# Policy alignment key to unlocking private investment: Sanjiv Bajaj

India's next phase of growth hinges not just on incentives but on alignment, said Sanjiv Bajaj, Chairman and Managing Director of Bajaj Finserv Ltd and Chairman of the CII Corporate Governance Council. In an interview to *businessline,* Bajaj said Customs duty changes, FTAs and PLI schemes must move in step with State-level reforms on land, labour, power and water. He proposed a GST-style body that can resolve Centre-State issues. He said global tariff disruptions have dented export confidence and delayed investment decisions, making policy coherence and predictable rules more urgent. Excerpts:

**The govt has responded to global tariff wars with a drive towards diversification of markets and self-reliance. How would you respond to the fact that the Indian industry hasn't been able to invade most markets despite the several FTAs that have been signed? With Japan or with ASEAN, our trade deficit has ballooned. We haven't been able to sell anything to Russia as well.**

There have been examples of early wins with the FTAs. With the UAE, for instance, where the trade was around $50-60 billion both ways, it is now almost at $100 billion in three years. The 100 billion target which was set for 2030 has been subsequently amended. In this particular instance, our products and services were such that they were easily usable by customers in the specific country. We have to plan from a medium-term lens. And we need alignments. What is required is access to markets which the FTA ensure. At the same time, we need a custom duty structure which aligns itself for the material that we don't have over here so we can buy cheaply, and it can come at lower import duties. We can then use PLI and other schemes that are incentivising those sectors to see in other markets through the FTAs. One needs to make sure there is an alignment between the FTA, the PLI, and our customs duty structure to create a roadmap for the next 10-20 years. Second part that was needed was domestic GST rationalisation which has already been done.

The third area, which is very important, was the passage of the new four Labour Codes. Now, States need to adopt those as well. The fourth is factor reforms – land, labor, power, and water. How do we make sure that we streamline these? One of CII's recommendations is that we need a structure like the GST committee which, of course, is a statutory body. That works very well between the center and the states, where there are often different points of view but they're able to resolve and move ahead. If one can create similar body for these factor drivers – land, labor, water, and electricity, it would make a big difference in the speed of implementation for new businesses or expansions of existing facilities. What is important is that when you're attracting FDI in these real sectors for the long term, they're not just looking for quick wins. They're looking for a stable environment where, in the long term, they can keep getting even moderate or medium returns. The easier, the more predictable and the more transparent we can make it, will help. So it's not just by signing FTAs or working on custom duty reforms in isolation that would work. All the ducks have to fall in line. We have this real opportunity from now for the next

20, 30 years when we have the demographics. We have capacity, capability to produce world-class products in a number of sectors. We are already seeing that, for example, in in the motorcycle industry, we are already world leaders. We are competing against all kinds of products and India is exporting all over the world. Auto components is another great example. Even a newer sector, less than 10 years old, like electronics has ended up doing well. We have the huge advantage which not too many countries have of a large domestic consumption market, so that gives you economies of scale as well. So we have those strengths. We have to just bring them together. It's like orchestra, every instrument has to be in harmony to get the right notes.

**You mentioned the labour reforms as a critical factor; do you foresee trouble on that front? Do you think more consultations needed to be done to roll out the four Codes?**

I won't get into the politics of the process of passing it. That's naturally for the government to answer. The reality is that in any country, labour and labour-related regulations is a sensitive topic. I know that CII has, over the years, given a number of suggestion and many of them have been taken up in the four labour codes. If you look at the four labour codes and what they're doing – on the one hand, they're Increasing compensation for a large section of the workforce which otherwise would have worked in an informal sector. Is it enough? Should it be higher? I think we are on the path where over a period of time these things change as the economy grows. We also have to be competitive. We have to keep that in mind. Second, around worker safety, the codes have formalized a set of requirements that companies have to meet. Third, the codes recognize the rights and opportunities for women, for gig workers, all of whom otherwise were not getting the same opportunity and treatment because the earlier laws didn't allow for that. Fourth, there is a set of both rights as well as obligations for workers and for the employers as well. I believe we have reached a position which is better for the country and the economy than where we were earlier. As somebody who runs a set of businesses, I know how exceedingly complex it was to deal with the labour laws in the past construct and the number of areas that stayed grey, open for interpretation. Bringing in authorities, unnecessarily criminalizing simple things which should be decriminalized. The government has done away with a whole bunch of them. I believe the direction is correct. I do hope, through whatever is the appropriate political process, that these move ahead. I think they will make a dramatic change in India in the coming years. It will also set the stage for periodic review and evolution, as it should be with any other area.

