

A-LIST POINT OF VIEW



The Charging Elephant: Insights into Doing Business in the World's Fastest Growing Economy



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Background

On May 31, 2019 AmCham hosted Mr. Dilip Cheney, Secretary General of the Federation of Indian Chambers of Commerce & Industry (FICCI), in a dialogue discussing the outcome of the Indian elections in May 2019 and its implications on the business community.

Mr. Cheney previously served as Managing Director & CEO of the National Skill Development Corporation (NSDC), a public-private partnership that aims to foster private sector investment and initiatives in training and skill development in India.

Key Takeaways

- India's economy is growing rapidly, and this growth will likely be sustained, preparing India to become a potential competitor for China in the future.
- Prime Minister Modi and his newly re-elected government will focus on making India a high-tech manufacturing hub. They will also advance many important infrastructural upgrades for transport, energy, communications, among other areas.
- India's political situation remains stable and continuity of policy priorities is expected.
- However, India faces several challenges that could constrain its growth, such as low agricultural productivity, land use issues, and tightening lending from banks.

India on the Rise

Mr. Cheney noted that India has been “moving up the ladder” and is now the sixth largest economy in the world. India also has a high GDP growth rate (around 7%) and a low inflation rate (around 2%) which boded well for the future. There is potential for even stronger growth, as India has a large domestic market, a fast-growing middle-class population, a large under-25 demographic, and a strong government that has just been re-elected.

Between 2014 to 2018, India's “ease of doing business” ranking went up 65 places to put it in 77th place. This has been reflected in the growth of mobile phone and accessories manufacturing, with domestic production currently exceeding imports. The implementation of the Goods and Services Tax (GST) has successfully led to a unified tax policy and will be a net positive for businesses. Mr. Cheney believes that India is on track to becoming a strong competitor against China, especially in the context of the ongoing US-China trade war.

Government projects have contributed to significant improvements domestically over the last few years. The ‘Clean India’ project has improved sanitation through building toilets throughout India, reduced indoor air pollution by providing a gas scheme to villages to replace the use of wood in cooking, and strengthened robust housing.



The government also implemented ‘Startup India’ to provide assistance to startups, operating in or outside of India. The Skilling Commission also launched upskilling and reskilling programs with the aim to skill 500 million people by 2022. Smart Cities and Digital India initiatives have also been established to increase digital and financial literacy in India.

Modi 2.0

Mr. Chenoy shared that an important part of Prime Minister Modi’s and his Bharatiya Janata Party’s manifesto is the plan to make India a global manufacturing hub. This plan includes the expansion of Micro, Small and Medium Enterprises (MSMEs). To develop them, Prime Minister Modi plans to further expand India’s tech centers and expose MSMEs to new technologies such as artificial intelligence (AI), Internet of Things (IoT) networks, and blockchains. The government’s industrial policy, which will be launched soon, also focuses on promoting clusters and networks in India, and improving competitiveness and productivity.

The manifesto also includes 75 areas of development to be improved on by 2022. This includes housing, electricity, sanitation, health, education and infrastructure. Mr. Chenoy explained that business and investment opportunities in these areas could be expected. The manifesto also focuses heavily on infrastructure developments. There are planned upgrades to gas, water, info-communications, and airport networks. The national highway system will be doubled in length, while port capacity will also be doubled within five years. Mr. Chenoy said that there will also be a special emphasis on urban mobility, which will be improved through upgrades to city infrastructure. Skills development for improved human capital is another important pillar of the manifesto, with the intention to have a national policy for “reskilling and upskilling”.



India’s Challenges

Mr. Chenoy acknowledged that India faces some challenges which might curb its rise as an economic powerhouse, such as the global economic slowdown and current trend of protectionism.

India imports large volumes of oil from Iran, which has negatively affected relations with the US. US sanctions on oil imports from Iran have led to volatility in oil prices in India, possibly affecting growth.

India is also facing an agrarian crisis, due to a depleting water table and declining productivity, which has depressed farmers’ wages. Banks have tightened their lending, which has led to a lack of “good-quality funds” for farmer-producer organizations (FPOs), which the government is trying to help grow.

The government has also been trying to prioritize labor-intensive industries, such as jewelry, textiles, and leather. However, cities like Bangalore which have major garment industries are now dominated by the IT industry. As such, IT businesses and workers have increasingly crowded-out the cities’ resources, putting a strain on the garment industry.

Necessary Reforms

In considering the country’s challenges, Mr. Chenoy laid out several key reforms that India should implement. Firstly, India should lower its interest rate, which is among the highest in the world (6%). Secondly, he believes that the banking industry needs to be consolidated, down to no more than five to six large banks.

Mr. Chenoy also said that India needs to resolve its land use issues, as most of the country’s land is currently owned by farmers, which makes it difficult for other businesses to acquire and use it. To address agricultural issues, the government should invest heavily in irrigation and create special tunnels to divert floodwater.

Q&A Discussion

To a query on data privacy and data localization, Mr. Chenoy clarified that the policies are not protectionist, but are meant to prevent misuse of sensitive data.



Audience members asked Mr. Chenoy to share more about his thoughts on bank consolidation. He explained that banks in India are equity poor and deposit rich, while non-banking financial companies (NBFCs) are the opposite – equity rich and deposit poor. He believed that merging them to complement each other's strengths and combat their weaknesses will help India's banking industry's competitiveness.

To a query on the government's plan to improve the ease of doing business in India, Mr. Chenoy explained that there were three levels where ease of doing business is evaluated – the national level, the state level and the firm level. To improve the ease of doing business in India, the government implemented an initiative 'Invest India' which provides firms with a 'hand holding process' to address investment difficulties.

On a question on the healthcare situation in India, Mr. Chenoy also shared that the main problem is bringing down the cost of health in healthcare and the government has been working on this issue.

In response to a question on possible collaborations between Singapore and India's tertiary education, Mr. Chenoy shared that they could consider offering specific technical executive courses, such as on artificial intelligence (AI), machine learning and data analytics, which can help India expand beyond being a "market for MBAs (Master of Business Administration)". He also shared that FICCI also runs an ASEAN Fellowship program, which offers industry internship opportunities for ASEAN students, and Singaporean institutes could send students to the ASEAN Fellowship Program.

A-List's Outlook

The landslide re-election of Narendra Modi offers India political stability and policy continuity.

Mr. Chenoy's assessment that India could become a serious competitor to China needs to be taken with a pinch of salt. This is not likely, at least not in the short- to medium-term, as India faces infrastructure and other challenges which could curb its growth.

Investors should still keep a close eye on the "charging elephant", as its demographic strength and focus on up-skilling could provide India's industry with a highly desirable workforce of the future.



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