

FUTURE OF  
**INDIAN ECONOMY**  
IN POST COVID-19 WORLD

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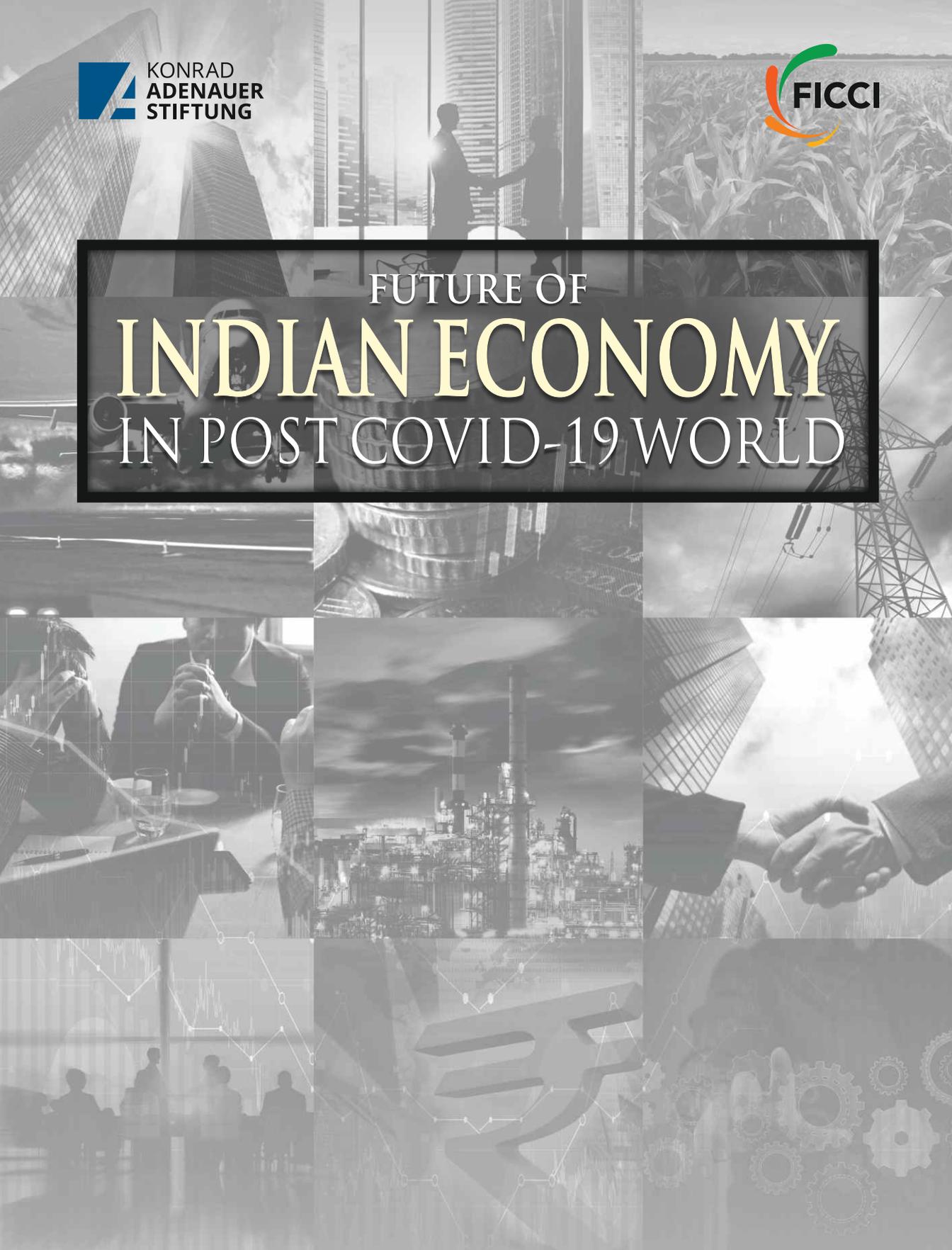
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# CONTENTS

Foreword . . . . .	01
<i>Sangita Reddy</i>	
Foreword . . . . .	03
<i>Peter Rimmele</i>	
Getting India Back to High Growth Trajectory . . . . .	05
<i>Arvind Virmani</i>	
Getting India Back on Growth Path Post Covid-19 . . . . .	10
<i>Subhash Chandra Garg</i>	
Future of Indian Agriculture in Post Covid-19 World . . . . .	16
<i>Siraj Hussain</i>	
Making India a Hub for New Age Industries . . . . .	23
<i>Ajai Chowdhry</i>	
India in the Global Value Chain Beyond 2020 . . . . .	26
<i>Ajay Shankar</i>	
Making India a Global Hub for Media and Entertainment . . . . .	31
<i>Uday Shankar</i>	
Making India a Global Digital Powerhouse . . . . .	35
<i>C P Gurnani</i>	
The Next Digital Leader – Turning India's Dreams to Reality . . . . .	40
<i>K R Sanjiv and Rahul Shah</i>	
Financial Sector Reforms Agenda for India's Economic Revival . . . . .	46
<i>Ashima Goyal</i>	
Making India a Global Financial Centre . . . . .	52
<i>Injeti Srinivas</i>	

Banking Sector Reforms Agenda for India's Economic Resurgence . . . . .	55
<i>Rajkiran Rai G.</i>	
Some Options to Resolve the Stress of India's Public Sector Banks . . . . .	61
<i>Viral V Acharya</i>	
Healthcare and Pharma: A Case to Bring in Much Needed Reforms. . . . .	65
<i>Pankaj R Patel</i>	
Geopolitical Realities After Covid-19 and Implications for the Indian Economy . . . . .	71
<i>Heribert Dieter</i>	
Geopolitical Realities in the Post Covid-19 Era: Challenges and Opportunities for India . . . . .	77
<i>Shyam Saran</i>	
Epilogue . . . . .	81
<i>Dilip Chenoy</i>	

# Foreword

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"Buddha did not set out to found a world religion. He set out to understand why one suffers. I learned that only through living life's ups and downs can you develop empathy; that in order not to suffer, or at least not to suffer so much, one must become comfortable with impermanence."  
- Satya Nadella

The coronavirus has rapidly made "business as usual" a phrase from the distant past. There is no "usual" in this uncertain time. But "leaders" outmanoeuvre uncertainty, create a resilience they can count on, no matter the changes that come and succeed. Business is now about improving the quality of life of everyone in a sustainable and inclusive way.

And finally, the 'New Normal' is upon us, the world economy is steadily inching upwards. Vaccine trials are in full swing and it is only a matter of time before we find a panacea to the virus that has held the world in its grip for most of 2020.

The Government of India's timely decisive measures in all spheres have not just ensured the safety and well-being of citizens but also enabled economic activity to resume. Among the many initiatives, 'Atmanirbhar Bharat' is the most all-encompassing and has set a positive go forward tone. Now more than ever before, we need to come together, to work concertedly and positively towards building futuristic businesses on the foundations of sound policy, collaborative action, and a vision of inclusive growth. I firmly believe that India is now in a position to take a leading role in the global arena, not only in the healthcare sector but also in building the post-Covid economy.

To contribute to the ongoing reforms agenda and create conditions for capitalising the potential opportunities, FICCI and KAS have brought together this compendium of essays. The eminent authors contributing to this publication have set an excellent framework that can contribute to the evolving strategic plan of action for India's growth and development. The essays provide several innovative suggestions covering a wide gamut of areas such as agriculture, manufacturing, financial services, digital economy, media and entertainment, healthcare, start-ups, as well as macro-policies and international diplomacy.

India has many inherent strengths from the vibrancy of our industry, to the strength of our leadership, our educated and hard-working middle class and our high potential youth. Together, we can ensure that India reaches its rightful place in the world and emerges as a strong economy and an enlightened nation. This is our "Inspired India".

I hope that suggestions contained in this publication will serve as a good reference as we move ahead towards realising the dream of making India a US\$ 5 trillion economy under the able leadership of our Prime Minister Shri Narendra Modiji.

My sincere thanks to all the contributors for sharing their experiences, concerns, insights, and suggestions. A special note of gratitude to KAS for partnering with us in this initiative and we look forward to more such joint projects in the future.

**Sangita Reddy**

President, FICCI and Joint Managing Director, Apollo Hospitals Group

# Foreword

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At the time of writing this piece, Covid-19 had already killed more than 1.3 million people and afflicted nearly 60 million. Only hopeful headline in the news is that of two new vaccines nearing final stages of clinical trials but it is still too early to celebrate. This year's New Year Eve festivities will undoubtedly be held in a subdued spirit of somber recollection. Some time in December, if current prognoses hold up, these vaccines would have started to feed into worldwide distribution network and around halfway through the next year, we should see worldwide vaccination coverage that might just allow us to leave the pandemic behind us.

And then we will face yet another equally challenging prospect. 'When radical change pervades long enough, it becomes permanent' is a notion I picked up during one of our many virtual digninars organised jointly with FICCI this year and it has stuck with me. Covid-19 has shattered economic certainties and upended national policies around the globe. And this change is probably here to stay!

When it comes to the period of reconstruction that will segue in even before the end of the pandemic, we cannot just look back and try to pick up the threads from where we left them. No, the pandemic disruptions have altered these threads beyond mere repair. The ideas needed to make our countries fit for the future will have to be brand new and suited for this emerging new environment.

FICCI and KAS are proud to present some thought-provoking essays on the future of India's economy in this post-pandemic world. In this compendium, the focus is on issues India has been debating for some time now as well as issues that the pandemic has thrown into stark focus. From economic growth to security policy and international trade to glocal production to a new work culture and a new way of thinking public health, it attempts to look at the challenges Post-Covid-India will have to face.

This is quite a bandwidth of topics as you can see and there is no one single solution to any of the issues under discussion here. The challenges ahead are too momentous to contemplate a single program to answer them. But, as Winston Churchill once famously said and I quote: 'Never let a good crisis go to waste'. Now, in India the national hero of modern Great Britain is remembered in much darker shades than in Europe and this quote definitely showcases his more callous features but as in everything, there is some truth here.

This new reality, that we are facing, levels the national and international playing fields; India is not just facing challenges – it is also facing opportunities. The ideas that will be spelled out in the coming pages are not just a manual on how to avert disaster, they will also offer ways forward that were previously neither possible nor thinkable.

While these essays are only a first pitch, it is for the readers to debate them further on the one hand and for the policymakers on the other, to implement them. This compendium marks yet another important milestone in the long history of FICCI-KAS cooperation which has been a source of great pride for us.

**Peter Rimmele**

Resident Representative to India, Konrad-Adenauer-Stiftung

## 1

# Getting India Back to High Growth Trajectory

- *Arvind Virmani, Chairman, Foundation for Economic Growth & Welfare, and Former Chief Economic Adviser, Government of India*

The Covid-19 pandemic hit India along with the entire world, in February 2020. India started addressing the issue in late February early March, by putting travel restrictions on visitors from China, followed by other hard-hit countries. A lockdown was introduced on March 24, 2020, which according to the Oxford index of stringency was one of the most stringent lockdowns introduced anywhere in the World.

Only essential goods and services, constituting an estimated 40% of GDP and 55% of employment were exempt from the lockdown. The lockdown was extended in May in a less stringent form with remaining restrictions phased out in June. The lockdown of 60% of the economy for 6 weeks in Q1 of 2020-21 was enough to reduce Q1 GDP by 23.9% below the GDP in Q1 of 2019-20. The GDP and IIP data confirm that the exempt sectors were the least affected by the Lockdown. The exempt economy was functioning normally, with demand equal to supply, and wages, employment, and profits close to normal. It also had a positive saving rate as its demand for goods and services produced by the rest of the economy could not be met because of complete or partial lockdown.

The rest of the economy, constituting 60% of GDP and 45% of employment was locked down. This included manufacturing, mining, and construction (MMC), and parts of "Trade, hotels & transport", "Other services" and "Real estate, housing & business services." The impact of the lockdown can be measured by the ratio of Q1 GDP in FY21 to that in FY20 - for construction it was 0.5, for manufacturing it was 0.61 and for mining it was 0.77. The ratio for Trade, hotels, transport, communication & broadcasting was at 0.53.

With this part of economy shut during April 2020, with both supply and the effective demand equal to zero, there was no scope for use of conventional fiscal policy stimulus to raise aggregate demand. It would have had zero effect on demand. With lockdown, wages, employment, and profits - all became zero; Every participant of this part of the economy had to use his/her accumulated savings to buy essential goods and services, resulting in negative savings rate. Those who did not have any savings to fall back on or could not get family loans to survive were completely dependent on governments, non-govt organizations and personal charity from their former employers for survival. Further, with profits

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*The GDP and IIP data confirm that the exempt sectors were the least affected by the Lockdown*

zero or negative because of legally committed payments or State government orders, there was a possibility of wholesale bankruptcy of heavily indebted firms.

The primary requirement from government (Central & State) was, (a) to ensure against starvation & extreme deprivation of workers & self-employed and (b) prevent mass bankruptcies, in the locked-down segment of the economy. The latter goal was shared with the RBI which had to ensure that credit reached all those companies which were basically solvent but suffered from unprecedented liquidity problems, arising from a Government ordained lockdown of their industry or services. The problem became less acute but continued during the phased lifting of the lockdown in May and June. It has persisted thereafter, with some states, towns and districts reimposing partial lockdowns and the fears aroused among workers, firms, and consumers, by the resurgence of the pandemic. The focus of the Central & State governments, along with the RBI, therefore, correctly remained on minimising the possibility of extreme deprivation and mass bankruptcy, during Q2 of FY21.

As State Governments lifted the lockdown at a different pace in different areas and others reimposed lockdown after lifting it, logistic chains from the producer to the final consumer as well as the logistic chains among different producers were disrupted. This has raised logistic costs, fragmented supply-chains, and produced pockets of excess supply and excess demand in different goods in different geographical areas; this was predicted by our EGROW foundation research paper on the economics of pandemic and the lockdown. The rise in logistic costs is indicated by the rise in the ratio of the CPI to WPI for food products during Q1 of FY21. This ratio has risen further in July 2020 to its highest level in more than 5 years.

It is useful to distinguish between sectors which have small contagion possibilities because of close personal interaction with strangers but were more affected by the lockdown (manufacturing, mining, construction, goods transport, storage, repair services), imposed to reduce contagion, and those which are directly & heavily affected by the pandemic. The latter has been defined in our research as "contact services" in which consumption/purchase involves contact with many other consumers/buyers. These sectors are restaurants, hotels, public transport, wholesale & retail trade and "Other services" such as hospitality, entertainment & tourism services. There are genuine fears with respect to these sectors which will continue for a year or more.

To minimise contagion and restore confidence, it is essential that all governments, employers, workers, self-employed, NGOs and consumers, follow the following precautions, which the accumulated evidence on Covid-19, suggests. Till an effective and safe vaccine is approved for general use, this is the only path to a sustained normalisation of the economy:

- (1) Hygiene (sterilization) and frequent Hand washing, to minimise transmission through the eyes, mouth, ears, or nose.
- (2) Wear Masks in the presence of others (non-family member & infected family member). A triple (or double) layer cotton mask, covering nose and mouth, seems most appropriate for Indian weather conditions.
- (3) Keep physical distance; the distance should be greater, if (a) indoors, (b) eating, drinking, or speaking directly with someone, or (c) the other person is without a mask.

- (4) Well ventilated areas, halls and rooms are safer than closed AC ones. AC halls and rooms can be made as safe as well-ventilated ones, by using Ultra-Violet purification of, or virus quality filters for, re-circulated air. Ultra-violet roof lights are being developed for cleaning air in rooms with little ventilation but are not yet available.
- (5) Crowded bars, indoor parties, and public bathrooms are likely to have heavier concentrations of corona virus. Bans on traditional bars and indoor parties will be needed for much longer period than outdoor. Older & other vulnerable people should avoid using public bathrooms.
- (6) Testing, Tracing and Quarantine is a chain in which the quality depends on the weakest link. Home quarantine requires that all members of household follow the above precautions with respect to the quarantined member. Similar care is required in public quarantine facilities, clinics, and hospitals, to ensure that they do not themselves spread the corona virus instead of containing it.

Based on our analysis we can calculate the effect of lockdown on GDP, by assuming that lockdown was fully operational for the first one and a half month of Q1 FY21 and completely lifted during the rest of Q1. This yields a -25% decline (YoY) in Q1 FY21 GDP. The actual decline was -23.9% (YoY).

The CMIE's monthly Unemployment rate (UR%) is useful for getting a preliminary picture of the current situation. The ratio of the unemployment rate in 2020 to that in 2019 provides useful indicator, like the IIP ratio used earlier. This ratio was 1.1 in February and 1.3 in March, indicating a 20% higher pre-pandemic unemployment rate because of the GDP growth slowdown in 2019-20. With the introduction of the Lockdown, this UR% ratio shot up to 3.2 in April and 3.3 in May and dropped back to 1.4 in June after lockdown started lifting. Surprisingly, it is down to 1.0 in July and August indicating a normalisation of employment in Q2 of FY21. However, there are many other indicators giving a less optimistic picture, so normalisation is unlikely before Q4 of FY21.

The transition from Lockdown to normalisation is under way in Q2 and is likely to continue in Q3 of FY21. It is critical to sustained recovery that the Covid-19 precautions outlined earlier be strictly

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*Monetary policy must maintain high liquidity, low and stable real interest rates in market for all systemically significant instruments*

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followed. During this transition period, Fiscal-Monetary co-ordination is critical. Monetary policy must maintain high liquidity, low and stable real interest rates in market for all systemically significant instruments. All segments of the credit market must continue to be assured credit through Government credit guarantees. Because of the fragmentation of supply chains and markets during the pandemic, conventional aggregated fiscal stimulus will not be useful and could stoke inflation in areas of excess demand, without stimulating demand in areas with excess supply. We need sector specific fiscal stimulus directed at sectors with weak demand. The government also needs to put in place several structural policy reforms during the transition, which would be critical to restoring fast growth following normalisation.

There are several economic trends which originated before the pandemic but have been enhanced by the pandemic. Government and private business working together can grab these new opportunities for India. These trends are,

- 1) De-globalisation: The growth of Trade, FDI and migration has declined or reversed since Global Financial Crisis. This trend will accelerate and lead to cross-border remote work.
- 2) Export supply chain diversification from China was initiated by President Trump's tariff war, but China's behaviour during the pandemic has accelerated the trend.
- 3) High Tech decoupling between USA and China provides greater opportunity for shifting value chains to India, given that many Fortune 500 companies already have R&D centres here and there is a large supply of educated labour. However, generation of job skills needs strengthening.
- 4) Digitisation has progressed much faster in the developed countries than in India. The pandemic will accelerate the trend in India. There is an opportunity to innovate in e-governance, e-education/skilling, e-medicine/health, e-commerce, and e-work.
- 5) Environment concerns will be heightened, and we are well placed with our Solar initiative.
- 6) Public health and nutrition & public health education concerns will take centre stage for some years. We must expand and deepen 'Swachh Bharat' to overhaul the nation's sewage, solid waste collection, processing, and disposal systems.

Based on the analysis of threats and opportunities, I would recommend the following policies for speeding up normalisation and accelerating GDP growth after normalisation of the economy:

- (1) Replace all specific duties in the Textiles chapter with a uniform ad-valorem tariff (10% say)
- (2) Integrate all GST rates on different textile raw materials, fibers, fabrics, and garments into a single rate, which in a broader GST simplification should be 15%. The diversity of rates on cotton and manmade/artificial fibers/fabrics has left us out of global textile supply chains and progressively lowered our ranking in textile & RMG exports.
- (3) Reduce GST on commercial vehicles, consumer durables and capital goods currently at 28% to 25% and those at 18% to 15%, as a prelude to or as part of overall GST reform.
- (4) Integrate all subsidies into a Direct Benefit/Cash Transfer (DBT/DCT) system. To ensure ease of living, the DCT should be delivered directly to all rural residents and migrants, on their mobile phone, with the husband and wife receiving their share separately and the share of minor children delivered to the mother's cell phone. Give free, Aadhar authenticated, digital payment enabled, cell phone to women who do not have one. This will ensure that the bottom 40% can be financially protected now and in future disasters.

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*High Tech  
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shifting value  
chains to India*

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- (5) To promote the acquisition of skills for moving labour from casual to regular work, amend the Apprenticeship Act to make it easy to impart practical job skills, without being subject to inflexible labour laws & oppressive labour bureaucracy.
- (6) Previously planned infrastructure and housing projects must be revived and accelerated.
- (7) The announced, Strategic industry policy should be formally approved. This will set the stage for faster privatisation and equity & land sale.
- (8) The three acts proposing simplification of labour laws have been passed by parliament. The SEZ law should be revised to introduce further flexibility in retrenching workers made redundant by export demand fluctuations.
- (9) Ease of doing Business can be enhanced by reducing the number of regulations, eliminating criminal penalties, and facilitating digital filing of simplified forms. Enforcement should be through randomised audits to ensure implementation of critical regulations relating to health, safety, and environment. This can also be included in SEZ law amendment, while the generally applicable simplification is formulated.
- (10) Import substitution policy should be restricted to the few countries which are well known to have used asymmetric trade, FDI and technology policies, while a freer trade approach is adopted for all other countries. The supply chain resilience initiative (SCRI), production linked incentives (PLI), and consumer goods tariffs should focus on import substitution of goods monopolised by countries with blatantly asymmetric trade policies.
- (11) Reduce the differential, higher electricity price for industry as proposed in the amendment to Electricity Act (2003). Set up common treatment centres for chemical plants to attract supply chains.
- (12) Rationalise and simplify GST, by choosing one of the two options proposed by us (revenue neutral & revenue-positive), with new rates effective from April 1st, 2021. Rationalise and simplify the Direct Tax Code (DTC) as per the 255-page law proposed in August 2009. These tax reforms are essential for Atmanirbhar Bharat as they will level the playing field for SMEs, given the 2019 corporate tax reform.

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*Give free, Aadhar  
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A crisis is a terrible thing to waste. Though there are many pessimistic voices predicting years of pain for the Indian economy, in my view a growth take-off is possible in FY22, if we complete by March 2021, all the reforms listed above.

## Getting India Back on Growth Path Post Covid-19

- *Subhash Chandra Garg, Economy, Finance and Fiscal Policy Strategist, and Former Finance and Economic Affairs Secretary, Government of India*

### **Covid-19 induced lockdown hit India's slowing economy very hard**

India was not in the pink of economic health in 2019-20. First Advance Estimates of 2019-20 announced on 29th May confirmed this. India, which was growing at 7% plus for last 25 years and also for the three years 2016-2019, saw GDP growth of barely 4.2% in 2019-20, the lowest rate of GDP growth in the last 11 years. Quarter 4- 2019-20 was the eighth continuous quarter of GDP growth decline.

