Diverging views on India’s economic future

Law minister says India on track to achieve goal; but critics point to high inflation hurdle, low business confidence

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The Indian industry highlighted the inability of the government to manage the economy, an American academic pointed out the gaps in India’s economic policymaking, a policymaker defended the government and promised a return to 8% gross domestic product (GDP) growth, and a foreign chief executive officer (CEO) said nothing needed fixing because nothing is broken.

All were playing out their parts at the World Economic Forum’s India Economic Summit.

“We have to understand that we have managed to grow at 5.5% while the rest of the world is struggling to grow even at 3.5%,” said law minister Ashwani Kumar. “India needs to grow at 9-10% to achieve what we want to achieve, but we hope to end next year at 7% and achieve 8% growth by 2015. The overall growth for this Plan period (2012-17) will be 8.2%.”

With the government moving forward with various economic reforms, as it recently did, Kumar said, India is on track to achieve its objective. “The challenge is to give every Indian a better life.”

His statements didn’t convince too many people.

N. Chandrasekaran, CEO and managing director, Tata Consultancy Services Ltd, said there are many reasons why India’s growth has slowed. “Our fiscal deficit is high, inflation is high. Despite keeping interest rates higher, we have not been able to bring down inflation. Nothing seems to be working now,” he said. “There is no confidence from the business point of view.”

“For me, two things are very important—comfort and confidence. Once these are eroded, its very difficult to get them back,” Chandrasekaran said.

An academic said it was clear that India’s patchy track record of reforms is largely to blame for its current economic woes.

“It’s no mystery why growth has slowed... A country like India at this stage of economic development cannot afford to make reforms once every 30 years,” said Gita Gopinath, professor of economics, Harvard University. “There needs to be consistency and stability in reforms.”

Bajaj group chairman Rahul Bajaj agreed with Gopinath and bemoaned the state of the manufacturing sector. Both said the sector needs urgent revival if more jobs need to be created. “You have take into account the manufacturing sector due to the huge labour pool that India has. The sector only accounts for 16% of India’s GDP. So manufacturing needs to be revitalized,” said Gopinath. “Once that happens, unskilled workers will get more wages that will help in bringing down the poverty levels.”

Still, according to Nestle’s CEO, things are not as bad as they are being made out to be.

Paul Bulcke, CEO of Nestle and co-chair of the World Economic Forum’s India Economic Summit, said there is no need to reboot its economy. “Because, the economy has not crashed,” he said by way of explanation. However, he agreed India needed to “start doing things”.

“India is suffering from a gravity. Everybody knows that what needs to be done, the question is who dares to that?”

He added the sheer size and population of India are both an “opportunity and a liability if we allow for complexity to come in”.

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