# REFORMING INDIA:
## A NEW ECONOMIC ERA


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# Reforming India: A New Economic Era

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## Introduction

Warning bells on the Indian economy were sounded in the latter part of 2019 when the Reserve Bank of India cut the growth forecast for fiscal year (FY) 2019/20 to 6.1 per cent on the back of low consumer demand and a weakening of the manufacturing and service sectors.

Soon, the Narendra Modi-led government presented the Union budget in February 2020 that proposed a roadmap for India to become a US$5 trillion (S$7.16 trillion) economy by 2024. It targetted a 12-per cent nominal growth in gross domestic product (GDP) with focus on reforms in agriculture, labour, infrastructure, real estate and construction, and natural resource management as well as in banking and financial services. While the target was ambitious, the goal seemed reachable.

However, the COVID-19 global pandemic hit India severely in March 2020, leading to a 10-week lockdown. Nevertheless, the pandemic has spread significantly in India. At the point of writing, the number of COVID-19 infections had crossed 900,000, making India the third-largest country in incidences of COVID-19 after the United States and Brazil.

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Just like the other countries of the world, this stringent measure to restrict the spread of the virus has impacted the Indian economy and has contributed to its contraction. India is now widely expected to experience significant economic recession marked by a negative growth rate of GDP in FY2020.

The World Bank estimated the Indian economy to contract by 3.2 per cent in FY 2020/21. "In India, growth is estimated to have slowed to 4.2 per cent in the fiscal year 2019/20 and output is projected to contract by 3.2 per cent in fiscal year 2020/21, when the impact of COVID-19 will largely materialise," the World Bank said in the latest edition of the *Global Economic Prospect*. "Stringent measures to restrict the spread of the virus, which heavily curtail short-term activity, will contribute to the contraction," it added. The International Monetary Fund's latest world economic outlook forecasts an even deeper contraction of 4.5 per cent for India in 2020.[1]

However, as Albert Einstein said, "In the midst of every crisis lies great opportunity." India has been pushing for economic reforms since the COVID-19 pandemic erupted. While announcing a ₹20-trillion (S$3.75 trillion) COVID-19 revival package for the economy, it has also initiated reforms in various sectors. The striking aspect of the current round of reforms is the energy displayed by the central government as well as several states in introducing policy changes.

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Some of the areas of reform include labour wherein factories and manufacturing units have been permitted flexibility while ensuring that laws related to minimum wages, safety and security measures as well as child and bonded labour remain in force. Similarly, amendments have been made to the Essential Commodities Act of 1955, enabling farmers to sell various agricultural commodities directly to traders and retailers. This could be a game-changer for Indian agriculture by attracting large investments in food retail and encouraging farm exports. In an effort to attract investment, reforms related to land procurement too have been made easy while enterprises in the micro, small and medium enterprise sector have been re-categorised to prevent loss of employment and facilitate growth.

To attract foreign investment, the government has also set up an empowered group of secretaries to draw up a proposal to ensure ease of setting up business in the country. In addition, incentive schemes have been announced in sectors particularly related to mobiles, electronics and medical equipment.

Meanwhile, a populist programme, *Atmanirbhar Bharat Abhiyan* (Self-reliant India campaign), announced during the COVID-19 pandemic, gained credence after the recent border skirmish between China and India. However, concerns remain over whether the initiative

1 "World Economic Outlook Update, June 2020 – A Crisis Like No Other, An Uncertain Recovery", *International Monetary Fund*, June 2020. https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdate June2020. Accessed on 9 July 2020.

marks Prime Minister Modi's decisive shift towards institutionalising protectionism. Many feel the idea is in consonance with the Rashtriya Swayamsevak Sangh's vaunted ideology of *swadeshi*.

Written by scholars at the Institute of South Asian Studies, this Special Report covers various aspects of India's latest round of the economic reform process thus far, analysing the pros and cons of these initiatives. The papers reflect on the economic significance of the policies and their political undertones as well as the regulatory and administrative challenges that need to be overcome to make the reforms meaningful and sustainable.

# Becoming a Five Trillion Dollar Economy by 2024: A Roadmap for India

*Vinod Rai*

## Summary

*The Indian government has announced its desire to boost the economy to a level of US$5 trillion (S$7.16 trillion) by 2024. While fixing a bold target is commendable, the government must lay out the roadmap designed for each of the major sectors. Such a roadmap should have measurable milestones and should be put out in the public domain.*

## Introduction

*The reality is that the economy is slowing down, unemployment is rising, demand is getting sluggish and both the manufacturing and services sectors are showing signs of slowdown.*

Prime Minister Narendra Modi has declared that the goal of his government is to make India a US$5 trillion (S$7.16 trillion) economy by 2024. He has himself stated that while this may be a challenging task, it is certainly achievable with the concerted efforts of the centre and states. This announcement kicked off a cacophony of voices. Most were in the form of debates on the feasibility of such an attempt. A debate is indeed apposite, as it can trigger opinions and thereby throw up suggestions when conducted in a constructive mode. The issue is not whether it is achievable or otherwise. The reality is that the economy is slowing down, unemployment is rising, demand is getting sluggish and both the manufacturing and services sectors are showing signs of slowdown. Hence, setting out and achieving inspirational and ambitious goals are needed now more than ever. The need of the hour is to lay down a roadmap, fix measurable milestones and, while monitoring with a hawk's eye, show alacrity in taking corrective measures where the milestones show time overruns.

The roadmap will have to target a 12-per cent nominal growth in gross domestic product (GDP) [eight per cent real GDP and four per cent inflation] to ensure that, from a level of US$2.7 trillion (S$3.86 trillion), India will reach a level of about US$5 trillion (S$7.16 trillion) in 2024. The Central Statistical Office's GDP data shows that the economic expansion that began in 2014-15 peaked in 2016-17 at 8.2 per cent. Growth declined to 7.2 per cent in 2017-18, 6.8 per cent in 2018-19 and further to 4.8 per cent in the first half of 2019-20. The Economic Survey has highlighted an economic model wherein savings, investment and exports operate in a virtuous cycle. To enhance savings and investment, at least three economic parameters need to be addressed. The first is increased domestic consumption, which will generate manufacturing, revive productivity of industries and, hence, encourage investment. It will then attract foreign investment and generate employment. The next is to draw people of employable age to areas of gainful employment in an effort to bring about a favourable demographic dividend and thereby reduce disguised unemployment on farms and rural areas. Thirdly, the government will have to strengthen fiscal consolidation as it is committed to a glide path of reduction in the fiscal deficit. Besides these targets, certain 'big bang' reforms, which have long been discussed but not implemented, have to be immediately operationalised. These have to be in sectors such as modernising agriculture and increasing productivity, picking up the pace of infrastructure development, implementing much-awaited banking, land and labour reforms and increasing tax and non-tax revenue, such as disinvestment, among other major issues. This reform package will have to target certain structural issues and contend with the cyclical factors too.

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Since achieving the US$5 trillion (S$7.16 trillion) target requires comprehensive, well-synchronised and closely-monitored action in all sectors of the economy, we proceed to outline those sectors which are of the highest importance and would constitute the core of an 'Action Programme'. Six of these are briefly discussed below.

## Agriculture

The entire landscape of reforms – land, irrigation, agriculture credit, the addressal of various overdue problems of farmers across the country, subsidies, support prices and finding solutions to seasonal

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issues, such as stubble burning – need to be promptly addressed. Any policy designed to boost the economy will necessarily have to be premised on leveraging the huge agriculture base that India has. Agriculture supports the livelihood of 495.13 million persons and 100.7 million households that are directly dependent on farming.[1] Inclusive growth is not feasible unless agriculture grows at about four per cent while the overall economy grows at about eight per cent annually. In February 2016, the government set a goal of doubling farmer incomes by 2022 in real terms from the baseline income of 2015-16. Meanwhile, the government has announced a 16-point agenda to stimulate growth, which is comprehensive and consistent with the overall focus. However, its greatest emphasis is on linking farmers to markets and providing supply chains. The concern that arises is that about 86 per cent of farmers are small and marginal and more than 50 per cent do not have access to irrigation facilities. Crop productivity is abysmally low, and hence they are unable to generate marketable surpluses.

Low productivity is the basic shortcoming of Indian agriculture. This aspect is the one in need of most attention by developing a high yielding variety of seeds. States, particularly Maharashtra, have expended large amounts of resources on the creation of irrigation facilities, but the area under assured irrigation continues to languish at low levels. These are the only elements that will create a marketable surplus, which is where the supply chain kicks in. The worrisome factor is that, of two important items in the budget viz food and fertiliser subsidies, food subsidy provisions have been reduced from ₹184,220 crore (S$40.1 billion) in 2018-19 to ₹115,570 crore (S$24.35 billion) for 2020-21. Similarly, the fertiliser subsidy has been reduced from ₹79,998 crore (S$15.76 billion) to ₹71,308 crore (S$14.32 billion) in the same period. The rationale for the reduction is not clear.

Meanwhile, the looming water scarcity crisis in the country has to be tackled on a war footing. India has only four per cent of the global fresh water resources but caters to the water needs of about 17 per cent of the global population. Of the fresh water resources available

1 Nabard, *All India Rural financial inclusion survey 2016-17*, Vol.1.

in the country, about 78 per cent are used for irrigation (2010). Of this, 63 per cent come from groundwater sources, 24 per cent from canals and about 13 per cent from other sources.[2]

Hence, the rapid rate for the depletion of ground water and declining water tables have to be urgently addressed. The policy of free/concessional power for irrigation has led to a rapid rate of depletion. Traditionally, sugarcane used to be grown in Uttar Pradesh and Bihar. Paddy growing areas were in east and south India, areas of high rainfall. With these crops having shifted to other areas, such as Maharashtra and Punjab, the load on fresh water has increased as they consume about 60 per cent of available fresh water. Once the concessional rate or facility of free power for agriculture has been granted, no political party is able to withdraw it.

To counter this problem, the Punjab government has launched a programme to incentivise farmers to regulate the use of power for their tubewells. *'Paani bachao, paisa kamao'* (save water, earn money) was launched for *kharif* (autumn crop) in 2018 as a pilot project. Under this scheme, farmers, rather than being given free power, were given the option of installing meters and not paying anything up to 200 units of horsepower per month for *kharif* and only 50 units for *rabi* (grain crop), which consumes less water. The incentive in the scheme was to reward the farmer for consumption below the maximum free quota. Thus, for using 3,226 units less than a particular farmer's tube well consumes, the electricity board made a direct benefit transfer of ₹12,904 (S$245.15) at ₹4/unit (S$0.08/unit) to his bank account.[3] There are various other measures such as regenerative work for river catchments as well as coordinating aquifers while persuading farmers to shift to less water-intensive choices. In sum, water preservation, source regeneration and appropriate crop rotation schemes need to be urgently operationalised.

*In sum, water preservation, source regeneration and appropriate crop rotation schemes need to be urgently operationalised.*

A limitation of space in this paper restricts issues of animal husbandry, dairy and fisheries from being highlighted. This sector is no longer

2 Central Water Commission 2014.

3 Anju Agnihotri Chaba, "It pays to pay farmers to fix power problem", *Indian Express*, 17 July 2019.

a vehicle for merely securing livelihoods and alleviating poverty. A Food and Agriculture Organisation study showed that a ₹1 (S$0.02) investment in the livestock sector can generate a return of ₹4 (S$0.08). Recognising this fact, the government created a full-fledged ministry for fisheries, animal husbandry and dairy in June 2019 (it was earlier part of the Ministry of Agriculture). This focus should encourage entrepreneurs to invest in these activities and create wealth. Farmers need not be treated as poor peasants. They have to be encouraged to be entrepreneurs. There is potential in rural India and it needs to be tapped so as to provide an impetus to rapid growth in the GDP.

