of GDP. So, massive credit growth expansion of banking credit. And not only that, other sources of capital flows happened from external sources as well. So, the non-financial private sector or the non-financial private corporate sector debt to GDP ratios went up by anywhere between 30 to 40 percentage points in the first decade and naturally that led to over investment partly because of the optimism engendered by the creation of the acronym BRICS and we felt that we were the next China etc. excess investment boom, excess credit boom. And then the second decade of the millennium was all about digestion of that excess credit growth and excess investment. That is why you had a capital formation cycle that stagnated and you can look at it from the data on the import of capital good as well. Import of capital goods declined throughout the second decade. If you look at data from 2012 onwards. So, we basically pre-pandemic itself, we went through a period of classic financial cycle repair, credit cycle repair, which is what brought down… and also it was naturally, unsurprisingly accompanied by a slowdown in the construction sector, real estate cycle also slowed down. So, those factors largely explain India's growth slowdown when we don't have to look for innovative ad-hoc one-off explanations. And what has happened is that the financial system has been repaired, banks have been recapitalized, they have increased their provisions, non-performing asset ratios have come down and corporate sector has de-leveraged. If you look at the ratio of debt to GDP, corporate leverage ratios have come down by 30% points etc. in the second decade. By the time we could start thinking of enjoying the repaired balance sheets came the pandemic for two years and then came the commodity price shock and then came the interest rate shock of the 2022 second half and now of course we have potential tightening of financial conditions which probably we haven't fully put it behind us based on the last two three weeks of developments elsewhere. So, naturally some of these things do induce uncertainty in the minds of private investors and naturally they may be little bit more cautious than they might have been. But nonetheless if you look at the bottom-up data provided by one of the private sector banks analyzing the cash flow statements filed by companies with the regulator SEBI, based on 3,020 plus companies, we have data for the first half of 22-23. Capital investments undertaken by the private sector were of the order of magnitude of 3.3 lakh crores or 3.3 trillion rupees up from 2.6 trillion rupees in the previous financial year 21-22 which was in turn higher than the 2.2 trillion rupees of 20-21. So, effectively what you are seeing based on first half data private sector capital formation is indeed picking up and on top of the public sector capital formation. Even if we exclude the 1 lakh crore interest free loan etc., we are talking about somewhere between 6 to 7% of GDP in terms of overall capital formation ratio. And therefore… and the real estate cycle also is beginning to pick up. So, even without going into additional improvement that we could make that could improve India's growth rate the very turnaround in the financial cycle and therefore the capital formation cycle that I still see unfolding in the remaining years will restore growth to the extent of on an average in real terms of around 6.5% of GDP. I am not talking about numbers north of 6.5 for the simple reason as they showed in their presentation, global export growth volumes maybe somewhat tepid in terms of their growth rates going forward considering the kind of uncertainties we face at the global level. Therefore, if export growth does indeed contribute, I would take it as a sort of a surprise and I would not count on it. But nonetheless it is heartening to see the resilience of growth rates in services exports and the commerce minister was right in saying for the full financial year 22-23 we are likely to see a number which is slightly north of three quarters of a trillion US dollars in terms of overall exports. Again, if you look at the time series of export growth even in the merchandise category, non-oil merchandise category or including oil, we have seen some important inflection points in 2009 and 2020. Exports of goods have taken some quantum jumps. Somewhere between 100 or 150 to the 200 mark and stagnating between 250 and 300, jumping to the 400 mark in 21-22 and now maintaining it in 22-23 as well. So, those are good signs. Maybe the export complexity and the improvement in the physical infrastructure and some easing of business conditions etc. are beginning to contribute and we must probably do a more full-fledged study on whether the improvement in India's export prospects on the export numbers both services and goods are being driven by some of the improvements with the lagged effect, the infrastructure improvements and ease of business conditions etc. And if we can add to that private sector R&D and improved labor productivity etc. probably this can really contribute much more. I think the restoration of the financial and the credit and the investment cycle in the commercial sector and in the real estate sector will probably see us growing on an average of 6.5% in the coming decade. How do we add to that in terms of additional growth recipes? Much of it has to come from state governments because issues like health, education, labor markets, land markets etc. are largely in the realm of state government. So, therefore state reforms in these areas and in terms of service delivery and in terms of preparing the young workforce to have the right kind of skill set for the next 20 or 30 years in terms of education reforms, those initiatives in terms of the onus largely rests with state governments. Definitely the union government has a role to play. But state governments carry a higher degree of role and responsibility there. At the union government level what I would say what union government should do in terms of contributing, there are many things which we can talk about, but I will just keep to one important one. It will be about securing India's energy needs and requirements in the light of global development. That will be the biggest contribution that union government can make in the coming years. Because I think there is tremendous pressure on energy transition for justifiable reasons. So, there is no question of denying that there is a need for energy transition but the question is how do we go about it? Are we sequencing it right? Are we getting the policy mix right? Those are still very open questions that are not as settled as some of the overseas interlocutors would like to have us believe. Developing countries including India definitely need economic growth to finance their energy transition requirements. Without domestic savings there is no question of adequacy of resources for financing energy transition and there is going to be no domestic savings if there is no domestic economic growth. So, in other words if you have to address climate you have to address economic growth as well, first. Therefore, somehow relegating economic growth and development to the second to the fringes to put climate issue on top of the agenda would be actually doing a disservice to the climate agenda. And without domestic savings there cannot be external savings. Talking about de-risking private sector flows and attracting private sector flows into energy investments etc. will all be non-starters if there is no domestic skin in the game and imagine if we are going to attract so much of copious private sector capital for climate transition or energy transition what happens to current account deficit. How will the private financial markets react to that? Therefore, we have to understand that we have to get the energy transition and the financing of it, right? And that requires emphasis on economic growth for developing countries that includes India also. And more importantly without domestic growth there is no social stability nor public acceptance of some of the behavioral changes we would like them to make to succeed in energy transition. Look at the reaction to the pension reforms in France for example, of that matter in 2019, the yellow vest resistance. So, we can't tell people that carbon pricing will push your energy prices higher and it will all be a matter of a year or two before economic growth is restored back to the pre-energy transition years. That is not going to happen. We have to be candid, we have to be honest and we have to understand that there will be a growth sacrifice and I am glad that people like professor Jean Pisani-Ferry are talking about the short run macroeconomic consequences of energy transition even in the European context and the more important thing is we haven't defined the horizon of what the short run is. It is not going to be one quarter or two or four. It could be three or five years or even longer. So, I think more importantly if we are talking about attracting private financing de-risked or not, into finance energy transition, we have to make sure there is no repeat of 2008 financial crisis types happening in terms of climate funding. In the interest of financial innovation and securitization we might end up creating additional set of over financialization problems if we talk about private sector funding. So, there is not only importance to put in place policy guidelines to attract private funding, but we also need policy guard rails and then if private sector funds emerging economies and developing markets, we have to ensure that there is no global debt vulnerability issue arising, because already we are grappling with lost years of economic growth for many EMDEs. They have a debt issue to tackle. Now, if we talk of relegating public sector financing and talking about de-risking private sector capital flows, then what are we going to do with respect to the debt burdens, that debt servicing, affordability, debt servicing capabilities etc. We need to think through all of this because we are interested in ensuring that there is a smooth energy transition, that there is a concerted effort to reduce global warming, but we have to get it right. And right in terms of sequencing. If you don't do that then we will be worse off than where we started off with. And that is the contribution that at the union level and at the level of think tanks etc. we can contribute to ensuring a proper growth recipe. Thank you very much.