Unleashing the Brahmastra to eliminate the Covid-19 virus, when it had barely made its appearance in India (there were total 500 cases at the time), India was placed under a 21- day total lockdown, without notice and preparations, on 24th March, 2020. The lockdown effectively locked up 135 crore Indians and shuttered 8 crore businesses. These millions of businesses, which account for almost entire GDP of India by producing the goods and services consumed by 30 crore households and used in capital formation/investment, had to stop all production and distribution suddenly. The lockdown, besides disrupting the economic value chain, rendered about 12 crore workers jobless. For two months- last week of March to last week of May- India lived through the most stringent lockdown anywhere in the world. The lockdown did slowdown the spread of virus to some extent, but it disrupted the economy massively. The result was on the lines many observers, including me, feared. Indian economy contracted hugely -by 24%- in the quarter I which bore the brunt of the lockdown – virtually amongst the largest decline in the world. The Government can indeed decide the fate of economy and GDP. Most of the economic activities resumed their normal pace in the second quarter after being unlocked in a series of unlock moves from May to October 2020. As a result, the GDP contraction contracted in the Q2 and India witnessed much lower, though still quite a high contraction, of 7.5%.

### **2020-21 is heading to be a washout year**

Realising the high cost of lockdowns of March-May 2020, the Government wisely embarked on the path of unlocking the economy from the second half of May. However, economy cannot be so easily switched off and switched on. While there are so many factors impacting the businesses' decision to resume economic operations, two major factors determined the response of businesses and labour most with respect to resuming and normalising operations. First, the risk of Covid-19, quite an infectious virus which transmits even in an asymptomatic state, had made quite a few businesses lose their demand - travel, tourism, transport, entertainment, personal services and so on. Second, the

turnover, profits and capital by businesses, especially the small and medium businesses and by labour in terms of loss of wages, salaries and accumulated savings had made it difficult for a large number of businesses and workers to resume and normalise operations.

Much of the economy has become normal by November 2020. Quarter II data showed manufacturing recording a positive growth rate and capital formation de-growth to be much smaller. Credit growth is still tepid despite Government offering guarantees for loans to MSMEs and later to all stressed sectors. Capacity utilisation by businesses is still quite low and new projects announcements are practically absent. Many businesses need financial accommodation to restructure their businesses by shifting as much as possible to digital modes of production and distribution. The economy in real sectors of mining, construction, retail etc., thanks to the loss of capital and incomes caused by the lockdown, is still operating at much lower levels than normal.

There are always some winners in every situation. Some segments of the economy did not suffer any turnover and/or profit loss on account of Covid-19 lockdown; some segments in fact gained. Agriculture by and large remained unaffected and, thanks to good monsoon, will grow at normal rates of growth (although agriculture crops are likely to face severe price pressures). E-commerce is gaining at the cost of physical distribution chains. Financial sector businesses are fast becoming predominantly digital and did not suffer much. Some businesses have restructured significantly - films are being released on Over the Top (OTT) platforms in place of cinema halls and much of the education is being delivered digitally. Work from Home (WFH) is fast becoming new normal way of doing work.

Net effect of all these developments and the responses of businesses and workers, is that the economy is likely to suffer small negative growth of about 5% year on year in the third quarter FY 2021. I expect the quarterly GDP to come almost at the level of the previous year in the fourth quarter. For the year 2020-21, as a whole, India is most likely to suffer a GDP contraction of about 10% which will be the first contraction after 40 years and the largest ever in India's history. A 10% loss of GDP amounts to collective loss of Rs. 20 lakh crores of income by workers, businesses and government. This is the big cost which India will pay for the lockdown and covid-19. It will leave every factor of production poorer. The Governments are likely to suffer revenue loss of about Rs. 4-5 lakh crores, the labour to suffer loss of wage income of about Rs. 10-12 lakh crores and the businesses, especially the MSMEs, will most likely suffer loss of profits of about Rs. 4-6 lakh crores.

The writing on the wall about such kind of outcome and losses was apparent in the month of April-May itself<sup>1</sup>.

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<sup>1</sup> For a detailed explanation of how India stared at a loss of 10% of GDP see at my blog *Lockdown, Stimulus and GDP 2020-21 dated June 2, 2020.* <https://subhashchandragarg.blogspot.com/2020/06/lockdown-stimulus-and-indias-gdp-2020-21.html?pref+tw>

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*Many businesses need financial accommodation to restructure their business by shifting as much as possible to digital modes of production and distribution*

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## What is needed to get India back to the growth path?

There is a lot of talk about green shoots and V-shaped recovery. Green shoots only emerge in lands which witnessed devastation by war or got charred by fires. V-shaped recovery by coming out of the pit after self-inflicted fall does not comfort anyone. We have become the worst performing economy in 2020-21 from being the best performing economy, until not so long ago in 2018-19.

The task before the policy makers, businesses and workers of India is to regain the lost ground and embark on the high growth path to build an economy of \$10 trillion by the middle of 2030s to make India the third largest economy in the world and to make an average Indian live in an upper middle-income country.

In my judgement, this would require three major policy and fiscal actions:

First, the Government should provide additional fiscal support to businesses, most specifically the small businesses, to get back on their feet and to workers, most specifically non-agricultural workers, for restoring their normal consumption. Government also must expand capital expenditure, most particularly, on infrastructure.

Second, the Government should undertake second generation of economic reforms to transform Indian economy into a private sector economy. This would require almost total divestment of all CPSUs - financial and non-financial - producing private goods. This should also be accompanied by policy reforms of land, labour, product and financial markets to make investments of private sector, domestic and foreign, in manufacturing, services, infrastructure profitable (without of course any guarantees by Government).

Finally, the Government should undertake all regulatory and institutional reforms to make digitalisation of Indian businesses the goal of policy reforms and government's support programmes. This would require a business-friendly data use and privacy policy, undertaking investments in digital infrastructure and making all government interface with businesses and workers digital. This would also require a fit for purpose foreign investment policy for attracting global information and communication technology, services and platform companies to work in and from India.

Government has taken some steps in this direction - for example, liberalising agriculture commodities trade, auctioning coal mines for commercial use and some labour reforms - but a bigger and bolder agenda of reforms will have to be taken up for making real difference to the economy, not a few isolated reforms.

### Fiscal Support Measures

The Government announced fiscal support measures under the rubric of “Atmanirbhar Bharat” in the middle of May, including the “Garib Kalyan” package of March 2020, which costed the

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*Government should undertake second generation of economic reforms to transform Indian economy into a private sector economy*

Government Rs. 20.97 or 21 lakh crores. This package was a mish-mash of five kinds of interventions - liquidity measures of about Rs. 8.1 lakh crores by the RBI, liquidity measures by the Government of about Rs. 4.5 lakh crores, fiscal support measures by the Government, credit support to businesses and other measures in the nature of intent of future investments and expenditures to be incurred by others. Actual fiscal implications of the 21-lakh crores economic stimulus package turned out to be only about Rs. 1.5 lakh crores (or about 0.75% of GDP).

The fiscal package part of the Atmanirbhar package has been executed well. Foodgrains to all ration card holders (including a good number of migrant workers without ration cards), cash assistance in Jan-Dhan accounts and free LPG cylinders, etc. have, by and large, been delivered as per the announcement. The bulk of the economy package - over Rs. 18 lakh crore - meant to provide stimulus to businesses does not seem to have delivered results. Bank credit is hardly up, with almost no growth over the outstanding credit of March 31. Expenditures from various funds, including the Fund of Funds and Infrastructure Funds, are almost zero. The liquidity measures of RBI were undone by surplus liquidity being deposited back by banks with the RBI as reverse repo deposits. As the economic stimulus part of the package did not work, the impact on economic revival and growth has not been visible much.

There have been two more fiscal stimulus package - one for government servants and another largely for production linked incentive scheme. These are also likely to have very little fiscal expenditure implications during the current year.

The Government's fiscal position is not good. With widespread expected loss of tax, non-tax and disinvestment revenues (possibly exceeding Rs. 4.5 lakh crores), the Government has been forced to enhance its borrowing programme by about Rs. 4 lakh crores or about 2% of GDP already. The government expenditure in the first half (April-September 2020) is lower than the previous year in overall terms, most significantly in terms of capital expenditure. Even without additional stimulus, expenditure side hole may turn out to be about Rs. 1-2 lakh crore or 0.5 to 1% of GDP. The Government, however, would have to think long term and bite the bullet for an additional fiscal stimulus of 2-3% of GDP. This expenditure package should include three components - grant assistance to businesses, mostly MSMEs, consumption assistance to workers who took it on the chin, including about 3 crore workers who have lost salaried jobs and expanded expenditure on infrastructure (primarily on non-viable infrastructure like national highways and railways) and creation of new digital infrastructure.

## **Second generation of economic reforms**

1990s reforms have run their course. The Indian economy now suffers from drag of poor performing public sector and dominance of financial system by the public sector banks. There are many mill-stones-crushing land and infrastructure costs, under-developed digital infrastructure, poor tax laws, not fit for purpose data and other digital system regulations, inflexibility of labour laws, absence of appropriate bankruptcy and exit systems and excessive and physical compliances system. Lack of reforms in these matters are holding up the growth potential of Indian economy.

All non-financial public sector enterprises producing private goods and services, irrespective of whether they are in 'strategic' (which no one knows means what) or non-strategic sectors, should be sold off. The Government has no business to be in private goods and services businesses. Likewise, the baggage of nationalisation of banks, which has cost the country dearly, needs to be cleansed up by privatising most of the public sector banks and allowing two or three remaining large public sector banks to be run entirely professionally. Major reforms are needed for land, MSMEs and agriculture. Major policy reforms are required for infrastructure sectors which have become inherently unviable for the private sector - e.g. real estate, power, roads.

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## **Digitalisation will decide the future of Indian economy**

The industrial revolution has peaked and is past. Digital revolution is barging in. Every business of agriculture and industrial age has to get digitalised and face competition for survival. Entire distribution industry, with sales of over Rs. 100 lakh crores, is facing existential threat from digitalised e-commerce. E-commerce will finally gobble up the physical retail. Financial industry is being transformed by fin-tech, education by edu-tech and health by health-tech. Agriculture and Industry 4.0 is today a lot more digital than mechanical.

The digitalisation, all over the world, is taking place building on three key digital innovations - the chip, the code and the internet. The digital infrastructure, digital manufacturing, digital services and digital governance are all built on these three key innovations. India has not done well in any of these innovations. Our share of global electronics manufacturing (enabled by chips), programming (enabled by coding) and digital transmission (enabled by internet technologies) is quite small. We have done well only in information technology services. Of the \$5 trillion digital technologies and services market, our share is less than 2%.

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*We need to re-  
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consumption of  
services*

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For gaining ascendance in this, we have to get our data laws right. We need to realise critical difference between personal and private data. We need to protect and provide ownership rights to individuals on private data only and not on entire set of personal data. We should frame law and regulation to allow free use of non-personal and non-private personal data. We also have to get our policies right for widespread expansion of fibre network, promote other digital infrastructure and make our excellent human capital do well in coding and programming.

Covid-19 is giving a big push to digitalisation. We need to re-strategize the way we conceptualise work, governance and production and consumption of services. The digitalisation piece,

if we can get it right, can provide us the right launch pad for not only recovering from the fall but also get to much higher growth in times to come.

## **GDP growth trajectory**

GDP matters to everyone as this approximates collective national income, collective national consumption and collective value added of all of us put together. GDP matters as all the three factors of production - workers, entrepreneurs (capital) and the government (government, by setting right policies and institutions, is an important factor of production) - receive their incomes - wages, profits and taxes - from the value added produced in the businesses. It should therefore be the national task to get the GDP growth back on track.

In the business as usual kind of scenario (current policy framework and no additional expenditure stimulus from government) and Covid-19 tapering off by the end of financial year, the GDP is likely to recover 90-95% of 2020-21 contraction in 2021-22. In 2022-23, India will most likely resume growth, though at low rate of 4-5% over 2019-20. This is certainly not acceptable, as this would make the three years of 2019-20 to 2022-23 virtually lost years for India.

Assuming India is able to break away from the shackles of Nehruvian socialist model by pursuing aggressively the reform agenda outlined above, India should be able to make up for all of its 2020-21 losses in 2021-22 and then grow at higher rate of 8-9% from 2022-23. This is what we should all work for.

India has a national ambition of building a \$10 trillion economy by 2030s. We should endeavour to achieve it in the middle of 2030s. By pursuing the bold reform agenda, we can do it.

- *Siraj Hussain, Advisor, Food Processing, FICCI and Former Agriculture Secretary, Government of India*

**C**ovid-19 has brought almost all the world economies to their knees. Never before all the countries were simultaneously hit. It is for the first time that nearly all the sectors of the global economy have been impacted. It is truly a once in a century event.

Thus, the contraction of GDP in the first quarter of 2020-21 by 23.9% is shocking but not entirely unexpected. Since the economic liberalisation began in 1991, the economy had grown by an average of 7% every year. Several major sectors of economy showed a contraction including construction (-50%), manufacturing (-39%), and mining (-23%), and trade, hotels and other services (-47%). The contraction in manufacturing was smaller than in services, and even public services delivered a negative growth.

As there were fewer restrictions on transportation of agricultural commodities, it was the only sector that provided a silver lining in a bleak economic scenario. The Gross Value Added of agriculture showed positive growth of 3.4%. Thus, agriculture came out a saviour, not only for economic data of the first quarter but also for ensuring supply of agricultural commodities and food items during the lockdown.

Despite the stringency of lockdown and atrocities by police on farmers and labour engaged in the transportation of agricultural commodities from the farms to mandis, the rabi crops were harvested efficiently. This was despite the shortage of labour in several states due to migration to their villages and towns. The migration started as soon as the lockdown was announced on 24th March and continued well into late April. The wheat procuring states of Punjab, Haryana and Madhya Pradesh did a fabulous job of managing procurement at MSP despite the requirement of maintaining physical distancing. A large number of additional procurement centres were opened, and farmers were advised through messages sent on their mobile phones to stagger their arrivals into mandis.

For the first time, Madhya Pradesh procured 12.93 million tonnes of wheat, more than Punjab's procurement of 12.71 million tonnes. The total procurement reached 38.98 million tonnes, about 5 million tonnes more than last year and about 10 million tonnes more than the requirement of the Government for its obligations under National Food Security Act and other welfare schemes.

There was unprecedented coordination between the State governments' procurement machinery and Central government's FCI and Railways. Additional allocation of food grains by the Centre under PMGKY also helped in evacuating wheat and rice from overflowing warehouses in procuring States

and created space for procurement of fresh crop of rice. This is also helpful for procurement of kharif crop of rice that started arriving in the markets from 1st October.

Although the management of food grains fared well during the lockdown period, large scale disruption in the supply chain was observed in case of perishable crops like fruits and vegetables. This caused loss to farmers, and in many places, they had to destroy their standing crops in the fields. It resulted in a crash in prices in producing centres and price spikes in urban areas. The poultry prices had been depressed from January 2020 onwards due to fake

news on social media about poultry products causing Covid-19. Milk producers also suffered huge losses due to destruction of demand, especially from hotel, catering and restaurant sectors. Slowly, the Government realised that mandis need to continue functioning to maintain supplies and restrictions were eased. This enabled supply of fresh produce to resume and price volatility came down.

On 15th May, the Finance Minister announced the third tranche of Atmanirbhar Bharat package in which several ongoing schemes of the Government were repeated. It was claimed that the package will provide Rs 1.63 lakh crore but actual fiscal commitment in FY 2021 is estimated to be just about Rs 6,000 crore. Further, she announced interest subvention from the Government budget on loans of Rs 1 lakh crore towards assets created from Agri Infrastructure Fund. This can augment much needed infrastructure at farm-gate & aggregation points. Post-harvest projects will also be eligible for obtaining interest subvention on loans taken from the fund. In addition to private businesses and start-ups, the Primary Agricultural Cooperative Societies (PACS) and Farmers Producer Organisations (FPOs) will also be eligible to avail subvention from the fund.

The most important announcement in the FM's speech came in the form of governance reforms in three areas: amendment to Essential Commodities Act, reforms in marketing of agricultural produce and a legal environment for contract farming.

The Government issued three ordinances on 5th June 2020 and they have been passed by both Lok Sabha and Rajya Sabha. These are the Essential Commodities (Amendment) Act, the Farmers' (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act and the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act.

In the post Covid-19 agricultural scene, these three Acts are likely to provide an important clue to the way farmers produce is marketed within India and abroad. It is possible that in several parts of India, contract farming may become more acceptable.

The statement of objects and reasons of the Essential Commodities (Amendment) Act, 2020 noted that India has become surplus in most agricultural commodities and farmers have not been able to realise better prices due to lack of investment in cold storage, warehouses, processing and export

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*It is possible that in several parts of India, contract farming may become more acceptable*

infrastructure. This is due to apprehensions about the stringent regulatory mechanism in the Act. The amendment restricts government interference in the supply of certain food items (cereals, pulses, potatoes, onions, edible oilseeds, and oils) to only under extraordinary circumstances. These include war, famine, extraordinary price rise and natural calamity of a severe nature. Only in such events, the Government can impose stock limits. For this too, the Government has bound itself to act only if there is a 100 per cent increase in the retail price of a horticultural commodity or 50 per cent increase in the retail price of a non-perishable foodstuff (pulses, oilseeds, cereals). This increase in prices is to be assessed over the prices prevailing in immediately preceding 12 months or average retail price in the last five years, whichever is lower. The processors or value chain participants are to be exempted from such stock limits.

This amendment in the ordinance was widely welcomed as it seeks to bring predictability to the strict regulatory regime envisaged under the EC Act.

However, even before the bill was passed by Rajya Sabha, the Government intervened in case of onion (due to price rise in September 2020) and took drastic action by banning its export. Neither of the two conditions of price rise in preceding 12 months or five years, specified in the Amendment Bill were met, and yet the Government invoked Foreign Trade (Development and Regulation) Act, 1992 and suddenly imposed the ban.

Despite this initial hiccup, the Essential Commodities (Amendment) Act, 2020 does provide a predictable regime for agricultural commodities and if the Government refrains itself from intervening when prices of agricultural commodities show a rising trend, the businesses will be assured that they will not face penal action due to sudden imposition of stock limits, restriction on movement, minimum export prices or bans. High volatility in prices of agro commodities is a regular phenomenon for agricultural produce. Due to lack of warehouse and storage facilities, farmers are forced to sell their crops immediately after harvest at low prices.

With the passage of this bill, it is hoped that both farmers and consumers may be benefitted through

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*Due to lack of warehouse and storage facilities, farmers are forced to sell their crops immediately after harvest at low prices*

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private investments in the value chain. So, one hopes that the recent ban on export of onion was a one-off event, which will not be repeated.

The second legislation is the Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act. The objective is to provide legal backing to agreements between farmers on one hand and wholesalers, processors, agri-businesses and exporters, etc. on the other hand. It seems to bring transparency in the terms and conditions agreed between the two parties. Pricing of produce has been the main reason for disputes in such contracts in the past. The Act provides that the price of farming produce will be agreed and mentioned in the agreement itself. Moreover, the terms and conditions of any variation are also required to be mentioned in the agreement. The law provides for five-year validity of such agreements.

In the milk, poultry and seed production sectors, contract farming has been quite successful and small and marginal farmers have also benefited from contractual arrangements with corporates or aggregators. For the production of seeds, many such contracts are not signed or registered, but there are only a few reports of disputes.

Sugarcane farmers are also in a kind of contractual arrangement with sugar mills but in this case, the cane price is fixed by the Government in the form of fair and remunerative price (FRP). Further, mills are required to pay an additional price based on recovery of sugar from sugar cane. As there have been delays in payment of sugarcane dues, especially in Uttar Pradesh, few farmers have diversified from sugarcane to other crops. However, the recent Acts have kept the sugar sector outside its purview.

Since contract farming will be voluntary for farmers, they will enter into contracts only if they find it beneficial for them. It may be possible that farmers will enter into such contracts through FPOs. For cash crops, like long staple cotton, basmati rice, soybean and organic produce, such contracts may gain traction over the next 3-5 years. Small farmers would be vulnerable and may resist entering into such contracts directly with corporates. Hence, it is possible that contract farming may gain ground for the production of high value crops and benefit a certain section of the farming community.

In case of perishable produce, contract farming has not really gained ground. The Mother Dairy Fruits and Vegetables Limited (MDFVL) - a subsidiary of the National Dairy Development Board (NDDB) has entered into contractual arrangements with some FPOs and growers but the business has not gained scale. A similar venture of Mother Dairy in Bangalore did not succeed. However, ITC's success in 83,338 e-Choupals in about 5000 villages and 10 lakh farmers showed the promise of direct buying from farmers. And this was despite the restrictive regime of APMCs.

Covid-19 has been a boon to e-commerce and it is possible that e-commerce platforms will provide a direct connect between farmers and consumers. Since their buyers are in the high-income bracket, they may go in for contract farming to procure better quality fruits and vegetables which have been grown using pesticides in officially advisable doses.

In the poultry sector, about 65% of India's broiler production is under the contractual arrangement with aggregators. A study of the poultry sector (Ramaswami et al. 2006) showed that broiler producers were able to shift about 88% of risk to aggregators of poultry businesses. Another study of 2015 (Sasidhar and Murari) found that in contract broiler farming, the average net return per bird was Rs.11.06 while in non- contractual broiler farming, the return was Rs. 17.05. Thus, the contract farmers were earning Rs. 5.99 per bird less than non-contact farmers. It would be wrong to assume that

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poultry producers under contract have had a smooth ride but it is true that they could avoid the risks associated with investment, production and marketing. The margins given to them by aggregators are quite thin.

If the corporates can provide a similar protective shield and also adequate margins to farmers, this Act would be a real boon to small producers.

Though the dispute settlement process envisaged in the Act is not inspiring, it is possible that farmers and their buyers will agree to better designed contracts which will reduce the scope of litigation. It will be up to corporates to honour their commitment and not run away from contracts on flimsy grounds, in case of fall in prices.

The third Act passed by Parliament is the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act. This has been the source of enormous opposition in Punjab and Haryana where farmers, commission agents and mandi labour see this as the first step towards dismantling of APMCs.

The Act enables the farmers to sell their produce outside the physical boundaries of Agricultural Produce Market Committees (APMCs). Defined as 'trade area', the State governments cannot impose any market fee or cess or tax on transactions. There is a justified apprehension that agriculture trade will move out of APMCs into trade areas to save the taxes. Moreover, there will be no record of any transactions in the trade area, the businesses will prefer to purchase their requirement outside APMCs.

