

Economic Survey-2021: Process Reforms

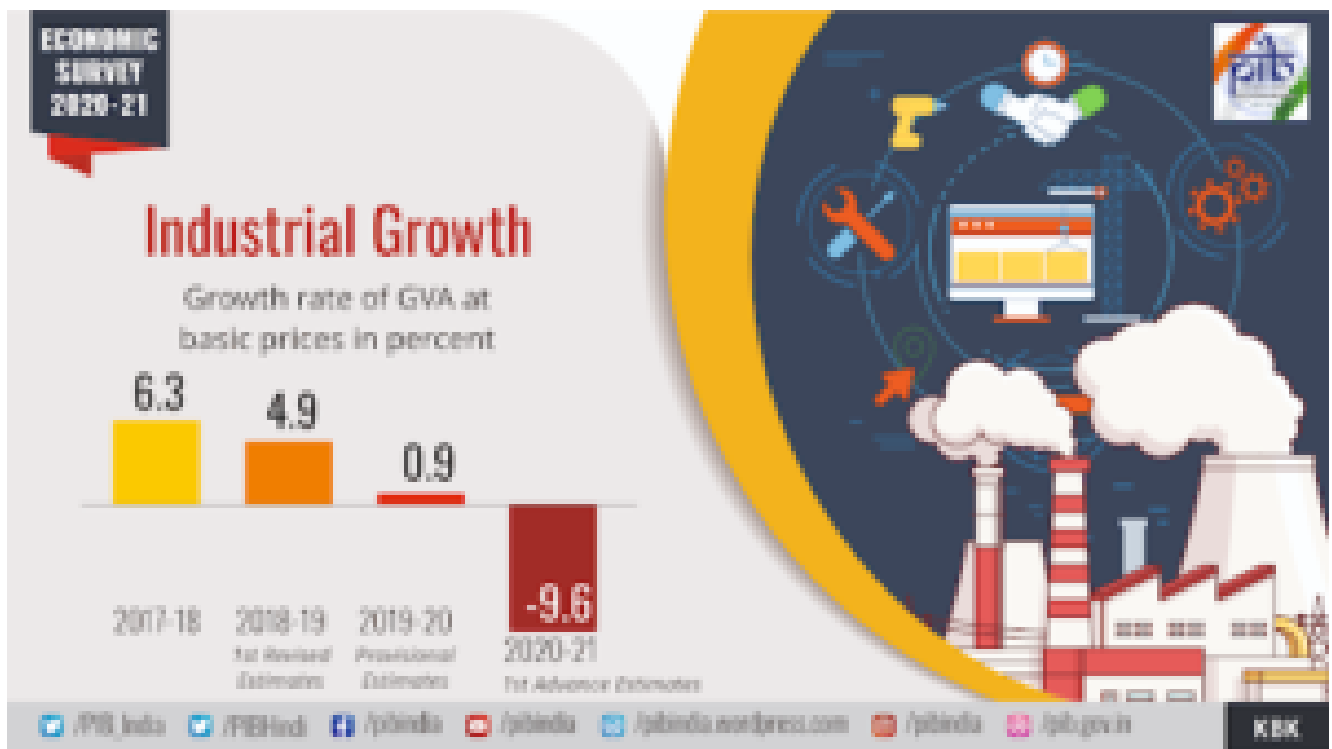
January 30, 2021



- India over-regulates the economy resulting in regulations being ineffective even with relatively good compliance with process
- The root cause of the problem of overregulation is an approach that attempts to account for every possible outcome
- Increase in complexity of regulations, intended to reduce discretion, results in even more non-transparent discretion
- The solution is to **simplify regulations** and **invest in greater supervision** which, by definition, implies greater discretion

- Discretion, however, needs to be balanced with **transparency**, systems of ex-ante accountability and ex-post resolution mechanisms
- The above intellectual framework has already informed reforms ranging from labour codes to removal of onerous regulations on the BPO sector