Rakesh Mohan:

Thank you very much for that comprehensive outlook on the current Indian situation and medium term. Ajay, can I ask you to go next? Just in the order of where you are sitting.

Ajay Shriram:

Good afternoon, everybody. Rakesh and team, thank you very much for inviting me to share some thoughts today. I went through the heading of the paper and topic today 'India's new growth recipe', it has to be much wider than what was covered in the paper. The growth recipe has to be across the manufacturing sector, the services sector and the agricultural sector. We can't forget agriculture, because 60% of our population is there. In spite of that the growth in agriculture has been fairly slow over many years. In terms of percentage of GDP, it has not grown as well. I am not going to talk about agriculture today. If there is time, we can discuss it later. But I think on an overall basis manufacturing itself is very crucial and very important where we are today at 13, 14% of GDP, our target is to go to 25% of GDP. Now that requires a lot of effort. I must mention I am not an economist, so, I can't debate or talk about numbers which are projected here. But I will share experiences of what I have been through, what I have seen and where I think we can make change to improve the situation for more rapid economic growth. Ultimately at the end of the day unless growth is faster, jobs are created, income comes into the hand of people and consumption goes up, the economy in India will not grow as fast. I think we have a great strength in our population provided we can give them these facilities of a faster economic growth and income. I think that is where as mentioned earlier education plays a very crucial role. I mentioned this in other forums also. There is a lot of focus on education in India. But I think there is not adequate focus on vocational training education in India. If you take a country like Germany, 70 to 80% of the kids or youngsters there I believe are going to vocational training which is hands on training for working with your hands. I think we require more effort on that. But that is a separate topic where there is a lot to be done. I think the big change came in India in 1991 when we went through the economic stress and as an industrialist, I can say that when competition comes efficiency improves. I think that is a great learning which happened in 1991. You were mentioning the reduction in average duty structure. I remember some of our products where the duty was 60, 65 or 70%, they came down to 5%. And you had to compete with the world. You just had to make changes and improvements to become efficient and compete with the world. I think that is a positive sign which happened from 1991. In the last five seven years or eight years also, I think, whether it is the JAM trinity approach or the infrastructure focus, now the PLI and even the health, education etc., a lot is going on. But it takes time. I think that is a factor which takes time. As a starting point just to add to what the CEA said that India is 29 states and 8 union territories. There are 47 different economic subjects which are what they call concurrent subjects. Ultimate decision making authority is the state. Centre may have a thinking and center may suggest something. But the ultimate decision is of the state. So, I think the marry and the concurrence and the agreement between the center and states becomes very crucial to be able to move on an all India basis as India as one country. I virtually put it, India is like 29 plus 8 mini countries within one India. There are so many issues which are concurrent. Ultimate decision is taken by the state. So, one suggestion at a macro level which I would like to put across because I see CII and others here, like there is the GST council why can't there be more councils in India run by the central government ministers. And bring all the state relevant ministers together whether it is agriculture or whether it is manufacturing or whether it is other areas. You know, one can identify some. But I think if there can be a more coordinated approach of working with the states and having some common agenda, I think that will give India a push to go forward. I will quickly touch on three areas which I think will make a difference in India's economic growth rate and faster activity. One is our high operating costs. I think that's a challenge in India. Whether it is energy, logistics or capital. Energy is a very major challenge, it's been talked about. But the way energy is subsidized in some sectors or given free in some sectors, like it is in some states in agriculture and water is free… so we are having a double loss. One is, industry has to bear that cost of that subsidy. And second is water table keeps coming down because water is just left on the whole night because electricity is free. Now these things have to be addressed. This is where industry gets affected by having to subsidize other sectors to such a degree that the competitiveness is not then growing as much as it should. Secondly, I am going to talk a little more on the ease of doing business which is time for approvals etc. which is there. It is good to see that the PM himself has got involved in the improvement in the logistics sector, he is pushing that very hard. I think that is very crucial. I have heard some ministers say that today logistics is about 16% of our cost. How to bring it down to 8? I think that is a fantastic target and we have seen the work in infrastructure and many other areas happening. So, these are some in terms of high operating costs which have an impact. Second is the issue of ease of doing business or regulatory burden due to the approval processes which are there in states and at the center. The good thing is, frankly speaking I am involved in CIS national committee on ease of doing business. So, I have had the occasion to interact with people in the government quite extensively. I can say it upfront that they are very open. They are looking for change. They are looking for ideas. They keep asking us – please suggest what more we can do. But the challenge of implementing some of these is a very big challenge. That is something which the decision making process, the agreement process takes a long time. Actually, the government has very kindly set up with CII, a government CII committee on ease of doing business which is chaired by the secretary DPIIT, Mr. Anurag Jain. So, we had a meeting of that on 30th January, their subcommittee is formed under that to look at various areas of how we could sort of push and improve the ease of doing business areas. But a couple of quick suggestions which one can make. One is turnaround time for approvals. Somehow time doesn't have a value. Time has to have a great value. It must be considered a big cost. That is the only way to do things faster. Time is otherwise… I will give a couple of examples. We have a caustic soda chemical plant in Gujarat in an industrial estate. We wanted to expand the capacity of that plant. Now, I don't know why, we discussed with the state also, why did we need external