One fallout of this will be that the State government will be forced to reduce market fee/taxes in mandis so that businesses continue to operate inside APMCs. Already, Haryana has reduced the market fee from 2% to 0.5%. Punjab has also reduced its market fee and taxes on basmati paddy from 4% to 2%.

In Punjab and Haryana, the State governments and farmers fear that these three Acts are a precursor to implementation of recommendations of Shanta Kumar committee, which was set up in August 2014. The committee submitted its recommendations to the Government in January 2015. The major recommendations were as under:

1. FCI should hand over the procurement in Punjab and Haryana to the State governments, move to the States where farmers are still forced to sell below MSP. These regions/states are eastern Uttar Pradesh, Bihar, West Bengal, Assam, etc.
2. Government should revisit its MSP policy since wheat and rice are the only major commodities which are procured, while MSPs are announced for 23 commodities. Because of MSP policy and its implementation, the cropping patterns have become skewed in favour of wheat and rice.
3. FCI should outsource its stocking operations to CWC, SWC and the private sector.
4. Government should set up modern silos of about 10 million tonnes for storage of food grains in place of traditional warehouses.
5. FCI should take the shape of an agency for innovations in the food management system. It should create competition at every step in the food grain supply chain, so that overall costs are reduced, and a larger number of farmers and consumers are covered.

Though the Government did not accept most of the recommendations, the enactment of the three Acts, during the Covid-19 pandemic, first through ordinance route and later in a rushed passage through parliament is being linked to the recommendation of the committee for pruning public distribution system and resultantly, reduction in procurement. It has created fear in the State government, APMCs, farmers, arhatiyas and mandi labour in Punjab and Haryana. These are two States in which large quantities of wheat and paddy are procured at MSP. Punjab and Haryana earned Rs 3,642 crore and Rs 1,700 crore respectively in 2019-20 from market fee and rural development fee. If procurement moves out of APMCs, these States will lose substantial revenue. This income has been used for construction and maintenance of rural roads, APMCs, warehouses etc. and loss of this income will surely have an impact on the quality of these assets.

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*By freeing up trade outside the physical jurisdiction of APMCs, ease of business has been ensured at least for purchase of raw material by food businesses*  
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In other States, especially those which have more diversified cropping patterns, such fears are not intense. APMCs were seen as hurdles in these states as the traders were not allowed to purchase outside APMCs and even if they purchased directly from farmers, they were required to pay market fee and other taxes. Therefore, farmers in many of such regions across India have not been protesting against the Acts.

All these years, the traders, corporates and even food processing units were struggling with the regulatory regime of APMCs. For purchasing any commodity in a state, a license was required from each APMC, and despite all the efforts at reforms since 2003, few States gave one unified license to operate in the entire State. It impacted the economies of scale and increased the cost for processors and other businesses. By freeing up the trade outside the physical jurisdiction of APMCs, ease of business has been ensured at least for purchase of raw material by food businesses.

However, one fall out of the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act will be that the Government will not have any data on the quantity sold in the trade area. It is therefore necessary that the Government uses the Warehousing (Development and Regulation) Act, 2007 to make it mandatory for all the warehouses to be registered with WDRA. This can provide clues to the Government to know the private stocks of agriculture commodities because such warehouses have to issue electronic negotiable warehousing receipt (e-NWR).

Another challenge will be policy making in the Government in the absence of data on prices, at which transactions will take place in the trade area. As long as APMCs have high volume of trading, the farmers will use the mandi prices as a reference, to sell even in the trade area. However, when volumes have shifted out of APMCs, such reference prices may not be able to guide the farmers and an alternative system will have to be evolved.

The entire agriculture sector has been opened up by these governance reforms which have been under discussion for about two decades. So far, the Government was only trying to persuade the States to reform their APMC laws, but few States took any meaningful steps. This time the Centre has taken a plunge and now it is up to the businesses to deal fairly with farmers. Any exploitative practices will show the reforms in a bad light.

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## 4

# Making India a Hub for New Age Industries

- *Ajai Chowdhry, Founder – HCL and Former Chairman, HCL Infosystems Ltd*

**A**s they say 66 Million years ago, an asteroid struck the earth and animals like dinosaurs could not adapt and got killed. Covid-19 has arrived as another asteroid now and a large number of companies will not survive if they do not adapt and change.

AI technology will be another asteroid that has the power to reset the whole world. And India has to embrace it. Most organisations and management think that this is the job of the IT department. I do believe many managements are now coming to

the realisation, that they must understand AI and data analytics to take their businesses forward. It is pretty much like what happened when internet snuck up and the advertising and entertainment industry were not awake and were clueless.

If we look at the list of most valuable companies in the world, 7 out of 10 are technology companies. In India, 4 out of 10 are technology/technology influenced companies.

So what should we look towards when deciding on companies that will make the grade and will have a great linkage to our strengths as a country, and will also be able to create a global market.

I have tried to identify a few new gen industries which I believe could be housed in India as a hub. Let me describe these.

**Electronics** is one of the largest industries in the world. Electronics is a meta resource. It sits inside in most products that you can think of - automobiles, medtech, televisions, mobiles, refrigerators, defence equipment, etc. Given the current geopolitical situation, we need to seriously look at bringing the whole supply chain to India and also be part of the global supply chain. This is critical for our security and self-reliance (Atmanirbhar). We urgently need to create a semiconductor manufacturing and design industry. We already have great people in VLSI design and we have to have semiconductor foundries and large number of fabless companies. As Senator Ben Sasse, of the Intelligence Committee of the US says – "Modern wars are fought with semiconductors." And go on to design and make volume products in India. Mobile phone manufacturing is now happening and more will happen with the constructive policies of the government. We need to take it to design and manufacturing of TVs, set-top boxes, computers, laptops, tablets, CCTV cameras, etc. Designing in India is critical to create Indian IP and value addition.

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## Fintech and the India Stack

India created two major technological projects/institutions - National Payments Corporation of India and UID. This led to creation of tech stack known as the India Stack. This starts from identity to payments to other services. And it has made India a pioneer in fintech. This led to financial inclusion and direct benefit transfers. Out of this was born a major product – UPI – Unified Payment Interface. In June 2020, UPI processed 1.3 billion transactions and plans are afoot to reach a goal of 1 billion a day. This is now going to lead to a digital credit cycle providing credit to the smallest businesses and individuals. A new network called OCEN (open credit enablement network) will democratise credit.

This has opened up many fintech start-ups in India. We now also need to take it global, as in on-ramp for Indian companies to do business abroad. Many countries can also find our model very attractive to adopt and we can see it globally, as nothing like this exists elsewhere. If we can export this, even our smallest merchants can find their marketplaces expanding globally.

I do believe, this will position India globally through a stack and a product and can be valued at very high level (not to forget that the most valuable companies are based on technology). So, we could actually create a global company to market this. And create many fintech companies in India and get global companies to create fintech products and businesses based on this.

## HealthTech

India has been a magnet for medical tourism over the last 10 years. Although the initial thought was to have electronic medical records, but it then developed into a full-blown plan for a India health stack. Some of India's technology pioneers and health tech start-ups have created an alliance called *Swasth* to try and transform India's failing healthcare system. Covid-19 has been a major driver. This will create a great industry where it will lead to testing and treatment of the masses. It will have open application interfaces by which a lot of hitherto closed areas like billing information for insurances or digital lab results can be shared (obviously with consent). Bharat Health Stack will form the backbone of a platform that aims to offer multiple services from hundreds of vendors and give individuals flexibility. This will also boost research.

It can start with tele-consultation locally and grow it into a global opportunity to provide that from India. Many health stack start-ups will be created, and India could emerge as a leader in this area.

## Space Tech

India has been at the forefront of Space exploration. By 2008, India had seriously arrived on the scene with a lunar probe Chandrayaan, that discovered water on the moon. This was followed up by the Mars Orbiter Mission called Mangalyaan.



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But everything started changing globally when Elon Musk launched SpaceX with vertical take-off and landing, and Bezos came up with Blue Origin. SpaceX created reusable rockets.

ISRO came up with PSLV-37 and launched 104 satellites into Space.

As per the government's plan, ISRO will open up access to geospatial data and testing facilities for start-ups. This will enable start-ups to work on Space projects at a very cheap rate. ISRO is inviting start-ups to develop food and medicines for astronauts, better tools to access machines in spacecraft and green engines for Gaganyaan.

Space Tech is a US\$ 380 billion industry today and is expected to grow to US\$ 1 trillion in the next two decades. With ISRO opening up, this has democratised Space Tech in India.

Investors are talking about Space Tech having as much potential as the internet! Massive value can be unlocked in Space tech stacks such as GPS, communications, geospatial intelligence, analysis, distribution and management of data collected by existing Space-based infra and Space-based observation. Just as GPS has generated trillions of dollars of economic value.

India has led in frugal innovation for Space. Cost of access for Space from India will also generate more ventures. And miniaturisation and reusable rockets will open up new vistas.

While it may look very far, it is believed that the momentum can unleash a wave of disruption that can go far beyond Space sector (Many innovations happened due to Space Tech – wireless headsets, camera phones, CAT scans, electrolytic water purifiers happened due to the Apollo mission!)

Bharti has invested in OneWeb and we can see democratisation of Internet. India has all it takes to make it in this area.

Start-ups are appearing in this area globally-around 500 already. India has start-ups too. It started with Team Indus which wanted to participate in the Lunar XPRIZE by putting a rover on the moon. I actually invested in it.

You can hear names like Kawa, Pixxel, Agnikul and Bellatrix - all are into Space Tech in India. Bellatrix is focusing on economic microsattelites.

And an area where we can really do well is Space-as-a service! It is a rare category where India's talent is both technically superior and cost efficient. India could be a world beater in this!!

I would not like to cover some other ideas, but I do believe that there are great opportunities in digital biology, genetic nanotechnology, robotics and flying cars.

Flying cars will be a great opportunity due to the fact that all our cities are very crowded and unplanned. Traffic is horrendous and both Ola and Uber are primed to use this. Sitting atop electrics, this will be a great opportunity. And believe me, this is not too far.

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## India in the Global Value Chain Beyond 2020

- *Ajay Shankar, Former Secretary, Department of Industrial Policy and Promotion, Government of India*

The Indian economy has experienced a contraction of about 24% in the first quarter of this financial year. Though the lockdown restrictions have been eased considerably, the return of economic activity back to pre Covid-19 levels is a major challenge now. India had been losing growth momentum for many quarters earlier. India needs to move to a growth trajectory of over 8% at the earliest to get rid of poverty and create jobs for its youth.

In 1991, the year of our pathbreaking economic reforms, the per capita income of India and China were about the same. In technology, we were more or less at par. Today, China's per capita income is five times ours. They are the 'factory' of the world. In technology, they are now challenging the US' leadership. What did they do differently which has given them so much success? Are there any lessons for us as to what we should do now? Shouldn't we be having the national ambition and determination to try and catch up? Towards the second half of the first decade of this century, our growth rates were rising and many of us thought that our growth rate would overtake China's on a sustained basis in a few years and catching up would begin in the next decade. This did not happen.

There is now anxiety in some quarters that India may be going the Latin American way and entering into the 'middle income trap' at a much lower per capita income level than that of the middle income countries. If one looks back at the experience of nearly three decades after the economic reforms, industrial growth has been a big disappointment. Services have done remarkably well. A somewhat facile view that has been gaining currency is that India has a natural comparative advantage in services and should build on it. It should accept that it lacks comparative advantage in manufacturing. This is just not true. In the good year of 2006-07, before the global financial crisis, manufacturing in India grew at 14.3% and services grew at 10.1%.

IT has been a phenomenal success story. The export of IT and related services was 136 billion dollars in 2019 and the sector employed more than 4 million persons. There is a fashionable myth that this success occurred as the sector was left alone by the government. What happened was the exact opposite and it was the early smart interventions by the government which made success possible. The State invested in facilities for real time high speed internet connectivity with adequate capacity in the software parks, so that firms could operate in the US market without any locational disadvantage; they

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sector*

could as well have been operating from within the US. Then, these firms were also given a duty-free regime of software and hardware imports, as well as all the incentives and benefits that exporters of goods were receiving those days. With these critical interventions, the sector took off with smooth integration into global supply chains in IT and related services. The learnings from this were, however, not used for manufacturing.

The far too intrusive license permit Raj went in 1991 with economic reforms. India sought integration with the global economy through liberalisation of trade and investment. The key difference between us and the Chinese lay in the Chinese state driving industrialisation and the creation of competitive advantage in Chinese firms for the global economy. They used the opportunities provided by globalisation fully. We embraced the Washington consensus and practised leaving market forces alone. We need to recognise that in a modern industrial economy, competitive advantage is not a natural endowment, like mineral resources or an agro-climatic condition for certain agricultural produce. It is created. The challenge is for the government to use smart pragmatic measures to help firms become competitive in the global economy and increase value addition in the country.

One critical factor which does not usually feature in discussions is the real exchange rate. The successful East Asian economies like Korea, followed by China which have caught up with the industrialised nations used the policy of keeping their real exchange rate depreciated to give advantage to domestic value addition. By doing this, they followed Japan which did the same to hasten recovery after World War II. When the West put pressure, they allowed their exchange rates to appreciate. The real exchange rate movement is the reflection of the difference in inflation rates among trading partners. To illustrate, if in a year our trading partners have zero inflation, we have 5% inflation and the nominal exchange rate remains the same, then the real exchange rate has appreciated by 5%. In the real economy imports would appear to be 5% cheaper. This would be equivalent to an across the board lowering of import duties by 5%. This hurts domestic value addition and job creation. It favours consumption vis a vis production. In India, there is the mistaken belief that a strong currency is a sign of a strong economy. The converse is true when our inflation rates are higher than those of our trading partners. India is unique in experiencing real exchange rate appreciation due to larger than normal capital inflows arising from remittances from expatriates and the attractiveness of our stock market. Between 2008 and 2017, there was a real exchange rate appreciation of 19%. This had the effect of lowering import duties by 19%. This meant that for many items, the import duty became negative. This one factor alone would suffice to cause an industrial downturn leading to greater domestic market share for imports and lower exports. This is what happened in this decade. The necessity of maintaining the real exchange rate needs to be pursued by industry, accepted politically and then enunciated as a policy goal by the RBI. Market participants take investment decisions on the basis of expectations and would not respond to market driven sudden rate

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corrections that happen after some years which are followed by steady real exchange rate appreciation. Preventing real exchange rate appreciation is, however, a necessary but not a sufficient condition for domestic value addition and job creation.

The key to the success of the IT industry lay in good connectivity to the US market. For manufacturing, this means reducing (a) time for products to reach export destinations and (b) the cost of logistics. In both these key areas, notwithstanding the progress, we are still far behind our competitors in East and South East Asia. The State can easily fix this. All that it needs is central investment in providing expressway connectivity from manufacturing centres to the National Highway network and from the Highway network to railway freight terminals, air cargo terminals and ports. The turnaround time at ports has been getting better and should be made to match those of our competitors within two to three years. All this is doable and affordable if it gets priority and focus.

The IT success story was also facilitated by the liberal provision of living accommodation for the IT professionals in the software parks. A century earlier when we had a globally competitive textile industry, housing for textile workers was provided in the textile premises themselves. The State needs to facilitate the provision of rental housing for workers in or near industrial centres. Rental Council Housing in London or dormitory accommodation more recently in China have been critical in getting higher labour productivity which is the basis for global competitiveness. Fortunately, the Finance Minister has recently announced that an urban rental housing program for migrant workers would be started. A massive program is needed. It should also be intrinsic to the new industrial areas being developed by the States. Provision of land at very reasonable rates alone can make such rental housing affordable for the workers. Ideally, the rental income should cover the debt repayment liability assuming debt financed construction as well as maintenance. In implementation, creative Public Private Partnerships can be tried out with a separate partnership for construction and a separate one for management.

It is time to go beyond improving the Ease of Doing Business by subsuming it within the larger objective of reducing the Cost of Doing Business. Parameters for measuring the Cost of Doing Business and goals for reduction should be evolved. A consensus on the trajectory for reduction with government should then emerge. To illustrate, energy is a significant component of production costs and the primary cost of transportation. To reduce costs for business, diesel needs to be brought under GST and that too at the median rate. There is no good reason for it to be outside GST and be taxed so heavily. Cross subsidy in electricity rates and in railway freight rates need to go. The Railways need to become customer friendly to become the preferred choice for long distance goods transport. All this can be done within three to five years. The benefits in higher industrial growth and job creation would be well worth it.

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The Regulatory framework imposes costs including transaction costs. Enterprises do need to comply with contemporary international environmental and safety standards. However, moving towards credible third-party certification would improve compliance and at the same time reduce transaction costs. With advances in technology and real time digital recording of parameters becoming affordable, a re-engineering of the Regulatory system needs to be undertaken across the board. A well-designed transparent process with expert and stakeholder participation for a Regulatory Impact Assessment of the existing stock of regulations would be amply justified. Industry could lead the process and then get a buy in from government. This work is tedious and requires going into minutiae. It is not glamorous. But to the extent it is successful, it would go a long way in reducing the actual cost of doing business.

Land with adequate infrastructure is being perceived as a constraint. While many States have land banks and can assemble more land, the provision of quality infrastructure to make these locations attractive to investors, domestic as well as foreign, is a challenge. Long term debt financing at fixed rates is a key requirement. The Central government needs to promote a Development Finance Institution which provides such financing. This has been a gap which can be bridged only by the State assuming responsibility. Market forces on their own are unlikely to meet this need. Further, existing industrial areas across the country have vacant sheds of units which have become sick. A legislation to allow the concerned Industrial Area Development agencies to take over these lands and put them to use by other industrial units would immediately make available a large quantity of land. The receipts from such reuse of these plots could go into a Fund from which the Bankruptcy process can take this money and allocate it among other creditors and claimants when the process reaches finality. Land need not lie unused and idle till then.

There is a misperception about workers in India. The auto industry and its supply chain of auto components as well as the pharmaceutical industry have demonstrated that Indian workers can achieve and maintain international standards of quality. Many MNCs have plants in India which match plants elsewhere, including China, in quality and worker productivity. But there is a challenge, especially with many small and medium enterprises. The Skill Mission has been focusing on the young who are entering the work force. It should give equal priority to the existing work force. Special cluster-based programs for part time training and certification need to be organised. These need to be funded with public money as neither the workers nor the employers may be willing to finance such programs. But the change in culture would be transformative. The Quality Council of India and the National Productivity Council should be used to map current levels of quality and productivity in individual industrial clusters and then set measurable targets of improvement and help in achieving them with partners.

Reservation of many items for production in the small-scale sector was in place before the 1991 reforms. These were usually the labour-intensive sectors like toys. After liberalisation, import duties were lowered before small scale reservation was ended. The net result was that units could not modernise or acquire

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*Special cluster-based programs for part time training and certification need to be organised*

economies of scale and therefore could not withstand competition from imports. In these labour-intensive sectors, India has experienced deindustrialisation. Once manufacturing capacities disappear, they do not come back easily. India needs sector specific policies for getting investments into labour intensive manufacturing. With higher wages in China, labour intensive manufacturing is moving to Vietnam and other South East Asian countries but not yet to India on a significant scale. Government should create large industrial parks with quality infrastructure and potential economies of scale. These could have both domestic tariff areas and Special Economic Zone areas contiguous to each other to get economies of scale. The Special Economic Zone regulations need to change to provide for sale into the domestic tariff area at the lowest tariff applicable with any trading partner.

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This would provide a level playing field for creating jobs for Indians in India. Land along with sheds and even standard machines could also be offered on nominal lease rent to investors in labour intensive industries to begin with. As enterprises succeed, they could pay full rents and even buy out the premises. This would enable start-ups in manufacturing to grow as they have done in the IT space, by making land affordable in the initial phase.

The orthodox free market view of not choosing winners and losers through industrial policy has some application in advanced industrial economies. The UK backed the development of the supersonic Concorde passenger plane which failed in the market. But this is not relevant for developing countries, which are trying to catch up and produce what is already successful in global markets. This is where China's success has been remarkable. As long as a firm was succeeding in becoming a competitive part of any global supply chain in terms of technology and quality, the Chinese correctly took the view that growth should be fully financed and that with economies of scale and movement down the cost curve, the enterprise would also be profitable in due course. If in the process some debt had to be written off and socialised, they considered it worth it.

To sum up, the government needs to first decide on maintaining the real exchange rate and on reducing the cost of doing business to levels comparable to those of our competitors. Then it needs to look at specific policy instruments for a few identified sectors. The policy instruments should have the critical mass to lead to a breakthrough. These could range from imposing safeguard duties, to government procurement of solar panels with full value addition in India, to government putting in equity for a chip manufacturing facility in partnership with Intel or Samsung, to putting in government money in partnership with the India private sector for developing a civilian passenger plane. Ambition and scale are essential for a turnaround and success in manufacturing for a globalised economy and achieving an Atmanirbhar Bharat.

## 6

# Making India a Global Hub for Media and Entertainment

- *Uday Shankar, President-Elect, FICCI, and President, APAC, The Walt Disney Company & Chairman, Star and Disney India*

The Covid-19 pandemic has reminded the world of the significance of media and entertainment. As pandemic-induced lockdowns made us turn inwards, our smartphones, tablets and televisions became the primary windows through which we engaged with the world. When people were forced to remain indoors, they sought more information through news, and yearned for entertainment through movies, shows, and sports. Such has been the impact of Covid-19 on media and entertainment, that it has changed consumption patterns irreversibly. A tectonic shift, which was initiated by the advent of digital technology, has now been cemented by the pandemic.

When I started my career in the media and entertainment industry in the 90s, the industry was constrained by limited reach, limited global connectivity, and limited ambition. It was a time when consumers had to watch whatever broadcasters and creators chose to show them, at a particular time and place. However, in the 21st century, the march of technology has fundamentally changed the relationship between consumer and creator. It has empowered viewers to watch a film, TV show or live match in any language, at any location and a time of their choosing.

The advent of streaming services has shown us the wonders of high-quality content. Animation, post-production effects and VFX, once the preserve of films, is now used extensively in television and Over the Top (OTT) programming. Content creators are increasingly telling stories that are edgy, gritty and push the boundaries of creative expression. OTT services, the most disruptive technological change in entertainment this past decade, are able to serve consumers differentiated content. These market transformations require to be nurtured and leveraged for India to become a hub for global content.

