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Retail FDI not among top reforms needed to revive Indian economy: Gita Gopinath, professor at Harvard University

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Shruti Choudhury, ET Bureau Nov 9, 2012, 05:00AM IST

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Foreign direct investment in the retail sector should not feature among even the top five reforms needed to revive the Indian economy, Gita Gopinath, professor of economics at Harvard University, has said.

In an interview with ET, Gopinath said that all the talk of the slump bottoming out is premature and stressed on the need for consistent reforms, especially during the good years.

Edited excerpts:



(Gita Gopinath, professor...)

Has the slowdown in India bottomed out and is it likely to be all positive for the economy from here on?

It is too early to tell and there is certainly no reason to be certain that all will be positive from here. The good news is that important reforms have taken place. We have to wait and see how they get implemented and whether it generates the confidence to reverse the decline in investment.

Do you sense a lack of political will to push through reforms?

Investment as a share of GDP has declined from 38% to 32% over the last four years. This is a troubling sign and partly a reflection of projects being stalled at the implementation stage due to lack of decisions being taken at the bureaucratic level.

What is needed is more of the reform-driven agenda that we have seen recently. This should be undertaken on a consistent basis even when times are good and not just when there is a sense of an impending crisis.

Should the government give infrastructure and fiscal consolidation the same attention as FDI?

There are no ifs and buts of the fact that India needs large investments in infrastructure. It is hard to be a competitive producer when you get only eight hours of electricity a day.

While I would not list FDI in retail as my top five most important things to do, it is a welcome development and hopefully the beginning of a serious reforms agenda.

Policies apart, shouldn't competitive advantage, not only between India and other nations but also within states, result in streamlining?

There are certainly differences across states, with some states faring better than others. For instance, states vary in the flexibility of their labor markets.

A recent study by the OECD, done in collaboration with the All-India Association of Employers, ranks Gujarat and Andhra Pradesh as having the most flexible labor markets, and at the other end sit West Bengal and Chhattisgarh.

There is now evidence that in states with more flexible labor markets you see more hiring in labour-intensive sectors, higher productivity and higher value-added growth.

These are lessons that should be transferable across states. While resources will move to states that are more attractive for investment, there is a natural stopping point, as returns will diminish. What is needed is a good environment for investment in all states.

How have corruption scandals in India affected investor sentiments?

Countries that rank high in the ease of doing business are those with strong economic and political institutions, including clarity and transparency about the rules of the game.

Scandals, as we have witnessed in India, will make any investor circumspect about investing in the country. Now the corruption scandals have originated not only in the political realm but also in the corporate realm. Solving the problem of graft in both realms is crucial.

Do you make a case for single-window clearances and having an apex body that can be the 'to go' institution for businesses?

Absolutely. The reason that India ranks poorly in the World Bank's ease of doing business index-it is ranked 132 out of 183-is precisely because of the number of clearances that one has to go through to set up a company.

Rating agencies have warned India of a downgrade if the paralysis continues. Do you think the fear is justified?

It is the job of credit rating agencies to pick up signals and they are basing their assessment on all the same things that we are talking about-general economic trends, fiscal deficits, growth, institutions, etc.

The agencies certainly haven't had the best record with their predictions. Yet, the problem is that India is borderline investment grade and any downgrade will be costly. It is one thing to go from AAA to AA, but quite different to be revised to junk.

How much downside risk do you see to India's growth from the global turmoil?

Given that India is not a very open economy, if it could have put its domestic story on track then India could have been the shining star during this period. But it didn't, and has instead been engulfed in its own home-created problems. I would like to be optimistic, though, that a turnaround will happen.

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