AIAI Suggestions on Various Projects

AIAI congratulates the Ministry of Commerce and Industry on the progress of the "Make In India" initiative. However, Deference in achievement of target of missions especially "Make In India" has been a matter of concern. Make in India not only contributes to the healthfulness of key economic indicators of growth but holistically achieves growth in many other essential sectors. The Indian economy was projected to grow @ 5.5% in 2014-15 and 7.4% in 2015-16. The growth target achieved with reference to the relevant target is 7.4% in both the years without any marked difference in the year 2015-16.

Indian economy has still not outgrown the sluggishness of growth. A primary survey conveys the main reason being slow bureaucratic reforms, inadequate infrastructure and many more. Falling crude oil prices definitely helped boost decrease in fiscal deficit however with the exports and growth in manufacturing sector not being factored in the same. There was practically a fall in the exports and the growth in manufacturing too was too small to have a negative impact on the fiscal deficit decreasing the same.

Falling Chinese economy though small to reflect on the Indian economy, however would have resulted in large positive reflections if India was ready with the necessary fortifications to step in and make the most of it. India's staggering bureaucratic policy reforms have put India on the side track. India has a rich supply of English speaking human resource, good quality businesses and investment in plant and machinery and raw materials to produce finished product. India's domestic consumption is huge and in presence of policy reforms would allow smooth running of businesses and production facilities to produce at competitive prices. Thus there was no dearth of opportunity to attain secured economic status for India.

In continuation to AIAI efforts to bring forth the causes behind this burning issue AIAI suggest the following measures to be taken up by the Government.

1. **Trade Deficit**

India is showing trade deficit with almost all the countries it is trading with, major one being China.

Owing to the large trade deficit with China the Indian government has been urging Chinese companies to invest and open its service and pharmaceutical sectors to Indian companies .Chinese billionaire Wang Jianlin led Dalian Wanda Group said that it will develop a $10billion industrial park in India. China's move to slash steel and coal manufacturing output will greatly benefit Indian steel makers who have been adversely affected as China's overcapacity finds a ready market in India. The domestic steel makers have been demanding the Indian government to impose anti dumping duty on the Chinese imports.

Though the government is sparing no time and effort to chip in foreign investments from countries like Japan and China for strategic infrastructure development in terms of transport, logistics and setting up of industrial parks, it should noted that it needs to include other measures to curb the towering trade deficit. These measures could be bringing about speedy reform and clearance of regulatory issues in the raw material export sector especially coal and steel, which contributed to about 40 % to India's export strength in the previous years and dwindled majorly due to bureaucratic mismanagement thus widening the trade deficit. Customs and tariff related issues need more digitization and transparency to avoid loss of revenue due to corruption. Legalized cluster formation of companies for import and export of produce needs to be formulated and can happen only through better reciprocity and digitization. This will also decrease shipment costs.

2. **Interest Rates & Lending Issue**

The Indian economy too is pegged to the dollar however the same is not strategized to make positive returns in the rising and falling side. Corruption and mismanagement led to widened fiscal deficit in current account balances. The high interest rates failed to attract FDI too on the large scale due to improper fundamentals of the sick industry.

Though the fiscal deficit has been curbed and businesses are set to revive there is no holistic integration of inputs which will make this change actually happen leading to sceptism, for eg. on one hand start ups are being encouraged and on the other hand out dated tax reforms and proposed increase in Government fee for patents are opposite reactions.

For economies like India with a large amount of debt, the prospect of deflation is scary. Deflation means price levels in the economy fall but the value of the loan remains the same, making it increasingly difficult for the borrower to honor its commitment. As China accounts for nearly a fourth of the world's manufacturing and assuming all the RMB's decline would push down prices globally by nearly 14 percentage points.

The finance ministry has put in a responsible whole time committee to manage the interest rate scenario collating information from all the contributing sectors of the economy and tune the same accordingly. However it has been noted there has been a constant demand for rate cuts but the rate cut advantage does get effectively transmitted to the beneficiaries leading to more harm to the other sectors for which it does not stand good bringing more bruises to the economy.

MUDRA and CGTMSE schemes are specially meant for the MSME sector but unviable limitations in these schemes have led to their non relevance to the sector. The CGTMSE scheme needs to revised in terms of upper ceiling and duration to make it viable for the sector for which it has been introduced. The six month processing period has made it defunct for good use.

3. **Growth in NPA**

NPA s in the banking sector has been a point of issue. Non integration of bank lending throughout the sector reference to a single ID has been a cause of the same which has affected not only banks but genuine seekers of funds. There are large parties who have sought to seeking funds on basis of their names and duped the banking sector to a large extent, also the inefficiency of the banking sector to make adjustments to rules while securing itself have also led genuine seekers being turned down. Banks need to make an effort to put stress on the objective of the bank and the beneficiary while initiating the lending process rather than put emphasis on rules.