environmental clearance when we are already within an industrial estate. So, in 2014-15 when I was an office bearer in CII, we had a meeting with the PMO with Mr. Nripendra Misra who was there. I mentioned this point to him. The CII took a delegation, we talked about it. I said can you please have a look and see. He said you send me a lot of issues of how we can make change. CII sent it including this. Sure enough, in Gujarat the law was changed. So, I am saying that they are open to it, they are looking at change. I think we have to get a very strong focus of how to make some of these changes and this issue to him also we mentioned about time. Time has to be looked at as a very major element which has to be addressed. We said, we have suggested have a real time dashboard showing the number of applications received, what is the status, the process, approval etc., so that there is some information available. The government has started which is very good single window clearance system. It is still getting established. But it is there. And states have also taken it up which is very proactive. So, we are also working with the government on that. We have also suggested to have a central grievance mechanism under supervision of secretary DPIIT, how do you take up these issues and get them addressed? But again, within a time frame, with a time limit it should be put into place. One major challenge I think all of us are aware about is enforcement of contracts. I think that is a very big which is there today and I think, what, 65 or 70% of all court cases are vis-à-vis the government with someone else. So, you know we have to find someway to find a solution. Again, I am giving an example. We have our operations in Rajasthan. The Rajasthan state electricity board. I am talking about ten twelve years back. Had a chairman there who was very progressive. He set up 3 committees. All disputes in courts up to 25 lakhs, I think one crore and above one crore, he set up three separate committees. And said now you people please discuss, debate and take a fair decision of the RSCB folks itself, who is right, who is wrong. Believe me 80% of the cases were decided in favor of the consumer. That is a great step forward. I think we require things like this to bring about a change of how to… another way the government is moving and there is of course, scope for everywhere including in the private sector, is the issue of digitalization. I think they are moving very fast. But there is a lot to learn in that. How can we do that? We have all seen the JAM trinity and how it has helped the country so tremendously. But I think that is another area. Labor laws is another area which needs to be addressed again and it is a concurrent subject, so one has to get connected with the state. Some states are more progressive and some less. But if there can be maybe some sort of a common guideline and agreement on the GST type council, maybe some of these things can help in coming to a faster agreement between states how to take it forward. Another issue we have raised and government has moved on some, but we need a lot more to be done is how can we make penalties not criminal. Today the number of penalties, a number of issues which has got criminality behind it, which are not really criminal in nature, I think we need to address that with a more open mind. Please do penalty, do financial penalty, do whatever you like, but don’t make it to that where you have the directors, independent directors, everyone. Again, one of our companies prior to the restructuring of DCM, I am talking of maybe it was 87 or 88. In our distillery in the sugar factory a case was filed and about seven eight years ago the director still alive had to go to a court in Allahabad for that. I am saying that we have some way of sorting out these issues in penalties. Last in this ease of business thing… there are many points. But I will make the last point on this. Electricity and petroleum, both these items should come under GST. I think that will actually help in terms of easing the process, you have a setoff, some uniformity all over India. I think some of these things really help as far as industrial growth is concerned. Last, I would like to mention little bit on corporates itself. I think corporates themselves have to do a lot of work. There is no two ways on that. We ourselves, we have talked about it in various business forums, industry forums of how do we improve our own efficiencies, how do we work towards becoming world-class, how do we learn from outside, how do we bring about the changes which can actually upgrade the quality and provide a better customer experience. I think that is the most important thing at the end of the day. How can we do that? I think more research as the CEA has mentioned, R&D we need to spend more. As a percentage of our GDP etc. is fairly small. So, I think that is something, some company is doing more or less, but I think these are the areas we need to do a lot more work on. This issue of large companies and large corporates is very true. But I think they have a responsibility to improve the efficiencies and work with MSMEs to improve their efficiencies and to improve their profitability and to improve their way of working, so they become competitive on a wider scale. Again, I am giving an example, some of you may remember erstwhile DCM limited used to have a vanaspati brand called Rathvanaspathi, it was a very old brand which was there. I was working in that division. I am talking about 1985. We were getting containers in plastic to pack our rathvanaspati. We at that time were working with the vendor who supplied us those containers to see how we can improve his efficiency so that it is a win-win for both. I think corporates have to move a little more aggressively and also in working. Maruti and a couple of other companies have done a great job. There is no two ways on that. But I think many more can do that. So, I think that is where corporates have to work a lot. And digitalization is another area which requires tremendous effort in corporates itself. Ultimately at the end of the day as I tell our people also, I said, we get salary because of our customer. So, how do you give the customer a better experience, something that we have an edge over the competition. So that, we are in a better position to carry it forward. So, I think if you look at the economic growth side there are many areas to address. I have just shared a few which came to my mind of what we can look at from the point of view of manufacturing side. But I think the importance of the services sector and the agricultural sector cannot be down played. And they are very crucial where the potential is huge. So, these are some thoughts Rakesh, thank you.

Rakesh Mohan:

Thank you very much, Ajay for again a very comprehensive view from the industry side. So, Ireena, we have had a government view. Is that correct thing to say for what you said? Or is it the Anantha view or an economist's view? And we have an industry view or Ajay's view? I don't know what view you are going to give. But we look forward to it.

