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PM Modi's Gati Shakti, ONDC, incentivised manufacturing, mega infrastructure push and focus on green energy, digital economy & MSMEs will come together to achieve the next $2 trillion

$5 TRILLION

Tall order for FM Nirmala Sitharaman

REVISITING

The jump to the $5 trillion orbit, from the current $3 trillion, is going to be powered by green energy, production-linked manufacturing, digital drive, Rs 145 lakh crore-plus infrastructure pipeline, and targeted incentives for MSMEs

Photograph by Unsplash

THE $5 TRILLION ROADMAP

By Arjun Yadav & Abhishek Sharma

IT ALL BEGAN on June 15, 2019. Prime Minister Narendra Modi, at a meeting of the National Development Council (NDC), for the first time, articulated India's ambition of becoming a $5-trillion economy. The NDC initially set 2024 as the target year, but it was changed to FY25 in the 2019-20 budget in July that year.

There couldn't have been a worst start to this grandiose plan, though. The Modi government had just been swept back to power with a massive mandate. It was on cloud nine when it floated the $5 trillion idea. The economy, however, had begun showing signs of fatigue from the second half of 2019. Covid and the subsequent loackdowns delivered the knockout punch making 2020-21 the worst year for the Indian economy, which contracted a whopping 7.3 per cent (later revised to 6.6 per cent).

In Q2 of 2019-20, real GDP growth slipped to 4.61 per cent, a decadal low. It further fell in Q3 and Q4 to 3.28 per cent and 3.01 per cent respectively. On January 7, 2020, the National Statistical Office (NSO) announced the advanced GDP estimates for 2019-20 and projected that GDP at current prices for FY20 is likely to be at Rs 204.42 lakh crore, as against Rs 190.10 lakh crore in FY2018-19, showing a growth rate of 7.5 per cent in nominal terms. In real terms, this came out to be at 5 per cent, down from 6.1 per cent of real growth in FY19.

Even the rate of Gross Fixed Capital Formation (GFCF), which represents investments in the economy, was estimated at 28.1 per cent and 31.1 per cent at current and constant prices, respectively. This was down from 29.3 per cent and 32.3 per cent recorded in FY19.

When the NSO released the provisional estimates for FY20 on May 29, 2020, GDP at constant prices was estimated to have grown only 4.2 per cent. Given the worst contraction in FY21, in absolute terms, the nominal GDP fell to Rs 197 lakh crore compared to Rs 203 lakh crore in FY20, and at an exchange rate of Rs 73.2 a dollar, it amounted to $2.69 trillion.

Today, at current prices, India's economy is worth a little over $3 trillion. The sectoral composition here approximately is 15 per cent agriculture, 30 per cent industrial and 55 per cent services. Based on the official math, as well as that of the

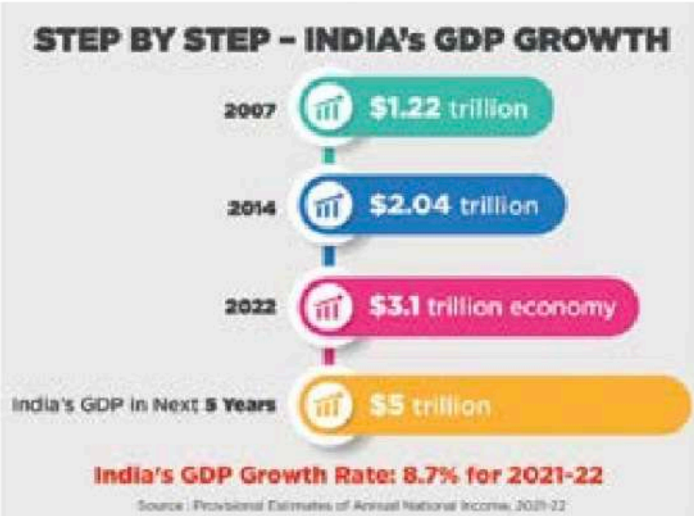
International Monetary Fund (IMF), India is now predicted to become a $5 trillion economy by FY27. The IMF had in its April World Economic Outlook database forecast FY29 as the target date but later corrected it and advanced it to FY27.

