

It's India's Turn Now

by

Jayant Sinha

*Honourable Minister of State for Civil Aviation,
Govt. of India*

FORUM OF FREE ENTERPRISE

&

THE A.D. SHROFF MEMORIAL TRUST

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In 2016, Forum of Free Enterprise completed 60 years of its existence, while The A.D. Shroff Memorial Trust completed 50 years of its existence. To celebrate the Diamond Jubilee and Golden Jubilee respectively of the two organizations, a function was held on 29th September 2016, in Mumbai, at which Mr. Jayant Sinha, Honourable Minister of Civil Aviation, Government of India, was the Chief Guest. The text of the speech delivered by Mr. Jayant Sinha is reproduced in this booklet.

The booklet is published for free distribution. Soft copy of the text may be had by writing to Forum of Free Enterprise.

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INTRODUCTION

The address by Mr. Jayant Sinha, Minister of State for Civil Aviation, Government of India, on the occasion of the Diamond and Golden Jubilee Celebrations of Forum of Free Enterprise and A.D. Shroff Memorial Trust on ***“It is India’s Turn Now”*** was refreshingly different from one heard generally from political leaders. It sounded totally professional and was very lucidly delivered. Great tribute was paid to the Forum for what it had done in the last 60 years to encourage free markets and the opening up of the economy which had been in the siege in certain parts of the world and was so in India also till 1991. He emphasized that it was India’s turn to be in the vanguard of the world order in view of its inherent potential and Indian businessmen’s huge capabilities, great companies and talented work forces to provide requisite leadership. It is India’s turn to become a **“VISHVA GURU”**.

His main theme was around India’s frugal and sustainable development model. India has an added advantage over other emerging countries, especially as the Prime Minister has developed a new pro-poor, pro-market role for the Indian State. He cited figures to allude that India would be the largest contributor to growth in the world, if in the next decade it were to grow at an annual rate of 8%, China 5% and USA at 2.5%. India’s growth model will require less energy, national resources, carbon emission and capital per unit of GDP. Our capital productivity is also higher than those of most major economies and government debt much lower. This is a compulsion in view of our limited resources in proportion to our huge population of 1.3 billion. Besides we are producing a vast range of inexpensive items

for the middle class. The eco-system has developed to achieve this. Our giant companies have helped develop hundreds of thousands of small products and we have merchants online providing logistics and financial services. As cited by the author our entrepreneurs are beginning to make a huge difference at the base of the economic pyramid. The thrust on financial inclusion by the government is making markets harness better. In fact India has, according to him, the opportunity to become entrepreneurial engine for six billion people on our planet as USA has been the engine for the most affluent on the planet. He speaker recommended that we must follow pro-competitive policies so that our companies become world leaders. Only if our markets flourish entrepreneurs thrive, create millions of jobs for the youth and generate adequate income surplus, we will be able to serve our poor and eliminate the curse of poverty and depredation. This is where the fillip to enterprise is so critical as it has now begun the prime engine of growth.

The author made a pointed reference to the heavy hand of the Nehruvian Sarkar or maibaap on economic activities during the earlier decades which curbed the zeal and enthusiasm of the entrepreneurial class. We must now be policy driven and not discriminating or not rule based he pointed out.

It is an extremely well thought out presentation and rightly differentiates the roles business and government foresee for an increasingly global role for India and world trade. He rightly envisages that the two will hand in hand reach the promised land which appears to be now within India's grasp.

November 1, 2016

Minoo R. Shroff

President: *Forum of Free Enterprise*

Chairman: *The A. D. Shroff Memorial Trust*

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Jayant Sinha

I am very honoured that you have chosen me to be the Chief Guest on occasion of the Diamond Jubilee of the Forum of Free Enterprise. I am a great admirer of the Forum of Free Enterprise and everything that you have done in the last 60 years to encourage free markets and an open economy in this country. Thus it is indeed a special privilege to be with all of you on this, your Diamond Jubilee.

It is also essential during these uncertain times to reflect on the core themes that engage all of you at the Forum of Free Enterprise. Free markets, open economies, and a globalist mindset are under siege around the world - as we just saw in the First US Presidential Debate, the Brexit Vote, the rise of extremist parties in Europe, and in the depredations of global terrorism.

