

# Statement on the Current Economic Situation in India



**FORUM**  
OF FREE ENTERPRISE

*“Free Enterprise was born with man and shall survive as long as man survives”.*

**- A. D. Shroff**  
Founder-President  
Forum of Free Enterprise



## **SHAILESH KAPADIA**

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.



Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.



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# **Statement on the Current Economic Situation in India**

## **Introductory Observations**

Forum of Free Enterprise (Forum) which was set up in 1956 is concerned about the economic slow-down that India has been witnessing for the past several quarters, with the last quarter's GDP growth rate touching a 6-year low of 5%. Not only does this slow-down impact the stated ambition of taking the Indian economy to the \$5 Trillion mark within the present government's term, but it also constitutes a major setback to the efforts to create meaningful employment opportunities for the million young people entering the Indian workforce every month. Failure to create adequate number of jobs will have an adverse effect on social stability and the cohesion of the multi-cultural and diverse society which we have so proudly built and nurtured since India's independence in 1947.

Set against an unstable international geopolitical and economic environment, where GDP growth numbers are not that encouraging coupled with an ongoing trade war between the largest economic

powers in the world and significant security concerns in the Middle East and elsewhere, the answers to most of India's current economic dilemmas will need to be found internally.

Forum believes that a special session of Parliament, convened with the sole intention to solve this problem will be a good move to start with. Such a session must listen to the voices from key sectors of the economy, including industry and agriculture, and place high level of emphasis on action on what is required to put India onto a higher growth trajectory.

### **Opportunities for Innovative Reforms**

Every crisis offers an opportunity to set right issues that impede the growth of our economy. This was true in 1991, when India came close to defaulting on its international sovereign obligations. India has made huge strides of progress since then and yet much remains to be done. Key indicators demonstrate how much progress we still need to make – whether it be in our share of global trade / exports, which remains below 2%, or our share of manufacturing in GDP, which despite the thrust on “Make in India” remains around 16%.

Forum believes that the present situation offers another opportunity to rethink the kind of economy which is being built and the role of the private sector in it, and to factor in new developments in

information technology and artificial intelligence which will have significant impacts on the nature of work. In particular, as a non-political and non-partisan organization dedicated to educating public opinion on free enterprise and its close connection with the democratic way of life, Forum submits that any debate in Parliament on the way forward must consider, inter alia, the following critical issues on the role of government and its relationship with the private sector in India:

### *1. Role of the Government*

The role of government should be to establish the rules of the game and uphold law and order in an effective and timely manner. Given limited capacity in governance, it should not undertake activities that the private sector can typically do better, such as many forms of business.

In other words, any major spending programmes to boost economic growth should be directed through the private sector. These include large contracts that are expected to be released in sectors such as defence and aerospace, infrastructure including roads and railways, and renewable energy. Forum urges the government to immediately release the vast sums of undisputed government dues to the private sector, reckoned by some estimates to be over Rs 12 lakh crores, including in sectors like fertilizers and power.

## 2. *Subsidies and Nationalization*

Forum questions the continuing huge amounts of subsidy from the exchequer that public sector units are drawing, more specifically the ones that are unable to make profit or make significant difference. Disinvestment and privatisation must be clear choices that the government must publicly announce so far as organizations like Air India, BSNL and MTNL are concerned.

Likewise, the Government must reverse the clock on the nationalisation of banks and insurance companies, by announcing a clear road-map for privatising them. When the government declares that the days of "phone banking" are over, it is anachronistic that it should retain significant control of the financial sector. In the last five years, public funds to the tune of Rs 300,000 Crores have been poured into the public sector banks, despite which their aggregate market value has declined, while their non-performing assets are reported at over Rs 800,000 Crores. While that may be the need of the hour, there is no logic for indefinitely continuing this financial imposition on the people of India and the government must exit eventually from the banking and insurance sectors.



The moneys realised through divestment should be used to retire the public debt and therefore save on massive interest burden. Every government in the past two decades has fallen into the trap of trying to defend the timing of public sector disinvestment and ended up actually doing precious little in this area. Parliament should arrive at consensus on divestment targets based on a blue print agreed upon and draw a roadmap on those lines. This must be followed up by a determined effort to fulfil that commitment to the people of India by creating an atmosphere that will facilitate the divestment program.

