India's options amid uncertainty

Equity support by the government, reskilling, and housing for workers — some of the steps to assist investment in new sectors

ILLUSTRATION: AJAYA MOHANTY

The global economic environment has acquired a new dimension of uncertainty from the emerging tariff scenario. Tariffs are subject to ongoing bilateral negotiations, contributing to the perceived uncertainty. It is useful to explore what the impact on India could be: On the economy as well as the fisc. Further, following up on a famous quotation from Winston Churchill — "Never let a good crisis go to waste" — can India find opportunities in this crisis?

The imposition of additional tariffs on Indian exports by the United States (US), even if at a modest rate, along with potential moderation in global demand, would imply a negative impact on India's exports. The decline in crude oil prices can moderate this negative effect. On the other hand, reduction in import tariffs by India could imply higher import, but not necessarily higher Customs duty collection — in other words, deterioration in current account deficits and a corresponding lowering of growth. Forecasts by various agencies, however, suggest India's growth would remain above 6 per cent! (See table.)

Turning to the fisc, the Budget numbers are based on a nominal growth rate of 10.1 per cent in gross domestic product (GDP). With a real growth rate of over 6 per cent and an inflation rate around 4 per cent, the Budget forecasts on receipts are likely to be realised. On expenditure, with expectations of a good monsoon and a modest shock to the real economy from external uncertainties, there is no burgeoning need to augment social-security measures in the near future. The government can focus on economic policy.

To exploit the opportunities from the current crisis, a two-pronged strategy can be conceived — restructuring trade partnerships and developing a strategic industrial policy to benefit from these partnerships. The government is engaged in finalising the trade agreements with major partners like the US, United Kingdom (UK), and European Union (EU). Given the uncertainties in the global economic environment — both in terms of growth and the sustainability of pre-existing agreements — India should build on its image of being a non-aligned country with a wide range of partnerships, which could include negotiating with China too. Diversifying the portfolio could be critical to the medium-term sustainability of integration into global supply chains. The organisation of businesses would remain centred on global supply chains.

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The necessary pivot in manufacturing and services for optimising on this opportunity could be developing a strategic industrial policy. Such a policy could address some of the key perceived challenges for investing in India. Ease of doing business and moderation in the regulatory environment are often mentioned as some of the key elements. A few other aspects could be considered:

1. With a view to underwriting the risks associated with new investment in the uncertain economic environment, the government could provide minority equity support for a few strategic sectors. While it is often argued that the state has no role to play in economic activities, in periods of high uncertainty and to support the evolution of new sectors in the economy, such intervention might be needed. It may be noted that with a few successful ventures, the government can capitalise on such investment and create resources to support other ventures. The government's programme of asset monetisation too works on the same principle. Some countries have chosen this route to support companies while others have opted for support through loans. Nokia was supported through equity infusion by the Government of Finland, while Apple was supported through loans by the US government. Given that both these companies were very successful, the returns to government from the former would be superior to the latter.

2. A suitably trained workforce is often presented as another challenge for investment in India. The government has sought to address this issue through various "Skill India" programmes. Building industry partnerships to identify and anticipate emerging needs for skills can help create an effective programme. With rapid changes in technology, the required skill-sets too would change — a forward-looking approach to address these concerns would be critical for creating more jobs as well as to support investment in sunrise sectors. Sweden has a well-recognised programme for skilling and reskilling. The programme incorporates periodic skill assessment and forecasting, reskilling, as well as vocational education developed in partnership with industry. (See *Economist*, July 2, 2009, for an overview) Other countries of the EU too have adopted this approach.

3. Housing remains a significant cost for workers and influences the cost of labour. The Pradhan Mantri Awas Yojana is structured around supporting ownership of a house for citizens. It might be useful to consider a pivot here to focus on houses/flats for workers around areas with a high present or potential concentration of manufacturing. Flats with a modest rent can support workers and reduce the cost of labour. The Government of Tamil Nadu has set up a special purpose vehicle to address this concern where industrial units sign up to utilise the housing for their employees. Such initiatives can ensure that the facilities developed can be maintained while keeping the costs moderate.

With such intervention, investment in new sectors can be supported by the government. Both the Union and state governments can share these initiatives within an overall consistent framework. The window of opportunity for the strategic policy pivot, however, might be brief since many countries would be in the race. Speed is of the essence.

DOWN BUT ABOVE 6% (FY26)

	Lowering of India's growth rate (percentage points)	India's revised growth grate (%)
World Bank	0.40	6.3
IMF	0.30	6.2
RBI	0.20	6.5
Nomura	0.10	6.0
Moody's	0.30	6.1
Goldman Sachs	0.30	6.1

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