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A roadmap with measureable milestones will have to be devised to address issues, firstly of land and crop productivity. This must encompass overcoming issues of smallholdings, ensuring adequate credit for cropping and marketing, bringing larger tracts under assured irrigation and balancing the use of fertilisers and pesticides. The second stage should encompass issues concerned with marketing, which should inter alia include a warehousing and cold storage chain with negotiable warehousing receipts, liberalisation of farm markets and better rail and road facilities for access to markets/ports. Next would be the provision for storage and transport facilities on ports/airports to facilitate exports.

It needs to be recognised that to achieve the target of a 12- to 15-per cent growth rate for a country as diverse as India, a one-size-fits-all strategy will not be useful. There should be state- and region-specific approaches, especially since agriculture is a state subject. The capacity and efficiency of the agriculture, irrigation and cooperative departments in some states to work together in a synchronised manner is suspect. They will have to be brought under a common umbrella where the central government takes the lead to guide and supervise them.

## Infrastructure

According to data from the Ministry of Finance, projects worth about ₹11 trillion (S$209 billion) remain ‘stalled’ for one reason or another. These are largely in the power, railways and roads sectors. The Task Force on National Infrastructure Pipeline has outlined a fairly aggressive target for investment in infrastructure over the next five years with the Finance Minister suggesting an amount of ₹102 trillion (S$1.94 trillion) in the next five years. Out of this amount, the central government will contribute ₹40 trillion (S$759.66 billion) and the private sector about ₹20 trillion (S$381.25 billion). The government needs to have a 'doable' plan of action where it can rope in the private sector and the state governments to provide the funding required under the plan. It needs to be recognised that infrastructure projects tend to have long gestation periods and are lumpy and illiquid. There is, therefore, the added risk of lack of sufficient consistency of policy across governments (for example, Amravati development projects) and the earlier cancellation of power purchase agreements of power projects when governments change post elections. These factors reduce the private sector's appetite for funding infra projectors. Thus, even if we presume that the government would be able to find ways to raise its share of the US$6 billion (S$8.59 billion), that would constitute only 40 per cent of the solution. The approach to persuading the state governments and the private sector needs to be identified and activated soon.

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A model that has been perfected and used very effectively in China, Hong Kong and South Korea is that of leveraging the land banks held by the municipalities. In India, the government, in the railways, defence and cantonments as well as public sector corporations, has vast stretches of unutilised land. Giving land development rights to private parties on long-term leases, or using land parcels as collateral – which could be monetised after development of the area at a substantially enhanced value – could help to raise sufficient debt. Additionally, local self-governments could project the value of land owned by them on their balance sheets and leverage it to raise debt. This has been attempted by municipalities in Karnataka and Kerala, and needs to be replicated. The private sector would be a willing participant in contributing funds to infrastructure development if the government de-risked revenue uncertainties and undertook

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credit guarantees while also providing an undertaking from political exigencies and statutory clearances within a timeline. The effort required in providing confidence to the private sector in this will have to be huge, especially when seen in the context of the number of National Highways Authority of India projects that are languishing in courts/arbitrations. The inclusion of an option whereby the concessionaire has the right to seek a government takeout, or build in specific justiciable rights or sacrosanct contracts (if the project is delayed due to factors beyond its control) could revive risk-taking. These are issues in need of close dialoguing with potential investors to ensure that projects are structured so as to generate sufficient confidence to attract investment.

In this context, one remarkable case that seems to emerge is the huge quantum of funds available with municipalities. The Brihanmumbai Municipal Corporation (BMC) seems to have savings amounting to ₹78,919 crore (S$17.18 billion) which have been locked away in fixed deposits in various banks.[4] The issue is when the BMC is constantly under adverse public notice for poor drainage, pot-holed roads, inadequate water supply, collapsed overhead bridges and such other amenities, should it be putting the money collected from citizens in a fixed deposit? Every year, lives are lost due to these glaring inadequacies. As such, those in authority need to be questioned for such non-utilisation of funds.

Policy planners have to be cognisant that private sector banks have burnt their hands by taking on loss making infrastructure projects in the previous investment cycle. This has led to a loss of confidence in the providers of capital, thereby creating an averseness to infrastructure projects. The public sector banks (PSBs) have had similar experiences with the added spectre of investigative agencies chasing even non-executive Board members for what could be an investment decision taken in good faith but which soured due to factors beyond the control of the promoter/lender. There is thus a severe liquidity crunch among non-bank lenders and cautious foreign funding which will have to be surmounted. *The Infrastructure Yearbook 2019*,

4 "Axis gets Rs 1 crore out of BMC's Rs6300 cr savings this Jan", 3 March 2020.

released by Crisil recently, has identified huge gaps in development infrastructure in sectors such as airports, railways, ports, power and water supply. Each sector requires a well-structured and adequately funded roadmap for implementation to reach the target within five years. It will be very useful to the public and hold the bureaucrats/ political executive accountable if the timelines and targets are placed in the public domain so that citizens can draw confidence from their prompt implementation. This is imperative for GDP growth of eight per cent to be achieved as all other sectors such as finance, tourism, exports etc., would piggyback off of infrastructure development.

## Role of Banks

If physical infrastructure is the backbone to support development, banks and financial institutions are the nerve centre fuelling economic activity. If the former is the brawn, the latter is the brain. Banks have not been in the best of health and the earlier the situation is remedied, the quicker will be the economic revival. As of now, the government has only been pumping in funds into recapitalising the PSBs, owing to the huge non-performing assets (NPAs) that have created craters in their balance sheets. After about 50 years of nationalisation, the share of PSBs in the share of credit of all scheduled commercial banks declined from 75 per cent in 2011 to about 59 per cent in 2019. In this period, the share of private sector banks almost doubled from about 18 per cent. In roughly the same period, the PSBs accounted for 85 per cent of bank frauds, while their gross NPA (GNPA)) exceeded ₹7.4 trillion (S$143 billion) in 2019.[5] The banks' GNPAs may rise from 9.3 per cent of total loans in September 2019 to 9.9 per cent in September 2020.[6] Estimates show that for every rupee of taxpayer money invested in PSBs in 2019, there was a lost value of 23 paise (cents), whereas for private banks it created value.[7] PSBs have been recapitalised with an amount of ₹3.19 trillion (S$66 billion) in the period 2014-19 and an additional ₹70,000 crore (S$1.36 billion) has been set apart in the current fiscal year. These figures are illustrative of the fact that while the PSBs are rapidly losing ground, the government's spending

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5 Economic Survey 2020.

6 RBI Financial Stability Report, December 2019.

7 "PSBs Need a Tectonic Shift", *Economic Times*, 1 February 2020.

of good money to recapitalise them with concomitant reforms is not helping to regenerate economic activity.

The government has announced a slew of measures towards a reform agenda for these banks, the main being setting up a Banks Board Bureau (BBB), which was intended to morph into a Bank Investment Company – a holding company to which the government's stake holding would be transferred. However, the BBB has merely remained an appointments recommendatory body. The government separately announced the merger of the PSBs, the last of which merged 10 banks into four, but the governance structure of these banks has not undergone any change as the government continues to drive their agenda, appointments and priorities. This is borne out by the announcement by government that PSBs would hold 'shamiana meetings' in 400 districts to enable smaller borrowers to access retail loans (reminiscent of 'loans melas' [fairs] in the late 1970s). Fortuitously, this plan was given the go-by when its misguided nature was realised.

*The banking reform agenda needs to be addressed in totality and not in disjointed incremental steps if the PSBs are to begin credit disbursement to retail and corporate borrowers.*

The banking reform agenda needs to be addressed in totality and not in disjointed incremental steps if the PSBs are to begin credit disbursement to retail and corporate borrowers. First and foremost, the government will have to take a strategic look at its stake holding – will it continue to be above 51 per cent or will it be drawn down to 33 per cent? This decision should be premised on the capacity of the government to infuse capital in banks from budgetary sources, as any limitation on its ability to do so will constrict the capacity of the banks to grow. Secondly, the governance structure will have to be made free of governmental/political control. The BBB should be allowed to appoint its own Board members conforming to a 'fit and proper' criterion laid down by the Reserve Bank of India. Thirdly, the professional skill sets of bank staff – especially in risk management, credit appraisal and information technology – and human resource professionals will have to be upgraded. Next, the fear of harassment by investigative agencies needs to be mitigated. Cases being referred for criminal investigation need to be vetted by an independent body of experts. Such a filter will provide confidence to banking professionals.

The reform agenda should ensure that the banking sector can put the worst behind it in FY2021 by completing bad asset resolution and aggressively providing for bad loans. Mergers already announced need to be completed expeditiously as the main stumbling block is always the human resource culture among the merging banks. Unless the governance of the PSBs improves, it would impede fiscal consolidation, affect fiscal stability and constrict credit growth, thereby becoming a drag on GDP growth.

## Real Estate and Construction Sector

The size of the global construction industry is expected to be US$12.7 trillion (S$18.18 trillion) by 2022. India's share, within this, will be about US$640 billion (S$916 billion). The sector has received government support through the *Pradhan Mantri Awas Yojana* and the Credit Linked Subsidy Scheme. The latest move to bail out inefficient and profiteering private builders with ₹25,000 crore (S$5.37 billion) of taxpayers' money will unclog the sluggishness.

The sector has had its share of problems but continues to be a steady contributor to India's GDP. It employs probably the largest share of formal and informal labour. The sluggish growth in the last few years will begin to change in the construction landscape soon, going by the technological and disruptive changes occurring globally. Its potential to boost other sectors such as cement, bricks, iron, steel, transportation, etc., is huge. Construction activity has made technological upgrades with drones equipped with sensors and virtual reality visualisations; robots working with humans, eliminating repetitive and potentially dangerous activities, such as brick-laying; and 3D-printed buildings with the help of AI, anticipating and deflecting risks that human beings would have missed. New technologies and modular construction has the potential to bring in much-needed industrial-scale productivity. It requires the support of venture funds for a new generation of construction companies that adopt non-traditional practices to recruit and retain skilled talent, offer higher pay and benefits to full-time employees and employ women into the male-dominated industry.

*New technologies and modular construction has the potential to bring in much-needed industrial-scale productivity.*

## Labour Laws

Countries in the East and South Asian regions that have become manufacturing and export hubs have ensured high levels of labour market flexibility. This has enabled enterprises to take advantage of this flexibility, enlarge their scale of operations, avail of economies of scale by enhancing their production at economical cost and become suppliers of apparel, leather products, automotive parts, furniture, etc. This was instrumental in providing mass employment and disposal income for the labour class. India has taken a step in that direction with the legislations on the Code on Wages (2019) and Code on Occupational Safety Health and Working Conditions. These are key proposals towards easing compliance in the plan for single registration, single license and single return for establishments hiring at least ten workers anywhere in the country. This will improve India's ranking in the Ease of Doing Business index, as earlier this process involved obtaining licenses under eight labour laws. The Code on Wages Bill permits the state governments to fix their own minimum wages, which had been a major concern with the states, as wages must be free to adjust according to industrial and market forces.