Ireena Vittal:

Thank you. I just have three comments. The first one is a piece of advice which you can ignore, you should. A long time ago we were doing a report on urban. The one that you don't like Rakesh and one of the biggest problems we had was framing the issue. The biggest problem we had was on framing the debate. Because the moment you talked about urban everybody said – but Gandhiji said India lives in her villages. So, it is almost as if urban meant not village. And large doesn't mean not small. I think if you think about large, large is a short code for productivity, it is a short code for resilience and the ability to raise capital and most importantly it is a short code for replication. Because there is IP. And every large company survives in an ecosystem. Whether it is the auto ancillary unit, whether it is a poultry integrator who grows through millions of small growers, whether it is a dairy processing company who gets the milk from millions of individual players. So, I think you might find it less sensitive to make your recipe not about large companies but about productive competitive companies who build ecosystems and who can then have the capability to invest in R&D and in IP. But again, a piece of advice, cannot stop being a consultant. Let me move on. My point of view is, I totally agree with your hypothesis. But I look at it from a different lens which is my observer perch as Rakesh would say has been consumption for the last 20 years. And it is fascinating to see consumption which is 56 to 58% of the growth of the economy for the last 20 years has been one of the drivers of resilience. Because sometimes agriculture goes up, goes down, if we are lucky, it is at 3 or 4%. Export import usually net themselves off. Sometimes it is better. And gross fixed capital formation peaks at 38% in 2008 when we were investing in heavy capex industries. Power, oil and gas, telecom, infrastructure, you can't see that kind of investment even without the NPA clearance in every decade. And then after that its at 29.2 this year. Half of which is households investing in construction. But the rest of it is private sector. So, these three kinds of go up and down. But consumption in India has been the steady bulwark because it is a market of millions of consumers. Each of who consume very little. And there is a long way to go. So, if you look at the 300 million households that India has it actually has only 30 million who are true consumers. It has another 60 to 90 million who are aspiring consumers. And the rest of them have not entered into consumption. The last 100, 120 million… by the way the numbers have increased in the last four or five years… debt driven to our GDP growth, that is why Bill Gates spent so much of time here. Because they actually need money. They actually need support. They need access to opportunity. So, I look at this whole economic development from a very simplistic view of what drives consumption and these are all interlinked pieces. And the single biggest thing that you can imagine that drives consumption is jobs. And what I love about your growth recipe is it is directly linked to jobs and quality jobs. What is the beauty of exports? Export is to learn. But more importantly when you export the quality of jobs you create is much higher and you have a real estate developer in Bangalore who is listed on India's stock exchange and actually says what percentage of the flats he has sold were bought by IT employees. It is so meaningful. So, IT at one level is four or five million people. But from a consumption point of view each one of them supports nine people. The same thing is true of manufacturing, right? So, to me the heart of this whole thing for a country as young as India where the total number of employed people has been 400, 420 million. But we are adding a ten million even at a LFPR of 40%, we are adding 4 million who are eager to work every year. The heart of this whole story is are we creating jobs. We have aspirations, but if we have jobs then the cycle will be terrific. And what I love about this story of yours is if we are competitive the jobs will come. Because if you look at when the jobs were created, they came because we built out infrastructure, the golden quadrilateral, construction is such a huge driver of jobs at the skill level at which India is. If you look at China where construction was estimated six, but extrapolated 25% of the GDP. It took 250 million people for years. Now we have 100 million people, 12% every year who are graduates. The bulk of India's population needs these kinds of jobs. So, we need to have construction to kick in and we need to have good real estate for that to happen. We need to have cities to become vibrant because when cities become vibrant the local government employs people to clean roads, to take care of sewage, think of Bombay cleaning up its sewage system before the monsoons every year. That is people. It runs schools. It runs hospitals. Our local government should actually be populated by 10 to 20 to 30 times as many people as we have. They will all pay back for themselves. Because property taxes can then be rationalized and collection of water bills can happen and the cities will be able to raise more than 0.41% of their own revenue from city services. So, there is a huge piece of job in that whole section. There is a whole piece of jobs obviously in exporting more. And our exports are as much agri. Agri has always been in the top two three. And when you export mutton and you are the third largest mutton exporter or the largest cotton exporter, that is millions of people closer to the farm who are able to earn a little bit more. At this stage of our GDP just switching people away, 220 million in agriculture, just switching them away from agriculture itself will give us a GDP bump. Because you are changing the mix of the economy. This is what we need to do. By the way we have done this from 2008 to 2019, we took away from agriculture. It is only in the last two years that they have gone back because of covid and the second order consequences of economic slowdown. But that itself is terrific. Then social services, whether you talk of health or you talk of police safety or you talk about schools, we need to employ more people. Whether they are para nurses, whether they are teachers, whether they are police. We talk, we complain about our police. But 40% of the police numbers that have been allocated, the jobs are unfulfilled, right? So, this country can employ one million more nurses. Half a million more doctors. Almost a million more police people. I am not even going into the army. So, to me the heart of this whole thing, if we become competitive and if we have large players who create ecosystems, then we will create jobs which will drive 55 or 65% of the growth which is consumption and then private sector will say demand utilization, capacity utilization is above 72% and they will invest. The virtual cycle will start. Now, I remember we presented once to Mr. Vajpayee on what will it take for India to grow at 10%. I didn't know him very well but for those of you who did, he listens very well. I mean, a lot of these guys are good listeners. At the end of two hours, he didn't say anything. He just turned to McKinsey team and said I am going to say it in Hindi and repeat it. He said – यह सब ठीक है, but यह होगा कैसे? Which is all of this being fine but how will this happen? So, the real question in India is how will this happen? Wherever I have seen this happen whether it is 91, whether it is 2001 to 2003 it was a confluence of four soft things. One, economics was on the political agenda. At that point in time, you could take the manifesto of any political party and they were all talking about the same stuff. In 97, you guys will laugh, CPIM from west Bengal hired McKinsey to do a project on growth. And the economic times had an editorial which said CPIM, the M now stands for McKinsey. I am telling you there was a period in India's history when economics and politics was aligned. We need to make sure that that is true. You cannot have investment in a burning house. You cannot have investment when growth and economic development and prosperity is not priority number one. Will this happen? Inshah Allah. Point number two. The union. It is not the centre, it is the union as per our constitution. The union and states have to have trust. Because of the concurrent list. There are so many sensible policies. I did not agree for example with Agri policy. My bad. But I love the labour policy. The reason it junked was because it came from the union. There was no reason. But a lot of this is because there was no trust. Now if you look at Tamil Nadu in south India and these parties keep moving one after the other. But the economic agenda doesn't change. I think the trust between in the federal structure, trust has to go up and we cannot be enemies. We have to be combative politicians. But not enemies, right? That I think is the second crucial element that needs to happen if you want us to be competitive. The third thing is entrepreneurs have to be celebrated. Not made fun of or raided or so worried that they send their kids abroad. I really worry about whether the entrepreneurship in its truest form is supported through stable predictable policies. Put a guy in jail, put him in jail. But the threat of jailing is not the answer to solutions. But there was a time in India whether it was 91 or 2001 where entrepreneurs were heroes. Now they are heroes only because they are unicorns for three and half days. But true entrepreneurs… I think Abraham Lincoln said this that – when the owner is unhappy, the worker cannot be happy. Owners in India are unhappy. I just think that should change. Then finally state capacity. If you really want a policy which will help us create short cycle wheat because we no longer know when rains will happen in Jan. And drones for Indian warfare and water management systems and all of this, we need policies that support and encourage these kinds of transition risks. These kinds of risks. And that cannot happen when you don't have expertise in the ministries, in the departments, in the states where it matters. We need to value state capacity. Not just bodies but also brains. So, my wish for you is as you take this forward you will balance it and make it about the large leading the small. But perhaps you also add a chapter so that Mr Vajpayee will be happy on – यह होगा कैसे? Thank you.