Today, the twin realities of communal and individual entertainment co-exist with each other in perfect harmony. Families can huddle around a TV to watch the Indian Premier League (IPL) and, at the same time, individual members have the choice to stream a series on their mobile phones or tablets. This paradigm shift in content consumption is a cause for celebration because it has created a new culture. An individual's preference to stream a gripping web series is as important as his family's choice to watch the IPL in the evening. A key reason for this cultural transformation is content – the heart of media and entertainment, that has never been as diverse, imaginative or innovative as it is now.

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*Such has been the impact of Covid-19 on media and entertainment, that it has changed consumption patterns irreversibly*  
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Consumer demand is shaping content like never before. As a result, business models that worked two decades ago cannot be expected to work in 2020. Similarly, a one-size-fits-all approach to content is now obsolete. The media and entertainment sector needs to create business models that are nimble, viable and in sync with the digital realities of today. Content needs to be high quality because audiences have become more discerning than they ever were. As a result, it is imperative for creators to know more about the people they create content for. Online curated content providers now allow creators to track user preferences more accurately, using data analytics. They have the ability to show different trailers and advertisements to different audiences, know

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*There is an urgent need to harmonise rules and provide a time-bound single-window clearance mechanism*  
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scenes or points at which audiences lose interest in stories, and can match demographic characteristics to user preferences more closely. Such granular information on audience preferences helps platforms create content that is ripe for export to other countries and, consequently, is an instrument to demonstrate soft power.

India can take a cue from South Korea, a media and entertainment powerhouse, that dishes out Korean TV dramas, pop music and other products that are consumed across the globe. As a result, the world has become more familiar with Korean culture – an example of how cultural exports can become influential instruments of soft power. This is the outcome of a concerted government effort to transform the Korean media and entertainment industries through facilitative policies that encouraged growth. Similarly, national level strategy, that provides directional impetus to State and Central governments, can serve as a springboard for policy reforms in the Indian media and entertainment sector.

Today's market is already in the throes of a technology-led transformation. This must be accompanied with greater simplification and coherence in rulemaking, to enable businesses to unlock efficiencies and value. For instance, States have their own film facilitation units but there is no clarity on how these will work with the Film Facilitation Unit of the Ministry of Information and Broadcasting. Similarly, content production requires permissions to shoot in ecologically sensitive areas, airports, cantonments and heritage sites. Archaeological and defence sites come under the purview of State governments while heritage sites come under the Central government. Consequently, creators spend precious time and energy, shuttling from one office to another to get permissions to shoot at these places. There is an urgent need to harmonise these rules and provide a time-bound single-window clearance mechanism.

A standardised permissions regime will help make India a preferred destination for global content creation. Simultaneously, it will empower creators to make content about the country and present it as an attractive tourist destination. Governments in New Zealand, Hungary, France, and Singapore offer financial incentives such as tax breaks, grants, and subsidies for shooting films in their countries. It helps boost local employment and gives a fillip to their tourism industries. The best-known example is Switzerland, which reported a five-fold increase in Indian tourists after Yash Chopra shot several of his blockbusters in the country during the 90s.

Commendably, the export competitiveness of media and entertainment services is already a national priority in India, since the Union government has now categorised it as a Champion Sector. The entire ecosystem, of which broadcasting is an anchor, holds great potential for employment and value generation. Films, the most export-oriented segment of the AV services sector, earned 14 percent of its revenues in 2019 from overseas theatricals. The media and entertainment sector can help strengthen India's services exports at a time when transport, tourism and other export-oriented industries have been disrupted by the Covid-19 pandemic.

The Champions Services Sector Scheme had set aside funds to promote services exports from India. However, neither have they been used up so far, nor is there any clarity on the implementation. The need is for government to closely work with industry and prepare a roadmap to enhance export-competitiveness and utilise allocated funds to achieve goals. To begin with, an area in which the Champion Sector Scheme can be implemented is skill development. For India to become a media and entertainment powerhouse, it is important that the country's workforce be trained to use cutting-edge technology that shapes the sector. Translation, audience measurement, artificial intelligence and virtual reality are now used extensively in most countries to create riveting film and television content. The day is not far when Indian viewers too expect their media and entertainment sector to create shows and movies, in which these technologies are used extensively. Institutional capacity to build these skills may be developed by fostering partnerships between educational or skilling institutions and industry participants. Such collaborations will aid talent discovery and will be not heavily dependent on government funding.

Export, collaboration, skill development and standardised permission regimes are vital for the media and entertainment sector to flourish. However, its beating heart is creative expression – unencumbered by government and other regulatory interventions. Worldwide, free creative expression and self-regulation has formed the bedrock of a vibrant and diverse media ecosystem. India needs pragmatic solutions which enhance filmmakers' creative freedom, on the lines of recommendations submitted by the Shyam Benegal committee.

Unlike the film industry, television and over-the-top content creators have so far not been subjected to pre-censorship of content. Whilst the self-regulatory mechanism in television is in vogue, stakeholders in the curated online platforms have rolled out something similar recently. For any self-regulatory mechanism to be effective and accountable, it needs to be supported with statutory recognition. One model that can help guide the TV and OTT content industry's efforts is the ASCI model. The Advertising Standards Council of India (ASCI) has a code for self-regulation, to which the Cable Television Network (CTN) has given statutory backing.

Self-regulation is a first step towards creating content standards that can help India be at par with other countries. It will help foster creative expression and, more importantly, improve service standards. Worldwide, services exports are successful only if they

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adhere to international standards of quality and delivery. The same holds true for content and the technology that powers it. If Indian content is to make global impact, the self-regulatory mechanism that governs its creation and underpinning technologies like parental controls must be in sync with international benchmarks. This will result in content that can hold its own against any competition, encourage technological innovations and make the media and entertainment an attractive proposition for investments. Together, these will form the base that will propel Indian media and entertainment to become truly world class.

- C P Gurnani, Managing Director & Chief Executive Officer, Tech Mahindra

One of the most significant statements from the Upanishads (ancient Indian scripture), 'Tat Tvam Asi,' states that individual self and the universal self are one; you are one with everyone else. This, when combined with another powerful statement from the same scripture– 'Ekam Eva Advitiya' - the only one, without a second, forms a powerful message. For India, especially as we aspire to be 'Vishwa Guru' (The Global Leader), the message that gets reflected is - a country which is one with the world but is second to none.

Today, we stand as witnesses to the fact that Covid-19 has catalysed the “fourth revolution” and has driven India's emergence as a digital power centre. India is at a crossover of being categorised as both, a developing and a developed country. Its growth post Covid-19 as a digital vishwa-guru would solely rest upon combining “Bharat” and “India” together. On one hand 'Bharat' produces 'jugaad' – Indian version of innovation, which we have seen time and again, and on the other hand, it is India that needs to pick up on that 'jugaad', combine existing skills and resources for internal and external demands and convert it into sustainable innovation practice, which will in-turn uplift 'Bharat' and make India a 'Vishwa Guru'.

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## How can we become a digital powerhouse?

The pandemic has expedited our technology adoption as well innovation and research. Emerging technologies like automation, artificial intelligence (AI) and Machine Learning (ML) have started integrating into our daily lives, but we have just managed to scratch the surface. India has the right resources and if combined with appropriate policies, we as a nation could be generating tremendous forex. In turn, such a strategy will help improve the economy, that is currently facing strong headwinds.

## Policy interventions for promoting digital

Covid-19 has set the stage for the clichéd, 'baptism by fire,' scenario for the Indian digital industry. Digital services have successfully supported the economy during the pandemic, establishing

themselves as future economic drivers of growth and several countries are looking up to India to offer these services.

The government rightly made it a point to promote digital infrastructure, which was evident, with the Union Budget 2020's thrust on the technology sector. The industry, academia and start-ups eagerly await the proposed digital platform as it will facilitate the application and capture of Intellectual Property Rights (IPR) and contribute to major innovation in the field of Intellectual Property (IP). The Intellectual Property Rights (IPR) platform project will be a key to instilling confidence in the young innovators, the start-ups and investors. It is a prerequisite to set up an innovation ecosystem and a strategy to nurture it. We need not replicate the system of any other country, as India, over the years, has had many successful ventures that have become global benchmarks.

Quantum technology, that promises to change the very fabric of the Information Technology (IT) sector, should be another area of emphasis and the government must start a holistic program for its awareness and implementation. The field of quantum computing has recently garnered significant attention due to progress in building small-scale devices. However, significant technical advances will be required before a large-scale, practical quantum computer can be achieved. An enhanced vision for the digital industry and a liberal policy that aims to push and promote Indian digital firms, will help in achieving the \$ 1 trillion digital economy target much faster. The good news is that India is the second-fastest digitising economy amongst 17 leading economies of the world as India's digital index rose by 56 per cent during 2014-2017, from 18 to 29 on a scale of 1-100.

A priority area for government should be incentivising corporates to set-up collaborative Research & Development (R&D) centres in India. This would push the corporates to invest more in science, technology and R&D at the grassroots level in the coming years. Without this, the digital global leadership would be but a dream.

An aspirational India that aims to become a global digital powerhouse and drive economic development, requires policy interventions, at all levels - domestic, bilateral, multilateral and international institutions. State governments, local administration and individuals will need to align with the policies, that promote economic growth aided by adequate digital infrastructure.

## **Moving towards a reset and recovery path**

We need to broaden the parameters and set targets that define success as we rebuild the economy post pandemic. Whatever the parameters, be it leadership, economy or digital impetus, a country needs to have sustainability at its core and we in India should capitalise on the on-ground insights and data in hand, to build better towards a 'net-zero economy.' The 2030 agenda for sustainable development, adopted by all the United Nations member states in 2015, has been actively supported by India. At its

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core are 17 Sustainable Development Goals (SDGs) and an urgent call to action by all countries - developed and developing in order to form a global partnership. Digitalisation has a great role to play in making each of these goals actionable to achieve a better and more sustainable future for all.

We also need to build on the inherent strengths - a young population that is in the prime of its productive age group, i.e. 15-65 years in India and an education system, that promotes intellectual thinking. By capitalising on this generational opportunity and investing in building world-class indigenous platforms for a large captive local market, India can accrue innumerable economic and social benefits.

The computerised inter-state check posts introduced in 2001 in Gujarat, went a long way towards increasing state revenues and reducing corruption. This system enabled a smooth transition to e-Way bills system introduced after nearly two-decades as part of GST across India in 2017. Bhoomi-Online for online delivery of titles in Karnataka, e-Seva in erstwhile Andhra Pradesh, village information kiosks in Warana, Maharashtra, have all helped in conceptualising Common Service Centres (CSCs) of today. These projects were the first of the many joint public-private partnerships that resulted in the success of e-Governance. Now, this has to be replicated in digital governance, a critical step to push towards an innovation hub. It will be a significant catalyst in achieving the goal of becoming 'atmanirbhar.'

While doing this, India has to keep one eye on its culture and heritage and draw scientific value. Today we have IITs (Indian Institute of Technology) which have converted the Upanishads and Gita onto a digital platform. We are drawing inspiration from our heritage, diverse culture, and languages to chalk out our plan for future. The laws in Vedas are lying dormant for someone to acknowledge and convert into an algorithm and solve issues of global importance.

## **Taking tomorrow's cues from today's trends**

India is the second-fastest digitising economy that can create up to \$1 trillion of economic value from the digital economy by 2025 and we are already on a digital-first trajectory. Covid-19 has accelerated the journey in this trajectory by propelling the cause of contactless digital transactions.

During the last few years, India has seen a massive uptake in digital penetration on the back of the government initiatives like Jan-dhan Mobile Aadhar (JAM), enhanced telecom connectivity and the availability of data at cost effective price points. Post liberalisation, the entrepreneur model had started to take roots but was extremely slow. However, with the recent impetus provided by the government on digital and the steady flow of investments, we have the potential to accelerate start-ups across emerging technologies like artificial intelligence, blockchain, drones, etc. and become a testbed for global innovation.

India is now ranked as the third largest start-up ecosystem in the world, with more than 26 start-up companies valued at more than \$1 billion each. This success has encouraged an interest in digital entrepreneurship as a career path. The positive outcomes of digital that we see today, should be taken as guiding steps to discover new opportunities for tomorrow.

## What makes digital so important?

Technological advancements play a vital role in every sphere of our life; more importantly, it lays the foundation of a new mechanism for enabling good governance. Digital technology has increased productivity, effectiveness, transparency, and quality of service. To begin with, utilities, Banking, Financial Services and Insurance (BFSI) sectors have been a life saver during the pandemic. The government focus on self-reliance with a global outlook has also led to a number of Government-to-Citizen (G2C) services getting activated during this time.

As the world moves towards a digital economy and the future unfolds, India's digital prowess and its experience will help create opportunities, open new horizons and reinforce its credentials as a global digital powerhouse. In Asian and African markets, vast business opportunities await Indian software firms and start-ups for standalone and collaborated efforts. It has been proven beyond doubt that the successful experiments and tests undertaken in India, have been easily replicated in these two divergent markets. The global market is moving towards the next leap where technologies such as 5G, artificial intelligence, machine to machine, robotics and bioinformatics could be applied across services in any sector, making technology the common denominator.

Digital is changing business models and its adoption is inevitable today for every business as innovation is the key to survive and grow in this emerging ecosystem. Digital transformation is an enabler for new business models and out of the box solutions in order to experiment and develop customised products and services for existing clients and also to add new clients to the portfolio. A digital marketplace enabled by robust connectivity can accelerate the pace of connecting producer to the end customer. We can already see digital creating disruption in various industries and sectors, for instance, in the newspaper industry, we can now see that digital subscription is becoming a major revenue contributor. Automobile makers are exploring ways to go fully digital for design and manufacturing, agriculture sector is depending on digital for highly productive and optimised functioning, and health industry is finding new ways to treat patients through digital, new avenues are opening up in education sector using digital modes of teaching. All these varied business models are opening up unique opportunities for Indian IT firms, that have the domain knowledge, to provide the necessary support to these sectors in the form of services.

## India to be the 'World's Digital Hub'

The Indian IT industry is considered one of the best in the world and has the potential to transform into a regional office for many companies in the Asia-Pacific region. Added to this, is the considerable potential of skilled workforce existing in the country and flow back of Indian scientists to pursue research opportunities. The ecosystem has developed with Covid-19, and this will stand us in good stead.

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*A digital marketplace enabled by robust connectivity can accelerate the pace of connecting producer to the end customer*  
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One of the positives that makes a nation economically stronger in the world market is reduced dependence on imports. Domestically researched and developed products, systems and process, not only reduce the dependence on imports but also provide strategic flexibility to corporates and government, as it is a critical aspect of bargaining in the global geopolitics. Robust, reliable, and quality electricity has ensured that a vast amount of server farms can be set up in India's non-agricultural lands. It can give a fillip to the real estate in India, that is also offering customised co-working space and many of these workspaces are equipped with the highest levels of security and standards that global customers require in order to manage their back-office functions.

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Covid-19 is India's second Y2K moment from where we are skyrocketing towards a digital economy leadership. The path to being a global leader will no doubt be filled with challenges and hurdles, which we will jump across using our collaborative wisdom.

The foundations of India remain stable and robust in the form of a vibrant democracy, a streamlined federal structure, a young workforce, digital prowess based on the successful planning and execution in different sectors and a growing economy with visionary policies. Let there be no doubt in anyone's mind, that India is on its way to seek its place as a global leader.

## The Next Digital Leader – Turning India's Dreams to Reality

- *KR Sanjiv, Global CTO, Wipro*

- *Rahul Shah, VP and Business Head, APMEA, Digital, Engineering, Applications, Wipro*

India has played a big role in galvanising “The Digital Revolution” that has swept the world and has an extraordinary opportunity to capitalise on this revolution. The digital revolution is already transforming many aspects of businesses and even whole industries. The current wealth of talent@scale that India possesses, consumption of the rising middle class, new data economy and global geo-political alignment among major economies create the perfect occasion for India to disrupt itself and capitalise on the digital opportunity. On the other hand, failure to do so will set us back by many years and possibly centuries, similar or even more pronounced than the outcome of the industrial revolution.

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For the purpose of this article, let us first define the scope of “Digital capabilities” into 3 types:

1. Product Capabilities around Digital Engineering that enable digital interventions e.g. Cloud, Artificial Intelligence, Blockchain, Robotics, Quantum Computing, Augmented Reality / Virtual Reality and associated platforms.
2. Product Capabilities that enable digitalisation of processes e.g. BPM, Customer service, Customer Engagement, People collaboration and even Commerce.
3. Product Capabilities that bring together the ecosystems e.g. Apple (bringing apps solving multiple problems), Facebook (bringing people, information, news together) Uber, Airbnb, Makemytrip, Amazon, Ola, Urbanclap, etc.

A quick glance at market capitalisation data of S&P index reflects that 24% of the top 100 firms in S&P index are in the above 3 categories. More importantly, they accounted for nearly 50% of the market cap of S&P 100 including more than 10% uplift in the last 9 Covid-19 months!! Many of these firms are leveraging the Indian consumption story and their market value significantly gains due to India's consumption. Many of these firms also leverage India for their key raw material – talent.

This presents an enormous opportunity to build value in the Indian ecosystem and merits a deeper analysis of some of the challenges and thoughts on how to overcome some of them.

First, the reference point of “big-ticket dollar value realisation” of Digital ecosystems/ platforms/ products in western economies has been observed to have limited significance in developing economies like India. In a country like India and emerging markets, low-cost solutions are required that will have a high-impact and benefit a large number of people. The axis of value realisation needs to shift from “human effort reduction” to visibility, compliance, safety and trust, obviously on a massive scale. This shift of value axis will enable a starting point for the entrepreneurs, enabling them to build scale even at lower price points. For eg: an authenticated copy of the land record is required by the farmer for accessing finance, another copy is required for accessing subsidised agricultural inputs and in some cases even for selling the crop. Another interesting observation is - Indian courts are clogged with millions of land and property disputes. Digitising the land records and building a digital platform that leverages this digital system is already witnessing a revolution in majority of the Indian States. Digital ecosystems/ platforms/ products of the future need to offer empowerment, scale, trust and safety. This will make such business models attractive for the investors community and generate billions of transactions.

Second, there is a huge gap and an opportunity for India-specific challenges that need to be addressed. It has been observed that digital firms that are successful today started by solving problems of masses in their respective countries and then launched their offering globally. Some of these offerings are brought and replicated in India, however such offerings do see adoption but there are limitations. Access to healthcare, access to education, access to clean drinking water, waste management, public transportation are some of the challenges where we need to fuse the context of “the Indian masses” problems, as experienced and expressed by some observant, expressive and analytical talent from the masses. This can be done with the technology, design and strategic capability of the experienced talent we have in the country. This also requires building a stronger pool of talent within the masses. For instance, the unique context of issues surrounding access to healthcare requirements can be best expressed by someone from the hinterland of Uttar Pradesh. If we bring in some brains who have worked across Artificial Intelligence and Augmented Reality/ Virtual Reality, create a fusion with these people, it will enable us to create multiple innovations.

To overcome the above two challenges, the Indian ecosystem needs to look at the “value realisation” from these products and platforms. Such products and platforms designed and developed for Indian consumers could serve the blueprint for much of the developing world and in some cases even the developed world. If these offerings can solve the problems for diverse customers in different languages and culture settings in India with the ability to customise the customer experience, they are likely to find takers in other geographies. Also, there is a gap that needs to be filled in the investors community who can provide long-term funding for such companies investing in ecosystems/ platforms/ products.

Thirdly, India needs to have a simplified regulatory ecosystem. An innovator or an entrepreneur needs to focus on the core proposition, rest all needs to be a frictionless experience including

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land, electricity, clearances, registrations, bank accounts, trading documentation, access to contacts and resources globally and even funding. This, however, should not lead to any compromise on integrity and compliance. The present regulatory environment for start-ups in India is still difficult despite many interventions made by Indian Government in the recent past. While India's ranking on World Bank's Ease of Doing Business index has improved to 63, India's ranking on starting a new business is 136 and registering a property is 154 out of 190. Hence, many VC's want Indian start-ups to get incorporated in the US or Singapore to get funding due to ease of doing business as well as trust on compliance in these countries. In India, we also excel at Frugal (or Jugaad) innovation, which is basically a frugal, flexible way of thinking about innovation. This is also because of the need to eke out efficiencies on the face of intense resource constraints. Great in its own way, but not ideal for truly novel ideas and not enough to make India a digital powerhouse. We need to change this.

Fourth challenge is availability of bright minds to build a core senior and middle management team. On one hand, India is a country of entrepreneurs, while on the other hand, some of the best brains in the country in context of digital innovations, particularly from top engineering and management colleges, either make their fortunes outside India, or prefer to not take entrepreneurial risks. We need to dig deeper into this contradiction. We have observed a few trends though. Entrepreneurship in India is more skewed towards trading and commerce as compared to digital. It is also a more dominant pattern amongst people who are not trained deeply in technology, which is an essential requirement for digital businesses. Further, for the best technical brains, there is a societal stigma associated with “exploration” as compared to “stability”. They would also rather play safe and be comfortable than taking financial risks or facing challenges on the ground for things that otherwise are easily made available to them in the corporate world.

Let us now explore what are the possible actions for overcoming the challenges mentioned above, including an evolved strategy at a national level, to capture this value. Some of these might already be on the way and might need acceleration, many might need to be seeded and scaled up.

Firstly, like the US government spent heavily in road infrastructure during the great depression, the Indian government needs to unleash its vast scope of digitalisation opportunities and invest heavily in the digitisation of public records and end-to-end digitisation of processes including smart interfaces. While the pandemic has created a massive shock of the 'Black Swan' type, it may on the other hand act as a catalyst for digitisation in the country. According to the latest Mint-Bain India CEO Survey, nearly 85% of CEOs expect a transformational or significant change in industry structure, especially in terms of disruptive innovation, new business models and changes in consumer habits. Earlier, we had taken examples of digitalisation of land records but there are many more opportunities. E.g. Adar Poonawalla, CEO of the Serum Institute of India (SII) raised concerns about vaccine distribution in India given the country's poor cold chain infrastructure to transport the vaccine safely to its 1.4 billion people. Various solutions exist in the market (such as Wipro's

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Titan Secure) that can digitally transform cold chain management in the pharma industry, but they need to permeate at population scale to make a difference. Another area that India needs to truly transform is our painfully slow justice system. India's ranking on World Bank's Ease of Doing Business Index in enforcing contracts is 163/ 190. This is already in the works with national e-courts being launched. The apex court itself is monitoring initiatives related to e-servicing of processes, auto-fetching of data from police records, the live streaming of judicial proceedings, etc. On top of this, digital enablement for tourism, making every place details available digitally and enabling tourists to plan their journeys, raise complaints & queries, collaboration opportunities similar to governments call for Zoom equivalent ideas recently,

workflow management, service management, et al. We should become a “digital first” nation for solving every problem. This will provide entrepreneurs with enough domestic opportunities so that they can build the base platforms and become stronger for expanding thereafter to global markets. India should be giving the world the dominant platform in multiple areas, the uber for land records management and the next salesforce to legal system management or incident management, the next zoom for collaboration.