### 3. *Divesting land holdings*

The logic of questioning public ownership of enterprises should extend to the ownership of vast tracts of vacant land held between the governments at the centre and the states as well as public sector organizations. Vacant land, such as the land parcels held by the Mumbai Port Trust, for instance, should be released in a sequential (not all at once, lest prices get depressed due to constrained demand), time-bound and transparent manner via an auction mechanism for development by the private sector that will put it to good use for the society at large; this will help bring high real estate prices down and give a boost to entrepreneurship

in the real estate and construction industries. There are already several plans on the table, and actioning them appropriately will bring results.

#### 4. *Punitive actions*

The government clearly has a duty to wield the sticks of fines and prison terms against those who violate the law. However, Forum is concerned at the instances cited by some of its members of what tantamount to non-transparent actions and unjust threats by some government officials. In various areas, including the recent announcement of penalties for traffic violations, government officials are cited discussing the need for “fear” to be created amongst the citizens. A more innovative approach which is already adopted by many countries could have been a better option where penalties are progressive for compulsive offenders.

Forum strongly believes that a sustainable and thriving economy requires an environment of freedom of expression, where personal liberties are fully respected and assured by the government alongside cultivating a sense of responsibility amongst people. Any hint of coercion in the language of government officials should be replaced with a more collaborative language that takes people along.

## 5. *Skill Development*

Equality of opportunity is a critical requirement for national economic development. In this regard, Forum urges the government to step up the deliverables of its skills development initiative via the National Skills Development Corporation (NSDC). New trades and work in the future will require a sound understanding of information technology and an ability to leverage wide social and learning networks, and these must be priorities for the skills mission.

The target of skilling and re-skilling over 500 million people, first espoused during a previous government's tenure, must be reinstated and actively monitored. Additional collaboration with educational bodies and private sector where skills would eventually be put to use is the need of the hour. The pace and focus both require tweaking as reports suggest only about 12% of those who were trained under NSDC programmes have found steady jobs.

## 6. *Ease of doing business*

The government has rightly focussed on the ease of doing business in India, though Forum suggests that the ground realities be surveyed, and the results of the World Bank index be considered as only one of several relevant inputs. Likewise, the risks and costs of doing

business must also be addressed. The risks can be mitigated to some extent if there is certainty about government policy and what to expect in the near term, and in this connection, Forum specifically urges that the government makes clear its overall stance on foreign direct investment. Forum believes that a piecemeal approach to lifting the curbs on foreign direct investment in different sectors makes little sense as it gives neither domestic companies nor foreign investors the clarity they need to plan their investments.

Broadly, Forum believes that Indian corporates are more than capable of dealing with the competition provided by foreign entities, and the government must therefore announce a roadmap with strict timelines on freeing the entire economy for foreign investment. So far as the costs of doing business are concerned, Forum believes that India is one of the most highly taxed markets in the world, and this impairs the ability of Indian companies to compete strongly and make high profits that can be reinvested in R&D and innovation.

Forum therefore urges the government to benchmark all the costs of doing business, whether in terms of taxes or timelines for securing business approvals or access to critical infrastructure support at reasonable

prices, with the best in class economies around the world, and commit to do better than the best in the world in a defined timeframe. Forum welcomes the recent move of the Government to bring down the rates of corporate tax. With fewer legacy systems compared to other large economies and world-class capabilities in software development, it should be possible for India to replicate the kinds of successes it has seen in areas like passport issuance.

#### 7. *Transparency in Policy making*

Long-term policy clarity is vital for the success of the private sector. The actions of some state governments in overturning policies and revisiting contracts issued by their predecessors hurt the predictability of investment. Similarly, new rules that are introduced with little notice or time to prepare can impact the sustainability of investments. Forum urges that governments at the centre and the states pay particular heed to the need for greater transparency and long-term consistency in policy making.

#### 8 *Nurturing the spirit of entrepreneurship*

We are a nation of entrepreneurs, a fact that the government has recognised through its support for the entrepreneurial instinct of start-ups. Most jobs in the future will increasingly be created by innovators who have bright ideas

and work to translate them through their hard work and inspiration into viable businesses.

In this regard, Forum welcomes the Prime Minister's recent statement in an interview to a business daily that "I consider entrepreneurs as India's 'Growth Ambassadors'. I want to tell them that our government will leave no stone unturned to make India a better place to do business in all aspects."

### **Industry specific measures**

Besides the above issues that impinge on the compact between the State and the private sector, there are clearly a number of industry specific measures that could also be considered by Parliament. These are perhaps best represented by the various industry associations, but could include the following:

- a. Efforts to kick-start the real estate and construction sectors by addressing industry demands for lower GST and stamp duty. Bank lending could be directed primarily to those real estate developers who have liquidated their unsold inventory. Revival of these sectors can boost consumption that typically comes with new flat ownership – sale of vehicles, consumer electronics, household goods, and the like.