We look at the government's reforms since the announcement of the goal and what more can be done to make this target a reality by FY27.

Agro Sector to Heavy-lift

Ahead of the Union Budget, Finance Minister Nirmala Sitharaman tabled *Economic Survey 2021-22* which revealed that the agriculture sector grew 3.9 per cent in 2021-22 and 3.6 per cent in 2020-21 despite the Covid-19 shock.

The share of agriculture and allied sectors in total gross value added (GVA) of the economy has settled at around 18 per cent in the long term. In 2021-22, it is 18.8 per cent and in 2020-21 it was 20.2 per cent, the survey revealed.



“The Indian economy is driven by agriculture and is dependent on the sustainability of the entire agricultural ecosystem. However, there are some grave challenges in terms of crop risk management practices such as pre-harvest and post-harvest yield estimation, crop loss assessment, market linkages, transparency, accuracy, the scale of advisory, and the impact of extreme weather events on agricultural productivity. These factors can be majorly responsible for leakage in the agricultural system from the perspective of financial stability as well,” says Navneet Ravikar, Chairman and Managing Director, Leads Connect Services.

The intervention of advanced technologies in agriculture is now an absolute necessity, for improving the monitoring accuracy as well as bringing transparency to the system. For instance, mandatory use of drone technologies and the internet of things (IoT) for deciphering the crop condition and complexities at the hyperlocal level. Instead of working on different aspects of agriculture in isolation, the need now is to push all studies relating to agriculture to consider the entire value chain.

The agriculture sector currently contributes $400 billion to the Indian economy, and if we are to achieve the $5 trillion target, then it has to outperform itself, say experts.

“There are challenges which cannot be overlooked. Achieving a $5 trillion economic target can be a possibility when we have a resilient economy which should be capable of absorbing shocks and doubling the farmers' income. Since the Indian economy is driven by agriculture, it has to perform extraordinarily as it is more vulnerable to many factors,” says Ravikar.

Agritech, Atma Nirbhar Bharat & More

Agritech is set to play a very significant role in addressing the current gaps in agriculture along with providing solutions for future challenges. A dramatic increase in agricultural output is a absolutely necessary for boosting India's per capita income from the current $1,800 to $3,600 and also for doubling the income from farming.

“Smart agriculture is essential to bridge the disproportion in the efforts and the output of the sector. Agritech companies are poised to play a vital role in this context. Adoption of technology in agriculture is helping in solving several pain points across the spectrum of traditional agriculture value chains,” says Amith Agarwal, Co-founder and CEO, AgriBazaar.

The uneven quality and lack of large-scale quality testing can be addressed through agritech firms offering quality management and traceability services. Inefficiencies in the post-harvest supply chain can also be addressed through supply chain technology and output linkages. Due to the record output of rice, wheat, maize, pulses and oilseeds, India's foodgrain production is estimated to rise 3.74 per cent to a new record of 308.65 million tonnes in the crop year 2020-21, according to the agriculture ministry.

Meanwhile, the credit flow for 2021-22 was fixed at Rs 16,50,000 crore, and till September 30, 2021 a sum of Rs 7,36,589.05 crore had been disbursed. Again, under the Atmanirbhar Bharat Abhiyaan, the Centre announced Rs 2 lakh crore concessional credit boost to 2.5 crore farmers through Kisan Credit Cards (KCC). As of 17 January, banks had issued KCCs to 2.70 crore eligible farmers.

“The government needs to encourage technology intervention by subsidising or developing a seamless platform for bringing fintech institutions on board and supporting farmers financially for adopting technology. Aggressive push is required in the direction of market linkages,” Ravikar advises.

Gearing up the Industrial Sector

In the industrial sector, manufacturing is the primary com-

UNRAVELLING THE NUMBERS

JOURNEY SO FAR...