Secondly, government should create and enable Digital platforms which are truly inter-operable and which can be used to build commercial applications. The need is for “platformisation”, which would act as a foundation for building digital ecosystems in the country, while enabling both public and private entities to collaborate in building new solutions while enhancing user experience of the citizen/ customer. Such a nation-wide, but shared infrastructure, for instance India Stack (a set of APIs) allows governments, social bodies, commercial establishments and start-ups to work on solutions that would provide services in a presence-less, paperless, and cashless model. But in all this excitement, we need to be cognisant of the challenge that a diverse country like ours puts forth, with various Central and State Government, ministries, departments, and the very many projects, policies and initiatives. To truly open up the power of such massive platforms, interoperability between these systems is an absolute necessity. Imagine possibilities - of better citizen services as well as commercial monetisation, if our public entities (such as the Indian Railways, FCI) could seamlessly work with agri-based companies, Blockchain start-ups and millions of farmers to combine supply and demand data to work towards innovative supply-chain solutions. Similarly, what if the Skill India initiative was to join hands with the construction industry to help labourers and masons build skillset in demand, improve mobility options, get fair treatment and wages. The possibilities are many, but this will need strong governance and privacy structures in-build into the platforms.

Thirdly, we can set up educational institutions and/ or Centre of Excellence (CoE) at these educational institutions where the only outcome is Start-ups. These would have the tech gurus, external faculty who can guide, plus instead of placement, you have VC's looking at the ideas, helping students refine

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those and finally funding those. Even if they fail, they would have real world experience to get jobs. In parallel, we should expand the reach and presence of these initiatives to the hinterlands, which is where we will find problems of our masses. Just as fresh MBA's, CA's, Engineers use their Alumni network, campus recruitment opportunities, technology tools like LinkedIn – can Masons, Anganwadi/ASHA workers and health workers access platforms or registries that act as repositories of their experience, documents, certifications and accreditations in a trusted manner? Can they be alerted to opportunities to extend their skill and be rewarded for learning higher skills? Can they connect easily with job providers or access mentors (like LinkedIn's Career Advice, a feature that helps connect members across the LinkedIn network with one another for lightweight mentorship opportunities). Talent amongst the masses may not have the best of training around digital technologies, but they can be leveraged for design, contextualisation, while AI, Cloud and other capabilities are fused through a set of experts. We should also explore how to make seed funding available in our academic institutions. After all, they are a melting pot of talent, academia, research, corporate and at a phase of their lives where risk taking can be done at a lower opportunity cost. At their stage, given that many come from small cities and towns, they also carry a deep context of problems of masses.

Fourth, recently, various incentives and policies have been laid down by the Government of India (GoI) as well as by various State Governments. Funds have been released or set aside at record levels, incentives proposed, new policies are in place or suggested, for among other things – space research, AI, software development & technology, R&D, renewable energy, etc. The GoI is extensively promoting research parks and technology business incubators which would promote the innovative ideas till they become commercial venture. Similarly, “Start-up India” has been a fantastic initiative and the States like Karnataka have done a lot to support start-ups e.g. Elevate, 10,000 Start-ups, etc. We can potentially strengthen these programs further and expand their impact. They are invaluable for early stage start-ups. We should take feedback from the beneficiaries of these incentives and explore opportunities for further making the world of entrepreneurs and innovators frictionless. This might include creation of bodies that become one stop shop across the entire government ecosystem for entrepreneurs. Similarly, an ecosystem of VC's, successful entrepreneurs and angel investors should be brought to their doorsteps. Recently, there was an ask for removing LTCG on investments in start-ups. That apart, lending for digital can even be categorised as priority lending for the banks.

Fifth, we need to find ways to get the best brains back or encourage risk taking amongst the senior management talent in our corporate world. In this area, there is much desired from the corporate world as well. They should provide a safe space, funding and availability of infrastructure as well as technology capabilities for the senior talent to come up with ideas and take them forward. Government on their part can provide tax incentives, e.g. if a seasoned professional takes up an initiative, government can pay back the last 5 years of his or her taxes paid as a salary. Perhaps, if they fail, they get access to the best jobs in the government sector.

Let us close by reiterating that the current era looks like a repeat of the happenings around the industrial revolution, nearly 250 years back. At that time, we had the raw material as well as the demand, except that this time, the forces are much faster. It took a long cycle for cotton to be exported

from India to the western world, production to happen and produce be brought back to India. The cycle of digital including leverage of talent, building out of the capabilities and then consumption of these at scale, is much shorter, a fraction in-fact. The only entry barrier to it can be provided by the government. However, if there are no alternatives to consumers, the way we had in the form of home-spun clothes, even that barrier will be fruitless and we would be subjected to another era of digital colonialism, for lack of a better word. The timing could not have been better. India ranks third among the most attractive investment destinations for technology transactions in the world. She ranks 6th in scientific publications and ranks at 10th for patents which included only resident applications. With 560 million internet users and 450 million smartphone users, there is a fertile ground established. We now have 26 start-ups valued at more than \$1 billion, providing exemplars. We have an unrivalled youth population (more than 65% of India's 1.3 billion people are under the age of 35, with more than 50% under 25).

We need to act fast and with strong intent.

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*We need to find ways to get the best brains back or encourage risk taking amongst the senior management talent in our corporate world*  
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# Financial Sector Reforms Agenda for India's Economic Revival

- Ashima Goyal, Professor, Indira Gandhi Institute of Development Research

Government and Plan driven resource allocation had created stagnation in the pre-liberalisation period. Therefore, reform to facilitate non-discretionary allocation through markets and financial institutions was necessary. The country sought to move from cronyism that discretion gives rise to, towards transparent regulated markets. This direction of reforms has to continue.

But tightening following the excesses and scams of the post global financial crisis (GFC) period created a trust deficit. There were valid moves away from giving individual favours towards improving business conditions. But in a large external shock like Covid-19, aid from the government and regulators can apply balm to current as well as old wounds, revive trust and help society pull together once more. The experience of the last decade suggests a delicate balance is required between discipline and support.

Moreover, large outflows following Covid-19 underline again that over-dependence on profit motives, capital flows and markets is dangerous. They also have weaknesses. Better regulation and corporate governance is one pre-requisite. Good regulation, however, has to have counter-cyclical features. It cannot afford to ignore systemic spillovers.

Diversity also makes for safety in the financial sector. For example, in equity markets contrarian moves by domestic financial institutions and continuation of SIPs by domestic households, reduces volatility due to global risk driven foreign equity flows. Liberalisation to foreign capital therefore has to be gradual and move in step with domestic market deepening.

It is useful to classify financial reforms required under some principles below:

## Diversity

Financial markets are subject to herd behaviour. Market participants tend to hold similar views and follow similar strategies. This results in too much of one-way positions and volatility. Moreover, India has a very heterogeneous population with diverse needs. Diversity in financial institutions and instruments is required in these conditions.

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*Liberalisation to foreign capital has to be gradual and move in step with domestic market deepening*

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For example, public sector banks (PSBs) are essential for financing small enterprises and other development tasks, although over time if the government credibly moves to paying for these activities, private banks may also do them. They currently focus on retail lending where concentration risks are emerging and should be encouraged to diversify their loan book.

Apart from banks differentiated by ownership, narrow banks, small finance banks, payment banks, venture funds, exchanges, fintechs, non-bank financial institutions (NBFCs), rating agencies, markets, market institutions, supporting legal institutions and finance professionals, valuers, asset reconstruction companies, the whole symbiotic financial ecosystem is developing and needs to be encouraged as well as regulated.

For example, if asset reconstruction companies (ARCs) work well, a bad bank is not required, for resolving stressed assets. Scarce government funds are better leveraged for new assets. ARCs have matured, their numbers have increased, and new entry continues. First, due to the 2018 reform moderating the Prevention of Corruption Act (PCA) so that commercial decisions will be investigated only if there is evidence of disproportionate assets and second, since levels of provisioning for NPAs now are high, PSBs are more willing to sell to ARCs or go for one time settlement (OTS). Also ARCs have liquidity again, allowing a larger component of cash, which is more acceptable to sellers.

The Indian bankruptcy code (IBC) has delivered but unfortunately the legal process is taking too much time. This has to be remedied as well as resolution alternatives developed. Under the IBC so far, there has been much more liquidation, that destroys economic value, compared to resolution that preserves and enhances it. The priority must be to recycle assets quickly. Apart from building more skills and capacity in the legal system to reduce delays, the possibility for a minority to get stays and create hold-up must be reduced.

The IBC has improved credit culture both on the sides of borrowers as well as of lenders. Promoters realise they have to repay or stand to lose their assets. The threat of IBC is working to bring agreement on resolution. Banks realise they have to make risk-based lending with proper underwriting otherwise provisions for NPAs will reduce the profits on which they are now judged. They are conscious of exposure risk.

## Corporate governance and transparency

Improvements in corporate governance for PSBs, private financial institutions as well as corporates are critical for financial markets to work successfully. Full corporate disclosure would reduce credit risk in bond markets. Poor corporate governance and disclosure were partly responsible for the problems at IL&FS.

There are signs of better governance overall and even in PSBs, Net NPAs have fallen to low levels, they have made good recoveries using the IBC and their boards are stronger and more independent. The process must continue.

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But corporate failures after IL&FS resulted in multiplying compliance requirements. Too much responsibility is put on Boards to check all this, leaving them little time for strategic thinking. Recent moves towards centralising information across regulators are in the right direction. It should logically lead to one compliance window, with use of technology to automatically populate standardised information fields.

Just as in the modified PCA, a distinction should be made between a commercial decision and a criminal act. The Companies Amendment Act 2020 changes certain criminal compoundable offences into civil wrongs carrying civil liabilities. Awareness of these changes is low as of now and will, over time, improve confidence.

Independent directors are not held personally liable in any country. Since their comparative advantage is primarily in giving advice, such liabilities should be reduced here also. Regulators should upgrade to specialised high-skill big-data based supervision departments, together with random inspections to keep entities on their toes, without too much disruption.

## **Infrastructure finance and asset liability mismatch (ALM)**

Asset-liability mismatch has created many problems for the Indian financial system. Since infrastructure assets pay off in the long-term, they cannot be financed by the short-term liabilities of commercial banks. Concentrated exposure and decision making in banks has led to a realisation of the importance of well-functioning corporate bonds markets for long-term finance.

Suggestions on domestic reforms to invigorate the corporate bond market include rationalising stamp duty, incentivising development of market makers, permitting pension type funds to invest in such instruments, taking measures to reduce the cost of issuing (e.g. simplifying disclosure documents for debt investments) and creating credit enhancement mechanisms. Fixed income mutual funds and bond ETFs for wider holding of bonds and channelling of household savings are part of the ecosystem that is required.

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*Concentrated exposure and decision making in banks has led to a realisation of the importance of well-functioning corporate bonds markets for long-term finance*

Along with reviving the corporate bond market, over the longer-term a modern development finance institution (DFI) should be set up for infrastructure financing. The DFI, on the lines of the Chinese and German Development banks, should have substantial government equity, then invite private investment with an independent, accountable, and professional board.

Infrastructure projects must be made bankable by making regulator set user charges mandatory. Maybe electricity should have a central regulator with a department for each State. Pricing power must be taken away from States. Then no one will expect this form of political patronage. Just as now, there are no protests when petrol prices are raised. States are free to provide subsidies to select groups but everyone must pay for services used.

A fallout from the plans plus populism that characterised India's pre-reform growth is persistent strain in government finances.

Massive government investments earned negative returns and populist expenditures also added little to productivity and revenue growth. But large assets created can be monetised to allow more externality creating spending such as on infrastructure.

Government debt must also be more widely held. Retail of G-secs will provide households with a well understood secure savings instrument, before they begin to trust fixed income funds. Inflation indexed bonds may help them migrate from holding excessive gold.

## Products

Interest rate futures (IRFs) have to develop to lay off interest rate risk. Policy interest rate surprises and homeopathic doses of interest rate volatility would create a demand for IRFs. Repurchase in corporate bonds, wider holding of G-secs, a gradual reduction in held to maturity (HTM), and more active trading in G-secs would create more users of IRFs. Development of one segment would encourage other segments.

Maintaining competition together with high standards in a network for profit industry such as exchanges will force them to create products and strategies to expand the current narrow user base—creating the best outcomes for users. Self-regulatory standards are important. Exchanges did demonstrate greater stability and transparency during the GFC.

With today's multi-product financial companies beginning to offer financial services, better coordination across regulators is also essential. The financial stability and development council must be activated for such coordination.

For financial inclusion, Jan Dhan must be expanded to a bouquet of financial services meeting household needs such as insurance. Mobile based access and products can offer deep penetration.

## Foreign exchange markets

Bank for International Settlements reported that Indian FX markets had the fastest growth rate among world markets although this slowed down after the GFC. Even so, FX markets are still thin; large spikes can occur without central bank intervention, especially given large capital movements in a currency that is not fully convertible. Since FIIs were still not allowed indirect hedging, the offshore market, which had provided them a hedging venue, grew and by 2011, exceeded the domestic market.

Policy should strive for stable market development with the gradual removal of restrictions. Two-way movement of exchange rates, with movements limited to a moving 10 per cent implicit band will help develop markets and create the hedging habit.

## Regulation

Financial regulation tightened and modernised considerably. Regulatory sandboxes are available to encourage innovation. Principle-based regulation gives operational freedom. Rule-

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based regulation has detailed multiple compliance requirements. India moved towards the first after the reforms, but when a large number of frauds occurred, it reverted towards the second. Delegating more monitoring to Boards is consistent with the first, since Boards are well-suited to interpret principles and policies. But, as regulators moved towards the second, Boards are being forced to operate as compliance checkers. A via media is principle-based rules, where a few rules with good incentive properties are enumerated, removing the necessity for detailed rules.

Pre-GFC, for example, entities took advantage of principle-based regulation to create excessive risk. The own-assessment-of-risk-based capital buffers of the pre-crisis banking regulations, Basel II, allowed strategic use of number of years' data in VAR models so that capital required varied widely for similar exposures. Even so, Basel III largely continues this approach although it has increased the share of equity (core or tier I capital) against risk-weighted assets to 7% and added other liquidity coverage-type regulation.

It also for the first time restricts total leverage through a leverage ratio requiring 3% of equity against total assets. But this is still generous in capping leverage at 33.3 times. A 3% fall in asset values would wipe out equity making the bank insolvent, or putting the burden on the tax-payer.

Different types of macro-prudential regulation such as loan to value ratios can cap leverage at a level below the leverage ceiling derived from the level of capital held and the leverage ratio. These simple macro-prudential type regulations are examples of principle-based rules. They are simple, counter-cyclical, can be applied universally and improve incentives to reduce risk-taking. Since they can also be applied to shadow banks they are less subject to arbitrage than principle based regulation, while avoiding the cumbersome detail of rule-based regulation. Therefore, they should make it possible to economise on capital buffers.

Emerging markets use more of macro-prudential regulation although advanced economies are also increasing its use after the GFC. But still, Indian regulators implement more than the required Basel III capital buffers, since although the BCBS is a 'comply or explain' not a 'comply or else' framework, markets may regard any deviation unfavourably. This is unfortunate since Indian credit deposit ratios are much below global averages and need to increase. Although NPAs might be high, leverage is much lower than for international banks. A trade-off should be worked out between different types of regulations.

**Systemic risks:** Since individuals do not take into account systemic spillovers from their decisions, cyclical risks build up. Countercyclical prudential regulations that increase the long-term cost of giving credit during booms and reduce these costs during busts are therefore required. The focus should be on preventing risky behaviour rather than on the loss-absorbing or shock-insulating role of buffers.

While they should be countercyclical, loss-absorbing capital buffers are often built up in bad times, hurting recovery, and neglected in good times. De facto buffers tend to be pro-cyclical.

Indian bank leverage is lower than the regulatory cap because of macro-prudential regulation such as counter-cyclical provisioning on credit to some sectors, position limits and limits on exposure to different types of risk, high statutory liquidity ratios to finance government debt and other types of

taxation. India was a pioneer in using counter-cyclical macro-prudential regulation before the GFC. When Indian real estate prices rose, a counter-cyclical rise in provisioning for bank housing and commercial real estate loans was more effective than changing risk weights, since provisioning affects the profit and loss account of banks. But in recent years, prudential regulation has also become pro-cyclical.

Such counter-cyclical macro-prudential regulation reduces risk-taking even without large pro-cyclical capital buffers, or leaving open the possibility of arbitrage through strategic use of risk weights. A better combination of financial stability and financial innovation then results.

Moreover, financial systems in EMs tend to be bank dominated, and banks and their lending has to expand with development, even as other legal, governance, and market reforms occur. Therefore, a solely bank-focused reform programme hurts them disproportionately, while the neglect of shadow banking and liquidity creation hurts them again through capital flow volatility. These issues should be taken up in global fora.

**Spillovers:** Extreme pro-cyclicality in financial regulations and macroeconomic policy, as well as a liquidity window restricted only to banks, led to a sharp fall in output and credit after the IL&FS collapse. Corporate failures followed creating extreme risk aversion and spreads rose in the market. It is ironic that inflation targeting was introduced in order to help the corporate bond market develop but its over-strict implementation with macroeconomic and sectoral liquidity tightening severely hurt the corporate bond market.

As the Indian financial system diversifies, the lender of last resort function has to be more widely available. A repo in corporate bonds is required.

Easing of financial conditions that had delivered a turnaround in February 2020, could do so again after the Covid-19 shock. The financial system was on the path to recovery and the further reversal of tight financial conditions with Covid-19 is helping also—NBFCs are now able to borrow with the fine-tuned government partial credit guarantee.

In most of the world, new liquidity infusion is following quantitative easing that drove up asset prices. There are risks since credit is based on leveraging asset value. A collapse of stretched asset values can create a large financial shock. Deleveraging can reduce demand. But in India, there is the opposite problem. Credit growth has been very low, so a loosening of financial conditions can help asset values recover.

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*As the Indian financial system diversifies, the lender of last resort function has to be more widely available*

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- Injeti Srinivas, Chairperson, International Financial Services Centres Authority

At a time when the whole world is struggling with the negative socio-economic impact of Covid-19 pandemic, India is no exception. The public health systems across the world are deeply stressed and unable to cope fully with the pandemic situation notwithstanding the valiant efforts made by some countries including India, to develop a vaccine to counter the disease. Both supply side and demand side of economic activities have got severely disrupted leading to an economic slowdown across the world. India's own GDP has contracted by 23.9% in the first quarter of FY21, which has derailed Government's revenue projections. The existing fiscal stress on account of Coronavirus bailout packages announced by the Government of India, amounting to more than Rs 22 lakh crore, has got further accentuated due to steep shortfall in revenue collection.

At the macro level, domestic savings have declined, leading to a downward effect on investment and growth. This has resulted in increased government borrowing, revised upwards to Rs 12 lakh crore, 50% up from the original target, which could to some extent crowd-out sources of credit for the private sector. Adding to that, the sharp increase in non-performing assets (NPAs) in banks and other financial institutions has affected availability of credit in general. Of course, RBI and government have taken several measures to improve credit flow to industry, especially MSMEs. These include liquidity improvement measures of RBI, and credit guarantee, credit enhancement and other such measures by government.

While the story is similar across the world, sovereign funds, pension funds, endowment funds and high net worth individuals are reviewing their investment strategies for the purpose of safety of their capital as well as for better returns. This has got more pronounced in the light of current geopolitical developments. All these factors put together have created a unique window of opportunity for India to position itself as a preferred destination for international capital flows, be it for Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) or Foreign Venture Capital investment (FVCI). The need for foreign capital to bridge the saving investment gap has never been more than what it is now. The present circumstances have also created strong tail winds to propel GIFT City International Financial Services Centres (IFSC), the maiden IFSC of India, as a global financial centre.

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*The need for foreign capital to bridge the saving investment gap has never been more than what it is now*  
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The vision of GIFT IFSC is to emerge as a major global financial centre, connected to global markets, with primary focus on India's economic development. In order to achieve this, GIFT IFSC has to develop as a well-diversified and globally competitive hub for international banking, insurance and capital market activities through a pro-business environment duly supported by a modern regulatory framework, state-of-the-art infrastructure (including market infrastructure) and talented financial professionals, which together serve both Indian economy and the region as a whole.

When we talk about IFSCs, they can be broadly categorised into three groups. First, the traditional IFSCs such as New York and London, which have had a long history of economic dominance. The second type of IFSCs relate to global tax havens such as Mauritius, Luxembourg and Cayman Islands. The third types are a hybrid of these two such as Singapore and Dubai. Many of emerging IFSCs fall at different points on this continuum. The GIFT IFSC aims at adopting the best governance structure existing in traditionally dominant global financial centres and at the same time offering both ease of doing business and an attractive tax regime.

It may be noted that there are two unique advantages which India enjoys, namely, a large and fast growing economy and an influential 18 million strong Indian Diaspora, with an estimated net-worth of around USD 3 trillion. The International Financial Services Centres Authority (IFSCA), as the unified regulator responsible for both development and regulation of financial products, financial services and financial institutions, aims at leveraging both these advantages in its efforts to make GIFT IFSC a global financial hub.

The twin objectives of IFSCA are to make GIFT IFSC a dominant gateway for capital flows into and out of India, and to make the GIFT IFSC an investment destination by providing an efficient financial platform for various financial products and services. At present, bulk of international financial services originating from India such as corporate treasury activity, raising of external commercial borrowings, INR-USD derivatives, reinsurance, aircraft leasing activity etc., are being mostly performed in offshore jurisdictions such as Singapore, Dubai, Mauritius, Dublin, etc. Therefore, to achieve our vision, it is imperative for IFSCA to provide a modern regulatory framework, which balances innovation and risk mitigation complemented with ease of doing business based on a single-window approach. It would also have to make proactive efforts to develop 'connects' with major financial hubs across the world. The effort has to be bringing back to India such business which rightfully belong here, apart from serving the region as a whole (especially South Asia) by providing a progressive regulatory framework, simplified processes, attractive tax regime and a comprehensive ecosystem.