- b. Revival of certain key sectors of the economy upon which broader economic growth can be swiftly built. These include the telecom, textile, auto and power sectors. Forum agrees with the Chief Economic Advisor's perspective that there is a moral hazard in using taxpayers' money for industry stimulus, but hope attention is paid to the competitiveness of these sectors upon which many other parts of the economy depend, and the appropriate flow of credit to them.

Strong communications infrastructure is vital in the digital age. On measures like high speed optical fibre based broadband connectivity, India is woefully behind its global peers – a little over 20 million connections compared with China's over 300 million. In such a situation, the financial stress in which the majority of Indian telecom companies find themselves is alarming.

Likewise, in the textile sector, which alongside construction provides the maximum number of jobs in industry, India is nowhere close to even much smaller countries like Bangladesh or Vietnam in exports of apparel; last year's apparel export figures saw China's exports at \$145 billion, Bangladesh at \$36 billion, Vietnam at \$33 billion and India at a mere \$17 billion.

The auto sector has been a victim of recent uncertainty on the regulatory impact of the leapfrog from BS4 fuel to BS6, and the government's focus on promoting electric vehicles. This sector is a major driver for the rest of the economy, and could do with a period of stability in policy and regulation.

Finally, the power sector, another major driver of economic growth, repeatedly finds itself at a cross-road due to the poor management of many of the power discoms and the frequent tinkering with tariffs, including those promised to both private sector power generators and customers. Here again, a period of stability in policy and non-discrimination between the private sector and the government owned entities would be important for the growth of the sector.

- c. Due recognition needs to be given to the need to stimulate much greater investment in R&D and innovation capability in India, including through industry-academia partnerships. There are very few global innovations that Indian companies are reputed for, and our dismal performance on this front runs the risk that for the vast majority of products and services that the Indian market needs, Indian enterprises will become clients of foreign companies. Even in a segment like artificial intelligence, where



India's stature as a leading software services provider counts for something, it is a matter of great concern that a single university in China – Tsinghua – produces more IP than all of India put together.

- d. Finally, labour reforms need to be urgently implemented that incentivise companies to add more resources in good times with the assurance that they will not be overloaded with surplus staff when times change. Within the labour force, particular attention needs to be paid to getting more women to join the workforce. As per World Bank statistics, only around 22% of the Indian labour force comprises women (compared with 43% in China). This is a major reason for the lower income levels of our population, and also explains the depressed condition of many women in our society. This must change.

## **Conclusion**

India is considered to be one of the top five investment destinations in the world. The Government of India must do everything to ensure that India's place as an economic superpower in the making remains firmly entrenched in the global environment. Forum believes that with substantial increase in investment outlays and bold reforms, the virtuous cycle of growth will take the country

to a level which could not have been foreseen a decade ago.

India will be a \$5 Trillion economy not by growing at the current rate but by getting into a higher trajectory of growth of 8 to 9% which needs to be sustained over the next seven years and beyond. This requires structural reforms which in due course will work their way through the system.

This is a time for innovating thinking on improving the business environment, and then leaving business to take the lead. The government has the political capital to effect bold changes. Forum hopes that this will be put to good use so that the ambitious target of creating a \$5 Trillion economy by 2024 is achieved.



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*"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".*

**- Eugene Black**  
Former President,  
World Bank

# FORUM

## OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems through booklets, meetings, and other means as befit a democratic society.

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including elocution contests and leadership training camps are organised every year towards this goal.

**Membership of Forum :** Annual General Membership fee Rs. 350/- + Entrance fee Rs. 100/-; Annual Associate Membership fee Rs. 250/- + Entrance fee Rs. 100/-. Students (Graduate and Master's degree course students, full time Management students, students pursuing Chartered Accountancy, Company Secretary, Cost and Management Accountancy, Cost and Works Accountancy and Banking courses) may enrol as Student Associates on payment of Rs. 50/- per year.

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Published by S. S. Bhandare for Forum of Free Enterprise, Peninsula House, 2nd Floor, 235, Dr. D. N. Road, Mumbai 400001, and printed by S. V. Limaye at India Printing Works, India Printing House, 42 G. D. Ambekar Marg, Wadala, Mumbai 400 031.

**September/2019**