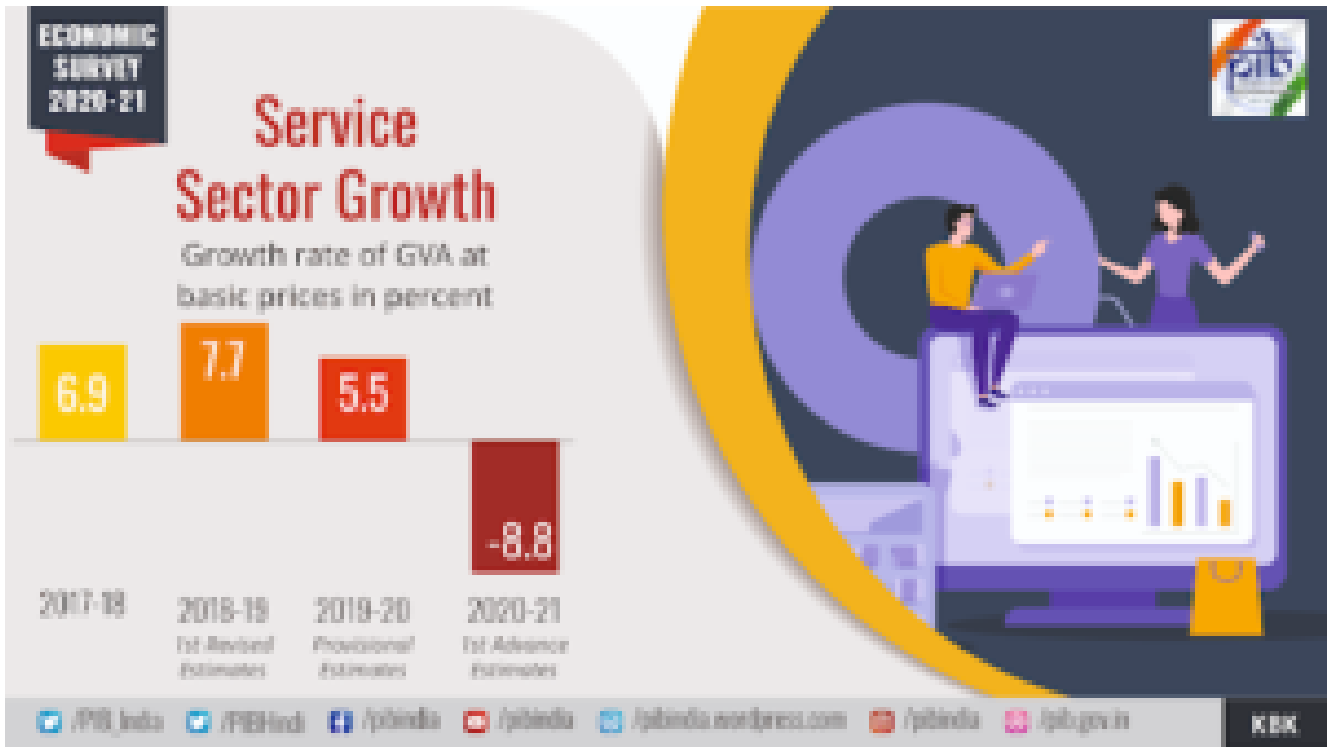
Industry and Infrastructure



- A strong **V-shaped recovery** of economic activity further confirmed by IIP data
- The **IIP & eight-core index** further inched up to pre-COVID levels
- The broad-based recovery in the IIP resulted in a growth of (-) 1.9 % in Nov-2020 as compared to a growth of 2.1 % in Nov-2019 and a nadir of (-) 57.3 % in Apr-2020
- Further improvement and firming up in industrial activities are foreseen with the Government enhancing capital expenditure, the vaccination drive and the resolute push forward on long pending reform measures
- **Atma Nirbhar Bharat Abhiyan** with a stimulus package

worth **15 % of India's GDP** announced

- India's rank in the **Ease of Doing Business** (EoDB) Index for 2019 has moved upwards to the **63rd position in 2020** from 77th in 2018 as per the Doing Business Report (DBR):
 - India has improved its position in 7 out of 10 indicators
 - Acknowledges India as one of the top 10 improvers, the third time in a row, with an improvement of 67 ranks in three years
 - It is also the highest jump by any large country since 2011
- **FDI equity inflows were US\$49.98 billion in FY20** as compared to US\$44.37 billion during FY19:
 - It is US\$30.0 billion for FY21 (up to September-2020)
 - The bulk of FDI equity flow is in the non-manufacturing sector
 - Within the manufacturing sector, industries like automobile, telecommunication, metallurgical, non-conventional energy, chemical (other than fertilizers), food processing, petroleum & natural gas got the bulk of FDI
- Government has announced a **Production-Linked Incentive (PLI) Scheme** in the 10 key sectors under the aegis of **Atma Nirbhar Bharat** for enhancing India's manufacturing capabilities and exports:
- To be implemented by the concerned ministries with an overall expenditure estimated at Rs.1.46 lakh crores and with sector specific financial limits