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India is poised to have a huge proportion of its youth having secondary-level education and basic vocational and technical education. With the country unable to provide jobs at an accelerating rate, India may face a socio-economic problem with disheartened youth spilling onto the streets. Thus, the need of the hour is a comprehensive employment policy combined with incentives to boost the growth of medium and large firms. Combined with the support of a flexible labour policy, this will help in transforming disguised unemployed rural labour, boost incomes and ensure manufacturing activity.

## Water

Access to fresh water is one of the biggest challenges of the 21$^{st}$ century. According to the World Health Organization, 1.1 billion people lack access to clean drinking water. Around 2.7 billion people experience water scarcity for about one month in the year. By 2025, two-thirds of the world population will be living in water stressed regions. India has only four per cent of global fresh water availability but has 16 per cent of the world population. The National Institution for Transforming India (NITI Aayog) released the result of a study on 18 June 2018 warning that India is facing its 'worst water crisis in history' and that demand for portable water will outstrip supply by 2030 if steps are not taken. Nearly 600 million Indians face high to extreme water stress and about 200,000 people die every year due to inadequate access to safe water. A total of 21 cities, including New Delhi, Bengaluru, Chennai and Hyderabad, will run out of groundwater by 2020, affecting 100 million people, the study noted. If matters are to continue, there will be a six per cent loss in the country's GDP by 2050.

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A major concern in India is that it may lack an overall long-term availability of renewable water resources. While India's aquifers are currently associated with replenishing sources, the country is also a major grain producer with a great need for water to support food crops. Additionally, rural communities situated on the fringes of Tier 1 and Tier 2 cities have to drill wells to access groundwater sources, which adds to the overall depletion of water. Urgent steps have to be taken to replenish water sources for food and human sustenance, as India's sustainable water availability is running dry.

## Conclusion

An accelerated growth of the economy will create jobs and provide disposal income to the citizens. Growth will also help generate tax revenue for the government, which can then spend enhanced amounts on health and education, which brings opportunity, equity and nutrition. It will help decrease child mortality and similar issues that India continues to struggle with. For the government to achieve the target of a US$5 trillion (S$7.16 trillion) GDP, a bold set of reforms will have to be implemented. More importantly, the citizens must cooperate in these efforts and adopt a collaborative mindset. The target is ambitious. India needs to fix aspirational targets. Most importantly, Indians need to accept that this goal is reachable.

# COVID-19 in India: Time to Reform Labour Laws

*S Narayan*

## Summary

*The Uttar Pradesh and Madhya Pradesh governments have announced the suspension of existing labour legislations. This is a reform that has long been pending in India. While there may be protests, the suspension is likely to provide new employment opportunities for Indians following the COVID-19 pandemic.*

*A large number of these laws are administered at the state level, and ever since the liberalisation of the Indian economy in 1991, there has been a clamour for reforms in labour legislations.*

In India, labour laws are among the reforms that have been long talked about. There is a plethora of legislations dating back to the early 1900s that govern labour engaged in manufacturing. They relate to compensations, working hours, retrenchment of staff, operational environment and a host of other issues. Though intended largely to protect workers, they have ended up as impediments to progress. Most importantly, the retrenchment of surplus labour and the closing down of factories have become mired in regulatory clearances. There are industries that are seasonal, including garment exports, leather goods and the like. During periods when they have no orders, they are still required to maintain and pay the labour, leaving the industries with little capital once the orders come back in. A large number of these laws are administered at the state level, and ever since the liberalisation of the Indian economy in 1991, there has been a clamour for reforms in labour legislations. However, state politics, the power of the trade unions and workers' representatives have prevented this from happening. Foreign investors baulk at the regulations, especially the inability to close down and walk away if the business does not succeed.

The Uttar Pradesh government has issued an ordinance to suspend 33 out of a total of 38 legislations relating to labour for a period of three years. The ones that remain are those relating to the payment of wages, providing for facilities for women and children and the abolition of bonded labour, among several others. Madhya Pradesh, also a Bharatiya Janata Party-ruled state, has also done something very similar. This is a major reform in these states. There may be voices in protest from the civil society, the Left and organised labour but the move has been thought through.

First, Uttar Pradesh has among the largest number of migrant labourers who work in agriculture, factories, services and logistics in states such as Maharashtra, Gujarat, Delhi and Karnataka. A very large number, close to one million, have gone back home, having lost their incomes and their livelihoods. These are people who migrated because the rural incomes out of the marginal pieces of land have been insufficient for their sustenance. The cities offered them an opportunity to earn, save and remit money back home. Now they are going back and it is likely that many would not want to return to the urban centres for quite some time. They need to find alternative employment and there are negligible opportunities in agriculture. In any case, cereal and sugarcane production, the main crops in Uttar Pradesh, are already at their productive highs and the incomes from these avocations are no longer adequate to meet the livelihood needs of the growing population. It is, therefore, important to bring manufacturing industries back, especially labour-intensive ones.

*A very large number, close to one million, have gone back home, having lost their incomes and their livelihoods.*

Second, Uttar Pradesh was, up until the second half of the 20th century, a hub for manufacturing and export, especially textiles and leather goods. Kanpur was an industrial hub. Now, only the shell remains. Most industries closed down due to stringent labour legislation requirements. Nevertheless, while skills and raw materials are still available, several of the returnees will also be bringing along with them acquired competence. There is an opportunity to create an alternate development model in a state that has not been able to get out of the repetitious cycle of agricultural production.

Third, the kind of monetary incentives that have been announced by the government for micro and small-scale enterprises create an opportunity to set up new units as well as expand existing facilities. It is likely that there will be new entrepreneurs or a return of earlier ones.

*Each surge is likely to see migrant labour in distress and significant movements of people.*

Fourth, it does appear as though the COVID-19 infections are not going to go away anytime soon and there is a possibility that we may see successive waves. Each surge is likely to see migrant labour in distress and significant movements of people. Thus, it makes sense for manufacturing to move away from urban concentrations to smaller towns where the workforce is closer to home and the impact of these spikes is muted. Such dispersion offers an insurance against any disruption of production from successive pandemic waves.

Madhya Pradesh, a state with a good record of economic growth, has done likewise. It is possible that other states may follow. This move, coupled with the relaxation in the Agricultural Produces Marketing Act announced by these two states, is likely to go a long way in enabling their economies to pick up after the crisis.

# Liberalising Indian Agriculture: Creating Efficient Farm Markets

*Amitendu Palit*

## Summary

*India has amended its Essential Commodities Act of 1955, enabling farmers to directly sell various agricultural commodities to traders and retailers. This could be a game-changer for Indian agriculture by attracting large investments in food retail and encouraging farm exports.*

India has introduced a couple of legislative ordinances amending its more than six decade-old Essential Commodities Act (ECA) of 1955. These ordinances – The Farmer's Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020[1] and The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020[2] – were promulgated by the President on 5 June 2020. Both amendments introduce major flexibilities in the ECA of 1955 and are of far-reaching significance for Indian agriculture, the rural economy and farmers.

*The ostensible reason for such regulation is to ensure adequate supplies of different commodities at affordable prices for the people of the country.*

The ECA of 1955 is a law regulating various products as 'essential' commodities. The Act empowers the central government to regulate or even prohibit the production, supply, distribution and attendant trade and commercial functions for commodities that are essential. The ostensible reason for such regulation is to ensure adequate supplies of different commodities at affordable prices for the people of the country.

The ECA was definitely justified at the time when it was enacted in 1955. Less than a decade after the country achieved independence and the catastrophic experience with famines and food shortages was

1 "The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020", *The Gazette of India*, 5 June 2020.

2 "The Farmers (Empowerment And Protection) Agreement on Price Assurance and Farm Services Ordinance", *The Gazette of India*, 5 June 2020.

still vivid in the minds of people, supplies had to be regulated. It was all the more important, given that the country was not self-sufficient in the domestic production of various food grains, such as wheat, rice, vegetables, fruits, pulses, spices and sugarcane, relying heavily on imports.

Over time, however, the ECA became a major obstacle towards the growth of efficient food markets in India. It prevented farmers from selling produce at market-determined prices. As a result, the government determined much of the food prices in India. Dedicated agents procured food grains and other produce at this fixed procurement prices. Apart from not allowing agricultural produce to be driven by prices arising from their demand and supply, this entailed huge government expenditure outgo on food subsidies to buy food grains at pre-determined prices. The ECA also dis-incentivised farmers from building stockpiles to sell to organised traders or exporters out of fear that such stockpiling would be construed as potential supply disruption and invite action under the Act.

Several benefits are expected from the amendments. Foremost among these is the opportunity arising for farmers in India to directly access traders, exporters and other agencies to sell their produce. Not bound by regulations, farmers can look forward to obtaining market prices on their output. The commercial prospects for farmers are manifold as they will be able to tailor their produce on the basis of consumer demand, as communicated by traders, as well as external demand, similarly conveyed by exporters. Other benefits include bright prospects for organised retail, particularly food retail in the country as retailers get direct access to farmers.

*Other benefits include bright prospects for organised retail, particularly food retail in the country as retailers get direct access to farmers.*

With most transactions between farmers and traders expected to go through electronic trading platforms, both parties can be relieved at the prospect of avoiding intermediaries who have been among the major imperfections in India's agriculture market. The possibility of buying produce directly from farmers at market prices should encourage considerable investments from organised food retailers in cold chain, warehousing and other distribution facilities, necessary for storing both perishables and non-perishables. At the same time, the possibilities of agricultural exports become considerably brighter. Farmers can now build sufficient stocks to meet large export orders and obtain price premiums from selling in global markets that has eluded most of them till now.

*There are also worries over whether future episodes of supply shortage for certain produce might make the government regulate their stocks and selling price by declaring them 'essential' again.*

Some operational concerns remain. Despite the amendments making clear that farmers will not be hampered by selling conditions stipulated by the Agriculture Produce and Marketing Committee (APMC) Acts of the state, procedural clarifications might be required for states that are yet to amend their APMC Acts. There are also worries over whether future episodes of supply shortage for certain produce might make the government regulate their stocks and selling price by declaring them 'essential' again. Centre-state coordination issues also remain a worry. Even though food grain and agricultural produce are deregulated, state governments are to eventually decide on the circumstances of price rise for specific commodities and regulate them, defeating the larger objective of the amendment. Finally, there are concerns over how the core objectives of the deregulation will be balanced vis-à-vis the larger social welfare objectives of providing free food grain to the poor. If the government continues to declare higher procurement prices for food grain, most farmers might continue to be driven by such prices, defeating the greater objective behind the ECA reform.

Notwithstanding these concerns, amending the ECA is a bold step in the right direction. It might provide Indian agriculture the much-needed policy drive by creating effective agricultural markets it has been lacking till now.

# Indian Government’s Stimulus Package: Opportunity for Widespread Reforms

*Vinod Rai*

## Summary

*The Indian government has attempted to use the pandemic-created crisis in the economy to introduce much-needed reforms in many sectors. Attached to the recently announced stimulus package are many relaxations and amendments to archaic and outdated provisions in laws pertaining to land, agriculture, labour and micro and small industries. These reforms appear poised to enable the economic recovery to be sustainable over the long-term.*

## Introduction

The Indian government seems to be utilising the stimulus package designed to overcome the debilitating effects of COVID-19 as a window to usher in long-standing reforms. Exceptional times call for exceptional measures and the government has seized the opportunity to weave into the package designed to kick-start the economy a roadmap for broad-based reforms. If such measures are dovetailed with a spectrum of reforms, the regeneration process becomes more self-sustaining over the long-term. The 1991 reform package was instrumental in doing just that, though it was biased towards the demand-side of the economy.