It is also fitting that we gather today to discuss these themes, here in Mumbai, India's iconic and global city. A city, that itself is the amalgam of bustling global

markets, wide-open trading routes, and a cosmopolitan sangfroid.

And at this juncture, during these uncertain times, it is India's turn to be the flag bearer, the vanguard of the new global order. We are at a profound moment in India's history – a time more poignant with possibilities than any other time in the last three decades. It is a time, when we have a single party majority in the Lok Sabha with a mandate from the people to build a new India. It is a time, when we have a decisive and visionary Prime Minister who is determined to forge a bright future for India.

*It is a time, when the world is looking to India, to India's great companies, to India's young and talented workforce, **to you**, to provide leadership for the next chapter of global growth.*

If it is India's turn now, how do we provide this global leadership? How do we become a **Vishwa Guru**? What do we do to drive sustainable growth in India and around the world?

To answer these questions, I will touch on three themes. First, I will describe how India's economic development is inherently frugal and sustainable. Second, I will show that it is India's great (for-profit and non-profit) innovators and entrepreneurs that are actually driving our frugal development model. And, finally, I will explain how our Government, under the extraordinary leadership of the Honourable Prime Minister, Shri Narendra Modi ji, has developed a new, pro-poor / pro-market role for the Indian state thereby helping forge a new future for India and the world.

India's Frugal Development Model can drive Sustainable Global Growth

In a slowing global economy, India is ready to seize the baton and become a key contributor to global growth. In the next decade, India is likely to contribute almost as much as China and about twice as much as the US in terms of absolute economic growth. Moreover, India's economic development model is frugal in its use of natural resources, carbon, and capital. The products and services developed in India for Indians are likely to be used widely across the developing world, where the majority of humanity resides. Thus the Indian frugal development model is going to contribute to global growth not only in quantitative terms, but also in defining a more sustainable growth trajectory for the developing world.

On a purchasing power parity basis (the best measure of economic output – and based on World Bank data), the world's three largest economies are China (\$18.0 trillion), the US (\$17.4 trillion), and India (\$7.4 trillion). If, for the next decade, the Chinese economy grows at an average annual growth rate of 5%, it will contribute an additional \$11.3 trillion to global GDP. If the Indian economy grows at average annual growth rate of 8%, then it will contribute \$8.6 trillion; at an average annual growth rate of 2.5%, the US economy will add only about \$4.9 trillion to the global economy.

The numbers tell one part of the story. More importantly, India's growth in economic output is likely to be qualitatively different from the manufacturing and investment-driven development model followed by East Asian countries. It appears that our model

will require much less energy, natural resources, carbon emissions, and capital per unit of GDP – it is thus showing the way towards frugal and sustainable growth. Given the historic Climate Change treaty just signed in Paris, nothing could be more important for the planet.

India conserves resources and uses them carefully because we have no choice. *We have only 2.5% of the world's land mass, 4% of the fresh water, yet over 17% of the global population and cattle.* Our land is needed for agriculture, it tends to be expensive, and real estate prices are high. We impose high carbon taxes and most of our resource inputs are fairly priced. Manufacturing-driven economies, on the other hand, tend to be much more resource-intensive. For instance, as per World Bank and Resources for the Future data, China currently utilizes 52% more energy per unit of PPP GDP than India. Moreover, the data suggest that China uses 3-4 times more steel and cement than India for each unit of PPP GDP. China's carbon emissions per unit of PPP GDP are 78% higher than the emissions for India.

India's capital productivity is also much higher than that of the other major economies. India has among the highest real interest rates in the world today, with capital priced so that savers have an incentive to put their money into savings accounts. While some Indian business groups are over-leveraged, Indian companies are generally conservative in their borrowings. Government and financial sector debt is also lower than that of most major emerging market countries. India's debt to GDP ratio (including the financial sector, and as per McKinsey Global Institute data) is only 135%;

it is 282% for China; 160% for Brazil; 154% for South Africa; and 88% for Russia. It is 269% for the United States.

Accordingly, here in India, we are able to generate relatively rapid GDP growth with fewer natural resources, use less carbon space, and require less leverage. This is good for India and good for the world.

