SKOCH GROUP
GROWTH | LIVELIHOODS | EQUITY

PRESS RELEASE

Focus on ICOR, instead of Investments. India must capture high value in global supply chain for $10 trillion: SKOCH India Economic Forum

New Delhi: 29-11-2019: SKOCH Group (India's topmost think-tank) organized **India Economic Forum**, nation's first of its kind economic dialogue to discuss, debate and recommend to the government on achieving short-term to medium-term growth goals. While the blueprint for $ 5 Trillion economy has been laid down and the economists deliberate the on ground realities and challenges, important data needs to be mulled on and critical questions need to be addressed to move in the right direction.

Reality is that between Q4 '18 and Q4 '19 real GDP Growth Rate has fallen from 8.2% to 5.8%. With a worsening investment rate and increasing Incremental Capital to Output Ratio (ICOR), GDP Growth Rate was bound to slow down. Gross Fixed Capital Formation (GFCF) has fallen by 7% between FY '12 and FY18. India's Incremental Capital to Output Ratio (ICOR) which measures the additional units of capital or investment required to produce one additional unit of output is increasing. Higher the ICOR, lower productivity of capital. ICOR has been increasing as the financial sector saw burgeoning bad debts, NPAs, overleveraged corporate balance sheets. Companies are deleveraging.

In the wake of all these how will we achieve $10 trillion GDP if investment rate is not responding to policy measures?

In the existing slowdown turmoil, when leading economists of the country are harping on investment being the key growth force, **Rohan Kochhar, Director, Public Policy, SKOCH Group at India Economic Forum** presented a fresh and realistic perspective on the practical approach for achieving $ 10 Trillion Economy for the country. He suggested, "ICOR instead of investments should be the focal point. The usual ideas of monetary and fiscal loosening are not working for the economy. Growth rate has not responded to cumulative repo rate cuts of 110 basis points in 2019 and there is limited scope for increasing capital expenditure. Since capacity utilization is constrained and is improving only in certain sectors, we must focus on ICOR. Technological improvements and skill enhancement, leading to an overall increase in productivity and efficiency can improve ICOR. We must collectively work towards pushing the ICOR down to 4 and subsequently to 3. We must work towards a policy push for select high value-sectors in a focused manner. India needs to improve ICOR by capturing high-value generating segments in the global business supply chain. Concentration should be towards developing India's own Apple, Google, Boeing, Pzifer, etc to attract higher profits for the economy."

He also highlighted, "R&D is crucial for creating higher value. India's investment into R&D has stagnated over the last 30 years, ranging between 0.6% and 0.9% of GDP. Whereas R&D as % of GDP in other countries stand at US - 2.7%; China – 2.1%; Korea – 4.3%; India – 0.9%. Companies' share of total R&D: US – 71%; China – 77%; Korea – 78%; India – 35%. We need to take a clue from these examples. He suggested that policy should set tone for discourse on disruptive technologies, have Fair Trade Policy that is not protectionist but promotes competitiveness, enable increased ease of doing business, have firm strategy, promote entrepreneurship and facilitate monetizing of innovations."

Other noted speakers such as **Mr. K V Subramanian, Chief Economic Adviser, Government of India; Mr. Arvind Virmani, Senior Economist and Former Chief Economic Adviser, and Mr. Gopal Krishna Agarwal, National Spokesperson – Economic Affairs, Bharatiya Janata Party** participated in the discussions.

Dr. K V Subramanian, Chief Economic Advisor, Government of India in his address at the forum said, "We need to press the pedal on structural reforms to reach the goal of $ 5 Trillion economy. We laid down the blueprint of the $ 5 Trillion economy with special emphasis on investment with consumption being the force multiplier. India's economy grew at 5 per cent in the first quarter of 2019-20, this is the slowest pace in over six years. It is investment which is most important for growth. For continuous investment flow taxes become critical, investors evaluate risk and returns after taxes. The government recognises the need to cut the corporate tax to boost investment. Some reforms have been done in the last few years which would have salutary effects such as the changes in the Bankruptcy Code. Security and Exchange Board of India has directed that any default on the loans need to be revealed to the exchange, which will bring a lot of corrections in the system and curb the spooks caused by asymmetric information."

Notes to the Editor:

About SKOCH Group

SKOCH Group is India's topmost think-tank for socio-economic issues with a focus on inclusive growth since 1997. Its research is accepted across political spectrum and is used for parliamentary replies as well as policy formulation. SKOCH Group specializes in action research that brings felt-need of the grassroots to the policy table. It has published seven books thus far that are valued as recommended reading. The repertoire of services includes field interventions, consultancy, research reports, impact assessments, policy briefs, books, journals, workshops and conferences. SKOCH Group has instituted India's highest independent civilian honours in the field of governance, finance, technology, economics and social sector.

For Further information, Please contact:

Key Communications Pvt. Ltd.,
Randhir @ 9312340831s