*The present crisis situation in the economy has forced the central and state governments to think about the need for broader reforms.*

The present crisis situation in the economy has forced the central and state governments to think about the need for broader reforms. The two most vital pillars of the Indian economic engine are labour and agriculture. Both these sectors have been crying for a change. Whilst there has been talk of undertaking such reforms, nothing concrete has materialised on the ground. However, to their credit, the state governments have managed to take baby steps which may well induce the central government to provide the necessary legal and political backing to set in motion a major reform process in both these sectors.

## Labour Reforms to Boost Investment

*Before they set up shop, industry and entrepreneurs look for flexibility in labour engagement and a consistent policy regime.*

The groundswell of reforms in the labour sector emanating from about half a dozen states has been exceptional. Madhya Pradesh, Uttar Pradesh and Gujarat have introduced ordinances to suspend most of the labour laws, which were not only archaic, but also often stifled industrial growth. India's labour law regime comprises a plethora of about 150 different legislations which often are contradictory in application and never capable of full compliance. On the doorstep of these laws lies the entire blame for industrial clusters in Uttar Pradesh and Bihar getting destroyed with Kanpur, a one-time bustling industrial hub, now virtually lying in ruins. Before they set up shop, industry and entrepreneurs look for flexibility in labour engagement and a consistent policy regime. All the companies who are seeking to start enterprises afresh in any of the states are seeking these two guarantees from the governments. It was the lack of these very factors which hindered investment and technological upgradation. Politically, labour has been a very sensitive subject. Governments have been loathe to interfere with the provisions for fear of union and political backlash. This is despite the realisation that such archaic laws were doing untold harm to the growth of business and large scale employment itself, due to the imbalance between the excessive cost of 'permanent' labour and uncertainty attached to underpaid 'contractual ' labour. The fact that governments have now waded into these areas will send very strong signals to indicate that the party in power is able to undertake 'big bang' reforms which require a huge amount of political will.

The Madhya Pradesh government leads the way in easing license norms for contract workers. According to a government notification issued on 5 May 2020, 11 categories of industries will be exempt from the Madhya Pradesh Industrial Relations Act of 1961. The major industries exempted are textile, cement, leather, iron and steel, sugar, electricity and electrical goods, public motor transport and engineering. The validity of the licenses for such industries was one year. It has now been modified to be "for the period as applied

*The flexibility provided is that these companies will no longer be required to seek government permission to lay off workers, which used to be entangled in a nightmare of red tapism.*

for" under the Contract Labour Regulation and Abolition Act 1973. Contractors who were procuring labour for these industries had to procure multiple licenses for different companies and seek changes to the licenses whenever the number of workers underwent a change, besides seeking renewal every year. This change has made manpower agencies heave a major sigh of relief. The state has suspended the applicability of the major provisions of the Industrial Disputes Act 1947 for new manufacturing units which will come up in the next 1,000 days. The flexibility provided is that these companies will no longer be required to seek government permission to lay off workers, which used to be entangled in a nightmare of red tapism. They will merely be required to apply for government permission for retrenchment or closure of firms and provide retrenchment compensation.[1] Additionally, for existing enterprises, there will, henceforth, be no recognition given to trade unions and employer bodies to do collective bargaining.

The Uttar Pradesh government has also proposed to exempt firms from all the labour laws barring safety-related norms and minimum wage provisions. Its ordinance, which is awaiting presidential approval, states, "All factories and establishments engaged in manufacturing process shall be exempt from the operation of all labour laws for a period of three years." The ordinance implies that no welfare provisions under the Factories Act or the Building and Other Construction Workers Act will apply. Since the Industrial Disputes Act will become redundant, it implies that, for the three-year period, the earlier means to settle disputes will not be available. There will also be no right to form unions or go on strike. However, minimum wage protection will still be available. Workers' salaries will be paid directly into their bank accounts that will be registered in an online portal. Acting along similar lines, Gujarat has exempted new industrial establishments from all labour laws barring the Minimum Wages Act, Industrial Safety Rules and Employees Compensation Act.

1 Lay off in labour law parlance refers to a temporary denial of employment due to transitory factors. Retrenchment is permanent when the person is being removed by his employer for reasons other than a punishment.

The central government is working in close coordination with state governments to usher in labour law reforms to boost investment. The central labour ministry has, however, assured that laws in respect of minimum wages, safety and security measures, child and bonded labour will remain in force. The plight of migrant labour during the present COVID-19 pandemic has driven home the need to protect the welfare provisions of contractual labour and end distinction between permanent and contract workers. Unfortunately, while the former category was the recipient of excessive security provisions, the latter had none. It is reported that the difference in wages received by these two categories doing the same work was almost three times. Such artificial categorisations have proven to be detrimental to the expansion of employment. If retrenchment, with adequate compensation, is made legal, there will be lesser incentive to employ casual or contract labour and may lead to a more rational equilibrium in the wage structure. In the longer term, India cannot depend upon the labour reform process being driven only by the states. Since there is better acceptability of the problem at the state level, it is incumbent upon the central government to ensure that migrant or contract labour is provided the protection that a modern and progressive labour law regime can provide. This will also give employers the confidence of knowing that the labour market is flexible and hiring will not be fraught with avoidable complications. It will reduce the so-called 'Inspector Raj' and incentivise firms to hire more, knowing that they have the discretion to temporarily lay off workers if the market conditions so demand. This is a huge benefit, as recently even large and normally known-to-be law abiding companies like Wipro and Capgemini received notices from the Pune Labour Commissioner's office for benching employees.[2]

*The plight of migrant labour during the present COVID-19 pandemic has driven home the need to protect the welfare provisions of contractual labour and end distinction between permanent and contract workers.*

## Agriculture and Marketing to Aid Farm Community

Agriculture reforms have also been the buzzword for long despite the fact that agriculture still absorbs the largest workforce in the country. In the current lockdown period, not only have the supplies of essential perishable agricultural goods, including milk and vegetables, been

2 "Wipro gets labour department notice over benching staff, salary cuts", *The Times of India*, 9 May 2020.

*Punjab was the first state to dismantle the Agriculture Produce Marketing Committee (APMC) Act provisions to permit direct transactions between farmers and registered purchasers, outside of the mandi (market) platform.*

maintained, but supplies have also been forthcoming at reasonable prices. State governments such as Punjab have done a remarkable job in procuring the *rabi* (grain crop) directly from farmers and, seamlessly tying up with the Food Corporation of India, moved the grains to deficient states. Punjab was the first state to dismantle the Agriculture Produce Marketing Committee (APMC) Act provisions to permit direct transactions between farmers and registered purchasers, outside of the *mandi* (market) platform. This exercise has succeeded in ensuring that the farmer receives in-hand the minimum support price of ₹1,925 (S$36.5) for 100 kilogrammes of wheat. States such as Tamil Nadu, Karnataka, Haryana, Uttar Pradesh, Bihar and Madhya Pradesh have also amended the APMC Act to permit sales from the farmers' own outlets. Warehouses and cold storages have been designated sales platforms (*mandis*) for fruits and vegetables. Rajasthan has designated primary agriculture cooperative societies as wholesale markets. Himachal Pradesh, Uttarakhand and Gujarat have also allowed direct marketing without a licence.

Over the years, the APMC markets have become monopsonistic, with high intermediation costs, often rent seeking. In seeking to create alternative channels for farmers to sell their produce, the central government has introduced a new law — The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020 or the FPTC Ordinance – to end the monopoly of the APMC and allow anyone to purchase and sell agricultural produce.

The proposed central law to allow farmers to sell their produce to anyone outside the APMC yard will bring greater competition amongst the buyers, lower the *mandi* fee and the commission for *arhatiyas* (commission agents), as well as reduce other cesses that many state governments have been imposing on APMC markets. It will open more choices for the farmers and help them in getting better prices. By removing barriers in inter-state trade and facilitating the movement of agri-goods, the law could lead to better spatial integration of prices. This will help farmers of regions with surplus produce to get better prices and consumers of regions with shortages, lower prices. India will finally have one common market for agri-produce. Instances such as the West Bengal government restricting the movement of potatoes from its state to Odisha will, henceforth, not be possible.

The ordinance empowers anyone to trade in agricultural commodities armed with just a Permanent Account Number Card or any other document as specified by the central government. It also allows anyone to open an e-trading platform for which the centre can specify rules. However, some supplementary follow-up norms need to be introduced for optimal results. The proposition of big buyers, such as processors, exporters and organised retailers, going to individual farmers is not very efficient. They need to create scale, and for that, building farmer producer organisations (FPOs) based on local commodity interests is a must. This will help ensure uniform quality, lower transaction costs and improve the bargaining power of the farmers vis-à-vis the large buyers.

*The ordinance empowers anyone to trade in agricultural commodities armed with just a Permanent Account Number Card or any other document as specified by the central government.*

The government has also amended the Essential Commodities Act (ECA) to remove the existing restrictions on stocking food produce. The ECA has been amended to deregulate six categories of agricultural foodstuffs: cereals, pulses, edible oils, oilseeds, potato and onion. Stock limits on these commodities will not be imposed except in times of a national calamity or a famine. These limits will also not be forced on food processors or value chain participants which/who will be allowed to store as much as their installed capacity can accommodate. Exporters will also be exempted. It is hoped that the amendment will bring more private investment into warehouses and post-harvest agricultural infrastructure, including processors, mills and cold chain storage. It could help farmers sell their produce at more competitive rates if there is no fear of government intervention to artificially suppress market prices and also give a boost to farm export.

Another amendment introduced by the government is the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020. This has been enacted to legalise

*The price to be paid to the farmer in such a contract farming arrangement will be mutually decided, or in case of volatility, a minimum price has to be paid on top of which a premium will also need to be paid by the company.*

contract farming so that big businesses and companies can cultivate vast swaths of land on contract. Normally, farmers look back at the previous year's prices and take sowing decisions accordingly. The guarantee of an assured price and buyer to the farmers at the time of sowing will help them take cropping decisions based on forward prices. The new system will minimise their market risks. The ordinance allows any company, processors, FPO or cooperative society to enter into a contract farming arrangement for a minimum of one crop cycle in the case of crops, or one production cycle in the case of livestock. The maximum period for such an arrangement will be five years. The price to be paid to the farmer in such a contract farming arrangement will be mutually decided, or in case of volatility, a minimum price has to be paid on top of which a premium will also need to be paid by the company. No state act, or law, will be applicable to agriculture produce grown through this arrangement. The ordinance strictly prohibits any contractual arrangement which has an encumbrance on the farmer's land.

The central government has introduced several modules in its electronic *mandi* – eNAM (National Agriculture Market) to enable the direct marketing of produce through farmer groups and cooperatives. eNAM is an online trading platform for agricultural commodities. The market facilitates farmers, traders and buyers to trade in commodities online. Recent experience has been that it has helped in better price discovery and facilities smooth marketing of their produce. This exercise is gaining acceptance in other states too with farmer producer organisations being permitted to undertake e-marketing of their produce through eNAM.

## Land Procurement Made Easy

Land is a state subject. There has been a concerted effort to attract investment by state governments by freeing up the process for private investors acquiring agricultural land. Earlier, agricultural land could be allotted only through designated state agencies. The process to get government permission and actually get the land allotted could take anything up to three years. The Karnataka government has recently amended its Land Reforms Act 1961 such that industries can now directly buy land from farmers. They will merely be required to seek permission from the government. However, if the district administration does not deny permission within 30 days of the application being made, it will be deemed to have been granted. This major reform has been introduced with the passing of the Karnataka Land Reforms (Amendment) Act 2020. Tamil Nadu, Andhra Pradesh and Telangana have also introduced similar provisions to facilitate direct acquisition of agricultural land by corporates for industrial purposes. This is a major facility which will attract investments and add to the ease of doing business. States now need to take the next step of easing permissions for land use conversion. This will not only encourage willing farmers to easily dispose of their land, but also enable them to get a better price for it.