Becoming the next World's Entrepreneurial Engine

How do we in India do this?

The quest to deliver affordable products and services for a vast, young population drives India's frugal development model. Moreover, India has an open, market-driven economy. As a result, we have a competitive and specialized manufacturing sector, a vast non-tradable services sector, and an employment-intensive but relatively small agricultural sector.

India produces a wide range of inexpensive items designed for aspiring middle class consumers: mobile telephony, financial services, ice creams, shampoos, motorcycles, small cars, heart operations, ultrasound machines, consumer appliances, generic pharmaceuticals, doorstep delivery of food, and so on. Such affordable products and services are intelligently designed by world-class firms (in many cases by leading multinationals such as Pepsi, Unilever, LG, Vodafone, Samsung, and Suzuki) to fit the needs of Indian consumers without sacrificing reliability or necessary functionality. *Many of you have spent much of your careers developing, marketing, and selling such products and services.*

A well-developed innovation ecosystem encompassing research labs, incubators, serial entrepreneurs, flourishing venture capital firms, and supportive regulators is springing up to produce a steady stream of new industries. In e-commerce, Amazon, Flipkart and Snapdeal have developed an innovative, marketplace-oriented business model that is based on cash-on-delivery rather than upfront credit-card payments.

These e-commerce giants have brought hundreds of thousands of small producers and merchants online by providing inventory management, logistics, payment, and financing services. Today a sari produced in Surat in western India by an artisan producer can swiftly find its way to a buyer in Arunachal Pradesh in far northeastern India.

Similarly, payment banks are about to transform the financial landscape by providing low-cost, convenient bank accounts that are accessible from the kirana store and in every post office. In an exciting boost to the green economy, Indian entrepreneurs are working on developing electric motorcycles and scooters that could lead a mass migration away from fossil fuel driven transportation.

Importantly, India's entrepreneurs are starting to make a huge difference in the lives of those at the base of the economic pyramid as well. As you know, most of the world's poor live in the hinterlands of South Asia and Sub-Saharan Africa. According to the World Bank there were some 1.4 billion people living in extreme poverty at less than \$1.25 per day. The number swells to over 2.6 billion when we include those living in

moderate poverty at less than \$2 per day. Over a billion of these poor people live in South Asia alone, a number that exceeds the total population of Africa. Climate change and shifting weather patterns are putting their traditional agricultural practices at risk, reducing farm incomes, and further increasing poverty.

India's poor desperately require lighting solutions, fuel for cooking, affordable and accessible health care, clean water, elementary education, and financial services. In the past, government programs to supply these needs have generally not been effective and have struggled to provide quality services in poor areas.

Moreover, large companies have been unable to serve the needs of those at the base of the pyramid since it requires them to radically reinvent their existing business models around new product, distribution, and pricing paradigms.

This type of disruptive innovation usually comes from entrepreneurs. But entrepreneurs face daunting barriers such as inadequate logistics, lack of consumer financing, ill-trained workers, consumer distrust of new technologies, high-cost marketing channels, backlash from existing merchants or moneylenders, and poorly developed regulation. Solving these business challenges is an expensive and slow process, and it takes many years before entrepreneurs are able to become cash positive. As a result, these businesses rarely attract commercial providers of debt or equity, which are looking for high returns and quick exits.

Thus both governments and markets have struggled to meet the needs of India's poor. *To overcome these challenges, we must create well-functioning markets for*

the poor through explicit policy action and government intervention. Financial inclusion – its advent, rise and recent developments – shows how markets can be harnessed to serve the poor.

Financial inclusion started in the 1980s in Bangladesh with non-profit organizations: Grameen Bank and BRAC Bank. Donors soon helped launch other microfinance institutions in Mexico, India, Peru, Indonesia, and many African countries. Microfinance institutions could offer loans at 25-30% interest rates, generate strong profit margins, and still be well below traditional moneylender rates of 60-100%. Today, the microfinance industry serves over 200 million borrowers around the world and has scaled rapidly due to several billion dollars in equity capital financing.