**How much do you think that the GST rate cuts and the income tax rate cuts have helped boost private consumption? The government has done its bit but when would the industry pull its weight? What are the bottlenecks to private investment?**

Which other economy is growing at 8 per cent in these times? I think the government should take a lot more credit than they do for this kind of economic growth. Now we know there is some base effect. Everybody understands the math. But keep in mind that by next year we're going to be a 4 trillion economy. Okay, some of it is a base effect. It will moderate in the next few quarters. But to grow at this rate versus growing at the rate or 9 per cent in 2008-09 is a completely different ballgame because we are two-and-half times that size, so we shouldn't take credit away from the fact that we have done many things right. But we should not we get lazy and complacent about it. I would say first is the recognition that enough right things are happening. Second,I think the government has done a lot in the last five cent boost to GDP. It has kept fiscal discipline at a very good level. As a result of that, our inflation is in control. We are at a low cycle in our interest rates. Getting each of these things right by itself has been quite significant.

Now, the missing piece, which is baffling to everybody, is why this is not resulting in better demand and why isn't new capex coming on the private sector side, right? And if there was an easy answer, it would have already been given. I think it is only an issue of greater confidence in economic growth. And for that, on the export side, the FTAs will make a difference. Prior to the tariff war, India's exports had grown dramatically in the last three years, so those things were falling in place. Now, these tariff wars have just disturbed that whole equation. So, rebuilding supply chains, rebuilding customer relationships will take time. Businesses are losing money, but they can't let go of those customers because they will go to somebody else. We are not the only ones producing those things, so we are in an extremely challenging situation driven by external factors.

**Would you say that we will need stronger wage and employment growth to drive mass market consumption?**

I can tell you that 7-8 years ago we used to mainly finance 30-inch TVs, we now do mainly 40-inch TVs. We used to do single-door refrigerators, now it's mostly double-door refrigerators. There is an improvement in quality of living. At the middle-class level, the wage growth has happened. We think it should spread a lot more and it should be even faster. For that to happen, all our engines have to be humming. And see, what are the growth engines? One, is infrastructure investments linked to infrastructure, cement, construction equipment, commercial vehicles that are used.

Second is, if you look at commercial real estate in India, it has grown dramatically in the last ten year. Even now the demand is very high, not only because of the new industries but a lot of foreign companies are now setting up their global capability centres. In Pune, where I live, you're seeing million square foot buildings coming up. There is a Mastercard building, there is a Deutsche Bank building, there are financial services, Credit Suisse etc. There is a lot of such business that is coming into India on the services side. So, when you look at commercial real estate, because lending there is also one of our business lines, the growth is very stable and of very high quality. In a number of manufacturing areas, our exports have got challenged in the last 12-18 months. It will improve hopefully, with some of these newer FTAs, like the EU, the US, at some point of time it gets done, it will provide stability and certainty. Private sector eventually raises capital from others, and it has to return that capital with a reasonable return. It's not social capital, it's private sector capital, so one has to respect that capital.

**What advice would you give to the government before the Budget?**

We would like a focus on alignment on policies from customs duty to FTAs to PLIs. Build capability long-term. Second is to ensure factor reforms. So, your land, labour which are all State subjects have to align with the national goals. If the states don't align and move fast on this, where do we set up our new businesses? Another immediate requirement is accessing capital if we have to grow at 7, 8 per cent as an economy in the next 10, 15 years. We need significant amounts of both foreign and domestic capital. How do we channelise domestic capital? In the last few years, monthly mutual funds are getting ₹13,000

Our stock markets are no longer controlled by foreign money. They used to be 10 years back. They are now controlled by domestic money. This money, which is middle class money, is now coming into financial assets and they want to better returns than what just bank deposit gives. So, how do we channelize this in an efficient manner? It goes into pension funds, it goes into insurance funds. And those can then fund the long-term growth of this country, so we need a strategy around both foreign capital and domestic capital, and making this available to India to grow in the next 10-20 years. We need to grow with our own domestic capital so that we don't end up like those Southeast Asian economies that only relied on foreign capital and when that capital went away, they collapsed and they took nearly 15 years to get back. Simultaneously, ease of living is very important. We all have to feel happy where we are living. Our traffic has to get more organised, the cities have to become cleaner. I think the primary responsibility is of us as individual citizens. We keep our homes clean, why don't we keep the footpath outside clean? If we do that collectively, it will make a very big difference.

**What is your view on the rupee breaching the 90 dollar mark?**

The RBI has played a sensible role in ensuring that rupee volatility is minimised rather than set any benchmark for rupee-dollar. That is the correct narrative. I think the rupee should go to its natural level in a stable manner. That allows the exporters and importers to take the right kind of calls keeping in mind that on the net, we want to be an economy which has both the opportunity and need to export to the world. Of course, a weaker rupee is better than a stronger rupee. Sometimes you need a weaker currency for an interim period to get strong and large enough as a country where thereafter the currency gets strong. We have to go through that cycle.