*The Karnataka government has recently amended its Land Reforms Act 1961 such that industries can now directly buy land from farmers.*

The next stage in this process would be to ensure a clear titling of land. In the absence of clear titles, there is endless litigation, thereby distorting the land market. Clear titles also serve to facilitate access to credit. States must complete, at the earliest, the process of electronic maintenance of land records. Karnataka had commenced a process of digitising land records but it is nowhere near being complete. This project has been languishing for long. Indian agriculture's biggest bane has been fragmented and sub-divided holdings. Certain corporate agencies have undertaken procurement directly from farmers but the attempt has not met with much success due to the presence of state and private middle agents. Considering the uneconomic size of these holdings, the states must create an environment to facilitate easy marketing of their produce by small farmers. While various agencies have made recommendations along these lines, the implementation on ground has been insufficient.

## Re-categorisation of Enterprises to Facilitate Growth

The maximum loss of employment and livelihood due to COVID-19 has been in the micro, small and medium enterprise (MSME) sector.

*While the government has introduced a fairly large stimulus package for the sector, it has also introduced some major changes in the categorisation of the units to enable growth.*

While the government has introduced a fairly large stimulus package for the sector, it has also introduced some major changes in the categorisation of the units to enable growth. The categories of micro, small and medium have been redefined, raising the investment threshold of each category. The limit for micro has been increased to ₹50 million (S$1 million) from ₹10 million (S$200,000); medium to ₹500 million (S$10 million) from ₹100 million (S$2 million); and medium to ₹1 billion (S$20 million) from ₹200 million (S$4 million). Under the new definition, a micro unit will have an investment up to ₹10 million (S$200,000) and turnover up to ₹50 million (S$1 million). The earlier limits served as deterrence to these categories from growing larger in the fear of losing their benefits. The distinction between manufacturing and service sectors has also been removed. This new categorisation will enhance employment and enable MSME sector units to access credit with greater ease.

The fairly comprehensive set of reforms which has been set in motion does portend bold changes over a wide gamut. The government has used the opportunity to achieve economic competitiveness and not shut itself out from the global economy, while seeking to achieve self-reliance. The attempt has been to ensure fairly widespread reforms and not be limited to incremental efforts only.

# Economic Stimulus Package: Can India Reboot the Reform and Revival Process?

*S Narayan*

## Summary

*India's Finance Minister Nirmala Sitharaman has announced a spate of reforms covering a wide spectrum of the Indian economy. These include agriculture, finance and domestic industry. While many of these reforms have been long pending and are viewed as short- and medium-term strategies, implementation will be key to their success.*

## Introduction

India's Prime Minister Narendra Modi recently stated that the government has finalised a ₹20-trillion (S$3.75 trillion) revival package for the economy, following which Finance Minister Nirmala Sitharaman unveiled a spate of incentives. There have been five tranches of announcements, covering a large number of sectors, the last of which was made public on 17 May 2020, the day the extended lockdown was to end. The announcements have covered a large number of sectors and focused on medium- as well as long-term initiatives that can be categorised into several different boxes.

*While assessing the stimulus, the basic question is whether it responds to the COVID-19 shock or is it a long-term strategy for growth?*

While assessing the stimulus, the basic question is whether it responds to the COVID-19 shock or is it a long-term strategy for growth? Is it an opportunity to start a set of reforms that has been under discussion for a long time or is it a medicine for survival and revival of growth?

An inkling of the thought process could come from looking at how Modi, then-Bharatiya Janata Party leader in Gujarat, responded to the Kutch earthquake in 2001. He became Chief Minister soon after, enabling him to implement many of his ideas. The first initiative was to rebuild houses that had been damaged. Survival was ensured through food support and subsidies while the construction of houses provided employment. At the same time, there was focus on commercialising agriculture, providing irrigation, developing the region as a tourist hub and reviving traditional handicrafts – in short, providing employment and livelihood opportunities for the entire population. Simultaneously, there was a focus on building schools, promoting primary and secondary education and improving healthcare. Today, Kutch is among the more prosperous regions of Gujarat.

This could be a backdrop to examine the current set of initiatives. The question is whether the economic package that has been unveiled addresses survival issues and growth concerns or is intended to restart the reform process. The last is important because several of the announcements refer to matters that have been pending for a long time. Though these have been under discussion and consideration, they are now being put out as new initiatives.

*The question is whether the economic package that has been unveiled addresses survival issues and growth concerns or is intended to restart the reform process.*

## Action for Survival

There are two approaches to looking at the survival phase. For the severe shock dealt to businesses and small firms, an attempt has been made to address the immediate issues. For micro and small scale enterprises, there is a provision of collateral-free additional loans of up to 20 per cent of outstanding debt and the creation of a fund to provide equity. This will generate demand by promoting purchase of local products and immediate payment of outstanding dues by state undertakings. A relief by way of support for payment of the Employee Provident Fund would also help provide liquidity. For financial companies, especially non banking finance companies (NBFCs) that are finding it hard to raise money from the debt market, the government has launched a special liquidity support as well as a partial credit guarantee scheme.

The second tranche of measures by the Finance Minister continued to address survival issues while focusing on migrant workers, street vendors, small farmers and those who are self-employed. The most important announcement was the 'One Nation, One Ration Card' scheme, wherein the ration card could be used in any state. Interestingly, this idea was proposed during the Manmohan Singh government in 2011 but was shot down by the National Advisory Council headed by Sonia Gandhi. This has now been revived as its implementation will benefit families whose bread winners live away from home.

Added to this is the promise of free food grain supply to all migrants for the next two months, loans to street vendors, concessional credit for small and marginal farmers and a subsidy programme for housing (the Kutch model).

There has been an additional allocation against the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) [employment guarantee scheme] that would provide three months wages against rural daily employment. This has been a tried and tested scheme under the Manmohan Singh government, and though criticised earlier by Modi, it has been revived with additional funding from the government.

*The question is whether or not these survival relief measures are adequate to provide necessary relief.*

The question is whether or not these survival relief measures are adequate to provide necessary relief. First, these policies have a low multiplier effect as they replace cash that has depleted. There is no mention of any handholding, especially for those whose livelihoods have been lost, beyond this period. Would these migrants return or stay back in their home states? If they choose the latter, then the burden of providing livelihoods falls on state governments. Some states like Uttar Pradesh and Madhya Pradesh seem to have realised this and have rolled out a number of reform measures related to labour laws and agricultural produce marketing, which should help in providing alternate livelihoods. Other states need to follow. Until then, the allocations under the MNREGA should help.

Second, the devil is in the details. For micro, small and medium enterprises, 100 per cent guaranteed loans, subordinated debt and equity infusion can provide liquidity. For vulnerable segments, higher allocation under the rural employment guarantee scheme, free food grain and additional credit for farmers are important for livelihoods. To address the credit risk challenge, as reflected in the widening chasm between the have and have-not borrowers, the special liquidity scheme and partial credit guarantee scheme for shadow banks should help. Businesses have problems other than credit, which include supply chains, labour which has gone back home and demand revival, among others. Liquidity is just one of the parts of this system.

*To address the credit risk challenge, as reflected in the widening chasm between the have and have-not borrowers, the special liquidity scheme and partial credit guarantee scheme for shadow banks should help.*

Third, how soon and through what mechanisms are these credits going to be made available? The free ration for migrant labour – would it be distributed as it travels or at the destination, or would it be adjusted against the free food that has been provided along the way?

In short, the actual distribution of these announcements will determine the effectiveness in protecting survival concerns of the individuals as well as small businesses.

## Agriculture Reforms to Benefit Farmers

The next set of announcements was aimed at the agricultural sector and appears to be quite promising. Agriculture has been long constrained by rigidities in marketing laws that prevent the farmer from selling his produce in private markets and across states. Reforms of the Agricultural Product Marketing Act have been on the anvil for many years but have not found traction with the states that view them as a political risk that would upset the existing system, which benefits middle-men and contractors.

There have been three important announcements. The first is to do away with restrictions in the categorisation of agricultural produce under the Essential Commodities Act, a pre-World War II legislation and to deregulate most of the agricultural produce to ensure better price realisation by the farmers. Following up on this would be the provision of marketing choices to the farmer, freeing him from the constraint of designated markets. Contract farming would be permitted, providing for the commercialisation of agriculture.

For this, the government has announced a large agricultural infrastructure project for farm gates as well as post-harvest management infrastructure. This, coupled with similar big-ticket announcements for fisheries and dairy, could be considered path-breaking – almost as important as the 1991 reforms were for the industry. These would enable the farmers to get better access to markets, superior technologies and indeed higher prices for their products. This would also lead to a diversification of products as well as a commercialisation of agriculture. India is producing large quantities of cereal, and with a stock of over 70 million tonnes in the warehouses of the government, there is need to urgently transform agriculture, which is still the mainstay for over 400 million people. Poverty in India has been closely linked to a large number of people involved in agriculture, which contribute less than 20 per cent to the gross domestic product (GDP). For them, these measures are long pending.

*There was also an announcement that the private sector would be allowed to participate in all sectors, providing for competition to the public sector.*

The next set of announcements is medium to long term. These announcements include an easing of limits on foreign direct investment in defence manufacturing, privatisation of six more airports, opening up of more airspace and allowing private sector in commercial coal mining. These would be of considerable interest to international investors as well as private capital. There was also an announcement that the private sector would be allowed to participate in all sectors, providing for competition to the public sector.

To provide financial relief to the states, the borrowing limits were increased to five per cent of state GDP, subject to reform measures – a caveat that has already resulted in protests from several states. The final set of announcements related to public health and education, especially in rural areas.

Lastly, the Finance Minister announced that debts related to COVID-19 would be excluded from defaults under the Insolvency Act, an announcement that the financial markets immediately turned their thumbs down to. Difficult to interpret and implement, this would lead to endless processes while making bank balance sheets weaker. On the other hand, the suspension of a fresh initiation of insolvency proceedings for one year is expected to also provide some breathing space for cash-strapped firms and help prevent an imminent wave of bankruptcies.

## Conclusion: Some Hits and Misses

So, how does one view this collection of announcements? It is clear that instead of a single comprehensive strategy to tackle survival, reduce damage and reinvigorate growth, the government has made announcements that cover a number of sectors, attempting both short-term as well as medium-term strategies. The government has tried to implement a number of ideas that have been languishing for a long time.

*The government has tried to implement a number of ideas that have been languishing for a long time.*

If the package is looked at from the point of view of providing livelihood and employment to the large number of informal workers, it is only the agricultural reform component that appears to be well-thought through. There is a lot for the states to do, and some states have already picked up the baton.

Even in the short-term, the issue remains of whether the migrants would return to their workplace or not. Would industries that depended on these migrants re-adapt? Would there be a relocation of small industries away from major towns, as states use these opportunities to try and bring in investments? The sequencing of these phases can differ but the survival phase precedes growth-revival, and reforms are unlikely to help if the financial sector plumbing is not in order.

Demand stimulus is missing from these announcements, but that is not a surprise as they may not deliver an anticipated bang for the buck when COVID-19 infections are still on the rise. Without an increase in demand, the consumption goods sector, including automobiles and two wheelers, will find it difficult to revive.