Rakesh Mohan:

Thank you very much, Ireena on Mr Vajpayee. You were lucky that he said that in reaction. In cabinet meetings he usually… there will be huge discussions because certainly in his time every minister had a say and there is a huge discussion. At the end of the meeting, he would just say – ठीक है. Everyone was wondering what was decided. That depended on the chap who wrote the minutes who is the cabinet secretary. I am sorry, I have been a very bad time manager. But each one of them was so interesting that I didn't want to interrupt. So, actually everyone took 15 minutes rather than 10 minutes. But that is fine with me. I hope that none of you are sort of rushing to go home. Trishna, are we providing tea and so after? Okay, so, there is. That is being kept so that don't be impatient. Do you want to say anything at this point or? Okay. I will just make a couple of comments in reaction. I think that the common point made by all three of the discussants is to do with the importance of states. In all kinds of things that have to be done. So, I think that is very clear. The question is that in some sense we had a coordinating mechanism before in the planning commission whether you like how effective they were. That is a different issue. But we had a formal coordinating mechanism with the states in certain areas. Of course, not in law and order etc. I think that is a very interesting issue on what can be done now to improve the coordination with the states. On this issue of, these things are with the state so, what can we do sort of thing. The best example I can give is that the whole green revolution that is agriculture is totally with the states was centrally driven. And extremely effective actually. It was a whole program of R&D, it was amazing coordination actually of central R&D, setting up agriculture universities in every state, huge extension system and so on. It was centrally led but particularly agriculture had to be done on the ground in the states. In some sense, ways and means need to be found of areas which are with the states but whether leadership has to be given by the centre. How to do it again, same prime minister Vajpayee's question – करना क्या है? So, that is very important. And also, Ireena I think you must have read my paper on third generation reforms. Because it is all about state capacity and so on. Also, domain knowledge in bureaucracy and so on. Just a couple of more comments before I ask people to have questions. There has been a long-standing discussion between us Ananth. But on this issue, whereas I agree with you that the 2010s the slowdown was partly because of financial cycle, the disagreement is where the financial cycle arose. In fact, as you go out, I will hand you two papers. Maybe I have handed them to you before. Seriously the point is that everyone says that the 2010s NPAs arose from exuberant credit growth of 2003 to 08. But that is just simply not true, that almost all the NPAs, most of them can't be, but most of the NPAs took place, the lending was done after 2010. So, what has been said the exuberant credit growth 2003 to 08 was wrong. Of course, I have a vested interest here. By the way on a lighter note if you just see all his graphs what do you see? Things were going very well when I was CEA and deputy governor of reserve bank. Everything else fell after that. So that is the recipe. (Everybody laughing) …but seriously the credit growth story is absolutely correct. Because of the NPAs and so on, there is no question with that. The question I think is important for us is to understand why that happened and when. So far, the analysis has been wrong with your predecessor's economic surveys, with not yours, but predecessors' economic surveys, some former RBI deputy governors and governors, because really, we have actually looked at the data in detail from firm level and so on. Obviously, the difference is only on that. Not on what actually happened afterwards. Two other last points I would make. I don't know. I think the best way of putting it is that you said the transfer of people from low productivity to higher productivity, that is what the whole thing is about. Agriculture to industry and services, and that has been very slow in India. Because of the lack of labour using manufacturing exports to a large extent. That is still not happening. That is among the key points we have made here that you need larger companies. Our image has been SMEs who export. If you look at the world it is not true. Largest exports come from large companies and a lot of them export within the large companies' system. So, I think this is where this whole issue of moving people from agriculture to industry and services, from small and medium to large. And what comes there important is why is it that small doesn't become medium and medium doesn't become large and what Shishir showed on the share of companies that have remained in the top quintile, highest in the Asia is telling and that maybe Ajay and all of you are too causative. So, you don't have enough competition and so things don't churn. They did from 1991 to 2001 by the way. Huge churn actually. I will shut up now. Because I will keep talking for the rest of the time. Raju, you already have… microphone.

