



The India Turnaround

THIS TURNAROUND, SAYS ECONOMIST ARVIND PANAGARIYA, VICE CHAIRMAN, INDIA'S NITI AAYOG, HAS COME ON THE BACK OF CONCERTED EFFORTS AT ACCELERATING INFRASTRUCTURE BUILDING AND RETURN TO THE PATH OF ECONOMIC REFORMS.

Prime Minister Narendra Modi's fourth visit to the United States coincides with the completion of two years by his government. It provides us an opportune occasion to take stock of what has been accomplished during these years.

When the government came to office, the economy was a shambles with the growth in the Gross Domestic Product having plummeted, numerous large projects stuck for either the lack of environmental clearance or on account of bureaucratic paralysis; inflation in the double digits; and a large current account deficit. A story in the *Economist* magazine of August 24, 2013 summed up the situation thus, 'It is widely agreed the country is in its worst economic bind since 1991.'

Two years into the Modi administration, the situation is quite different. GDP growth has steadily climbed up from 6.9 percent in 2013-14 (India's fiscal year runs from April 1 to March 31) to 7.2 percent in 2014-15 and 7.6 percent in 2015-16. Inflation is down to around 5 percent and the current account deficit stands between 1 and 2 percent.

Foreign investors who had been fleeing India in 2013 are back. Foreign direct investment rose 24 percent in 2014-15 over that in 2013-14 and 40 percent during April-December 2015 over the corresponding period in 2014.

This turnaround has come on the back of concerted efforts at accelerating infrastructure building and return to the path of economic reforms.

Road construction has climbed up from 11.7 kilometer (7.2 miles) per day in 2013-14 to 12 km (7.4 miles) in 2014-15 and then to 16.5 km (10.2 miles) in 2015-16. Road length awarded has risen even faster: from 3,500 km (2,175 miles) in 2013-14 to 8,000 km (4,971 miles) in 2014-15 and 10,000 km (6,214 miles) in 2015-16.

Construction of railway track has likewise risen to 7 km (4.3 miles) per day during 2015-16 from 4.3 km (2.6 miles) per day during the previous six years.

In domestic civil aviation, the total number of passengers carried has jumped from 66.4 million in 2014 to 80.8 million in 2015. Internationally, the figure has increased from 16.9 million in 2014 to 18.4 million in 2015.

Efficiency at major ports has improved, with operating profits shooting up 43 percent in 2014-15 over those in 2013-14 and 16.2 percent in 2015-16. In 2015-16, addition of 93 million tons to port capacity was the highest ever. Similar progress has also been made in energy.

Alongside, the government has steadily introduced economic reforms instead of brining counter-productive measures such as retrospective taxation and the Land Acquisition Act of 2013 put in place by the predecessor government.

In agriculture, a major initiative to create a genuine national agricultural market through e-auctions in *mandis* (bazaars) across the breadth and length of the nation has been launched. It promises to bring remunerative prices to farmers.

The government has permitted 100 percent foreign direct investment in the food chain as long as the produce originates domestically. It is creating soil- and seed-testing facili-


AMIT DAVE/REUTERS

Laborers work at the site of the metro railway flyover under construction in Ahmedabad, March 31. India's infrastructure output grew an annual 5.7 percent in February, its fastest pace in at least 13 months, mainly driven by a surge in production of cement and fertilizers.

ties at 2,000 retail outlets of fertilizer companies. The NITI Aayog is poised to unveil a model land-leasing law to help modernize tenancy laws across states.

On the external front, the cap on FDI in insurance, which had remained stuck at 26 percent for more than a decade, has finally been raised to 49 percent. Defense has been opened to FDI with the cap through the automatic route recently raised to 49 percent from 26 percent. 100 percent FDI in defense is permitted through the approval route. FDI up to 100 percent has also been permitted in marketing of food products produced in India; high-tech and capital-intensive activities in railways; coffee, rubber, cardamom, palm and olive plantations; manufacturing of medical devices; e-commerce marketplace; and non-bank automatic teller machines.

Encouraged by the central government's liberal approach towards amendments by states to central laws on the Concurrent List, Rajasthan, Madhya Pradesh, Andhra Pradesh and Gujarat have amended several central labor laws. In Gujarat, firms of all sizes located in the Special Economic Zones, Special Investment Regions and National Investment and Manufacturing Zones now have the right to lay off workers as long as they pay the latter 45 days worth of wages for each year worked.

For long, commentators have emphasized the need for a modern bankruptcy law. Absent such a law, firms find exit out of an activity a daunting task, which in turn discourages them from entering many profitable activities. Recognizing this, the government has just enacted the Insolvency and Bankruptcy Act, 2015. The Act amalgamates all existing laws on corporate and individual insolvency and bankruptcy and provides a time-bound process of exit through professionals.

Under the previous government, mega tax assessments under the draconian retrospective tax law had pushed invest-

or confidence to an all-time low. Soon after taking charge, the present government announced its commitment not to initiate any new cases under that law.

It has made good on that promise while also offering to settle at generous terms the cases initiated under the law by the previous government and numerous others under different statutes pending for years.

There has been a total absence of any allegations of corruption during the two-year tenure of the government. Often overlooked, this is a major achievement in a country that has seen corruption scandals break out under virtually every government in recent decades. According to rankings by the *Economist* magazine, the wealth of crony capitalists in India has fallen to 3 percent of the GDP in 2016 from 18 percent of the GDP in 2008.

Space considerations do not allow me to report on the progress in social sectors. Suffice it to say that here too the government has brought enhanced efficiency through rapid expansion of biometric identity based direct benefit transfers that eliminate multiple accounts in the name of the same beneficiary and ghost accounts. It has also chosen empowerment over entitlement and thus focused on accelerating building of rural roads, electrification of villages and broadband connectivity.

With the groundwork, thus, in place, we can count on growth and the progress in reducing poverty accelerating yet further in the years to come.

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