EAC-PM chair calls for raising investment rate

34-35% rate will help achieve GDP growth of over 7% ; private sector's role crucial: S Mahendra Dev

RUCHIKA CHITRAVANSHI
New Delhi, 19 November

India needs to increase the investment rate to 34-35 per cent from 31-32 per cent currently to achieve a growth rate of 7 per cent and above, said S Mahendra Dev, chairman, economic advisory council (EAC) to the Prime Minister, on Wednesday.

He added that for this to happen, the role of the private sector is crucial.

Speaking at the Delhi School of Economics, he stressed the need to increase savings in order to finance investment through financial sector reforms, especially due to uncertainties affecting foreign investment.

Dev underlined the need for India to move to a labour intensive, high manufacturing growth to become a developed country by 2047.

Highlighting how "the missing middle" in Indian manufacturing — where most firms are either small or large sized — is obstructing productivity, the EAC chairman said, "Reducing this missing middle is a question for India. Factor market reforms in land and labour are required for which states have to take a lead. The committee on deregulation is also looking at issues faced by micro, small and medium enterprises (MSMEs)."

He said manufacturing and services were both complementary with more forward and backward linkages. "The service sector also needs an expanding manufacturing sector."

Dev highlighted the importance of exports in India's growth trajectory. "No emerging market has grown 7-8 per cent without strong export growth," he said.

He added that even though exports constitute only 20 per cent of gross domestic product (GDP), it still has a multiplier effect in other sectors.

He said even though many suggest that India should join regional groups like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or Regional Comprehensive Economic Partnership, the government has to check the pros and cons.

"I feel rule-based WTO is always better than protectionism... Despite reduction in international trade, there are a lot of opportunities for India to increase its share in merchandise trade," he added.

"I FEEL RULE-BASED WTO IS ALWAYS BETTER THAN PROTECTIONISM. DESPITE REDUCTION IN INTERNATIONAL TRADE, THERE ARE A LOT OF OPPORTUNITIES FOR INDIA TO INCREASE ITS SHARE IN THE MERCHANDISE TRADE"

S Mahendra Dev
Chairman, economic advisory council to the Prime Minister

Talking of global challenges, Dev said the resurgence of industrial policy in developing and developed countries has been a significant shift in economic strategy.

Highlighting that of 101 middle income economies in 1960, only 23 achieved high income status by 2018, Dev said that India needs to avoid the middle-income trap.

"GDP growth is important, but it's important that everybody shares it — inclusiveness and sustainability is important. Employment is crucial for inclusive growth," Dev added.

The EAC chairperson also stressed that the less developed states are catching up with developed ones on human development.

However, inequalities in per capita income were still there, he said.