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Page | 1

India Is Likely to Move Out of Policy Logjam

By Kunal Kumar Kundu

The last few months of Pranab Mukherjee (India's prime Presidential candidate now) being at the helm of the India's Ministry of Finance has been tumultuous, to say the least. Maybe, not as much for him but surely for the economy, as a whole. Not that the entire blame lies at his doors. The global economy continued to hurtle from one disaster to another. The Congress party (the single largest party in the ruling coalition government) fared very poorly in the much anticipated state election – thereby providing more fire-power to emboldened opposition and recalcitrant allies. The situation worsened further when India's Supreme Court penalised (rightly) some Indian ministers for their corrupt practice in allotting 2G telecom licenses but also penalised (wrongly) the investors (including all the foreign investors) by scrapping all the licenses. As the confidence of the investors were shaken, Mukherjee decided to add further fuel to the fire by taking decisions that shook investor confidence and introduced great degree of scepticism. Introduction of GAAR when the confidence has been shaken and amending tax laws retrospectively (inspired by the decision to force Vodafone to pay tax for an offshore deal, although the Supreme Court had already ruled in their favour) sent a clear message to the investors, especially the foreign ones, that the policy environment in India is highly unstable and that the government may not occasionally chose to play fair. More importantly, despite facing all round criticisms, Mukherjee chose to stick to his guns thereby dealing a body blow to the already floundering economy.

Mukherjee's elevation (virtually certain) to the position of India's President, therefore, can be seen as a blessing in disguise. It's a win-win situation for both Mukherjee (who, the seasoned politician that he is, aspired to be India's Prime Minister but failing which India's Presidency was the next best option available to him) and the Indian economy (given the likelihood of the imprudent decisions being overturned). Mukherjee resigned on 26th June and India's PM Manmohan Singh took up the additional responsibility of the Finance Ministry. Singh's (the architect of India's reforms programme in 1991) assuming the responsibility was the right thing to do at this juncture. Among his early statements was his intent to "revive the animal spirit in the country's economy". As if on cue, Ikea, the world's largest furniture retailer, announced that it would invest as much as €1.5bn in India over the next few years. Even Coca Cola announced that it would invest US\$5bn in India by 2020.

Singh on his part also started making the right noise. With intent to improve investors' sentiments and allay their fears, he announced that the provisions of GAAR and retrospective tax laws will be amended appropriately. There is now a wide-spread belief that the government would also go slow on Vodafone tax claim and may even jettison the idea down the line. Even on the issue of 2G spectrum allocation, Singh is moving very pragmatically. While the Dept. of Telecom (DoT) has been making all the wrong noises about spectrum allocation including asking the existing players to cough up license fees for the remainder of their license period (which is bad in intent and spirit), Singh is clearly against this and has opposed this. There is now also a possibility that FDI in multi-brand retail will start rolling out soon. There is a likelihood that the policy will be notified after the presidential election is over and it will be projected only as an enabling policy in that, the states would be free to decide on whether to allow it or not. Those who want FDI can roll it and those who oppose it would not do so. As I have been saying all this time, while big ticket reforms that require legislative approval may not be a possibility in India till the next general election (2014) gets over, the government ought to move ahead with policy decisions that are executive in nature and enabling those can remove some roadblocks impeding the economy. Decision on FDI is one of those. That apart, there are issues like ensuring of appropriate fuel linkages for various power projects (including a few Ultra Mega Power Project or UMPP) that are held up at various levels, environmental concerns, land acquisitions etc.

Investment in India has been experiencing clear slowdown over the past few years and the stalled projects do not help. According to Centre for Monitoring Indian Economy (CMIE), as of 31st May, 12 projects worth Rs.101bn are stalled. Hopefully, under the stewardship of Singh, policy logjam visible thus far, may slowly give way.

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