Some of the measures which are being envisaged include - promotion of GIFT IFSC as a hub for Alternative Investment Funds(AIFs); introducing Aircraft financing and leasing activity; establishing an International Bullion Exchange(IBE) for bullion spot trading, including trading in bullion depository receipts with underlying bullion; promoting a Fin-tech hub; promoting the establishment

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*The vision of GIFT IFSC is to emerge as a major global financial centre, connected to global markets, with primary focus on India's economic development*

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of Global In-House Centres of global financial institutions; and product diversification in the two International Exchanges by including REITS, INVITS, ETFs, MFs, etc. Each of these initiatives is expected to have significant multiplier effect.

At present, a large number of India centric pooled funds are located in Mauritius, Singapore etc, which can now be targeted to relocate to the GIFT IFSC through appropriate regulatory framework, tax regime and other incentives. This would be a win-win situation for all stakeholders, as it would cut down layers of intermediation and bring in more efficiency. Special efforts are necessary to create an efficient platform for SME funding, trade financing, infrastructure funding, green finance, innovation financing and impact financing. There is immense potential to promote Aircraft financing and

leasing, as India has become the 3rd largest domestic passenger market in the world and is expected to overtake the United Kingdom to become 3rd largest in the combined domestic and international passenger market by 2024 (from its current 7th position). The growing passenger market has led to increase in the demand for leased Aircrafts to 1100 by 2027, which is reflective of the rapid growth in market size. As per a market research study, global Aircraft leasing market size is expected to touch USD 62 billion by 2023. At present, more than 50% of Aircraft leasing market is concentrated in IFSC Dublin, which includes the demand originating from India. The aim should be to redirect this activity to GIFT IFSC, which would also promote the growth of MRO (Maintenance, Repair and Operation) business in India. The global MRO market's estimated growth is USD 45 billion.

There is a proposal to set up an International Bullion Exchange (IBE) in GIFT IFSC. Today, we have no Bullion Exchange in the country and there is no single regulator for the precious metals. Even though India is the second largest consumer of gold in the world, it is unable to exert any influence on the international price of the gold. In the absence of a modern gold market, there are lot of inefficiencies in terms of price discovery, assurance of quality, etc. The IBE will not only address those deficiencies but it would also lead to greater integration of gold with financial markets. It will facilitate efficient price discovery through a transparent trading platform and promote assurance of gold quality. Further, it would also create a channel for gold recycling through accredited refineries for recycled gold to trade as exchange.

It is also proposed to develop a Fin-tech hub at GIFT IFSC, as India is a frontrunner in information technology and has 3rd largest number of start-ups in the world. Hence, we are ideally positioned to promote GIFT IFSC as Fin-tech hub by adopting a regulatory sandbox approach. Finally, the promotion of Global In-House Centres of financial institutions will lead to much needed employment generation, which, in turn, would have its multiplier effect on the city's social infrastructure.

In conclusion, we strongly believe that IFSCs will form an important part of India's growth strategy to channelise global capital flows to meet some of India's need for external capital. In short, it can be the second engine for the Indian economy and catapult it into a higher growth strategy.

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*We are ideally positioned to promote GIFT IFSC as Fin-tech hub by adopting a regulatory sandbox approach*

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- *Rajkiran Rai G., Managing Director & CEO, Union Bank of India*

Banking industry in India has evolved in line with economic transformation of country post-Independence, both enabling and benefitting from rising prosperity. It has seen through a lot of challenges, weathering economic and political cycles as also financial crises. Indian banking has emerged stronger, varied and democratic with enhanced network reach and penetration among social strata. Public sector banks (PSBs) helped democratising financial access and Nation building through funding enterprise and infrastructure post Nationalisation. Rising competition from new generation private sector banks (PVBs) and non-banking financial companies (NBFCs), meanwhile, helped raise overall service standards in industry while lowering the cost of financial intermediation. There are calls, however, for Indian banks building scale, both organically and inorganically, to match India's global aspirations. Balancing these imperatives, at times even conflicting, remain central to India's quest of building an inclusive, responsive and responsible banking industry for the decade ahead. More importantly, the reform agenda has to remain sensitive to Indian realities, and not just be replicated from developed economies' experiences.

This article attempts to bring out the reform agenda on seven key aspects of Indian banking & finance. These include:

## I. Reconciling competition and scale imperative

Covid setbacks notwithstanding, Indian economy is seen recovering fast amongst large economies in its journey to become USD 5 trillion economy this decade. Sustaining high growth calls for investments in infrastructure, however. The National Infrastructure Pipeline (NIP) envisages USD 1.4 trillion in infrastructure spending. While part of funding is Budgetary, bulk of contribution is seen from private sector, and banking & financial system. We need to build right financing vehicles for infrastructure, addressing risks of project completion, and asset-liability mismatches for lenders. We need measures to diversify investor base, allow long term players like foreign investors, sovereign wealth funds, pension funds, and insurance firms. The long-term financing vehicles such as Infrastructure Investment Trusts (InvITs) & Infrastructure Debt Funds are largely funded by domestic

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*We need to build right financing vehicles for infrastructure, addressing risks of project completion, and asset-liability mismatches for lenders*  
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investors. Domestic institutions should be encouraged to provide equity capital support. There may also be need to revisit Development Finance Institutions (DFIs) role in supporting infrastructure financing in country. Corporate Bond market should be developed on priority, building depth in terms of volume, and risk management capabilities.

Indian banks also have the challenge of financing India's aspirations of becoming self-reliant in medium term. Covid-19 has brought to the fore concentration risks for multinational corporations (MNCs) having their supply chains located in select geographies, especially China. The MNCs are also reconsidering their cost economics given rising labour costs there. Our banks could help ease MNCs shifting manufacturing base to India by coming with innovative financing solutions for companies contemplating so. Banks can also help digitise trade financing,

thus lowering the intermediation costs for exporters, and enabling the Indian produce become globally competitive. A novel initiative for invoice financing of micro, small & medium enterprises (MSMEs) under TReDS platform is gaining traction. On similar lines, India can create a platform for non-recourse factoring or even for forfaiting of export receivables.

In terms of reform agenda, India needs to repurpose select large banks as driving the strategic focus of country, viz. financing infrastructure, global Mergers & Acquisitions, and help relocating of global value-chains to India, etc., whereas the smaller & mid-sized banks, and NBFCs could drive the domestic economic focus, viz. financing aspirational consumers, and unorganised sector enterprises with innovative models.

## **II. Ownership and Governance reforms: The time is now**

Indian banking sector had emerged largely unscathed during Global Financial Crisis of 2008-09, thanks to limited interconnectedness and a prudential approach to macroeconomic regulations. It, however, ran into difficulties soon with post crisis credit boom followed by series of corporate busts, especially in infrastructure sector with consequences of bad loans piling on banks' balance-sheets. Banks' profitability was hurt with shrinking income and rising provisioning requirements for meeting losses. Credit growth started coming down, reflecting both risk aversion and capital conservation to comply with Basel III norms.

The latest asset quality down cycle has pervaded across the banking spectrum, ownership differences notwithstanding, hurting corporate exposed banks more than retail focussed banks. Public sector banks, which own majority of banking assets, accounted for greater share in loans turning bad. They needed recapitalisation to meet the provisioning shortfalls and regulatory capital requirements. It would have been a waste of opportunity if taxpayers' money was not accompanied with reforms in

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working of banks, especially addressing the vulnerabilities that led to poor credit decisions and lax response to deviant borrowers. It called for a systemic learning and building of defences, which thankfully came in a new bankruptcy law, tighter regulatory standards, and EASE (Enhanced Access and Service Excellence) reforms for operational efficiency. Governance reforms have also been undertaken with separation of Chairman and CEO posts, ensuring right mix of skill and competencies at the Board level, and executives being given sufficient tenures to see through transformation. There is a lot that still needs to be done, and there is a road-map available in recommendations of several committees on banking reforms. The Banks Board Bureau (BBB) can graduate to be the Bank Investment Company (BIC), which would actively strive to professionalise bank boards before moving several of its powers to the bank boards as envisioned by the PJ Nayak Committee.

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*Given fiscal challenges in supporting numerous banks, there may be merit in divesting ownership in small & mid-size banks strategically, going forward*  
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The performance gap between private banks and public sector banks in last decade has given rise to concerns about Indian banking structure not aligned to changed structure of economy. Truth be told, India has well managed banks and badly managed banks in both public sector and private sector. Nevertheless, there is still merit in reconsidering ownership in banking given scale and variety imperatives, especially huge capital requirements to fund economic expansion in country. Government acknowledges this need, preferring fewer but stronger banks in public sector. It has already moved with amalgamation of banks, in effect, bringing down number of public sector banks to twelve from twenty-seven, three years ago. We may see further consolidation, preferably driven by market forces.

Government may achieve its public policy objectives even without having majority stake in banking. It may choose to appropriately compensate banks for driving its public policy agenda, incentivise them or nudge through regulatory means. The recent Emergency Credit Line Guarantee Scheme (ECLGS) has demonstrated that if incentives are aligned, private banks can very well fulfil the public policy objectives alike public sector banks. Given fiscal challenges in supporting numerous banks, there may be merit in divesting ownership in small & mid-size banks strategically, going forward.

### **III. Inclusion 2.0: Credit deepening to micro & small entrepreneurs (MSEs)**

Inclusion agenda has hitherto been focused on improving acquisition of unbanked customers. Next phase of inclusion is about retention of newly banked customers, helping them upscale the finance value add, get benefit of holistic finance covering their needs for credit and wealth building. Only a sixth of MSMEs have their credit needs served through formal financial system. Moreover, enhanced

credit availability has not translated into productivity improvement and growth as bulk of enterprises continue to operate at smaller scale. We have equivalent need for credit deepening and improving credit productivity; in other words, India should harvest more growth for a unit of credit deployed. It calls for better efficiency of credit delivery.

Indian banks have massive customer base; this wealth of information on customers could be harnessed through data analytics. Banks may shift from conventional asset based credit underwriting to transactions/cash-flow based appraisal, and now to alternative information footprints with data pooled from ones' social media imprints, mobility data, utility service behaviours, etc. Pooling new data flows to reduce underwriting and documentation costs, banks can enable lower cost of financing for enterprises, especially MSEs across sectors, agriculture & allied, manufacturing and services, making more firms commercially viable.

Interest rates are already trending southwards. If banks can bring down credit costs by addressing information asymmetry through technological solutions, it will bring the cost of capital down in Indian economy, on a sustained basis.

#### **IV. Risk Management: building systemic capacity/capabilities**

Indian banking system has fairly evolved practices on risk management, covering various facets of risks, viz. credit, market, operational, etc. Nevertheless, with growing complexity, size, interconnectedness and technologies, there is need to constantly reassess and upgrade the systemic capacities and capabilities within industry.

Recent credit cycle has prompted us to fix underwriting, monitoring and collection inefficiencies within banks. We have done particularly well to address information asymmetries by creating shared databases on large credit in CRILC (Central Repository of Information on Large Credit), and now progressing towards building a Public Credit Registry (PCR). A credit decision, however, is not just made by actors internal to a bank. There are several external actors on whom bankers depend on, relying on their judgements and professional opinion, which needs to be considered while building systemic defences. If the audited balance-sheets of firms are found fudged, there is little a lender can do. India needs to fix accountability for accountants, ratings agencies, valuers, legal advisors, and other participants of credit ecosystem in improving systemic risk capacities.

Another key aspect in risk that needs to be prominent in future reform agenda is cyber security. Sharp shift in the transaction mechanism, and penetration of digital channels, would certainly require strengthened cyber security frameworks. We must work on raising cyber awareness among staff as

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also customers. To effectively deal with cyber threat, however, we need to respond as a system. Banks can come together for standardisation and share burden of cyber security. We need to leverage technology, say Artificial Intelligence and Machine Learning to sift through big data and identify any breaches in time, to respond proactively and decisively.

## **V. Digital Transformation: Physical + Digital**

India is becoming a data-rich society with 1.3 billion people having digital identity in AADHAAR, near universal mobile connectivity and access to bank account. The data costs here are a fraction of global average, with data consumption seen doubling to 25 GB per user per month over next five years. The App economy truly covers all facets of life and living. Banks, like other service enterprises, will likely be subsumed in digital realm, wherein the consumers avail the services without thinking about intermediaries to negotiate with.

In foreseeable future, however, India will continue to have a demographic mix that will need servicing through conventional branch based human touch banking for veterans and digitally illiterate, a mix of physical and digital delivery for millennial generation, and then end-to-end digital servicing for those born in digital era.

Indian banks have rolled out technology to the advantage of the customers. Next phase is about enhancing digitisation and leveraging data for business efficiencies. Banks need scaling up portfolio of digital offerings and workflow management, both credit and operational aspects. They should look at co-opting fin-techs in making a holistic offering. Banks will need to invest in Data Analytics for better control and data driven decision-making. Many of roles will undergo automation with new technologies like Artificial Intelligence, Machine Learning, Robotics and 5G powering changes. Challenge for banks is to meet the service expectations of customers.

## **VI. HR Transformation: Hiring, talent management and leadership**

The changing banking models towards a specialised service provider would require a pool of specialised workforce to meet the same. It has implications for the human resource management. Banks may not need the huge manpower base of today to serve clients of tomorrow. As mundane roles get increasingly automated, bank manpower will be freed for more value adding activities, like advisory, sales, credit and technology development. Accordingly, hiring preferences could shift towards specialised professionals instead of bulk hiring for generalists. Performance management and promotions to senior roles will also change accordingly. Existing set of bankers will need to upgrade their digital, risk, credit, marketing skills more frequently. It will also call for re-look in leadership training to prepare for new set of leaders.

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*Banks will need to invest in Data Analytics for better control and data driven decision-making*

The banking reform agenda should acknowledge this emergent HR need and enable banks, especially public sector banks, with necessary leeway to hire talent unhindered, remunerate appropriately, especially at senior levels where gaps between rewards vis-à-vis responsibilities are starker, and provide opportunities for upgrading skills in time.

## VII. Customer service and ethical business

Customer centricity has been one of the most repeated mantras by management gurus exhorting businesses to be fair, transparent and trustworthy in their dealings. Nevertheless, there are countless examples of financial institutions, in their quest to create shareholder value, undermining the very trust of customers. There are instances of mis-selling products, charging unscrupulously for innocence/ignorance of unsuspecting customers, and even engaging in outright illegal dealings. As we envisage the reforms agenda for Indian banking for decade ahead, we have to be mindful of this creeping vice and put necessary checks & balances to protect customers. We also need to build right capacity of arbiters for settling customer grievances/disputes in time, building confidence in a fair financial system.

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## Conclusion

Indian banking has come a long way since the days of regulatory pre-emption, directed credit, and forbearance. Our operating environment is changing faster than we would like to acknowledge. Looking at future, there will be simultaneous play of technology, regulations and demographic drivers of demand. Meeting customer aspirations, with a service efficiency alike technology firms, calls for new thinking. As bankers, we need to be imaginative in discovering new revenue pools. We also need to develop capabilities to assess and process risk, and make informed decisions. Winner banks could distinguish by creating an end-to-end digital offering in parallel to conventional multi-channel offering.

From systemic perspective, we need reforms along several levers simultaneously. We must ensure there be sufficient play of competitive forces to improve efficiency and service standards. Simultaneously, we should build banks with size and capacity to fulfil our national aspirations, both global and local in terms of inclusion of newly banked customers and enterprises. Likewise, there are measures that need to be taken to improve Board level efficacy to create value for stakeholders. In sum, we have an exciting journey ahead. I am confident that our banks will fulfil the expectations we have of them.

## Some Options to Resolve the Stress of India's Public Sector Banks<sup>2</sup>

- *Viral V Acharya, C V Starr Professor of Economics, Department of Finance, New York University Stern School of Business*

A bank should be something one can “bank upon”, yet why can we not always bank upon our bank? One possibility is that the bank has raised little equity capital and also held little liquidity of its own. Once depositors know this, they realise that the only way they can be redeemed against their withdrawals is if the bank can use inter-bank markets to raise liquidity. This would be possible only if the bank's assets are deemed good enough to repay the inter-bank transaction in future. But then the following question arises: what if the asset quality of the bank is suspect as it has betted the bank's money on the upside, leaving depositors at risk of losing their savings if the bets don't pay off? And, even if the asset quality is not entirely suspect, what if the inter-bank markets dry up themselves, which could happen if there is in fact no healthy bank, or only a few healthy banks around as most banks betted the economy's savings imprudently?

### Systemic shock, bank runs, financial disintermediation

In essence, if an economic tsunami – like a massive house price crash or global economic collapse or underperformance in many industrial sectors – comes and hits the banking system, and it had chosen to remain heavily exposed to it by being on the shores, so that a large portion of its assets is deemed to be risky at once, then an unexpectedly large deposit withdrawal could be rather hard to meet for any bank. Worse, when this happens, if some depositors start being repaid by the bank, other depositors fear that bank liquidity is getting depleted and their savings might be at risk given the underlying assets are either not safe or not liquid enough in inter-bank markets. Now, these depositors may start demanding their deposits too. And a bank “run” starts. Fearing the asset-quality signal revealed by such a run at one bank, depositors could start running on other banks too, especially ones with similar assets and a full-fledged banking panic takes hold.

When this happens, the entire banking system is at the risk of being disintermediated; payments and settlements of financial transactions can come to a standstill; banks have no capacity on balance-sheet to make new loans to new entrepreneurs, first-time home buyers and old families; the economic activity can come to a grinding halt. There are banks around, but no banking, the life-blood of the economy, to channel savings to productive uses and for job creation<sup>3</sup>.

<sup>2</sup> Originally published in 'Quest for Restoring Financial Stability in India', Copyright year 2020 © Viral Acharya. All rights reserved. Reproduced with the permission of the copyright holder and the publishers, SAGE India Pvt Ltd, New Delhi. The excerpt is based on the speech *A Bank Should Be Something One Can “Bank” Upon*, delivered on 28 April 2017 at the Federation of Indian Chambers of Commerce and Industry (FICCI) Ladies Organisation, Mumbai Chapter.

<sup>3</sup> Interestingly, the word 'bankruptcy'—a term used to describe the situation when a borrower defaults on repayments to be made—derives from the Italian term *banca rotta* or 'broken bank', describing the depositors of a bank breaking the bench or the counter of the teller in the Republic of Genoa when the banker was unable to meet their demands on deposit withdrawals.

## The present Indian context

Let me now turn to what all this means for the present Indian context. To put things in perspective, let me mention that the Global Financial Stability Reports by the International Monetary Fund (IMF) have repeatedly brought out the following salient facts:

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*When banks are in  
poor health, it does  
affect the potential  
borrowers*  
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1. Indian industrial sector is among the most heavily indebted in the world in terms of the ability of its cash flows to meet its bank loan repayments<sup>4</sup>; and,
2. Indian banking sector comes out as worse-off compared to other emerging economies in terms of how little bank capital it has set aside to provision for losses on its assets, i.e., on its non-performing loans, made primarily to the industrial sector.<sup>5</sup>

What does it mean to have little bank capital as provision for losses? I like the following analogy. A bank not keeping adequate capital buffer to absorb losses on its loans that are more or less known to be arriving soon is akin to not preparing to rescue with emergency a person who has slipped off the terrace of a skyscraper, and instead in the midst of his almost surely fatal descent, hoping that the laws of gravity would somehow freeze and work differently this time. While such under-provisioning problem extends to some of the private banks too, the scale of the problem is three to four times magnified in case of public sector banks.

By and large, this scenario meets the adverse conditions of the narrative about banking and banking panics. But in our context, several questions immediately come to mind: Why should I worry about whether I can bank upon my bank when my deposit is insured by the government? More so, if my deposits are with a state-owned bank? Why should I bother about my bank's asset quality?

## The double-edged sword of deposit insurance and state ownership of banks

Answering these questions is crucial to understanding how our banking sector problems are likely to play out. A moment of reflection reveals that as long as I trust the deposit insurance and the guarantee of the State behind the public sector banks, I have no good reason to run and pull my deposit out of an insured deposit or a state-owned bank. The catch is this. When banks are in poor health, it does affect the potential borrowers. Once a bank's asset quality is adequately impaired, the bank does not grow its lending book much with fresh loans. Bank management of a thinly capitalised bank is interested in primarily making two kinds of loans. First, ever-greening of existing bad debt - throwing more money after the bad, so as to help the borrower repay past loan, not acknowledge its true quality, and simply kick the can down the road. Second, risky loans that give banks high returns so that it can make a last-ditch effort to rebuild capital quickly - doubling up bets in a casino when first round of gambling has all

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<sup>4</sup>Figure 1.15, *Global Financial Stability Report, April 2017*

<sup>5</sup>Table 1.2, *Global Financial Stability Report, April 2017*

gone sour. Faced with such borrowing prospects, healthy borrowers who have access to alternate forms of finance may be able to switch out of bank borrowing. Financial intermediation, however, is likely to grow at an anemic pace, and many deserving borrowers such as the ones I have alluded to, likely to remain starved of credit.

Ironically, the presence of large safety net of deposit insurance and state ownership, which ensure that there are likely to be no bank runs, end up eroding any disciplining force that gets the bank health restored to a state where the economy can bank upon its banks to perform the economic function of fuelling and lubricating growth. Deposit insurance and state ownership help the sick patient survive but on their own do not guarantee good health; they may prevent financial instability but do not restore credit growth to levels that a vibrant economy needs.

And, indeed, recent global experience has shown that governments need to be watchful as to how large the safety net adds up, relative to its own capacity to provide for it. Countries such as Ireland and Spain engaged as a response to their banking sector woes in 2008, with massive guaranteeing of bank deposits and other liabilities. This, however, ended up being a Pyrrhic victory as they emerged with troubled balance-sheets themselves, raising their debt to Gross Domestic Product (GDP) ratios from healthy to questionable levels, and triggering sovereign debt crises.

## Bank resolution options

It is with the objective of avoiding such a contingency under any circumstance that I wish to propose that we deal with the ailing public sector banks in creative ways instead of just propping them up with state aid.

Let me elaborate. We keep hearing clarion calls for more and more government funding for recapitalisation of our public sector banks. Clearly, more recapitalisation with government funds is essential. However, as a majority shareholder of public sector banks, the government runs the risk of ending up paying for it all. The expectation of government dole-outs might have been set by the past practice of throwing more money after the bad. Take for instance our bank recapitalisation plan of 2008-09 after the global financial crisis: banks that experienced the worst outcomes received the most capital in a relative sense. Most of these banks need capital again.

We must not allocate capital so poorly, recreate “Heads I Win, Tails the Taxpayer Loses” incentives, and sow the seeds of another lending excess. There are better ways to do it. Let me offer five options:

1. **Private capital raising:** The healthier public sector banks could have raised private capital by issuing deep discount rights in 2013, and some can still do so now. They must be required to do this to share the government's burden of recapitalising banks. It might be a good way to restore some discipline and get the bank shareholders, boards and management to more seriously care about the quality of lending decisions.