In the next phase, a comprehensive one-time solution to deal with the bad debt situation will become necessary, as the aftermath of the pandemic is likely to result in a significant deterioration in the asset quality cycle for both banks and NBFCs. Without fixing the financial sector, medium-term growth will continue to face hurdles. One can only view these announcements as work in progress and look to the implementation of all that has been announced.

# Attracting Foreign Investment into India: Key Initiatives by the Government

*Vinod Rai*

## Summary

*As a possible fall out of the COVID-19 pandemic crisis, India has the opportunity to attract foreign direct investment inflows from large companies seeking to diversify their investment to mitigate risks. It has set up an empowered group of secretaries to engage in conversation with these companies and provide all possible facilities to them to ensure ease of setting up business. In addition, some incentive schemes have been announced in sectors where the government feels India has an advantage such as mobiles, electronics and medical equipment. However, mere incentives may not be sufficient to attract these investors. It will require a whole ecosystem which is facilitative and not overbearing.*

*China had, over the years, become the most preferred destination for international companies to set up shop and supply their products to global markets.*

China had, over the years, become the most preferred destination for international companies to set up shop and supply their products to global markets. The excellent infrastructure, abundance of cheap and professional labour, ease of doing business facilities, a strong business ecosystem, low taxes, not-so-strict regulatory compliances and competitive currency practices are the main reasons for the attraction towards China. As a consequence, China became the largest recipient of foreign direct investment (FDI) in Asia.[1]

However, with the outbreak of the COVID-19 pandemic from Wuhan and the increased concerns largely emerging from the United States (US) and countries in Europe that the virus may have been a bio-weapon, a large number of multinational companies have begun to entertain thoughts of diversifying their production sources. In fact, this is not the first time that such a thought has occurred in the minds of these companies. There was an indication that South Korean firms were engaged in talks with Indian companies to relocate some of

1 World Investment Report, 2019,https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/ World_Investment_Report.aspx#:~:text=. Accessed on 9 June 2020.

their production sources to India. The added concern – which has been very prominently highlighted with China having locked down its production, export and shipping facilities – is the risk of facing disruption in the supply chain, with one hiccup in that country. Several large conglomerates have realised the risk of being so totally dependent for manufacturing activities on a single country. It is this awareness which has prompted them to expand the geographic spread of their facilities. This concern had begun gaining ground in the protracted China-US tariff discussions which had introduced jitters in the mind of companies that had large facilities in China.

*It is believed that nearly 1,000 companies are engaged in the process of exploring multiple alternative locations and that 300 of these are in talks with Indian companies.*

India offers an attractive option to these companies. It is believed that nearly 1,000 companies are engaged in the process of exploring multiple alternative locations and that 300 of these are in talks with Indian companies. If this is really true, the Indian government needs to proactively create an environment such that the thought of India as a supply chain partner becomes attractive to these companies. No doubt, this will require the creation of a world class manufacturing ecosystem, supplemented by a trained and highly-skilled manpower. The ecosystem should encourage innovation and protect intellectual property. These factors, combined with cheap and reliable labour, helped China attain a leading position. In realising that mere geo-political considerations will not attract companies to India, the government seems to have embarked on a major mission to make available all feasible policy options to attract FDI inflows into the country and help large companies, presently based in China, to diversify their sources of production to mitigate their risks.

On 3 June 2020, the Indian government announced the creation of an empowered group of secretaries, headed by the cabinet secretary, and a Project Development Cell (PDC) in the ministries/departments with a view to attracting investments to the country. Its objectives include bringing synergies and ensuring timely clearances from different departments and ministries to attract increased investments into India. It is also responsible for providing investment support and facilitation to global investors and to facilitate investments of top investors in a targetted manner. Lastly, it will help to usher policy stability and consistency in the overall investment environment. The PDCs, located in each economic ministry, have been set up for the development of investible projects in coordination between the central and state governments. The PDC will be tasked to conceptualise, strategise, implement and disseminate details with respect to investible projects.

*The PDC is aimed at creating projects with all approvals, making land available for allocation with the complete detailed project reports for adoption/ investment by investors and to identify issues that need to be resolved in order to attract and finalise the investments.*

The PDC is aimed at creating projects with all approvals, making land available for allocation with the complete detailed project reports for adoption/investment by investors and to identify issues that need to be resolved in order to attract and finalise the investments. The government's objective, besides making India an investor-friendly destination, is to ramp up production across product lines and help to serve big markets in the US, the European Union, China and elsewhere, thereby making India a large player in the global value chain. The setting up of the committee comes after the government made certain changes in its FDI policy which restricts direct investments from China and other neighbouring countries. The changes were introduced to curb opportunistic takeovers or acquisition of Indian companies, mainly unlisted. With this amendment, the government merely proposes to introduce a screening process. However, a large number of companies such as Paytm, Snapdeal, Ola, Swiggy, Zomato and Big Basket, which have fairly substantial Chinese investment, have been concerned about this provision. This concern has to be seen in context of the fact that more than 234 funding deals have been done with Chinese investor participation in the period 2014-19.[2]

The efforts of the government to incentivise domestic and foreign investments in sectors where Indian conditions appear to have an advantage, such as smart phones, electronics, medical devices, textiles and synthetic fibres, have been identified. The government has announced three schemes to boost domestic and foreign investment to create a manufacturing hub in India for electronics and smart phones. In one of the largest incentive schemes to boost

2 "#TheInc42Show: What Can Govt Do To Incentivise Investments Amid FDI Restrictions?", dailyhunt, 26 April 2020, https://m.dailyhunt.in/news/india/english/inc42-epaper-inc/theinc42show+what+can+govt+do+to+incentivise+investments+amid+fdi+restrictions-newsid-n180765532. Accessed on 9 June 2020.

the production of mobile phones and their components in India, the government has announced a production-linked incentive package of nearly ₹420 billion (S$8.75 billion) to be disbursed over five years. This involves an incentive of four to six per cent on incremental sales of goods manufactured locally for up to five years. The major beneficiaries of this scheme among the foreign producers would be companies selling high end devices such as iPhone producer Apple, Galaxy and Note series by Samsung. Among the domestic producers would be players like Karbonn, Micromax and Lava.

Due to the minimum price restriction of US$200 (S$278) of the product for eligibility, companies such as Oppo, Vivo and maybe even Samsung would not be eligible for the incentive as their products are priced below US$200 (S$278). This scheme will be operational from 1 August 2020. The scheme has been devised to overcome the disadvantage of 8.5 to 11 per cent that the sector manufacturing electronics hardware faces vis-à-vis other producers in countries such as Vietnam and China. This is largely due to the inadequacy of infrastructure, domestic supply chains and logistics, high cost of capital, lack of uninterrupted supply of power and limitations of design and research and design facilities.

*The scheme has been devised to overcome the disadvantage of 8.5 to 11 per cent that the sector manufacturing electronics hardware faces vis-à-vis other producers in countries such as Vietnam and China.*

The government has also announced another scheme – Promotion of Manufacturing of Electronic Components and Semiconductors – which will also be launched on 1 August 2020. This is to develop a supply chain which is essential for the manufacturing of electronic products with higher domestic value addition. The scheme will help offset the disability for domestic manufacturing of electric components and semi-conductors. The attempt is to strengthen the electronics manufacturing ecosystem in the country by providing a financial incentive of 25 per cent on capital expenditure for the identified list of electronic items that comprise downstream value chain of electronic products. The scheme is applicable to investments in new units and expansion of capacity or modernisation and diversification of existing units.

Yet another attractive proposition approved by the government is the Modified Electronic Manufacturing Clusters (EMC 2.0) Scheme to develop world class infrastructure, along with common facilities and amenities through the Electronic Manufacturing Clusters, to help create a hub for mobile and component manufacturing. It is hoped that these EMCs will help in the growth of the electronic system design and manufacturing sector, create an ecosystem for the development of entrepreneurs and drive innovation by attracting investment in the sector and thereby create employment.

*Land is a state subject and states like Karnataka have already put in place policy amendments which permit corporates to directly negotiate with and purchase land from farmers.*

Additionally, two important factors to convert the opportunity into an advantage are the easy and early availability of land and a consistent and flexible policy on labour. Land is a state subject and states like Karnataka have already put in place policy amendments which permit corporates to directly negotiate with and purchase land from farmers. The states have begun to prepare their land inventory and the central government will aggregate these and offer them to potential buyers. Similarly, amendments to existing labour laws are being proposed to introduce a degree of flexibility in hiring labour. On the whole, the government is working on the strategic implementation of an integrated approach that will eventually bring about synergies between ministries/departments of the central and state governments in investment and related incentive policies.

To help in the ease of doing business, the government is also seeking to reclassify certain offences under the financial sector laws as civil offences rather than criminal so as to improve the ease of doing business. It is expected that the reclassification will decrease the burden on businesses and inspire confidence among investors. The nature of default will then be evaluated in terms of the action being an act of omission (inadvertent) or an act of commission (pre-mediated default). The proposal is to re-look at provisions which are merely procedural in nature and do not impact public interest or national security. The defaults that are under consideration of government are bounced cheques which entailed imprisonment up to two years or taking of public deposits. The government is seeking to decriminalise four sections of the Reserve Bank of India Act in this regard. This is a move which will be welcomed by the industry and investors who feel that, whilst a heavy penalty in terms of monetary fine is in order, criminalisation is an avoidable dampener to businesses.

*The government should develop a strategy to attract overseas students especially as China may be a less attractive destination for a while.*

Another sector which offers an excellent opportunity for India is higher education. As part of his election campaign commitment, US President Donald Trump has banned the entry of citizens from six Muslim-majority Organisation of Islamic Cooperation-member countries into the US. The countries are Chad, Libya, Syria, Yemen, Somalia and Iran. This ban was contested and has been upheld in the US Supreme Court, thus giving finality to it. Besides the adverse impact it will have on the inflow of tourists from these countries, it will also indirectly impact the enrollment of students in American universities. It is estimated that about 22,000 students from these countries are presently enrolled in the US. India has a fairly sizeable proportion of foreign students joining its universities and higher educational institutions. The numbers are growing with students from Afghanistan, Sudan, Iran and the United Arab Emirates leading the pack. With the changes introduced in FDI and registrations of educational institutions in the private sector, there has been an improvement in the overall standards of education. This indicates the potential that India has to offer as an alternative educational preference for foreign students by ensuring even better standards of teaching and other related infrastructure. The government should develop a strategy to attract overseas students especially as China may be a less attractive destination for a while. Facilities and the quality of education in private technical institutions find easy acceptability for jobs and higher learning in the US, indicating the potential that this sector offers.

A step in the direction of an indigenous industry seeking to substitute Chinese equipment has been taken in the field of solar equipment. Adani Green Energy, a large Indian private conglomerate, has won a major tender to set up eight gigawatts of manufacturing linked solar energy projects with an investment of ₹45,000 crore (S$9.72

billion). It is learnt that the group is in negotiation with potential equity and strategic partners for latest technology solar equipment manufacturing. Presently, Chinese solar equipment has a 90-per cent share in the Indian market. The new facility will reduce the dependence on Chinese facilities to negligible levels. To provide an initial stimulus to such ventures, while the government may not be able to give cash incentives, assistance could be provided through policy interventions such as anti-dumping or customs duties on imports.