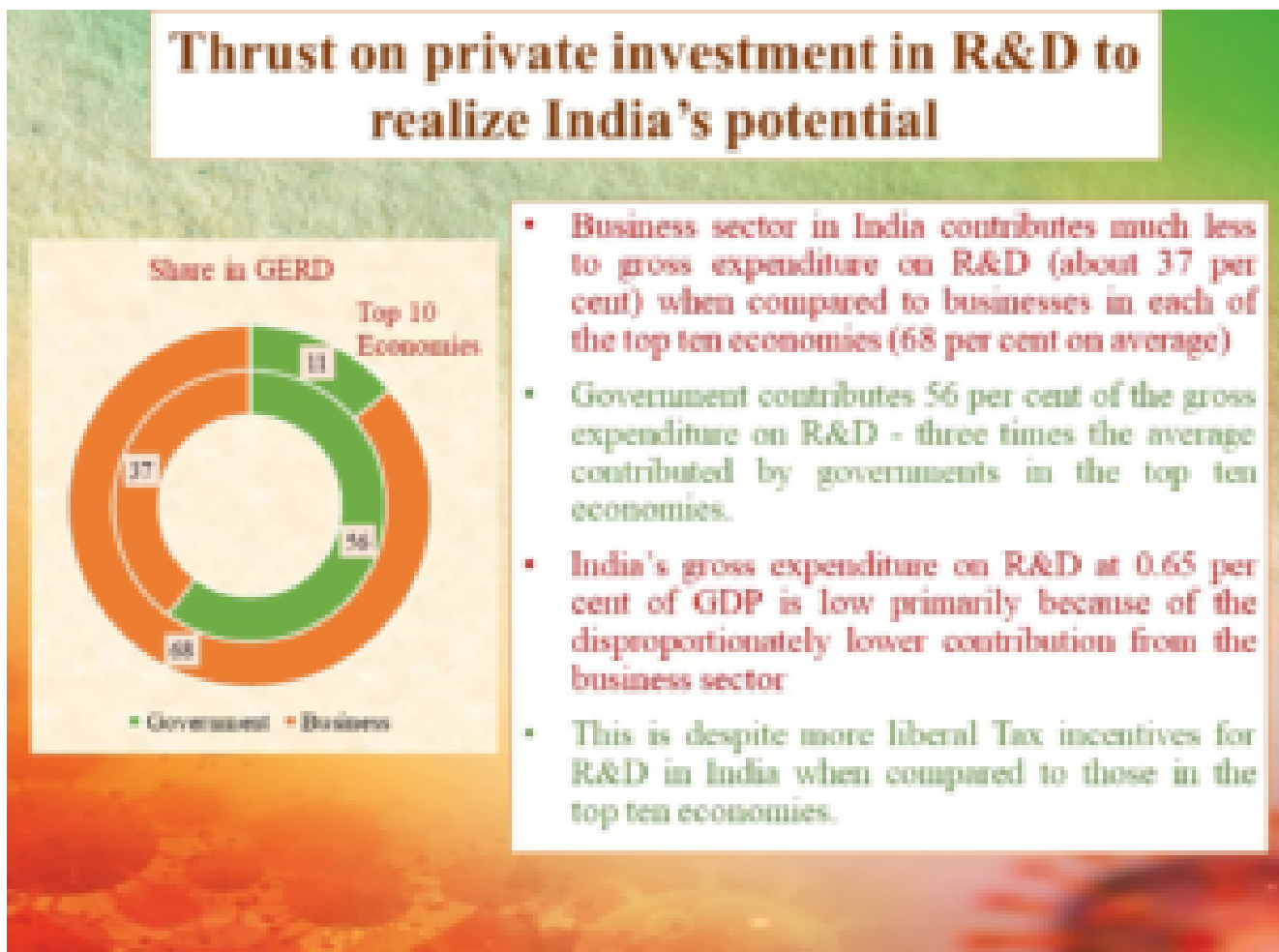


- India's services sector contracted by nearly 16 % during H1: FY 2020-21, during the COVID-19 pandemic mandated lockdown, owing to its **contact-intensive nature**
- **Key indicators** such as Services Purchasing Managers' Index, rail freight traffic, and port traffic, are all displaying a V-shaped recovery after a sharp decline during the lockdown
- Despite the disruptions being witnessed globally, **FDI inflows** into India's services sector grew robustly by 34% Y-o-Y during April-September 2020 to reach US\$ 23.6 billion
- The services sector accounts for over **54 % of India's GVA** and nearly **four-fifths of total FDI inflow into India**
- The sector's share in GVA exceeds 50% in 15 out of 33 States and UTs, and is particularly more pronounced (greater than 85%) in Delhi and Chandigarh
- Services sector accounts for **48% of total exports**, outperforming goods exports in the recent years
- The **shipping turnaround time** at ports has almost halved from 4.67 days in 2010-11 to **2.62 days** in 2019-20
- The Indian **start-up ecosystem** has been progressing well

amidst the COVID-19 pandemic, being home to **38 unicorns** – adding a record number of 12 start-ups to the unicorn list last year

- India's **space sector** has grown exponentially in the past six decades:
 - Spent about US\$ 1.8 billion on space programmes in 2019-20
 - Space ecosystem is undergoing several policy reforms to engage private players and attract innovation and investment

Innovation: Trending Up but Needs Thrust, Especially from the Private Sector



- **India entered the top-50 innovating countries for the first time in 2020** since the inception of the Global Innovation Index in 2007, ranking **first in Central and South Asia**, and third amongst lower middle-income group

economies

- India's gross domestic expenditure on R&D (GERD) is lowest amongst top ten economies
- **India's aspiration must be to compete on innovation with the top ten economies**
- The **government sector contributes a disproportionately large share in total GERD** at three times the average of top ten economies
- The business sector's contribution to GERD, total R&D personnel and researchers is amongst the lowest when compared to top ten economies
- This situation has prevailed despite higher tax incentives for innovation and access to equity capital
- **India's business sector needs to significantly ramp up investments in R&D**
- Indian resident's share in total patents filed in the country must rise from the current 36% which is much below the average of 62% in top ten economies
- For achieving higher improvement in innovation output, India must focus on **improving its performance on institutions and business sophistication innovation inputs**

