

Indian Chamber of Commerce



MONTHLY  
**Economic REVIEW**  
December 2009



**Indian** economy  
flourishing  
again

Guest Editorial 2 | Global Update 4 | India Update 5 | Special Feature 6 | Sector News 9  
Focus East 12 | Focus North East 13 | ICC Activities 14



*Kiran Mazumdar Shaw, a successful technocrat of global standing, heads India's leading biotechnology enterprise, Biocon. Her pioneering efforts in biotechnology have drawn global recognition both for Indian Industry and Biocon.*

*She presently serves on the Advisory Council of the Government's Department of Biotechnology where she has been instrumental in bringing government, industry and academia together, to chart a clear and progressive growth path for Biotechnology in India. She is also part of the Prime Minister's Council on Trade & Industry in India and the US-India CEO Forum.*

*The recipient of several prestigious awards like the Indian Chamber of Commerce Lifetime Achievement Award, Ms Shaw's most cherished awards are the Padmashri and Padma Bhushan.*

# Infrastructure

## Key to Building Road to Recovery

**I**t is just over a year since the global economy fell off the edge into a man-made financial abyss. Although there are welcome signs of recovery, the steep fall will make it difficult for the economy to climb out of the chasm and start garnering real growth in the near term.

India was cushioned from the worst effects of the recession, helped by its low import dependence for commodities – other than crude – and a large domestic consumer base. Nevertheless, our economy did slide down a slope, slowing down our pace of growth. Now, as consumer spending and industrial production strengthen, things are beginning to look up. The resurgent stock markets and growing FDI inflows reflect the renewed confidence in the Indian economy.

However, this optimism must be tempered with caution. The Indian economy's strong funda-

mentals, bolstered by the government's fiscal and monetary policies, may lead to complacency and overconfidence. We must proactively address some grave threats that challenge our economic future if we are to help realize India's potential. Rising food prices, floods, drought, and low agricultural productivity pose serious challenges to long-term economic sustainability. The government needs to initiate economic reforms that support and invest in activities that yield better returns for the entire nation.

A critical area for growth is a strong and contemporary infrastructure, which is the backbone of a thriving economy. Unfortunately, both the Central and State governments have been indifferent towards giving this sector the desired impetus, preferring instead to pursue populist measures. If India aspires to be an economic superpower in the foreseeable future, it needs to

significantly step up the mere 4.5% of its GDP that it presently invests in infrastructure.

An economic slowdown is the perfect time for increasing infrastructure outlay. Grappling with a huge deficit in infrastructure, India requires large-scale commitment on this front to regain and sustain its economic growth rate and improve the quality of life of its people. We need to devise and pursue sustainable policies such as the National Rural Employment Guarantee Scheme which can be well served through augmenting infrastructure development. Infrastructure development will not only increase long-term growth opportunities but also provide large scale employment.

To this end, the government can utilise the expertise of India's thriving private sector through public-private partnerships. The appointment of former Infosys co-chairman Nandan Nilekani for the ambitious unique national ID card programme shows that the government is not averse to picking the right head for a top job even from the private sector.

Moreover, if this year's budget proposals are anything to go by, there is hope that the government is making efforts to tide over the economic crisis. Allocating more funds for infrastructure and implementing rural reconstruction and urban development projects make for a good beginning, as do stimulus packages to industries. However, a lot more needs to be done.

Industry could do with more tax cuts to boost production further. Moreover, we must not forget that any development initiative must reach India's poor. The government, financial institutions and industry must think out of the box to come up with innovative solutions for the common man. There is need for public and private organisations to work together to meet these requirements.

Biotechnology – the industry I am involved in – is a sunrise sector in India and promises a rich future in terms of breakthroughs and employment opportunities. With its cost-efficient base for innovation, India is well positioned to take

the lead in the global biotechnology industry. However, government reforms are crucial to realising the twin aspirations of success and growth.

The government can play a leading role in driving R&D – the lifeblood of biotechnology – by enabling international patenting and encouraging investment. A streamlined regulatory environment that approves products without delays along with attractive tax incentives for R&D could be the first step. This will encourage innovation, leading to proliferation of the 'Made in India' tag. Exempting capital gains tax to venture funds that invest in biotechnology and subsidizing life-saving drugs are some other measures the government can take. Moreover, there should be a five-year tax holiday on any new product developed in-house. The holiday can have a caveat that profits from new products be re-invested in R&D, driving companies to create newer and better drugs at lower costs.

Healthcare infrastructure is another critical factor for universal healthcare. India's public healthcare system is inefficient and inadequate, while private healthcare continues to be beyond reach for most. Affordable healthcare for all is not an option but a given to attain sustainable economic growth. To achieve this, the government needs to insure all its citizens while allowing the efficient private sector to act as the principle healthcare provider.

The post-recession scenario will be unique, requiring new solutions for new problems. However, despite its many challenges, the Indian economy also has its unique growth enablers. The reforms proposed in this year's budget need to be put into action with great urgency even as we simultaneously act on other fronts. Being creative while exercising the right amount of regulatory control is the only way to avoid the mistakes of the West in this last economic implosion. ■

#### DISCLAIMER

The views expressed in this article are entirely personal