At the same time, RBI has been creating processes for banks to recover money and will be more firm in dealing with the borrowers and cleaning their balance sheets with idea that not to shut down firms but to put them back on track into earning mode so as to repay their loans. Defaulting firms should also take care that they should have austerity measures until they recover their earning position. At the same time firms should not forget society while maximizing shareholder value.

The strategic debt restructuring scheme though respite in clearing NPAs has its own set of design problems. The 18 month window for lenders to find a new promoter is a short time period. The first 90 days involve invoking the SDR, valuing the company, conversion of debt to equity and so on, and banks need to prepare a restructuring plan, which has to be approved by all members of the lenders consortium. Simultaneously, the lenders have to work on identifying a new promoter who has to complete his due diligence, valuation and acquisition documentation of the company. Thus 18 months being a very short period. If banks are unable to sell to a new promoter within 18 months then all regulatory relaxations cease to exist and lenders have to treat these assets as NPAs and make 100 percent provisioning for these assets in majority of the cases. This affects profitability in a big way. Another connected problem is that the SDR rules do not explicitly provide for partial stake sale and banks have to sell entire stake in the company to the new buyer, which becomes difficult.

4. **Mismanagement of City Infrastructure, smart city concept not implemented in New Delhi itself**

In context to Delhi's odd even policy which was a brave experiment and a clear departure from how policy makers have sought to tackle worsening pollution. However, it is reflected that the potential policy innovations need to be carefully designed, piloted and evaluated for impact as well as the costs imposed, until there's a sustained improvement in Delhi's air quality. There is a need for more rigorous and carefully designed studies in addition to smart policy experiments and quality data, to uncover which policies work most effectively to contain congestion and pollution. This in turn requires policy makers to work in close collaboration with researchers at the early stages of policy design.

It was found that the odd even policy for traffic control contributed very little to curbing air pollution as the reason for air pollution was not only due to pollution due to plying cars but many more. Moreover the policy was forced on the population without taking dissenting voices into account.

5. **Infrastructure development and sourcing delays**

Tax holiday, patents, ease of closing companies, investment fund and a getaway for public procurement are multifaceted measures that will definitely make it easier for companies to do business. If start ups have to grow exponentially as envisioned by the Government of India, it needs to take drastic steps. World class start ups require world class infrastructure. Start ups today face many problems such as that of taxation, funding and poor infrastructure.

Regulation is to ensure fair play and cannot be a burden. No regulation should hurt or kill the genuine business activity. The entire banking industry requires a facelift in terms of human resource and lending fundamentals.

8. **Non clearance of road blocks in mining sector**

The Indian mining industry is passing through a critical phase witnessing even negative growth rate primarily due to closure of iron ore mines in the states of Karnataka, Goa and Odisha, high costs of borrowing and policy paralysis. The mining and quarrying sector needs to grow at rate of 10 to 12% per annum in order to cater to the requirement of raw materials by the industries. As mining is interlinked with industrial development, the security of raw material is of prime importance and as such, the pro-active role of union and state governments is called for to ensure an era of mineral development. It is time we address the areas of concern coming in the way of mining or we will need to import both the raw materials and the finished products, which the country can ill afford.

9. **Taxation Issues**

India would be placed among the five most unequal economies in the world. The Indian tax data should be made public so as to estimate these income inequalities.

There are hopes that the prudent implementation of the GDP will be a boost to the large taxation issues in the Indian scenario. The GDP should ensure that there is no flight of domestic capital abroad in the name of loopholes in the system.

Railway

The railway network in India is one of the world's largest railway networks comprising 115,000 km (71,000 mi) of track over a route of 65,808 km (40,891 mi) and 7,112 stations. It is one of the biggest consumer of MSME products, power and a large employment provider. However the sorry state of Indian Railway services and balance sheet is a cause of concern. There are talks around to add to this transport infrastructure high speed trains which is also attracting FDI. However apart from balance sheet problems there are vast number of service related problems and loss of revenue due to digitization problems. Though the railways boast of improvements much said than done. Turnaround of railways would mean the Indian Government earning nearly 20% of the revenue from the same. Mismanagement of assets and liabilities has been a cause for the railways to have taken a setback. Their case can be also treated as a failure of bureaucracy. The Railway debt needs to be structured into secured bonds and rapid steps need to be taken to improvise the Indian Railway system instead of further burdening the system with new ideas on a weaker foundation.

Rural India

Rural India has the potential to grow by 8-9% per year, however lack of road and digital connectivity has hampered this growth. India is blessed with rich soil and traditional and modern techniques which need to be integrated into boosting sustainable farming and making it popular in the rural scenario. Financial and operational literacy and organization of farmers in the areas of small farm holdings is the need of the hour. Connecting farmers with the Industry and exports is needed to be made as a mission so that farmers do not treat agriculture as a means of livelihood but as a business enterprise.

Power & Discom Sector

This sector like the railways is a diseased sector and has survived at the mercy of its mere eminent position in the society. This sector needs to be privatized if it has to see the light of the day. Non existence of competitive tariffs, deficient administrative functioning and overall non integration of resources has been the reason for its inefficiency.