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2. **Asset sales:** Some banks will have assets or loan portfolios that are in good enough shape to be sold in the market. Modern banks no longer just make bank loans but also hold non-core assets such as insurance subsidiaries, market-making divisions, foreign branches, etc. Such non-core assets can be readily sold. Other assets could be collected across banks and organised into different risk profiles, so as to build transparency and trust with healthier banks and other intermediaries with an interest in purchasing them. Such asset sales can generate some of the needed recapitalisation.
3. **Mergers:** As many have pointed out, it is not clear why we need so many public sector banks. The system will be better off if they are consolidated into fewer but healthier banks. After all, we do have co-operative banks and micro-finance institutions to provide community-level banking. So, some banks can be merged, as a quid pro quo for timely government capital injection into the combined entity. It would offer the opportunity to rejig management responsibility away from those who have under-performed or dragged their feet the most. Synergies in lending activity and branch locations could be identified to economise on intermediation costs, allowing sales of real estate where branches are redundant. Voluntary retirement schemes (VRS) can be offered to manage headcount and usher in a younger, digitally-savvy talent pool into these banks. Historically, bank stress of the order we face has almost always involved significant bank restructuring.
4. **Tough prompt corrective action:** Undercapitalised banks could be shown some tough love and be subjected to corrective action, such as the revised Prompt Corrective Action (PCA) guidelines<sup>6</sup> released by the Reserve Bank of India. Such action should entail no further growth in deposit base and lending for the worst-capitalised banks. This will ensure a gradual “run-off” of such banks, and encourage deposit migration away from the weakest public sector banks to healthier public sector banks and private sector banks. It is not rocket science to figure out where the growth potential in our banking sector lies and deposit growth should be allowed to reflect that.
5. **Divestments:** Undertaking these measures would improve overall banking sector health, creating an opportune time for the government to divest some of its ownership of the restructured banks, as it has over time in many other sectors of the economy. Perhaps re-privatising some of the nationalised banks is an idea whose time has come?<sup>7</sup>

All this would reduce the overall amount the government needs to inject as bank capital.

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<sup>6</sup> <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10921&Mode=0>

<sup>7</sup> *Outside of the original article, I recommend that such re-privatisation be first carried out with healthier public sector banks. This can be accompanied by reprioritising the business model of the weaker public sector banks towards development and financial inclusion so they can undertake specialisation in underwriting and monitoring as micro-finance institutions do, and improve their market valuations before they are re-privatised.*

# Healthcare and Pharma: A Case to Bring in Much Needed Reforms

- Pankaj R. Patel, Chairman, Zydus Cadila and Past President, FICCI

The world has been plunged into a humanitarian crisis due to the pandemic of Covid-19. Sweeping across 213 countries, impacting over 33 million lives and a death toll of over 1.3 million<sup>8</sup> so far, it is the most unprecedented healthcare challenge in recent times. While we still battle the virus, healthcare and pharma companies have been at the forefront delivering critical patient care and supplying essential and lifesaving medicines. As we continue to assess the impact of Covid-19 on global health, the healthcare and pharma sectors are two critical parts of mitigating its impact and ultimately offering a global solution. One thing is for certain, this crisis makes a pertinent point for urgent reforms in healthcare and pharmaceuticals.

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*Developing a  
 digitally integrated  
 healthcare ecosystem  
 offers a promising  
 solution to current  
 challenges*  
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## Outlook for healthcare sector

Covid-19 has magnified existing inequitable health outcomes where people with existing disease conditions made up most of the Covid-19 deaths in India. There is an impending need to improve baseline health of population such as managing non-communicable diseases. Even after the pandemic, we will have to take care of other pandemics of cardiovascular disease and diabetes. It is only with the mind-set of promoting health and well-being that we will be able to achieve this.

## Growth of teleconsultation and digital health

India has an acute shortage of doctors with one doctor per 1,456 people against WHO recommendation of 1:1000. Furthermore, the doctor density is much higher in the urban areas. These facts highlight the need for doctors to reach out to maximum patients in the rural as well as the remote parts of the country. Further compounding the problem, the pandemic has created a barrier for physical interactions between doctors and patients who want to avoid in-person contact with the fear of contracting the infection. Developing a digitally integrated healthcare ecosystem offers a promising solution to these challenges. While the Indian healthcare system was making progress on this front, these developments were occurring in small pockets. With the pandemic, key stakeholders in healthcare value chain are now expressing interest towards adoption of several teleconsultation

<sup>8</sup> WHO estimates as on 16 November 2020

platforms. These adoption levels are expected to continue even after the pandemic subsides, thereby requiring healthcare businesses to refine their own business models and ride the overall promising growth in virtual care.

Healthcare industry needs to focus on integrating parts of the patient flow, from doctor consultation to diagnosis, from referral to secondary or tertiary or even quaternary care, and overall well-being in a digitally integrated manner. Each step would include additional touch-points such as diagnostics, medicines and follow-up consultations. Up till now, there has been limited integration between each of these steps with the Government, e-pharmacies, teleconsultation platforms, etc. having tried to digitalise parts of this value chain. Real value lies in creating an ecosystem that can integrate all stakeholders from doctors, caregivers, diagnostic labs and pharmacy labs to patients and insurance companies so as to enable an end-to-end customer journey.

Multiple stakeholders will play the role of either a platform provider or a fulfilment centre to address several patient needs. For example, a pharma company may use it for doctor engagement and for providing fulfilment via e-pharmacies. Hospitals may use it to create a complete digitalised journey for patients and to manage patient data. Integration of all players onto the platform (patients, providers, payers and fulfilment centres) will help achieve scale of operations and improve overall outreach.

The digital ecosystem will rest on the pillars of technology, infrastructure, and policy. The system will use and generate magnitudes of data. Correspondingly, Digital health records are likely to be mandated soon with the advent of Ayushman Bharat and National Digital Health Mission (NDHM). With clinical outcomes being recorded and tracked, quality care under these programs will depend on the ability to unlock the power of data. The primary concerns of all stakeholders of teleconsultation ecosystem has revolved around data privacy. Consequently, strong regulations on data anonymisation and privacy are required to ensure trust in the system. Similarly, it is required to bring the national medical and industry bodies together to validate the protocols and ensure data privacy and protection standards.

With participation of several stakeholders in digital ecosystem, it is also imperative that their challenges and concerns be addressed with policy changes in order to make it a success. For example: Doctors are liable to ensure data privacy of patients. With rise in sales of e-pharmacies and mandatory upload of prescriptions, doctors are concerned about the misuse of prescription data. Thereby, doctors would want regulations which would safeguard their data privacy liability. There is also a need to develop robust guidelines for e-prescriptions and telemedicine.

## **Achieving healthcare access for all**

Shift of care outside of hospitals is being witnessed in the pandemic. Care in the next normal could increasingly be delivered in distributed sites such as homecare, ambulatory surgical centres, and virtual care clinics. Globally, these care models would be of increasing interest to even insurance and

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*The digital ecosystem will rest on the pillars of technology, infrastructure, and policy*

payers who currently are focused largely on in-patient care. The focus is expected to shift from treating the sick to promoting health and well-being.

While such shifts are anticipated to happen globally, Indians still face the challenge of inability to pay for healthcare bills. This emphasises the need to increase spend on healthcare system in India. The government could aim to increase expenditure on healthcare from current 1.2 per cent to 2.5 per cent of GDP in the next 5 years, and to 5 per cent by 2030, in line with the developed economies. With almost less than a third of Indians having healthcare insurance, the rest of the population ends up paying out of pocket. People then make tough trade-offs between their healthcare needs and other necessities. Such behaviour would prolong the low baseline health of the population, making them vulnerable in the event of a possible future pandemic.

Government can undertake interventions to improve overall healthcare access and promote well-being for population by: a) Leveraging the Ayushman Bharat Yojana, while simultaneously strengthening healthcare infrastructure in order to accelerate universal healthcare access. b) Increasing supply of doctors, upgrading district hospitals into medical colleges. Further, use of remote consultation facilities can ensure increased utilisation of these doctors. c) Using Electronic Health Records (EHRs) and promoting digital long-term management of chronic diseases. d) Leverage digital technologies in order to build decentralised care models.

## Outlook for pharma sector

The Industry's journey to annual revenue of about ~USD 40.7 billion today can be attributed to the entrepreneurial ability of the firms, the vision of the industry to establish India's footprint in large international markets and the world-class capabilities in formulation development. The industry has played a key role in driving better health outcomes across the world through its affordable and high-quality generics drugs. India accounts for 60 percent of global vaccine production. One in every three pills consumed in the United States is produced by an Indian generics manufacturer. Approximately 25 percent of the medicines in the UK are made in India. In Africa, the availability of affordable Indian drugs contributed to greater access to treatment for AIDS.

Indian pharmaceutical industry's contributions became even more prominent during the pandemic as India supported the global battle against the pandemic by ensuring uninterrupted supply of medicines during nation-wide lockdown, supplying Covid-19 medicines (e.g. HCQ, Itolizumab, Lopinavir-Ritonavir, Remdesivir, Favipiravir, Dexamethasone, etc.) to multiple countries, and supplying Covid related diagnostic kits e.g. RT-PCR, Antigen and Antibody kits.

Going forward, there exist several opportunities across new geographies and product classes for Indian pharma players to embark on an accelerated growth path: a) Ayushman Bharat Yojana will provide poorer households with affordable healthcare, thereby offering the industry a chance to

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*Increase expenditure on healthcare from current 1.2 per cent to 2.5 per cent of GDP in the next 5 years, and to 5 per cent by 2030*

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supply them affordable, high quality drugs. b) Galvanising innovation in new classes of drugs such as biosimilars, gene therapy and specialty drugs that can usher-in the next leg of growth for Indian pharma industry. c) The industry can capitalise its large, yet cost-efficient workforce of pharmacists, clinical researchers, and medical professionals. d) Patents for Innovator molecules with cumulative global sales of over \$ 251 billion are expected to expire between 2018 and 2024, opening new opportunities for the industry. e) The industry can make inroads in the underpenetrated international markets such as Japan, China, Indonesia.

In order to take advantage of these opportunities, Pharma industry needs to accomplish the following with simultaneous Government support in the form of investments, policy support and regulatory interventions:

## **Achieving self-reliance**

Around 80 percent of India's requirements for Active Pharmaceutical Ingredients (APIs), by volume, are fulfilled by China, putting companies at the risk of supply disruptions and unexpected price movements. Import of fermentation-based APIs and Key Starting Materials (KSMs) from countries such as China experienced steep price rises in the wake of the lockdown. In the past too, policy shifts in other countries have led to prices of some bulk drugs escalating by up to 50 per cent. There is an urgent need to remedy this. Though PLI scheme is a step in the right direction, this would not solve the structural challenges.

Cost, range, and scale are the areas where India lags China in the API sector, and India should try to overcome this by collaboration between the Government and Industry. On quality and compliance, India is ahead of China and can even command a slightly higher price. India needs to up its game in continuous process manufacturing, fermentation chemistry and biotransformation. For example, India has 99% batch processing whereas China has become proficient in continuous process manufacturing. Availability of basic materials such as Phosphorus, Sulphur, Potassium, Agro products and Crude/Coal is where India lags China and should work for alternate sources. Key obstacles that India currently faces is requirement of large Capex (Asset turnover for synthetic chemistry and fermentation facilities are ~3-4X and ~1-1.5X respectively), availability of large land parcels and presence of API focused players.

Government needs to take policy decisions which would be: a) Creating centralised infrastructure (Synthesis parks and fermentation/ biotransformation parks) b) Providing fiscal incentives (extending soft loans, energy subsidies, capital subsidies, tie-ups with multilateral financing agencies), c) Building common utilities (centralised solvent recovery, power and steam units, effluent treatment plants, warehousing), and d) Easing regulatory clearances (favourable license renewals, pre-approval of environmental clearance).

## **Strengthening research and innovation ecosystem; incentivising research**

Globally, India's share in branded generic is 30-35%, while the share is miniscule at <1% in innovator products. There are emerging areas such as biosimilars, however R&D investments are 10–20 times

higher than for generic products. Given the quantum of investment required and high risk-profile, putting in measures to encourage investments will be critical in ramping up the level of innovation.

Government may explore multiple initiatives to support private funding into the industry such as re-instating the 200% tax exemption on R&D spend, creating a preferred tax slabs for companies focusing on innovation, reducing patent box concession tax on IP to 6% from current 10%, introducing 'Innovation' bonds to offer lower interest rate debt funding, etc. In line with practices in several markets (e.g. Israel), government may consider setting up an “innovation fund” which provides milestone linked grants (e.g. on completion of basic research, pre-clinical or clinical phases) to companies on innovation efforts.

Government can bring in policy reforms to simplify regulatory framework to bolster innovation. The approval process can be simplified by reducing number of overlapping approvals, by enabling faster approval for large animal studies by empowering institutional bodies (e.g. IAEC), and by establishing accelerated and prioritised pathway for innovative products. The consistency and quality of reviews can be strengthened by establishing clear timelines for each stage of process and performance management on those milestones to expedite approvals. The overall regulatory guidelines can be harmonised with that of ICH standards.

The Indian scientific talent and researchers have proven that their skills and capabilities are on par with scientists across the world. To develop a safe and efficacious vaccine, in a challenging time frame, is a highly commendable feat. Their innovation will perhaps save millions of lives in India which are at high risk. It will also be a watershed moment for India as it takes giant leap forward with innovation paving the way for indigenously developed medicines that are accessible and affordable.

## **Promotion of exports**

Generics exports, specifically to the US, were a key driver of double -digit growth for large Indian pharmaceutical companies over the last few years. However, growth in the US market is moderating, in part by price erosion. The two main reasons for this price erosion are buyer consolidation and higher competition in key molecules.

The best way to boost India's exports would be to provide necessary competitiveness to the industry by augmenting industry's capability to supply cost effective and high quality products, as well as by streamlining the regulatory processes. Competitiveness of pharma exports in the world market would be exceedingly relevant, as countries are exploring their own alternatives for the pharmaceutical supply chain.

To strengthen India's export performance, it is vital to increase investments in the logistics and overall infrastructure such as ports, warehouses, railways, among others. Improved efficiency in logistics will

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*Government may consider setting up an “innovation fund” which provides milestone linked grants to companies on innovation efforts*  
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reduce trade cost and make Indian products competitive in global market. In order to achieve its full potential, it is prudent to support ancillary suppliers (e.g., packaging material, solvents) of pharma manufacturers by extending similar policies (issued for pharma manufacturing) to ensure streamlined operations. Besides, there is need to ease our regulatory systems to achieve shorter turnaround for granting licences and for inspections.

In conclusion, the Indian pharmaceutical industry is as our Hon'ble Prime Minister Shri Narendra Modi said, a “A pharmacy to the world.” Beyond the global Covid-19 crisis, it will have an important role to play in Global healthcare. There is a potential opportunity for India to bring in the reforms that will be a game-changer for the country in the decades ahead.

# Geopolitical Realities After Covid-19 and Implications for the Indian Economy

- Prof. Dr. Heribert Dieter, Visiting Professor, Asia Global Institute, The University of Hong Kong, and Senior Fellow, German Institute for International and Security Affairs, Berlin

The outbreak of the SARS-CoV-2 virus and the disease it causes has consequences for domestic and foreign policies for countries all over the world. The crisis will further deepen the rift between China and many, if not most OECD-countries. These geopolitical shifts will have significant effects on manufacturing. Policymakers will be willing to shed a little efficiency to reduce dependence on China. Therefore, the current crisis will result in new opportunities for many economies, but some will of course benefit more than others. India will most probably belong to the major beneficiaries of the coming new form of globalisation.

China today is a different State than before Xi Jinping gained power in 2012. Xi was appointed General Secretary of the Communist Party in 2012 and, with the exception of Mao Zedong, has shaped China's domestic and foreign policy more substantially than any of his predecessors. At the 19th Congress of the Party in 2017, Xi stressed during his three-and-a-half-hour speech that in his first term of office, China had stood up and become both rich and powerful. In contrast to the forty years since Mao's death, Xi, for the first time repeated the slogan that Chinese policy could solve the problems of humanity (Economy 2018, p. 60). Xi has thus abandoned the dividing line between domestic and foreign policy and is relying on exporting the CCP's political values throughout Asia and the rest of the world (Economy 2018, p. 69).

Today, countries all over the world are politically concerned about the increasingly authoritarian stance that Xi and the ruling CCP are asserting. Many observers have spotted the ugly face of Chinese communism, and for countless observers, Xi's "Chinese Dream" is a nightmare. The suppression of political freedoms and the brutal use of concentration camps to "re-educate" religious minorities have thus far been overlooked dimensions of the dire human rights situation in China. The world is once again confronted with a rising authoritarian power.

## The new Cold War

Thirty years after the end of the Cold War, the world is once again confronted with a conflict between two major powers. The expectation that the collapse of the USSR would mark the beginning of a

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*The crisis will further deepen the rift between China and many, if not most OECD-countries*  
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harmonious world marked by fruitful co-operation have proven to be too optimistic. The main driver of the new Cold War is of course China. The American President has raised the level of attention to the issue, but he has not created it. The main driver for the new Cold War is the Chinese government under the leadership of Secretary General Xi Jinping.

In many countries, the perception of China has changed significantly over the past two years. Previously, changes in China's foreign policy under Secretary General Xi Jinping had long been ignored. Once leaders realised that Xi had radically altered his policies, governments initially struggled to find an appropriate response to China's aggressive foreign diplomacy and international trade policy. This inertia has disappeared. Whilst the Trump administration was the first to tighten its policy, other governments have followed suit. Today, even most European governments – long reluctant to confront Beijing - have changed their policies vis-à-vis China. In March 2019, the European Commission published a document which explicitly branded China as a "systemic competitor" (European Commission 2019; Berkofsky 2020, p. 100).

While many of the long-term effects of the SARS-CoV-2-crisis are not clear yet, the pandemic will lead to a departure from established trade and production patterns. The reason for that change will be political rather than microeconomic. The rivalry between the United States of America and the People's Republic of China will intensify, given the devastation that the virus has caused. The US will not forget China's contribution to the emergence of the crisis. Today, there is bipartisan support for a tough stance on China in the American political system. The corporate world may not share all the political concerns of President Trump, but they will not resist a reorienting of the US's economic policy and consequential relocation of production from China to other economies.

In the United States, President Trump enjoys remarkable support for his 'tough on China' policies. The perception of China by US citizens has shifted significantly in recent years. According to a survey conducted by the Pew Research Centre between 3 March 2020 and 29 March, 2020, two-thirds of US citizens surveyed have a negative opinion of China with only a quarter of Americans having a positive opinion. Today, nine out of ten Americans surveyed view China as a threat, including 62 percent who see it as a significant threat.<sup>9</sup>

The negative perception of China in the United States is not the exception, but the norm, at least in OECD-countries. In a survey taken in 14 countries by the Pew Research Centre in summer 2020, 71 percent of Germans had an unfavourable view of China, up from 56 percent one year earlier. Despite Germany's above average dependence on exports to China, the German population scored exactly the median of 9 European OECD-countries.<sup>10</sup>

Interestingly, perceptions of China were most negative in Sweden, a small country with a population of a little over 10 million people, i.e. about half of the population of Beijing. Sweden is home to the Chinese-owned car manufacturer Volvo and used to be known as a very open society. But Sweden had

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<sup>9</sup> *Pew Research Centre: U.S. Views of China Increasingly Negative Amid Coronavirus Outbreak, April 2020.*

<sup>10</sup> *The nine countries are: Sweden, Denmark, the United Kingdom, Netherlands, Belgium, Germany, France, Spain and Italy. Pew Research Centre: Unfavorable Views of China Reach Historic Highs in Many Countries. 6 October 2020, available at <https://www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries>*

also been exposed to what “The Economist” called “Shotgun diplomacy”. In November 2019, the Chinese ambassador to Sweden, Gui Congyou, threatened the Swedes: “We treat our friends with fine wine, but for our enemies we have shotguns.”<sup>11</sup>

Statements like these have backfired all over Europe and have contributed to a revision of the benefits of relations with China. For manufacturing companies outside China, this may be a welcome development. If policymakers continue to de-emphasise economic efficiency and prefer production outside rather than in China, this would be positive for producers, if negative for consumers. That being said, even consumers are increasingly sceptical about dependence on China, partly due to the ongoing bullying tactics of Chinese politicians and diplomats.

For the corporate sector, the negative perception of the People's Republic of China is quickly evolving into a reputational risk. Producing in China for markets elsewhere carries the risk of consumer backlash. Whilst many people may hitherto have been indifferent to the origin of the products they buy, the aggressiveness of China's foreign policy is resulting in a closer scrutiny of the place of production. Of course, such activities will not be a mainstream activity, but for large corporation the risk of being shamed as a supporter of a totalitarian State is real. Consequently, there will be a relocation of production elsewhere.

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## Is de-coupling possible?

European companies have been actively expanding their business with China for years, and recently, they managed to reduce the trade imbalance. In 2018, member countries of the European Union imported goods worth 400 billion euros from China and exported a little over half of that amount to China. Exports from EU countries to China grew faster than Chinese exports to Europe between 2008 and 2018. European exports to China grew from 78.3 billion euros in 2008 to 209.9 billion euros in 2018, an increase of 268 percent. Chinese exports were already high in 2008, at 249.1 billion euros, and have since risen by 58.5 percent to 394.7 billion euros.

It is not surprising that Germany has higher exports to China than any other country in the European Union. But it is astonishing that in 2018, Germany recorded exports of 93.7 billion euros and has higher exports to China than the next eight European countries combined. In 2018, Germany exported four and a half times as much to China as to France. These figures demonstrate why Germany's policy towards China is much more cautious than that of France. Germany is more vulnerable to Chinese coercion. Significantly, almost half of France's exports to China are Airbuses – an irreplaceable good for China.<sup>12</sup>

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<sup>11</sup> *The Economist*, *How Sweden copes with Chinese bullying*, 20 February 2020

<sup>12</sup> *Eurostat: EU-28 exports to and imports from China*, available at [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:EU-28\\_exports\\_to\\_and\\_imports\\_from\\_China\\_by\\_product\\_group,\\_2008\\_and\\_2018.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:EU-28_exports_to_and_imports_from_China_by_product_group,_2008_and_2018.png)

At the same time, China is not irreplaceable. Germany does more business with the four Eastern European economies Poland, the Czech Republic, Hungary and Slovakia than with China. Merely two percent of jobs in Germany depend directly or indirectly on exports to China.<sup>13</sup> Whilst decoupling will have costs, it is not impossible.