*Facilitation officials need to be mandated to ensure that new investors are provided all the guidance and assistance to set up their facility in a time bound manner.*

The capacity of the government to attract investment into the country cannot be determined merely by the schemes, incentives and other tax related attractions that it can offer. It will be determined by a holistic ecosystem that the government machinery, both in the centre and the states, will be able to offer so that the 'ease of doing business' is noticeable at the ground level. There has to be a facilitative and 'hand holding' approach in the states where these units will be established and the local bureaucracy should not become a stumbling block. The main issues involving the local bureaucracy which delay clearances are the approval of licenses, early land acquisition, power connections, environmental clearances, bank loan applications and easy registration to employ contract labour. Facilitation officials need to be mandated to ensure that new investors are provided all the guidance and assistance to set up their facility in a time bound manner. The government should put a premium on timeliness for such activities and fix accountability where any lackadaisical approach is observed.

The Indian government needs to be cognisant of the fact that there are other countries in the Asian region seeking to attract companies that are likely to be moving out of China. Malaysia, the Philippines, Indonesia and Vietnam are equally attractive destinations and have indeed been able to successfully induce large corporates to set up base there. Hence, it is a comprehensive set of policy options which will have to be coordinated for synergistic action between the state and central governments. The Indian government has to contend with a contraction in the economy as a consequence of which tax collections will decline. The fiscal policy space available to the government is very limited. It is time to ensure a consistent and predictable policy environment. Unpredictable and rapidly changing norms in respect to taxation, trade and investment deter longtime investors. The high cost of manufacturing and myriad regulatory approvals are a huge deterrent. The government needs to announce measures which will be guaranteed for at least 10 years so as to enable corporates to take decisions in an atmosphere of certainty rather than face an uncertain future.

# Modi, the RSS and a Self-Reliant India

*Ronojoy Sen and John Vater*

## Summary

*On 12 May 2020, Indian Prime Minister Narendra Modi announced a substantial economic package to resuscitate India's struggling economy. Besides committing money to revive the economy hit hard by the pandemic, Modi also launched the 'Atmanirbhar Bharat Abhiyan' (Self-Reliant India campaign). While some fear Modi's vision signals a shift towards protectionism, the Rashtriya Swayamsevak Sangh (RSS) has welcomed the move as the focus on local industry and indigenous modes of production resonates with its ideology of 'swadeshi'. This emphasis on 'self-reliance' could accelerate amidst the deepening hostilities with China. This paper looks at the extent to which Modi's vision is in consonance with the RSS' thinking.*

## Introduction

*He said a self-reliant or atmanirbhar India will stand on five pillars — the economy, infrastructure, technology-driven system, demography and demand.*

A few days before the national lockdown in India was relaxed, Prime Minister Narendra Modi addressed the nation for the third time on 12 May 2020 in the midst of the COVID-19 pandemic. While the main item of the speech was the announcement of a ₹20-crore (S$376 billion) economic package to revive the economy, a critical aspect of the speech was the emphasis on self-reliance and the unveiling of the *Atmanirbhar Bharat Abhiyan* (Self-Reliant India campaign). He said a self-reliant or *atmanirbhar* India will stand on five pillars — the economy, infrastructure, technology-d riven system, demography and demand.

While this has raised fears that India will turn inwards and become protectionist, Finance Minister Nirmala Sitharaman later clarified that an *atmanirbhar* or self-reliant India will "integrate not isolate". While different versions of self-reliance have been proposed in India over the years, *swadeshi* or indigenous modes of production has been one of the key aspects of the RSS' ideology. This paper looks at the extent to which Modi's vision is in agreement with the RSS' thinking on this matter. It does so by looking at some of the recent writings and commentary on the issue in the two RSS journals: *Organiser* and *Panchjanya*.

## Views in the RSS Journals

A few days before Modi's speech, the 10 May 2020 issue of the *Organiser* carried a cover story on the RSS chief Mohan Bhagwat's online address (Bouddhik Varg) to his followers on the pandemic and his organisation's role. The three things that he emphasised were *Seva*, *Swadeshi* and *Swavalamban* (Service, *Swadeshi* and Self-Reliance). On self-reliance, he said, "Self-reliance is the new mantra of development which implies [an] economic system that is employable, energy efficient, and environment-friendly – this will be next stage of national reconstruction; even during the crisis some fundamental truths are being tested. We should also take the project of national reconstruction with the fundamental principle of self-reliance."[1]

*The three things that he emphasised were Seva, Swadeshi and Swavalamban (Service, Swadeshi and Self-Reliance).*

In the next issue of the *Organiser* (17 May 2020), Manmohan Vaidya, joint general secretary of the RSS, in an article titled 'Reinventing Bharat' wrote about the idea of *swadeshi* and its link to globalisation, "For every nation, production and promotion of indigenous (*swadeshi*) products is necessary. The 'one size fits all' approach of globalisation isn't suitable for everybody as trade is subject to variations according to cultures, priorities, laws and regulations. Mutually accepted, complementary and cooperative economic agreements between countries are a far better model."[2]

The cover story of the 24 May 2020 issue of the *Organiser* was also devoted to self-reliance. An article by Pramod Kumar analysed different aspects of the government's economic package and praised it for materialising the "dream" of a "self-reliant Bharat" as well as representing a "tectonic shift" in the development model followed

1 "We all have a role to play in converting corona crisis into opportunity", *Organiser*, vol. 71, no. 46, 10 May 2020. https://epaper.organiser.org/index.php?edition=Mpage&date=2020-05-02&page=6. Accessed on 22 June 2020.

2 Dr Manmohan Vaidya, "Reinventing Bharat", *Organiser*, vol. 71, no. 47, 17 May 2020. https://epaper.organiser.org/index.php?edition=Mpage&date=2020-05-09&page=28. Accessed on 22 June 2020.

in India.[3] It also carried the views of the RSS ideologue S Gurumurthy on *swadeshi* who claimed that it was already "a functioning model" with "communities and families running businesses all over India". He added that the entire world was moving towards a "protective model".[4]

*Discrepancies in employment opportunities between urban and rural areas and competition with China were also discussed.*

During this period, the Hindi language journal of the RSS, *Panchajanya*, also carried several articles on self-reliance. On 24 May 2020, *Panchajanya's* issue expanded on major concerns of the RSS, such as employability and livelihood, the promotion of indigenous products and a shift away from the 'one-size-fits-all' model of globalisation towards economic growth more culturally attuned to Indian society. Discrepancies in employment opportunities between urban and rural areas and competition with China were also discussed.

In the editor's note of the issue, Hitesh Kumar came out in strong praise of Modi's economic package. He stated that it provided the country with a new direction of policy thinking on par with the policies which had opened up India's economy in 1991. He went on to say that the Bharatiya Janata Party (BJP) government's transparency and honesty in its business dealings, efficient welfare schemes and generous, class-sensitive approach to the crisis had led to trust and enthusiasm in various corners of the economy. He singled out the production of PPE kits as an example *swadeshi* innovation and praised the "mutual trust between the BJP government and society".[5]

In the issue's cover story, '*Svavalamban Ka Sankalp*' (The Resolve of Self-Reliance), Bhagvati Prakash argued that though before independence India was able to produce major commodities, in the next four decades, enterprises were not given enough freedom. Subsequently, liberalisation introduced its own problems when imports and foreign direct investment (FDI) incentives thwarted the

3 Pramod Kumar, "In search of Self-Reliance", *Organiser*, vol. 71, no. 48, 24 May 2020. https://epaper.organiser.org/index.php?edition=Mpage&date=2020-05-16&page=6. Accessed on 22 June 2020.

4 Prashanth Vaidyaraj, "Swadeshi is Bharat's functional model, Recognise this at the institutional level – S Gurumurthy", *Organiser*, vol. 71, no. 48, 24 May 2020. https://epaper.organiser.org/index.php?edition= Mpage&date=2020-05-16&page=10. Accessed on 22 June 2020.

5 Hitesh Kumar, "Aafat Ki Kaat Aatmanirbharata", Panchjanya, 24 May 2020. https://epaper.panchjanya.com/index.php?edition=Mpage&date=2020-05-16&page=4. Accessed 22 June 2020.

growth of local businesses. He believes Modi's self-reliant India will create not only an "epoch-making leap in … development" but will also make development humane and inclusive.[6]

In another article, '*Nai Subah Ki Raah*' (Path to a New Dawn), Umeshvar Kumar complimented this human-centric focus by locating the turn to self-reliance as part of an existing but accelerating shift in the global order. He characterises 'Make in India' and 'Make in USA' as two attempts to rectify imbalances in the global free trade system vis-à-vis China. Criticising both the 'gross individualism' of United States capitalism and the 'inhuman economic policies' of China, he argues that "one after the other the principles of the global system are proving unsuccessful".[7] The solution, according to him, is to follow Hindu nationalist ideologue Deendayal Upadhyaya's theory of Integral Humanism, where policy-making is "according to circumstantial needs, in consideration for the society, country, and times".[8]

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Kumar underscores that 'Integral Humanism' – which encompasses elements of *swadeshi*, localisation, societal orientation and the environment – is a 'practical doctrine' on which the government is quickly moving. He proposes that one lesson from the COVID-19 crisis is the need to address the bottlenecks of industrial production, labour and geographical disparities in employment and other benefits.

Like the *Organiser*, *Panchjanya* quotes at length from an interview with Gurumurthy. In answer to a question about why the Modi government's 'Make in India' initiative has struggled, he explained that the policy is lacking in teeth but suggests this may change if local industries enhance their participation in production. Responding to a question about the crisis of migrant labour, he predicted that safety and human lives, rather than cheap prices, will play an increasing role in economic thinking.[9]

6 Bhagvati Prakash, "Svavalamban Ka Sankalp", *Panchjanya*, 24 May 2020. https://epaper.panchjanya.com/ index.php?edition=Mpage&date=2020-05-16&page=13. Accessed 22 June 2020.

7 Umeshvar Kumar, "Nai Subah Ki Raat", 24 May 2020. https://epaper.panchjanya.com/index.php?edition= Mpage&date=2020-05-16&page=6. Accessed 22 June 2020.

8 Ibid.

9 Panchjanya Bureau, "Desh mein svadeshi model safalatapurvak kaam kar rahaa hai", 24 May 2020. https://epaper.panchjanya.com/index.php?edition=Mpage&date=2020-05-16&page=14. Accessed 22 June 2020.

Many of these views are restating the views of RSS ideologue and founder of the Swadeshi Jagran Manch, Dattopant Thengadi. In his *Third Way*, published in the 1990s, Thengadi had written that "[p]roponents of *swadeshi* are not prepared to endorse the view that the western paradigm is the universal model of progress and development worthy of being followed by all the people of the world. People have their own distinct culture and the model of progress and development for each country should be consistent with its own cultural ethos. Westernisation is not modernisation."[10] Some of these ideas were taken up by M G Bokare, former vice-chancellor of Nagpur University (where the RSS is headquartered), in his *Hindu Economics*.

## Decoding Self-Reliance

*Broadly speaking, Modi's vision of self-reliance appears in accordance with the RSS in the basic understanding that the framework that had once governed globalisation has undergone a shift from the 'one-size-fits-all' model to a more contextual one.*

Broadly speaking, Modi's vision of self-reliance appears in accordance with the RSS in the basic understanding that the framework that had once governed globalisation has undergone a shift from the 'one-size-fits-all' model to a more contextual one. During his 12 May 2020 speech, Modi suggested that the government has a "duty" to implement more inclusive economic policies that take into account the well being of vulnerable citizens and their financial requirements. He spoke about enhancing domestic demand and increasing indigenous production to realise the new goal of becoming "vocal for local". This would require empowering "every stake-holder in our supply chain", particularly micro, small and medium enterprises.[11]

Compared to the RSS, however, Modi is relatively more vague in his policy prescriptions. This has contributed to uncertainty on whether Modi is turning to protectionism and the import-substitution based model of the past. It could be argued that Modi's new self-reliant India is not substantially different from visions of a prosperous India

10 Arun Anand, "How Modi govt's push for self-reliance is inspired by RSS model of swadeshi economics", The Print, 14 May 2020. https://theprint.in/economy/how-modi-govts-push-for-self-reliance-is-inspired-by-rss-model-of-swadeshi-economics/421477/. Accessed 22 June 2020.