Raju Panoria (Audience):

I am Raju Panoria. I am in the midst of a whole lot of economists. But I at least I have a colleague sitting as part of the panel. I have a couple of things I want to just add to what has already been said by Ajay. I think he is very diplomatic about it. But I think that successive governments really have been like, how we give exams in schools answering all the easy questions first and then getting to the difficult or kind of omitting the difficult ones so that, at least they can get passing marks. I think this whole issue on cross subsidization of cost and I treat it as cost subsidization of cost whether it is energy, whether it is interest, whether it is in whatever form. It is cross subsidization of cost, it is a huge burden and competitiveness cannot come unless this tough question is truly answered. That is number one. Number two I think we have talked about employment area, Ireena talked largely on that. We have a PLI scheme, pardon my saying so, but it is extremely investment skewed in its thinking. It has to shift from being entirely investment skewed to become employment skewed. I think there is a good case to look at an ELI scheme rather than a PLI scheme. Because today medium and small industries actually cannot participate in the PLI scheme. I think that is a very big fallacy in this entire context. I would also like to add that PLI scheme unless it has an exit it is not a competitive scheme at all. It is actually promoting un-competitiveness. I am sorry I am being critical about this but I think that that is very important. The third point, if you want exports to grow it is not just the competitiveness but we have got to integrate ourselves with the global markets and the global supply chain. We can't have merely bilaterals. We have got to start thinking in bigger terms and not be shy in entering into multilateral or plurilateral agreements. I think what we have done in terms of not wanting or resist being part of RCEP or Indo-Pacific… I am not getting you to very specifics of that. But in a broader context Australia and the UAE are not going to add to exports. So, I think that is serious. The last point I want to make is that the exchange rate plays a very important part in this entire scheme. And to think that the rupee reflection or the value of the rupee is a reflection of the economy is a very wrong connotation and it needs to be addressed. How it is to be addressed or not… the last thing is interest rates. If you look at, sorry I was not going to say the deputy governor, I was going to say the governor which is Dr Y V Reddy, at that time our savings rate was also amongst the highest because domestic savings when there is differential between inflation and interest which actually results in declining savings there is no way that you are going to get domestic savings which will be enough to fuel investments. These are just my comments.

Rakesh Mohan:

I will take a couple of quick comments and then Ananth you would like to say something before you leave. He has to leave by 5:45. Gurucharan?

Gurucharan (Audience):

Overall, a very good discussion. I agree with Shishir and Rishita's recipe. I am really glad that Ireena got into the guts of the issue. For someone who's been watching the economy since 91 and in fact one of the first person who predicted the economic rise of India in 'India unbound' in 1999, I believe that from 91 to now the economy's growth rate has been not bad. Overall, it is 6.5 to 7% and for a democracy that is pretty good. But the disappointment is that we haven't created an industrial revolution. A number of people have dealt with it. And obviously the issue really is jobs finally. So, if you look forward now the first thing to want to understand and it would help me to understand is why did we fail to create an industrial revolution. Was it the fact that we didn't follow the model of the Asian tigers of the export of low-tech labour-intensive manufactures? That is really the main question I have. In addition, the question really is are our tariffs too high to still do this? Then the point that he made very perceptively that the PLI scheme should be rewarding employment and exports. There should be a sunset clause for tariffs in that so that the industrialist knows, the investor knows those tariffs are going to come to competitive levels at one point. Shouldn't build on that. Anyway, these sort of subsidiary small question. One could go on and on. But let me stop there.

Rakesh Mohan:

Thank you Gurucharan. I think music to my ears at least. If you can get us funds, we will do work on this and give you an answer in three years. We need about 2 crores a year to do this. So, just all of the business people who are here get together and we will solve this problem of your competitiveness. Ananth, if you like to comment before you leave and then we will come back.

Ananth Nageswaran:

Actually, the points about whether PLI scheme should be oriented towards medium sized enterprises, I think that I am not 100% sure about the answer myself. But the exit clause is very important for any scheme. Otherwise just becomes open-ended and permanent and creates perverse incentives. So, I completely agree with that. As for export markets and integrated assets for a supply chain I think the part of idea of the PLI scheme is indeed about integrating us with the global supply chains. At the same time while I see the economic merit of the argument, I think the geopolitics is becoming too important to be ignored with respect to some of the agreements and especially if you talk of RCEP etc, we do have an agreement with ASEAN, the entire ASEAN. So, there are some countries within the RCEP which we are not having agreements with, but we have an agreement with ASEAN, south Korea separately and so on. Now we have an Australia and UAE. So, with RCEP it was a different ball game and I am not able to completely agree that that was a colossal omission at this point. Because one of the things with all free trade agreements is that given that India is a country with a trade deficit with many of the trading blocks, most free trade agreements would actually end up initially increasing our imports. Because what happens is, with the free trade agreements is that it will open the markets for us in other countries where when they reduce their import duty on Indian products. But we will already be competing with countries which already have a zero-duty access to those markets. So, what people have to understand is free trade agreements is that for a country which has a trade deficit in general free trade agreements are about short run higher imports which would naturally happen initially. But then later on because it has opened up markets for us if we can get our competitiveness act together through various other things that were talked about, then I think the advantages, the free trade agreements would begin to come through later. So, in terms of Das's comments on why India hasn't really achieved the industrial revolution despite the fact that growth rates have been quite respectable in the last 30 years or so on average. Again, I think there are different hypothesis and as he said it probably will take a little bit of time to come up with clear answers. But there is only hypothesis. One of the hypotheses is that the physical infrastructure wasn't given enough attention is one possible answer. So, as physical infrastructure improves the inadequate or incomplete industrialization can pick up is one hypothesis, one argument. So, I would in fact say that India didn't really have a premature de-industrialization but had insufficient industrialization in the past because of inadequate infrastructure. The second thing which you have written about quite copiously I must say and correctly so, is that you have once said that in India grows in the night or something like that. You had once said that. I still think we have quite a bit of the license inspection complaints regimes to be dismantled. I think that is the key to sort of getting the middle stand or the medium size enterprises to grow. I think that we still haven't done enough at all levels of the government. That could be the second key to the industrial revolution. The third key which Mr Shriram touched upon is the skilling aspect. These would be the key to probably achieve the potential that we have for industrialization. This would be my initial thoughts. I will stop here. Thanks.

Rakesh Mohan:

Thank you very much indeed Anantha for coming and spending all the time here. Just a couple of comments. This issue of inadequate infrastructure being a problem but you have presumably the infrastructure is better now than it was 20 years ago. But we had the highest growth 20 years ago. Well not 20 but 10 years ago. So, I think that is an issue to be considered.

Anantha Nageswaran:

We had a credit cycle problem.