BUILDING BLOCKS OF THE FIRST TRILLION IN 2007:

- Strong incentives
- Improved infrastructure for investment and better safety nets
- Continued momentum in services & manufacturing
- Rise of the Rupee vis-à-vis the USD

The currency unit hit a 9-year high of Rs 41 to the dollar, which translated India's GDP at market prices of Rs 41 trillion in 2006-07 into US$ 1 trillion

CONTRIBUTORS TO THE SECOND TRILLION IN 2014:

- Increase in per capita Gross National Income
- Recovery from Relative Slump

CURRENT BIG HITTERS

SECTORAL COMPOSITION - THREE TRILLION

- Services - **55%**
- Industrial - **30%**
- Agriculture Sector - **15%**

The sub-sectors that contributed the most include financial, real estate, professional services, trade, hotels, transport, communication, & broadcasting services; manufacturing & construction are major performers in industrial

KEY SECTORS TO BOOST GDP FOR THE NEXT $2 TRILLION

- Green energy plan
- Production-linked incentive manufacturing push
- Digital economy drive
- Rs 145 lakh crore-plus infrastructure pipeline
- Targeted incentives for micro, small, and medium enterprises

Source: Provisional Estimates of Annual National Income, 2021-22

ponent, though there are other contributors as well, such as construction, utilities, which include electricity, gas, water supply, etc. and mining and quarrying. All these sub-sectors have their issues, but there is some consensus on what's lacking in India's industrial policy at a macro level.

Broadly, India has had two industrial policies, one in 1951 and the other during the economic reforms of 1991. The 1991 policy reforms reversed the heavy involvement of the public sector in industry as envisaged in the 1951 policy. They rolled back structural bottlenecks such as the licence and permit raj system.

In 2011, the government came out with the National Manufacturing Policy, with the objective of unleashing manufacturing's potential and boosting the manufacturing sector's growth to at least 25 per cent of the national GDP by 2025. Between 1993-94 and 2019-20 the share of manufacturing in India's GDP has been in the range of 14.8-18.1 per cent. Compared to middle-income countries, the share of manufacturing in India's GDP is low. It has not been able to capitalise on its labour cost and skill advantages to push large-scale labour-intensive manufacturing.

This potential has not been realised as there are still many industries faced with technological obsolescence, leading to their sub-optimal growth. While strides have been made in ease of doing business, the cost of doing business in India is still very high, which discourages capital investment. Another laggard in the sector's growth has been the involvement of the public sector in many industries, and some of them have become exclusive monopolies, making the industry uncompetitive.

To boost India's manufacturing, employment generation, import reduction and export growth, the Centre announced the production-linked incentive scheme (PLI) covering 14 significant sectors of the economy and involving a total outlay of Rs 3 trillion. Of the total manufacturing outlay, about 80 per cent is concentrated in electronics, auto, and solar panel manufacturing. The focus on the semiconductors/electronics value chain is 50 per cent of outlay.

The Divestment Drive

The government has shown its intent on the divestment front with the new public sector enterprise policy, which classifies public sector commercial enterprises as strategic and non-strategic, and seeks to privatise the non-strategic sectors while allowing a bare minimum presence even in strategic sectors. The four broad strategic sectors are atomic energy, space and defence; transport and telecommunication; power, petroleum, coal and other minerals; and banking, insurance and financial services.

"Since disinvestment gives out a larger share of PSU ownership to the open market, it sets the groundwork for a strong capital market," says Suraj Nangia, Partner & Head - Government & Public Sector Advisory, Nangia Andersen LLP.

"The sale of government stake in the BSE PSU Index companies amounting to $170 billion over the next three years can be a game-changer for the Indian economy as it seeks to achieve the target of $5 trillion. Greater and faster divestitures will create the fiscal space and help fund the capital expenditure," adds Nangia.

While the lowering of the divestment target for FY23 to Rs 65,000 crore and the revision in the FY22 target may indicate slow progress but this is part of the new strategy for the government. Tuhin Kanta Pandey, Secretary of the Department of Investment and Public Asset Management (DIPAM) in February, said, "Our basic track now is not minority stakes, but privatisation which is the new PSE policy. In privatisation, the transactions take a lot of time, but our focus should be on implementation of transactions."

He added: "Target numbers will remain rational; nothing stops us from exceeding. That is the change in tack; we will look at the economic impact of privatisation."

India's industrial sector also has a misplaced preference for excessively protecting organised labour. All the country's labour laws were enacted during the 1920s and 30s to protect the interests of the workers in the industrial sector, making dismissing labour virtually impossible due to fears of labour unrest. As a result, despite the industrial growth, it has not led to increased employment opportunities in the organised sector.