To foster our financial inclusion, our government realized that having a bank account for each family in India is an important public good, just like roads and education are a public good. *Through the Jan Dhan Yojana, in 100 days we ensured that 100% of India's families had a bank account.* We mobilized all the public sector and private sector banks to conduct surveys, camps, and massive enrolment drives to sign up unbanked families. Financial inclusion was thus achieved through government initiative.

But now as we move from financial inclusion to a broad-based financial platform, which can solve the last mile access problem, we will have many types of private sector players providing financial products such as insurance and mutual funds through these accounts. These new markets will develop under the

watchful eye of RBI and SEBI, our key regulators in this sector.

We have to have similar collaborations in other industries, such as medical technology, water, sanitation, or clean energy, so that policy interventions are timed to support for-profit investments. Doing so can help industries overcome natural market failures, and thereby enable their rapid development.

As you have seen through these examples, India's innovators and entrepreneurs are building a frugal and innovative economy that works for not just the people at the top of the economic pyramid, but also for those at the base of the economic pyramid.

Therefore, just like the United States is the entrepreneurial engine for the Most Affluent One Billion on the planet, India now has the opportunity to become the entrepreneurial engine for the Next 6 Billion people on the planet. This is the Next World and we can be the leaders in serving this Next World.

How our Government is Redefining the Indian State

So if we have the opportunity to become the leaders of the developing world, this Next World, what is our government doing to make it happen? I come now to my final theme.

Both the Honourable Prime Minister and the Honourable Finance Minister have stated over and over again that we are a pro-poor government. India's poor have the first right to the government's resources and all our efforts must be oriented around eliminating poverty in India. This is not a political necessity; this is our moral responsibility, our Raj Dharma.

Now because we are a pro-poor government, we are also a pro-market government. We want to ensure that our markets develop well, that we follow pro-competitive policies, and our companies become world-leaders. *Only if our markets flourish, only if our entrepreneurs build great companies, only if we create millions of jobs for our young people, and only if we generate sufficient tax revenues and economic surplus, will we be able to serve our poor and eliminate the curse of poverty and deprivation from our country.*

As we follow our pro-poor, pro-market policies, we have to move the Indian state away from being a *Nehruvian sarkar* to becoming a *Kautilyan sarkar*. The *Nehruvian* or *mai-baap sarkar* has been the ruling ideology for most of independent India. In fact, it is deeply rooted in India's long history of Rajas, Maharajas, Nawabs, and Sultans – it is associated with feudal, dynastic rule. But we must challenge this orthodoxy because the *Nehruvian sarkar* is neither serving the citizen nor the state well.

The citizen is poorly served by the *Nehruvian sarkar*. Today most of the development activity of the state is focused on maintaining itself and executing large development programs such as NREGA, the Public Distribution System, and PM Gram Sadak Yojana. Hundreds of academic studies have shown that these programs do not work as planned. Nearly seven decades after Independence, we still have hundreds of millions of people living in extreme poverty, over 40 % of our children are malnourished, our young people are worried about securing quality jobs, we are facing a public health catastrophe through non-communicable diseases, and our cities are becoming unlivable. No

wonder we are frustrated and angry. *We all want India to do much, much better.*

The state is under pressure too. Since the most vulnerable citizens are still trapped in poverty, there is continuous political pressure to keep increasing spending for these entitlement programs. Valuable tax revenues are squandered and citizens keep avoiding paying taxes since they feel that they are not getting adequate public services. The fiscal deficit continues to build up making it difficult to pursue other major national priorities such as defense and infrastructure. With BPL families receiving only limited benefits, they are unable to break the poverty trap and remain reliant on their meagre government benefits. This fosters long-term dependency further straining government finances.

Markets and credit rating agencies are well aware of these pitfalls because many other countries such as Mexico and Brazil have floundered due to these same dilemmas. Leaky entitlement programs became a heavy burden for these governments, resulting in low sovereign ratings and curtailed growth. Government borrowing became expensive, interest rates remained high to check inflation, and productive investment stalled. Ultimately, the fiscal deficit became unsustainable, putting pressure on the currency and raising inflation, which further impacted the poor.