11 "PM Modi announces stimulus package of Rs 20 lakh crore for Covid-hit economy. Read full speech text here", *Hindustan Times*, 12 May 2020. https://www.hindustantimes.com/india-news/pm-modi-announces-stimulus-package-of-rs-20-lakh-crore-for-covid-hit-economy-read-full-speech-text-here/story-O8xdL3lYLUGjKUSurdHvsJ.html. Accessed 22 June 2020.

that he has previously articulated. The pillars of Modi's self-reliance – economy, infrastructure, technology-driven system, demography and demand – do not differ greatly from the pillars on which the BJP plans to make India a US$5 trillion (S$5.95 trillion) economy. Much of the rhetoric around self-reliance and *swadeshi*, therefore, can partially be viewed as old wine in a new bottle.

*Much of the rhetoric around self-reliance and swadeshi, therefore, can partially be viewed as old wine in a new bottle.*

Modi is also seeking to enhance India's domestic capabilities to make it an attractive destination for FDI, which is important in his vision of making India a manufacturing hub and to create jobs. This was the objective of the 'Make in India' campaign, a much-publicised initiative in Modi's first term, which arguably did not take off as anticipated. However, the RSS has long been sceptical of globalisation and FDI. So, at least at the level of rhetoric, one can see Modi attempting to address the RSS' concerns about welfare and labour, which has gained new traction during the pandemic, and ramp up India's indigenous capability. In what appears a direct nod to the RSS, Modi alluded to "the debate between Human Centric Globalization vs. Economy Centralized Globalization."[12]

This might also be seen in the context of *Vasudeva Kutumbakum* (The World is One Family), which is often used by Modi in international fora. The RSS' Dattareya Hosabale, in an interaction with foreign media, a week before Modi's 12 May 2020 speech, put forth this idea. Hosabale had said, "Though technologically and at the level of consciousness, Bharatiya thought has always been global and universal – believing in the concept of *'Vasudhaiva Kutumbakam'*, meaning the whole world is a family – economic decentralisation and social cohesion are the way forward to fulfill the objective of sustainable development." He also anticipated Modi's "vocal for local" slogan when he talked about a "harmonious and integrated world where 'local' will be equally important as the 'global'".[13]

Modi might be inverting the model of global capital moving into local markets to one where local markets meet domestic and global demand.

12 Ibid.

13 Arun Anand, "RSS calls for new 'Swadeshi' model of development, cautions against feelings of exclusion", *The Print*, 6 May 2020. https://theprint.in/india/rss-calls-for-new-swadeshi-model-of-development-cautions-against-feeling-of-exclusion/415520/. Accessed on 22 June 2020.

*Modi alluded to this in his speech when he said that India is "the culture that believes in the welfare of the world" and its progress and the world's progress remain deeply interconnected.*

This is perhaps more in keeping with the cultural and economic model of the RSS, where India is a country that gifts civilisation to the rest of the world. Modi alluded to this in his speech when he said that India is "the culture that believes in the welfare of the world" and its progress and the world's progress remain deeply interconnected.[14]

## Conclusion

Modi has reiterated many of these themes in subsequent interactions with industrialists. Addressing the Confederation of Indian Industry's annual session on 3 June 2020, he emphasised the need to reduce import dependence in sectors such as mobile and defence manufacturing. In addition to the five pillars of a self-reliant India, Modi came up with five 'Is' – intent, inclusion, investment, infrastructure and innovation – to put the Indian economy on the growth track.[15] In another interaction with the Indian Chamber of Commerce, the Prime Minister echoed some of the themes highlighted by the RSS, coming up with three 'Ps', "people, planet and profit – this is a very crucial theme. Many think these cannot co-exist but it is not so. They can and should work hand in hand."[16] While launching the virtual auction of 41 coal blocks on 18 June 2020, he said, "India will turn this COVID-19 crisis into an opportunity. It has taught India to be self-reliant and we will reduce our dependence on imports."[17]

Many commentators have, however, pointed out that the Prime Minister's self-reliance programme is big on slogans and low on content, comparing it to some of the government's earlier initiatives, which were stillborn. Economic analyst T N Ninan's attack has possibly

14 "PM Modi announces stimulus package of Rs 20 lakh crore for Covid-hit economy. Read full speech text here", *Hindustan Times*, 12 May 2020.

15 ENS Economic Bureau, "India will get its growth back, need to be self reliant: PM", *The Indian Express*, 3 June 2020. https://indianexpress.com/article/business/economy/pm-narendra-modi-self-reliant-cii-annual-session-2020-6439770/. Accessed on 22 June 2020.

16 BS Web Team, "Coronavirus turning point for self-reliant India, says PM Modi", Business Standard, 11 June 2020. https://www.business-standard.com/article/economy-policy/coronavirus-pandemic-turning-point-for-self-reliant-india-says-pm-modi-120061100428_1.html. Accessed on 22 June 2020.

17 PTI, "'Unlocking India's Coal Sector from Lockdown of Decades:' PM Modi", *Outlook*, 18 June 2020. https://www.outlookindia.com/website/story/india-news-will-reduce-dependence-on-imports-pm-modi-says-india-to-be-made-self-reliant-in-every-sector/354951. Accessed on 22 June 2020.

been the most scathing, noting, "Anyone can string together a few alliterative words, but are they a substitute for serious thought?"[18]

The deteriorating relations with China, with whom India has a US$49 billion (S$68 billion) trade deficit, will further boost the self-reliance campaign. In the wake of the border clashes with China, there seems to be a growing public sentiment on boycotting Chinese goods. There are questions though on whether India can, in the short to medium term, reduce its dependence on Chinese imports, particularly in critical areas like pharmaceuticals. The real tension in the self-reliance policy might lie in the fact that whereas Modi is hoping to create opportunity out of a period of crisis, the RSS is seeking a fundamental change in economic policy.

18 T N Ninan, "Modi's 3 Ps, 5 Ts and several As (alliterations) can't substitute serious thought or action", *The Print*, 13 June 2020. https://theprint.in/opinion/modis-3-ps-5-ts-and-several-as-alliterations-cant-substitute-serious-thought-or-action/440631/. Accessed on 2 2 June 2020.

# About the Authors

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Mr Rai joined the Indian Administrative Service in 1972. He was allotted to the Kerala Cadre and has wide experience working with the state government of Kerala as well as the Indian government. In the central government, he has worked in the ministries of commerce, defence and finance. He has also served on the board of Directors of the State Bank of India, the ICICI Bank, the Life Insurance Corporation of India and the IDFC.

Mr Rai has a Master's degree in Economics from the Delhi School of Economics, Delhi University and a second Master degree in Public Administration from the Harvard Kennedy School, Harvard University, United States.

**Dr S Narayan** is a Visiting Senior Research Fellow at ISAS. For nine years till mid-2014, he was also Head of Research at the institute.

A 1965 batch Indian Administrative Service officer, Dr Narayan has spent nearly four decades (1965 to 2004) in public service in the state and central governments. He was also the Economic Adviser to the Prime Minister during the period 2003-04.

Prior to this assignment, Dr Narayan was India's Finance and Economic Affairs Secretary. During his long career, he was also Secretary in the Departments of Revenue, Petroleum and Industrial Development. His special interests include public finance, energy policy, governance issues and international trade.

Dr Narayan obtained his PhD from the Indian Institute of Technology in New Delhi. He has an MPhil (Development Economics) from Cambridge University and a Master of Business Management (Finance) from the University of Adelaide. He graduated with an MSc (Physics) from the University of Madras (Madras Christian College).

He has authored a book, edited two books and written numerous policy papers, reports and book chapters. He also contributes regularly to newspapers, both locally and internationally.

He is a chair professor at the India Gandhi Open National University, New Delhi. The Center for Asia Studies, a think-tank based in Chennai, and Athena Infonomics Ltd, a Chennai-based research and consulting firm, are his other initiatives.

**Dr Amitendu Palit** is a Senior Research Fellow and Research Lead (Trade and Economic Policy) at ISAS. He is an economist specialising in international trade policies, regional economic developments, comparative economic studies and political economy of public policies. He worked with the Indian government for several years with his longest span being in the Department of Economic Affairs in the Ministry of Finance, India. Prior to joining ISAS in April 2008, he was with the Indian Council for Research on International Economic Relations (ICRIER), a leading economic policy research institute and think-tank in Delhi.

Dr Palit's current research focuses on economic and political implications of India's integration with the Asia-Pacific region, impact of mega-regional trade agreements and various determinants of external trade and integration policies of China and India. His books include *The Trans-Pacific Partnership, China and India: Economic and Political Implications* (2014; Routledge UK), *China India Economics: Challenges, Competition and Collaboration* (2011; Routledge) and *Special Economic Zones in India: Myths and Realities* (2008; Anthem Press; Co-authored). He has also edited several books and published in peer-reviewed academic journals. He is a columnist for India's well known financial daily, *The Financial Express* and a regular contributor for the *China Daily*. He appears regularly as an expert on the BBC, Bloomberg, Channel News Asia, CNBC, Australian Broadcasting Corporation, Doordarshan (India) and All-India Radio.

**Dr Ronojoy Sen** is a Senior Research Fellow and Research Lead (Politics, Society and Governance) at ISAS. He has worked for over a decade with leading Indian newspapers, most recently as an editor for *The Times of India*. His latest book is *Nation at Play: A History of Sport in India* (Columbia University Press/Penguin, 2015). He is also the author of *Articles of Faith: Religion, Secularism, and the Indian Supreme Court* (Oxford University Press, 2010) and has edited several books, the latest being *Media at Work in China and India* (Sage, 2015). He has contributed to edited volumes and has published in several leading journals. He also writes regularly for newspapers. He has a PhD in political science from the University of Chicago and read history at Presidency College, Calcutta. He has held visiting fellowships at the National

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**Mr John Vater** is a Research Associate at ISAS. He graduated with a Bachelor of Arts in South Asian Studies from the University of Virginia, and holds a Master's in Fine Arts in Literary Translation from the University of Iowa.

Prior to joining ISAS, Mr Vater worked as a Fulbright-Nehru Student Researcher in India in 2014, where he researched India's multilingual publishing industry. He was selected as the 'Emerging Translator' from the United States (US) in 2018 to attend the Banff International Literary Translation Centre residency in Banff, Canada and was an artist-in-residence at the North East India Company in 2019 in Silchar, Assam. In 2020, he was a scholar at the Kautilya Fellows Programme hosted by India Foundation for workshops in foreign affairs and public policy.

Mr Vater has presented papers at the Annual Conference for South Asia at the University of Wisconsin, Madison, US and at the Annual International Conference of the Alfred Deakin Institute for Citizenship and Globalization in Melbourne, Australia. His essays and translations have appeared in *91st Meridian, Words Without Borders, Indian Literature Today, Ploughshares, The Quint, The Asian Literary Review* and *Exchanges*. He is co-translator of *The Play of Dolls* (Penguin Random House India, 2020) by Hindi author Kunwar Narain.

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