Rakesh Mohan:

I know. That was then and I am talking about now. Ok. So, the other thing is that as you would know particularly since you managed the exchange rate in UBS, so you looked in the exchange in UBS, no, credit Suisse rather, I mean in some sense there was also a proposed what Ajay said about logistics costs being 14 or 16%. I have actually been looking at this because I have been asked to speak on logistics issues. That is why I have been looking at it now. No one knows where this number comes from. And even worse no one knows what it means. So, the NCR has given a number of 8% already. Whether it is supposed to mean we are in good shape because 8% that is a global average. But no one knows what this really means. However more importantly why is there exchange rate 82 rupees to the dollar and not 50 rupees to the dollar. It is because of these handicaps. All encapsulated the exchange rate. It is like Germany is saying I can't compete because I have to pay 50000 euros to my worker. Whereas India pays only 5000 euros. It is all in the comparison of the productivity and in the exchange rate. I think that Raju you made a very good point on the exchange rate issue. I hope that’s a message that you can carry on the exchange rate to your ministry and of course, the RBI. Final on the PLI actually I just wonder of this point is raised by Raju also. Look, to some extent to my mind since one of the key problems and Naushad Forbes has been talking all the time, is the lack of R&D and that R&D expenditure as a proportion of GDP has actually gone down and especially in the private sector. That way also the large companies come in. The question there is we had thought in 91 that by opening the economy, more competition, the companies will or the private sector will be induced to do more R&D to be more comparable. That has not happened. PLI what it is doing is making it worse. Now you have a degree of comfort, ok, I will get X% of revenue by doing nothing apart from getting a government license for the PLI and I have even less pressure to become more competitive. That is just a general point. (Inaudible discussions between Anantha Nageswaran and Rakesh Mohan) (Anantha Nageswaran departs from the discussion.) Anupam. Let us have quick comments now. That always happens with people who speak later.

Anupam (Audience):

I have about 10 specific questions about IT technology. I will not go through that and I will send that specially. But one basic comment on methodology. I think, it is highly confusing and misleading to eyeball graphs like this and then draw hypothesis or even conclusions. I think the debate that you were having about growth rates episodes just to give you an example, some places you have averages over five years. The point of that how you divide that interval makes a difference. And some place you have for example you are using a ratio where you talk about contribution which is a 2008-09 around that time of the crisis. It is totally unrepresentative year. So, I think you use averages just methodologically. I will come back to other things later. But comment wise number one, the whole argument that you were having up to now, if instead of growth you use quality of growth and where the major determinant of that which is labour, is basic employment, livelihood jobs. You see, jobs also people have different meanings of this. Let me call them livelihoods, whether they are formal jobs. Second, I think the big confusion, you use the word or you are using something as synonyms. Organised sector, large, small medium, that is I think a big mistake. To me I would even say a mistake. Secondly the biggest problem that arises in this and which leads me to the final conclusion is none of this, unless you disaggregate at least services and manufacturing, everything else, most of your conclusions become quite invalid. Not only that, I having done this, even within the service sector which is a very dualistic one you have a big problem because everybody says we are having a services revolution. That is nonsense actually, it is only a very narrow area which is IT, IT enabled services which is the word. Which were the ones where there are comparative advantages, strengths were trending and now it is going down. That is another. Disaggregation becomes very important. Bottom line, I won't bore everybody else, the point that this macro economics has zero contribution to growth recipes. It only tells you how high you are putting the stove on. So, maybe 5% the heat of the economy. Microeconomics is what is necessary and if you want to make it, I think for example I was frankly… Ananth used the word click and bait. I thought the whole seminar would be something different either large scale organised sector or perhaps even global champions. It is not that Indian firms are not globally competitive. You already had them in four different sectors. Let us take where the world's… I will start with the ones that I was involved with and I have studied it. Indigo is now by world class standards a service airline but by all physical indicators global. It is now in the top ten worldwide. Number two reliance Jio. I was chief economist at shell global. The one company that was always the elephant in the room which is considered global and beat all the world benchmarks was when they set up the refinery. Number three IT services. A lot of them Rakesh himself will tell you that the telecom services India was one the worst performers. Today in the first became the best performer in terms of voice, one of the most competitive markets and now in the case of data also. What I am trying to say is it is not that India doesn't have the recipe. We do have the recipe but all of them have to do with microeconomics. It is more than ease of doing business. It is a whole question of… Rakesh mentioned infrastructure. Infrastructure plays an enabling role. But in infrastructures both a service by itself and a cost category. So, you have to be very careful on how you measure the contribution. I am going on too much but I can give more subsequently in emails.

Rakesh Mohan:

Thanks. Maybe three quick questions.

Audience:

Just a quick comment, I think. What perhaps as you mentioned we now lack something like a planning commission. So, at least… even as the prime minister said that by 2047, we want to be a developed country. So, I think it is time that the government comes out with a clear recipe, a clear paper consulting all the relevant stakeholders whether the state government, whether it is RBI, whether it is economics or poor. I think it is important that the government comes out with a paper saying that our target now for the next five years, ten years, fifteen years is seven percent growth or eight percent growth. This is our employment target and this our GDP target. I think this is really important. Working without a blueprint in the front I think we will be just thrashing in the woods. Thanks.

Rakesh Mohan:

Rajesh?

Rajesh Chadha (Audience):

Thank you. Wonderful presentation. When the discussion on not joining the multilaterals RCEP etc has been raised and tariffs were mentioned in brief. But when we compute the competitiveness by measuring the growth rate of exports elsewhere versus India's I think one suggestion is to look deeper into what happened what Dr Mohan said. The early 90s to 2004 when the tariff rates were continuously reduced and the exports growth took place. The country grew up. So, it is a very, very important question. I would have gone into other details too. But I am sticking only to this point that if competitiveness is being hampered by all that has been discussed including PLI, but more importantly by the protection having gone up in the last five to seven years. I think that is one of the damaging factors on our competitiveness. Thank you.

Harshit (Audience):

My name is Harshit. I am from Kirodimal college. I have a question that since agriculture sector holds a very large share of the population and as ma'am has also mentioned. So, I have a question that today more and more farms are becoming rainfall dependent since we know that ground water aquifers are declining at an exponential rate. So, what needs to be done. Because it will be a serious issue of concern as far as agriculture sector's productivity is concerned. And our own food security is concerned. My second question is that since fourth industrial revolution has been started, MSMEs which holds the backbone of our economy are still hesitant to adopt the newer technologies. Thank you.