The government has now replaced 29 fundamentally different and sometimes contradictory labour laws with four coherent labour codes (passed in Parliament, yet to be implemented) that would make labour markets far more flexible and employment friendly. The new labour law regime gives employers the right to terminate workers in enterprises with 300 or fewer workers (up from the previous threshold of 100 workers).

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AMITH AGARWAL, Co-founder and CEO, AgriBazaar

India's Export Story: Of Change & Hope

The Union Ministry of Commerce and Industry in April relaxed several procedures under the Export Promotion Capital Goods (EPCG) scheme to reduce compliance requirements and facilitate ease of doing business. Under the scheme, imports of capital goods are allowed duty-free, subject to an export obligation.

"The response from foreign investors has been very good in the last five years or so as evidenced by the all-time high level of over $80 billion of flows last year. This momentum needs to be sustained," says Madan Sabnavis, Chief Economist, Bank of Baroda.

There needs to be buoyancy in the economy to attract investment and this has been uneven in the last couple of years. Sabnavis says that the problem of NPAs was an issue that made the financial system cautious but the "worst appears to be behind us". The doors are open for private investment now.

Meanwhile, according to the ministry, India's overall exports (services and merchandise) touched $676.2 billion in FY2021-2022 as both the components hit record highs. Overall exports were $526.6billion and $497.9 billion in 2019-20 and 2020-21, respectively. Merchandise exports crossed the $400-billion milestone in FY2021-2022 and stood at $421.8 billion, an increase of 44.6 per cent and 34.6 per cent over FY2020-21 and FY2019-20, respectively.

Breaking Records

The ministry said that India's services exports set a new record of $254.4 billion in FY2021-2022 beating the previous high of $213.2 billion in FY2019-20. Also, it hit an all-time monthly high of $26.9 billion in March 2022. The ministry said that telecommunications, computer and information services, other business services and transport are the top contributors to services exports during April-December 2021.

Although, India on May 14 banned wheat exports with immediate effect to manage the overall food security and support neighbouring and vulnerable countries, as prices of commodities soar in the country. Later, however, the government allowed relaxation and said that whatever wheat consignments have been handed over to customs for examination and registered into their systems on or before May 13 would be allowed for export. Wheat exports stood at an all-time high of 7 million tonnes, valued at $2.05 billion, in 2021-22.

Union Minister Piyush Goyal even said he is hopeful India's exports will touch $410 billion in the current FY and called for the reorientation of economic laws to suit the changing needs of the time.

Ease of Business

The ease of doing business and the ease of living are both very important and need to co-exist to ensure that the $5 trillion objective is fulfilled in a shorter period, experts believe.

"The government can help by providing a platform for investment. However, the push has to come from the private sector which, in turn, would drive employment in future that will lead to accelerated consumption and growth," said Bank of Baroda's Sabnavis. Prime Minister Modi recently said there is an unprecedented emphasis on ease of doing business as well as ease of living in India and this is generating a belief that India's growth story will move forward.

"The Indian economy is driven by agriculture and is dependent on the sustainability of the entire agricultural ecosystem. However, there are some grave challenges in terms of crop risk management practices such as pre-harvest and post-harvest yield estimation, crop loss assessment, market linkages, transparency, accuracy, the scale of advisory, and the impact of extreme weather events on agricultural productivity. These factors can be hugely responsible for leakage in the agricultural system from the perspective of financial stability as well"

NAVNEET RAVIKAR, Chairman and Managing Director, Leads Connect Services

Following the path of minimum government and maximum governance, PM Modi emphasised that India has made ease of living, and ease of doing business a priority, undertaking wide-ranging reforms. As per reports, India is in second place in the global retail index, the third-largest energy consumer and the world's third-largest consumer market.

For the investments to take off and be sustained, several factors such as opportunity, cost of funds and business environment and, more importantly, ease of doing business must fall in place. "Ease of business encompasses issues like taxation, access to capital which can be the debt market or banks, getting permissions for various utilities, access to infrastructure, resolution of bankruptcy, etc. Therefore, easing progressively conditions for doing business continuously is a necessary condition to keep enterprises alive," says Sabnavis.