## The re-organisation of supply chains

Supply chains will be re-organised also because the dependence on China turned out to be a major problem in 2020. Globally, the high level of dependency on China became evident when the country initiated its lockdown in response to Covid-19 at the end of January 2020. South Korean manufacturers Hyundai and Kia had to suspend production because they lacked components from China. In Japan, Honda and Nissan were forced to scale back production. The British manufacturer Jaguar Land Rover reportedly flew parts from China to Britain in suitcases to maintain production.<sup>14</sup> Manufacturers will shift their preferences from “just in time” to “just in case”.

There will thus inevitably be a reorganisation of supply chains after the current crisis has ended, and the current dependency of OECD countries on China will be reduced. Whilst strategic goods may enjoy priority, there will be a tendency to prioritise non-Chinese sources. Until 2020, many politicians and citizens were unaware of the outsized role that China plays in the provision of major components as well as medical equipment and pharmaceuticals. Once the effects of the high degree of dependency on China became clear, calls for a restructuring of supply-chains were raised. Mathias Döpfner, Chairman of the German media house Axel Springer, has called for “forceful decoupling” from China (Small 2020, p. 10).

The French finance minister, Bruno Le Maire, has claimed that European countries should reduce their dependence on China and has labelled this a process of strengthening the “sovereignty in strategic value chains”. He named the automotive, aerospace, and pharmaceutical industries as examples.<sup>15</sup> Europeans, however, do not use the term “decoupling” but rather prefer the milder and less confrontational expression “diversification”. The effect, however, is the same.

This re-organisation of supply chains as well as production does not mean that companies from OECD-countries will no longer produce in the People's Republic. In the future, many companies will follow a pattern that has been labelled as China + 1: Production in China for the Chinese market, production elsewhere for the rest of the world.

Finally, it is not just politics that drives companies out of China to other countries. China has become too expensive. Between 2000 and 2016, real wages rose by 400 percent. Whilst this development is of course excellent for Chinese citizens, it makes manufacturing there less attractive. Of course, this is what globalisation is all about: Once an economy has developed and its citizens enjoy a higher standard of living, this results in higher costs and makes producing in other economies more attractive. The Cold war and Covid-19 accelerated this process, but would have occurred anyway, at least to a degree.

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<sup>13</sup> *The Economist*: *Germany's China policy: out of date*, 18 July 2020

<sup>14</sup> *Economist Intelligence Unit*: *Country Report Italy*, 16 April 2020. p. 39.

<sup>15</sup> *Ibid.*

## How India will benefit from the new globalisation?

One of the economies that are well positioned to benefit from these trends is India. Of course, in the autumn of 2020, one has to look beyond the current malaise of the Indian economy. The world's toughest lockdown was not only ineffective in reducing the spreading of the virus, but it led to a dramatic reduction of economic activity as well as severe problems in the financial sector.<sup>16</sup> Currently, many banks are suffering from non-performing loans due to the economic effects of the lockdown (Economist Intelligence Unit 2020, p. 5). However, after this shock the Indian economy will probably enjoy a rapid recovery and will become a major beneficiary of the Cold War.

The first reason for this optimistic assessment is political. After years of hesitation, the Indian government has started to commit itself firmly in the Alliance of democratic countries in the Pacific. India's support for the Quadrilateral Security Dialogue (Quad) between the United States, Japan, India and Australia is rising considerably.<sup>17</sup> India's increasing focus on China, rather than on neighbouring Pakistan, has resulted in some US observers believing that New Delhi's anger about the assertiveness of China's foreign policy may eventually result in the ability to form an alliance with India against China.<sup>18</sup>

The second reason for optimism is that India is the only major developing economy that offers both attractive conditions for manufacturing and has sufficient idle capacity, in particular a large enough labour force. Vietnam, for example, is already stretched to the limit and cannot provide the resources that would be needed to host a large number of transnational corporations beyond those that already produce there.

Needless to say that success of the endeavour is not guaranteed. Neither the government's initiative to produce in India for Indian consumers (Self-reliant India or Atmanirbhar Bharat) nor the related goal to produce in India for other markets are without risks. But against the background sketched out above, the chances for a boom in Indian manufacturing are relatively high. Pharmaceuticals and electronic components may continue to thrive. The investment of large foreign manufacturers like Foxconn, Samsung and Pegatron illustrate this point very clearly.<sup>19</sup>

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<sup>16</sup> Laura Höfliner, Sunaina Kumar, *Zerstörte Träume*, *Der Spiegel*, 26 September, pp. 70-73.

<sup>17</sup> Motoko Rich, *One Long Fist Bump Underscores Pacific Alliance to Counter China*, *The New York Times*, 7 October 2020, p. 14.

<sup>18</sup> Pranshu Verma, *As India and China Feud, U.S. Sees an Opportunity to Build an Alliance*, *The New York Times*, 4 October 2020, p. 14.

<sup>19</sup> *Economist Intelligence Unit, Self-reliant India: closing the door to China*, 22 September 2020.

The main risks are a lack of capital for investment and a repetition of the ill-fated industrial policies prior to 1991. But capital continues to be cheap and available, at least in many financial markets. The question is how to tap the markets and how to create additional incentives for more foreign manufacturers beyond pharmaceuticals and electronic components. The second risk appears to be rather remote. The current Indian government appears well aware of the fact that de-coupling from the global economy is not an attractive option. Whilst it will be politically beneficial to reduce economic ties with China, India will most probably integrate itself more deeply into the global economy.

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- *Shyam Saran, Senior Fellow, CPR and Former Foreign Secretary, Government of India*

The Covid-19 pandemic is an inflection point in history, marking a watershed in human experience. When the pandemic recedes, there will be return to status quo ante. Power equations among major countries will be altered and their economic prospects will have changed. Technological changes will magnify the changes in the geopolitical landscape and India will need to locate itself in a shifting and often murky geopolitical environment.

## Nationalism vs internationalism

Despite the pandemic being a global transnational challenge, recognising no national or regional borders, it is being dealt with almost entirely within domestic confines. International cooperation is minimal. The pre-existing trend towards nationalistic urgings, the devaluation of international institutions and multilateral processes are being reinforced. This tension between the rising salience of global cross-cutting issues and the resistance to multilateral and co-operative approaches is likely to intensify unless there is some display of statesmanship and leadership to mobilise international action such as we had seen in the aftermath of the global financial and economic crisis of 2007/8. This leaves the world less prepared to confront the next crisis, whether a pandemic or a Climate emergency.

Nationalism will have to be balanced by a commitment to internationalism. This will also be necessitated by the more multi-polar geopolitical landscape that is likely to emerge out of the current crisis. Neither the US in its relatively diminished state nor China which is likely to emerge stronger from this pandemic can either singly or as a duopoly manage a much more diffused distribution of economic and military capabilities. We may see a more loosely structured global order where several regional orders are inter-linked and interact with one another, each with a cluster of local powers. Only a multi-polar order with a consensus set of norms managed through empowered institutions of international governance and relying upon multilateral processes will prove viable and sustainable.

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*Throughout history,  
 business has thrived  
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 and people are  
 minimal*

## Exchange creates value and globalisation remains key to prosperity

The principle of comparative advantage is key to creation of value through exchange. Throughout history, business has thrived in a globalised world where barriers to exchange of goods, services and people are minimal. This will remain true in the post-pandemic world. A reversion to more autarkic economies on the pretext of promoting self-reliance will lead to a poorer world. There will be fewer opportunities to create value and more risk of value destruction.

There is a perception that the pandemic will exacerbate the backlash against globalisation as extended global supply chains get disrupted and supplies of critical equipment and materials, for example, in the health sector face interruptions and delays. There may be on-shoring of strategic and critical production units or alternate supply chains closer home and with trusted partners. There is a case for diversifying supply sources and reduce dependence on just one or two critical suppliers. There may be need for built in flexibility through maintenance of minimal inventories and spare capacity. The risk premium will be set off against efficiency loss in orienting this shift. Globalisation in this altered form will continue, even if at a slower and measured pace, even if it is “globalisation with fewer Chinese characteristics”, since it is driven by technology. Countries which recognise this and stay ahead of the globalisation curve will be among the winners post pandemic. The Atmanirbhar Bharat strategy announced by Prime Minister Modi should aim at creating a globally competitive Indian economy with emphasis on high quality and low cost. Any return to the import substitution policies that prevailed before the far-reaching economic reforms and liberalisation took root since the early 1990s will trap India in a low-level economic equilibrium.

Despite a degree of pessimism about India's economic prospects, we may be located at a very favourable geo-political moment. This may appear counter-intuitive given the pressures we are facing at the India-China border. Thanks to concerns about China, its aggressive and unilateral assertions of power accompanied by an unusually arrogant and overbearing foreign policy, there is a significant pushback even from smaller countries, for example, in South East Asia. India is seen as a credible countervailing power to resist Chinese ambitions. The world wants India to succeed. India can leverage this favourable moment to encourage a significant flow of capital, technology and knowledge to accelerate India's economic modernisation. But for this to happen, India needs to create and sustain a congenial economic environment at home. There is no queue at India's gate, waiting to come in. Investors, both foreign and Indian, have several alternative destinations for their capital and technology. India must project itself as the most competitive destination for trade and investment. Its vast and growing market is an asset that will deliver results only if the policy regime is predictable, uncluttered and unambiguous.

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*India's vast and growing market is an asset that will deliver results only if the policy regime is predictable, uncluttered and unambiguous*

## Our notion of value must change

Our notion of what constitutes value will be changed as a result of the crisis we are going through. Our accounting systems, on the basis of which we calculate business risks, and profits and losses are biased towards demonstrable, quantifiable and immediate effects. They undervalue the effects which may manifest over longer periods or for which we have not developed precise enough measuring tools. We are aware of these effects and understand them as significant challenges but since they do not fit into current methods of measurement, they tend to get ignored and have no value. “Not everything that counts can be counted and not everything that can be counted counts.” Our unpreparedness to deal with the pandemic demonstrates this starkly. There is also an added problem of measuring feedback loops among inter-related domains. For example, food security, water security and energy security are all inter-related and intervention in one domain has knock-on effects in other domains, but our current accounting systems are linear and not very good at calculating the positive or negative effects in multiple domains. The pandemic has revealed how ignoring such effects can distort our risk assessment and impact gravely on business. This is related to the classic problem of dealing with external economies where it is not possible to relate individual cost incurred to individual benefit received since the latter is socialised. Challenges such as Climate Change and Public Health require such socialisation of costs and benefits, and business can no longer ignore this because this is now directly impacting on viability of doing business. This is also the reason why multilateralism and international cooperation are so important. Only they enable a proper reckoning of value for humanity as a whole.

The pandemic is shaking the foundations of our politics, society and economy. It is loosening the rigidities and weakening the vested interests that have retarded structural reforms both in governance and economic policy. This is a moment to be seized. The tendency to close down the hatches, hunker down and wait for the storm to pass is as bad a strategy for firms as it is for States.

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*The post pandemic economic recovery must not neglect the ecology challenge but seek a trajectory that is ecologically sustainable*

### Ecological thinking is the Key

The Covid-19 pandemic has starkly exposed the perils of rampant degradation of the planet's ecology. It is because of the loss of biodiversity, the depleting habitat of the planet's myriad life-forms and global warming inherent in our fossil fuel based energy systems that created the conditions which led to the eruption of Covid-19. Linked to this is the industrialisation of food production, which has led to mass breeding of beef cattle, pork and poultry in conditions which make spread of infections and contamination of the food chain all but inevitable. We will need to rethink such issues of food security. These are cross-domain issues and require treating ecology in a comprehensive frame. Instead of

aiming for a global Climate Change regime, we ought to raise our ambitions to conclude a truly global and collaborative Ecology Convention. The post pandemic economic recovery must not neglect the ecology challenge but seek a trajectory that is ecologically sustainable. Otherwise we are destined to relive similar crises in the future.

**The Way Ahead:** India has begun to serve a two-year term as a non-permanent member of the U.N. Security Council. It is serving a similar two-year term as Chairman of the Executive Council of the World Health Organisation (WHO). In 2022, it will play host to the G-20 summit. These opportunities to exercise international leadership have come together and there is a rich agenda to advance international peace, prosperity and crisis-management. India also has a tradition of international activism and promotion of multilateral institutions and processes. Despite the headwinds we face, there are opportunities to advance India's interests, raise its international profile and position it as one of the key architects of the emerging international order.

# Epilogue

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- Dilip Chenoy, Secretary General, FICCI

The year 2020 will go down in history as the scale break between pre-covid and post-covid times. What unfolded as a health crisis has turned into a deep economic crisis, pulling the world into a recession. Uncertainties loom large and world over policymakers are striving to strike a balance between lives and livelihoods. India has been no exception.

Government of India has taken several supportive actions to mitigate economic losses, including 'Atmanirbhar Bharat' package and introduction of specific schemes to boost consumption and investment. RBI, on its part, has been taking regular measures to ensure liquidity support. The government has also ushered in significant reforms in areas such as agriculture, defence, space, mining and other sectors as well as labour laws. The latest announcement of Atmanirbhar Bharat package 3.0 has given a further boost to the economy and has the potential to lift growth, employment, exports and make India a part of the global value chains.

With positive developments on the vaccine front, there is hope that the crisis shall soon pass. However, post-covid times will not be the same as pre-covid. There will be many aspects that were used and developed to meet the challenges faced during this time that will be mainstreamed going forward. Just like champion sectors have been identified, other areas in services would need to be done too. As a nation, we would need to continue to develop a strategic response to the crisis and its aftereffects.

The crisis has left deep imprints on the micro as well as macro dynamics of every economy. At the micro level, many organisations have already started looking at new ways of operations in wake of the New Normal, with digital adoption seeing a rapid rise. At the macro level too, policymakers will have to relook and re-design their strategies for future, keeping in view the changes in geo-political and geo-economic landscape.

The covid-19 crisis has also opened several opportunities for India. These should be identified and leveraged for a better future.

Foremost, India will play a major role in post-pandemic global recovery. With India accounting for almost 60 percent of global vaccine production, the country has a huge opportunity in manufacturing Covid-19 vaccines for the world at large. On the economic front, an early growth recovery for India will support global growth as well.

There is an unequivocal view that India could expand its global trade due to the new geo-political landscape emerging post the pandemic. As Prof Heribert Dieter says in his article, there is an *“opportunity for India to gain from the reorganisation of global supply chains, involving a shift from China. In the future, many companies will follow a pattern that has been labelled as China + 1”*. In

fact, this was also highlighted by Prof. Beata Javorcik, Chief Economist, EBRD at a FICCI-KAS interactive session held in November 2020.

Of course, the extent to which India is able to take advantage of emerging opportunities vis-à-vis other countries vying for the global exports pie (such as Vietnam, Bangladesh, South Korea, Taiwan, etc.) will depend on the competitiveness of Indian Industry. As Mr. Ajay Shankar puts it – *“competitive advantage is not a natural endowment, like mineral resources or an agro-climatic condition for certain agricultural produce. It is created.”* Government's support through smart interventions is a pre-requisite if Indian manufacturing has to be an integral part of the Global Value Chains. The policy suggestions laid out by Mr. Shankar for bringing down cost of doing business are pragmatic and worth examining – public investment in connectivity infrastructure (from manufacturing centres to the National Highway network and from the Highway network to railway freight terminals, air cargo terminals and ports) will bring down turnaround time and lower logistics cost. Likewise, bringing diesel under GST at lower rates will help in bringing down energy cost, and moving towards credible third-party certification would improve compliance and also reduce transaction costs. The suggestion for creating large industrial parks with quality infrastructure and leveraging economies of scale is important if India is to emerge as a strong player in the Global Value Chains.

Mr. Ajay Shankar has also stressed the importance of maintaining real exchange rate for improving competitiveness. Even Dr. Arvind Virmani has highlighted the role of monetary policy in sustained recovery. *“Monetary policy must maintain high liquidity, low and stable real interest rates in market for all systemically significant instruments”*, he says.

While the Government has identified Champion Sectors for providing special support over the next five years under the 'production linked incentive' (PLI) scheme, there are some sectors where India has a potential to be global leader and need to be adequately supported. Mr. Ajai Chowdhry has identified some of these new-gen industries namely *semiconductor manufacturing and design industry, fin-tech, health-tech and space-tech*. These sectors are growing at a rapid pace and will be key growth drivers in future. With right strategy and planning, India can emerge as a Global Leader and a key exporter in these sectors.

Media & Entertainment is another industry where India has significant potential to emerge as a global leader. As Mr. Uday Shankar mentions in his article – *“The media and entertainment sector can help strengthen India's services exports at a time when transport, tourism and other export-oriented industries have been disrupted by the Covid-19 pandemic”*. Policy reforms in the sector can help unleash its potential and play a major role in leading India at the world's centre-stage. Cultural exports are after all influential instruments of country's soft power. Mr. Shankar calls for a national level strategy that can provide directional impetus to State and Central governments for policy reforms in the Indian media and entertainment sector. For instance, a standardised permissions regime will help make India a preferred destination for global content creation. Skill development is another important measure as training in cutting-edge technology will be required if India is to become a media and entertainment powerhouse.

The opportunities are wide-ranging. The pandemic has highlighted the role of digital economy across sectors and even post the crisis, digital way of functioning will continue. The article by Mr. K R Sanjiv and Mr. Rahul Shah highlights some of the potential areas where digital solutions by India can solve some of the major challenges and problems. They aptly summarise the potential by saying *“India should be giving the world the dominant platform in multiple areas, the uber for land records management and the next salesforce to legal system management or incident management, the next zoom for collaboration”*. The only support required from the Government in making this happen is provision of an enabling environment. Easing of regulatory environment for start-ups, creating Centres of Excellence in educational institutions for creating start-ups are some of the suggestions in this regard.

Mr. C P Gurnani too highlights the potential of digitalisation for making India a global digital powerhouse. He advocates keeping sustainability at the core and using digital technology in making the SDGs actionable.

Sustainable development of Agriculture is perhaps most important as it is critical for global food security and poverty reduction. The outbreak of Covid-19 pandemic brought these concerns once again to the fore. India itself will need 40% more food in the next 15 years to meet domestic demand. Innovation and advanced technologies are much needed for food security and to ensure sustainable agriculture. Mr. Siraj Husain has highlighted the role that recent agricultural reforms can play in liberalising Indian agriculture and uplifting farmer community. Going forward, India needs more digital solutions to make agriculture sector resilient to shocks.

On the healthcare front too, digital solutions have become critical. As Mr. Pankaj Patel says, *“Healthcare industry needs to focus on integrating parts of the patient flow, from doctor consultation to diagnosis, from referral to secondary or tertiary or even quaternary care, and overall well-being in a digitally integrated manner”*. He also emphasises the need for healthcare access to all and suggests increasing expenditure on healthcare to 2.5 percent of GDP in the next 5 years, and to 5 percent by 2030. He suggests making Indian pharmaceutical industry even stronger in the post pandemic world by providing an enabling eco-system for developing self-reliance in APIs, creating centralised infrastructure, building common utilities and easing regulatory clearances. He also suggests setting up an “innovation fund” which provides milestone linked grants to the industry.

India's reforms agenda is not limited to just these sectors. There are a plethora of areas where we need to improve and perform better, be it in the social, economic, or legal fields. And as we go ahead with these reforms and create opportunities for growth, we need to look at adequate financial resources that can be drawn to fund or support such growth opportunities. Strengthening India's financial sector is thus extremely important. Institutions, industry and individuals must collectively support efforts of government going forward. As Mr. Subhash C Garg says, *“The task before the policy makers, businesses and workers of India is to regain the lost ground and embark on the high growth path to build an economy of \$10 trillion by the middle of 2030s to make India the third largest economy in the world and to make an average Indian live in an upper middle-income country.”*

Suggestions laid out by experts like Dr. Ashima Goyal, Dr. Viral Acharya and Mr. Rajkiran Rai are essential for making Indian banking and financial sector robust. Reducing the bank stress through selling off non-core assets, raising of private capital, divestment of government ownership in PSBs, bank consolidation and tough prompt corrective action for non-performing banks are some of the options to be explored. Additionally, our banks and other financial institutions need to strengthen capabilities to assess and process risks. They need to harness the power of data analytics for better decision making. Reviving the corporate bond market and setting up of a modern Development Finance Institution (DFI) for financing long-term projects need to be considered on an urgent basis.

The contribution of GIFT-IFSC in making India a global financial centre is equally important. As Mr. Injeti Srinivas says, “*GIFT IFSC has to develop as a well-diversified and globally competitive hub for international banking, insurance and capital market activities through a pro-business environment*”.

Amb. Shyam Saran talks of importance of ecological approach for all economic activities. He mentions “*The post pandemic economic recovery must not neglect the ecology challenge but seek a trajectory that is ecologically sustainable*”. He explains how challenges such as Climate Change and Public Health require socialisation of costs and benefits and business can no longer ignore it. The role of multilateralism and international cooperation is also critical in view of these challenges. He suggests taking advantage of India's ongoing and upcoming international leadership at various multilateral fora for advancing the agenda of international peace, prosperity and crisis-management, and to raise India's position as the key architect of emerging international order.

Crisis of today is a learning to face-off challenges of tomorrow. Many of India's problems are not new, they probably need new solutions that are pragmatic yet futuristic. Responsible actions are desired from everyone – governments, industries, firms as well as individuals and collectively as a society to enable a better and sustainable future.





## **Federation of Indian Chambers of Commerce and Industry (FICCI)**

Established in 1927, Federation of Indian Chambers of Commerce and Industry (FICCI) is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community. FICCI's vision is to be the thought leader for industry, its voice for policy change and its guardian for effective implementation.



## **Konrad-Adenauer-Stiftung (KAS)**

Freedom, justice and solidarity are the basic principles underlying the work of the Konrad Adenauer-Stiftung (KAS). The KAS is a political foundation, with a strong presence throughout Germany and all over the world. We cooperate with governmental institutions, political parties and civil society organisations building strong partnerships along the way. In particular, we seek to intensify political cooperation in our core areas of priorities at the national and international levels on the foundations of our objectives and values. Together with our partners, we contribute to the creation of an international order that enables every country to develop in freedom and under its own responsibility.

The Konrad-Adenauer-Stiftung has organised its program priorities in India into five core areas: Political Dialogue and cooperation, Foreign and Security Policy including Energy Policy, Economic Policy and Management, Rule of Law and Media which includes training programmes for students of journalism.

The Konrad-Adenauer-Stiftung's India office takes great pride in its cooperation with Indian partner organisations, such as think tanks, apex bodies, Government and Non-Governmental Institutions, who implement jointly curated projects and programmes.

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