Danish Hashim (Audience):

I am Danish Hashim for CII. just a few observations. In fact, I have number of them but in the interest of time I will just keep it to two or three.

Rakesh Mohan:

I can be here forever but they can't.

Danish Hashim (Audience):

I understand. In fact, it is a very new recipe to me that we are talking about large firms. Because all the time we have been talking about the small firms which will actually drive the growth. For example, if you see one paper if I remember by professor Krugner. She said actually the India, the problem that it is facing is that they are either small firms or large firms. So, in the middle segment we did not have enough firms. That is point number one. Point number two is that what kind of policy would you suggest to promote large firms actually. Because it will become politically unsustainable. How would you, what will you do? Because I think they already have enough advantage. That is point number two. And thirdly we have all the time been talking about unshackling the potential of MSME. Like for example, they have lots of problems relating to labour laws and all that. So, if you focus more on large firms, you are not actually not giving attention to small firms and that will limit the potential of employment. That is the other point. Last point, you mentioned about investment and sales ratio and you showed that it is not declining. But you just reverse it, it becomes your sales to investment ratio and it is declining. And what it will reflect is that it is actually getting impacted by seasonal factors. There is a graph showing investment to sales. So, if you reverse it, it becomes sales to investment. That is actually falling. So, it is getting impacted by seasonal factors.

Rakesh Mohan:

Thank you everyone. I think I will start from there and Shishir last.

Ajay Shriram:

Thanks a lot for giving this opportunity and sharing some thoughts. I think agriculture you have also asked a question. I appreciate this point that try to move people to higher income bracket from rural to urban or to organised sector etc. To my mind, we have today 14 crores plus farming families in the country. Approximately 82% of them have a shareholding of less than 2 hectares. I think the numbers are so large and each family if you take even five members, the numbers are so big that moving them to organised sector is a 50-year proposition. I think we have to start moving on some manner of giving them a better income with technology, surety, clarity of direction, a proper system for selling and multiple factors. You know today for instance a normal farmer who sells his produce, from the price he gets from a first dealer, I am using that word, to the customer is between five to eight different middlemen. I think this is not okay. I think one of the labour laws which was there, which unfortunately did not work but I think it is practical is having corporates connected to farmers. I can tell you ladies and gentlemen, I am in the sugar business. We have over 2 lakh farmers supplying us sugarcane. Believe me in the last 10 years we have seen their incomes and their family lives and their household and their prosperity go up dramatically. I am taking a state like Punjab. I was there two weeks back. Because we have a research centre for agriculture in Ludhiana. So, I had gone there for a couple of hours and we drove through some villages. To visit our farms where this wheat trials were going on. I was amazed to see driving through a village. One is they are all pukka houses which is a very good thing. Secondly believe me, we were driving through the village there were two beauty parlours in the village. I am just saying that is the aspiration and the thing and people have the income. We have to provide a system by which the farmers income goes up in a sustained, fair, transparent manner. And I think corporates can play a very major role. And I think politically if the farmers are cheated by any sense by a corporate the government will to leave the corporate. That is a given whether the state or the centre. So, I think yes, we should move for giving them a new life in a different organised environment, but the numbers are so large, we have to start working to give them a proper income and coming to this point as was mentioned by many people, is the fact that ultimately India’s consumption must go up to give a boost to the Indian economy. Exports definitely we must push because that helps in terms of competitiveness, quality, costs, world standards etc. But we can't forget India. We are on 140 crore people. 65% of them below the age of 35. I mean the aspirations here are so large, how do we satisfy that. And 60%of our population is in the villages. So, we have to give them an income in an organised way. I think in terms of the question that you asked of water or things of that type, firstly I mean one state we are all aware of. My policy of thinking is anything free is misused. Nothing should be given free. There must be some cost for it. And if one does that automatically many things will come under control. Because people will have to pay for it rather than getting it free. Thank you.

Shishir Gupta:

I just want to say a big thank you to all the panellists, really for taking out the time. To the audience because I know, spending two hours and also online audience. A big thank you. I am glad actually that we got so many reactions. That means 50% of the purpose is served which is to create a debate. In research at least there is no final word. But at least this word got people interested and we started talking. So, at least from our stand point it is still a win. Lastly a big shout out for Dr. Mohan for constantly encouraging us and I just want to place it right because without which people like me would not be able to pursue these things. Just in the interest of disclaimer the study was supposed to be on state's growth. As I was doing the state's growth, I realised I don't understand India's growth well. So, then I shifted and he let me do that. So, bit thank you to you sir, thank you.

Rakesh Mohan:

Thank you Shishir. You could have left out the last bit. One actually very important central issue of the paper which is kind of unusual in India therefore it needs much more discussion and debate and more work is the role, the greater role that we need of large companies. And the point there is you start through the exclusion of SME, the point there is the more large companies you have, you have greater competitiveness, therefore incomes are going up. And they will be connected to lots of SMEs and this whole chain will then generate many more service jobs. And also pulling in agriculture. That is if you can create a competitiveness in processed foods and everything else. You will have also pulling, upgrading the agricultural productivity. So, I think maybe some of the discussion that is reflected you might possibly think of how you actually explain what the sort of recipe that the new growth recipe which somehow got escaped people actually. Because you know McKinsey global institute has an excellent study, they called it 'outperformers'. Looking at what the highest growth countries what their growth recipes have been. A lot of very interesting findings. Among them was this issue that many of the successful countries have really had large firms and is large firms who export. Of course, with a huge… I think the best example that we have perhaps is Maruti in terms of how they set up the whole supply chain system. So, I think there is… if we really have that experience, I wanted to encapsulate a lot of the discussion that the whole thrust is that – look, you have got to export more. You have got to export to be more competitive. How do you become more competitive, larger firms, that will then generate jobs and so on. I just wanted to close with that. Ajay I will have to have a longer discussion with you on keeping people down on the farm. Thank you everyone. And on zoom also.