The Union Finance Ministry has also said that the focus on capex in the current fiscal's budget will enhance manufacturing and tax revenue collections, thereby keeping India on track to the $5 trillion goal. It said that tax revenues in the last FY increased by a record 34 per cent to Rs 27.07 lakh crore.

Ease of living is also important from the point of view of consumption which accounts for around 60 per cent of total GDP. "Job creation is necessary so that there is income being generated which, in turn, is spent that leads to higher investment. Thus there is a virtuous chain that is created where the higher investment also brings in more jobs," adds Sabnavis

The Big Infra Push

Economic Survey 2021-22 says that India needs to spend about $1.4 trillion on infrastructure to achieve the $5 trillion economy dream by FY25. "Keeping this objective in view, the National Infrastructure Pipeline (NIP) was launched with a projected investment of around Rs 111 lakh crore ($1.5 trillion) during FY 2020-2025 to provide world-class infrastructure across the country and improve the quality of life for all citizens," the survey said.

Under the NIP, infrastructure development would be geared towards improving the ease of living or the physical quality of life. It can initiate a virtuous cycle of higher investments, growth and employment generation in the economy. It will be accompanied by a shift in the underlying demographics of the country — increase in urbanisation levels, a growing workable population and increase in the share of employed individuals in the services sector in urban areas.

"Housing, water supply, sanitation services, and transportation infrastructure will be more in demand as urbanisation occurs. Quality of life is essential since it leads to increased productivity, which, in turn, leads to increased demand for goods and services and hence stimulating the overall economy," says Pradeep Misra, CMD, REPL.

Gati To Infra Work

In October 2021, Modi launched the PM Gati Shakti, a Rs 100 lakh crore national master plan for multi-modal connectivity. The government is aiming to increase the length of the national highway network to 200,000 km, create more than 200 airports, heliports and water aerodromes, and double the gas pipeline network to 35,000 km by 2024-25. In addition, it aims to set up 11 industrial corridors, two new defence corridors, 4G connectivity in all villages, and increase renewable energy capacity to 225 GW from 87.7 GW.

Most importantly, it involves the creation of a common umbrella platform through which infrastructure projects can be planned and implemented with coordination between various ministries and departments on a real-time basis. This will go a long way in ensuring on-time project completion and reducing cost overruns. According to a report on infrastructure projects monitoring, released by the Ministry of Statistics and Programme Implementation (MOSPI) for October 2021, a total of 438 projects in the infrastructure sector worth more than Rs 150 crore were affected by cost overruns totalling Rs 4.34 lakh crore.

In the same month, the government brought reforms for the procurement side, such as quality-cum-cost based selection method (QCBS), a long-standing industry demand. It also said that single bids getting rejected shouldn't be a default practice, and most importantly, the release of 75 per cent of bill amounts to the contractor should be made within 10 days at the running bill stage to ensure healthy cash flow in the system. In the long run, the government will have to focus on improving project preparation processes, ensuring sanctity and enforcement of contracts and building up the capacity of banking and financial institutions such as IIFCL and SBI to provide long-term infrastructure finance.

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PRADEEP MISRA,
CMD, REPL

Taxation Reforms

After launching the GST at midnight in Parliament's Central Hall in 2017, the next big tax reform from the government came in September 2019, when it slashed the basic corporate tax rate to 22 per cent from 30 per cent for domestic companies which don't avail any exemption/incentive, giving a Rs 1.45 lakh crore stimulus aimed at reviving private investment in the economy.

Abhishek Murlidharan and Prasanna Tantri of Indian School of Business wrote in a note that the corporate tax cut played an important role in the revival of the private capital expenditure that is ongoing. "Although the tax cut was not announced as a Covid response measure, it seems to have played an important role in ensuring corporate sector resilience to the crisis," they add.

Then in August 2021, the Parliament cleared the Bill to end retrospective tax and did away with all retrospective taxes imposed on indirect transfer of Indian assets made before May 28, 2012. "The government's move of nullifying the retro tax has given impetus to India's $5 trillion economy goal, instilling investor confidence by providing a predictable tax regime. India was looked down for this when they levied a cumulative Rs 1.10 lakh crore of tax on 17 entities," says Nangia.

