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A Lone Prime Minister in a Nation of Presidents

Why India needs to get its act together – quickly

Quit moaning and hear the good news, folks! India is going to be the world's largest beef exporter in 2012, beating out Australia and Brazil with 1.4 million tonnes of buffalo meat hoofing it to distant shores. You may think the domestic economy is all blood and gore, but it is not.

Last weekend it took a shopper half an hour to get through bumper-to-bumper traffic to one of Delhi's shopping malls and another half-hour to get through the doors. High petrol prices? Low disposable income? Cautious consumers? Here?

A few days ago Manpower Inc. released a survey of 41 countries and Indian companies had the most optimistic and robust hiring plans globally for the next (July-September) quarter – and this optimism was for the third quarter in a row.

You will have a beef with this cheeriness, of course. The rupee has crashed, exporters are crushed, Standard & Poor's is threatening to downgrade India's credit rating, and we have no idea what cataclysmic events are about to

unfold over the next few days. Greece may exit the Eurozone, the Reserve Bank of India may or may not cut interest rates, and Pranab Mukherjee may or may not become our next President. But we always pull ourselves up by our bootstraps, don't we?

numbers in nine years, and announced a \$36-billion, ₹2 trillion infrastructure 'target' for 2012/13, but he was not exactly euphoric, pleading with his colleagues to "expeditiously resolve any inter-ministerial difference or turf battles" that might erupt. In other words, please desist from ritual disembowelment.

Manmohan Singh ought to know a thing or two about politics. Back in 1991, his first reforms had an electrifying effect because he had political backing; then prime minister P.V. Narasimha Rao kept the inter-ministerial hecklers and turf battlers at bay. Today's prime minister is powerless, and his party chief, try as she might, is hard put to keep the naysayers in their corner. Sonia Gandhi is wedded to the lofty notion of distributing largesse to the *aam admi*. That sort of stimulation worked for a while, but there is no longer any largesse left to distribute. It's not clear that the Congress party wants to expend political capital to resuscitate the economy, or that Mukherjee wants to call in his chips among the opposition parties.

Meanwhile, Manmohan Singh continues to be the "only prime minister in a nation of presi-

dents". He has to contend with a roll-call of state supremos – Mulayam Singh Yadav (by proxy), Nitish Kumar, Mamata, Jayalalithaa, Naveen Patnaik, Narendra Modi – and imminently, Jagan Mohan Reddy.

What can be done quickly to turn around the deep pessimism hanging over us, move the needle on the fiscal situation, and give global investors the feeling that India is still a good place to do business?

The answers are loud and clear – clear the way for foreign direct investment in multi-brand retail, roll out the Goods and Services Tax nationwide, slash the subsidy bill by raising

diesel prices – and throw in insurance-sector reforms for good measure.

And focus like a laser beam on getting some big-ticket infrastructure projects off the ground. Take the car industry for instance. Some years ago, Chennai seemed the ideal hub for car manufacture – it had a good engineering tradition and long expertise in motor vehicles, plus a good port that faced east, making it easier to source from elsewhere in Asia. Instead, the pendulum has swung towards Gujarat on the west coast because the government there offers better infrastructure. And electricity. And land.

At a macro level, things look much worse. India's fiscal deficit, which the World Bank calculates is a stiff eight per cent of GDP if you combine the profligacy of both the central and the state governments, is made worse by the flaccid rupee as foreign investors throw in the towel.

How much is going wrong? The World Bank summed it up in its usual no-nonsense way in a report last week: "Delays in passing legislation on land acquisition; cancellation of mobile telecom licenses following concerns about allocation; bans on mining activity by the courts in Karnataka state (partially lifted in April) and on cotton exports by the government (lifted in early May); policy reversal on foreign direct investment in the retail sector; and uncertainty about budget plans to expand taxation of cross-border acquisitions involving local assets have contributed towards creating a relatively uncertain policy environment for investors. Together with the effect of loose fiscal policies on credit availability for the private sector,

electricity shortages, and the weaker external environment, policy uncertainty appears to have contributed to a slowdown in investment growth in recent quarters..."

Government insiders say all is not lost. A "20-point programme" (remember the last time those words rang out?) of strong economic "administrative steps" that will seek to circumvent legislative gridlock is ready to be unleashed on a reform-starved nation once obstreperous allies like Mamata Banerjee are sorted out and the next president is in clear sight. By then, a shaken government and Congress party will have drawn breath after the Uttar Pradesh assembly elections delivered a knockout punch.

But a senior central banker says short term pressures are very acute, tied in very closely with the fiscal situation and the very low credibility of the government. Raising diesel prices will have an immediate impact on both fiscal and current-account deficits. Moving ahead on retail FDI and GST will also help.

The atmosphere has become so fraught that on June 4 when RBI Deputy Governor Subir Gokarn said he saw "more room" for a rate cut because of lower-than-expected GDP figures and a larger-than-expected oil price reduction, the media and the markets were fervid. The latter part of Gokarn's remarks – that we still need to be careful about core inflation, rupee depreciation, and the fiscal deficit – went unnoticed.

In the absence of firm government action, the RBI is now seen as the only game in town. "But there is a clear view in the Reserve Bank that this will be like pissing into the wind," the senior central banker said. ♦

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