Is there a way out of this mess created by this socialist / populist Nehruvian sarkar? Can we find a way to foster India's entrepreneurial economy while lessening the heavy hand of the Nehruvian sarkar?

Yes, there is a way to redefine the role of the Indian state. Simply put, we must move from a *Nehruvian sarkar* to a *Kautilyan sarkar*. The government has to get off the playing field and let the citizens be the players. We cannot have the state be the umpire and also play most of the game while citizens watch from the sidelines. The role of the state has to be defined as establishing and enforcing the rules and letting citizens be the players on the field. *We must have minimum government, maximum governance. Our state has to be policy-driven, non-discretionary, and rule-based.*

Thus the state must ensure the rule of law, property and tenancy rights, and financial inclusion in every village, slum, and mohalla in the country. Indeed, our government is strengthening the judiciary and the police across the country. The state must strengthen our regulatory bodies and make sure that they are independent. That is exactly what our government is doing with RBI, SEBI, TRAI, the new Real Estate Regulator, NHA, and so on. The state must ensure necessary public infrastructure through investment and land acquisition. Our government is doing that by massively stepping up investment in roads, highways, bridges, railways, and digital connectivity.

The Kautilyan sarkar also plays a subtle, but vital role in market development. Such market development is crucial to enable our entrepreneurial economy to flourish. Markets develop when important “public goods” are provided. By public goods or market infrastructure, I mean that the benefits of such items cannot be fully monetized by those who fund them. This is true for a range of goods, such as creating transparent rules for pricing of energy services; or protocols for administering

certain new procedures in the health care system. The private sector will invest in such public goods only up to a certain extent, which will always be short of what is socially optimal.

So we need coordinated action between the state and private companies to build market infrastructure and help entire industries get off the ground. This solves an important prospective market failure: the “absence of collective action”. In the absence of coordination, some of the capital that is needed for the market to develop may not materialize. Entrepreneurs and private capital may hesitate to invest if they believe that market infrastructure – such as regulation, rules under which licenses are granted, or access to public health facilities or franchises are under-developed or unclear.

So before the games can begin, before the players decide to take the field, before the crowds fill the seats, the *Kautilyan sarkar* has much to do. The ground has to be green and pristine, comfortable seating and facilities are required for the spectators, the rules of the game have to be defined and explained to the players, the pitch has to be prepared, the scoreboard has to be set-up. And, finally, the two umpires in their white coats armed with light meters (and with the help of a third umpire back in the pavilion) walk onto the field.

Only when all this is done, can the players get on the field. Yes, they will score delightful centuries, astonish us with their athletic catching, and bewilder the batsmen with their penetrating bowling. But it is the umpires, groundsmen, and cleaning crews that make

it all possible. So it is with a modern-day, efficient state that supports innovators and entrepreneurs.

Being such a sarkar takes a lot of work, perhaps more work than being a Nehruvian sarkar. Citizens are treated with dignity, corruption is reduced, and the fiscal situation improves dramatically. The state is lean and focused on value-added activities. This is the rightful role of the state – and the only way to build a great nation.

I will conclude now.

India's economic destiny is to provide frugal products and services to the Next 6 Billion, the Next World. We are already one of the world's leading producers of IT services, generic pharmaceuticals, small cars, and motorcycles. We will soon become a manufacturing hub for electronics and defense equipment. As we export our frugal and innovative industries across the developing world, we will likely spur growth and development for other countries in the developing world also. Such economic growth is consumption-driven and demand-led.

India also offers a template for redefining the role of the state in the Next World. We will run a rules-based, technology-driven state that enables markets to flourish through well-regulated competition.

Thus India is poised to provide fresh impetus to global growth. India's economic growth will be significant in terms of its absolute contribution to global economic activity. But India's development model is uniquely innovative, frugal, and green. As other developing countries begin to follow India's frugal model, it could

potentially drive much more sustainable and equitable growth for the entire planet.

So here in Mumbai, you are the pioneers driving this exciting transformation of India. You are working on innovative projects, products, and services. You are inventing brilliant new solutions to our challenging problems of poverty, disease, and climate change. You are creating the next Indigo, the next Google, and the next Apple.

So you will surely go forth and transform India. And, with your innovation and your energy, you will surely also transform the world.

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