July 2022 will mark five years of the GST regime. April 2022 collections touched an all-time of Rs 1.68 lakh crore, reflecting the recovery of business activity. The finance ministry has attributed the rise to strict enforcement action taken against errant taxpayers. However, the regime has a lot of scope for reforms by bringing exempted products such as petroleum under it and rationalising the tax slabs.

Act on Climate Change

As the entire globe is bearing the brunt of climate change, India can lose a massive $6 trillion by 2050, analysts have pointed out. However, in case the present trend of substantial investments in emission reduction efforts continues, India could witness economic gains of approximately $11 trillion by 2070, as per a Deloitte report.

According to experts, the economy is directly related to the damage caused by climate change and sectors like services, manufacturing, retail and tourism, construction and transport can be highly affected. On a worrying note, all of them currently constitute over 80 per cent of India's GDP.

Apart from that, climate change is likely to impact the reliability of seasonal agricultural output along with impact revenue from the sector. Explaining how recent developments like heatwaves and farm fires impact the economy Amith Agarwal of AgriBazaar says, "The measures by the Indian government are essential to ensure the food security of our nation. As an organisation, we strongly believe in prioritising our national interest above everything else."

The country is already planning to establish 500 gigawatt (GW) of installed renewable energy capacity by 2030. International investment in new clean power capacity will surpass $10 trillion around 2050. Union Power Minister R.K. Singh said in an earlier statement that India has decreased CO_2 emission intensity by 28 per cent over 2005 levels.

The objective in its Intended Nationally Determined Contribution (INDC) under the Paris climate change COP21 accord is an outflow force decrease of 35 per cent from the 2005 level by 2030. The Centre also desires to cross its INDC responsibilities well inside the committed period and expects that by 2050, 80-85 per cent of the general power limit will come from renewables.

"It is very important to understand the possible impacts of any action or decision so that appropriate measures can be taken to mitigate the associated risks. It is also essential to consider that situations can be improved when we succeed in identifying situation-specific problems and issues. Hence, before initiating any discussion on improving the situation, we need to revisit the basic question of identifying the problems accurately," says Navneet Ravikar of Leads Connect Services.

"Since disinvestment gives out a larger share of PSU ownership to the open market, it sets the groundwork for a strong capital market. The sale of government stake in the BSE PSU Index companies amounting to $170 billion over the next three years can be a game-changer for the Indian economy as it seeks to achieve the target of $5 trillion. Greater and faster divestitures will create the fiscal space and help fund the capital expenditure"

SURAJ NANGIA, Partner & Head - Government and Public Sector Advisory, Nangia Andersen LLP

The Next $2 Trillion

On May 31, 2022, the provisional GDP numbers came in for FY22. The growth recorded for the fiscal is estimated at 8.7 per cent as against the contraction of 6.6 per cent in FY21. The figure is slightly down from the second advanced estimate of 8.9 per cent released in February. However, Q4 growth for the fiscal slowed down to 4.1 per cent on account of localised restrictions during the Omicron wave in January and February and high inflationary pressures denting private consumption.

Nominal GDP or GDP at current prices in FY2021-22 is estimated to attain a level of Rs 236.65 lakh crore, as against Rs 198.01 lakh crore in 2020-21, showing a growth rate of 19.5 per cent. On March 31, the rupee-dollar exchange rate stood at Rs 75.91. This translates to $3.11 trillion in US dollar terms.

India will have to keep its nominal growth rate at 13 per cent for the next five years, accounting for a 3 per cent annual average rupee depreciation to hit the milestone of $5 trillion by FY27, as predicted by the IMF. This is not going to be easy though. The FY25 target for sure seems to be a distant dream given current growth rates and the pace it can maintain in the next two years.

The Provisional Estimates of Annual National Income, 2021-22, give hope. The numbers leave India as the fastest-growing major economy in the world. India has a great opportunity from here to reorient policies and accelerate the reform agenda across sectors to steer its economy towards the big dream. Doing so would lift a large number of people out of poverty and possibly establish the country as a strong manufacturing base to alter the balance in Asia. BW

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