

But a normal life eludes them. standard operating procedures are highest battlefield is a leap of faith. about 6,000 mosques across sters. Since then, he has been setting

# Can Modi And Jaitley Balance Politics And Profligacy?

## The Needle's Eye



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The world around us grows more uneasy by the day about the state of the global economy. China's growth is slowing, oil and commodity prices continue to be at untenable lows, and world interest rates are also in a beggar-thy-neighbour race to the bottom, illustrated by Japan's recent move to negative interest rates.

But as many of our leaders insist, India is an oasis. That is because India is truly a political economy, obsessed with itself, and we only occasionally pull our heads out of the sand to contemplate the approaching storm.

Are we in denial? Hard to say. Financial reforms continue at a steady pace, the incremental liberalisation that Reserve Bank of India Governor Raghuram Rajan described by quoting a Chinese proverb: "Cross the river by feeling the stones" – a phrase his predecessor Duvvuri Subbarao too was fond of using. Millions more poor Indians now have bank accounts, subsidies are increasingly being channelled directly to beneficiaries, curbing corruption, and more than 26 million low-interest loans to small businesses have been sanctioned under the MUDRA scheme. If you looked at the new car models being rolled out at AutoExpo 2016, or counted the number of Indian notables flying into the World Economic Forum's Davos meeting in private jets, you wouldn't believe anything is amiss.

Yet, the smoke signals about tough times are getting thicker. Both the BSE Sensex and NSE Nifty stock indices are below the levels they were at in May 2014 when Prime Minister Narendra Modi took office promising good times. Exports have fallen non-stop for 13 months. In fact, India's merchandise trade as a per-

centage of gross domestic product – an important indicator of economic expansion and global presence – which rose from a dismal low of 13.9 per cent when economic liberalisation was launched in 1991 to a high of 42.9 per cent in 2012, has slipped in 2015 to 38 per cent. The rupee, trading at nearly 68 to the dollar, is being artificially propped up while emerging-market currencies all around it are depreciating, thus keeping our exports uncompetitively expensive. Food price inflation continues to be higher (6.4 per cent) than the consumer price index (5.6), and industrial production contracted by 3.2 per cent at last count.

**DIFFICULT SITUATION**  
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ance sheets. State-owned Punjab National Bank alone reported a 93 per cent fall in profits in the October-December quarter after it provisioned for bad loans it had extended.

The sheer size of our population will continue to power domestic demand for some time, but India cannot hope to be a heavyweight global player without taking ever-bigger bites of the world trade pie. Sadly, alongside falling two-way trade, as the world economy shrinks, India has turned increasingly protectionist. It has hiked duties on a number of imports, including safeguard tariffs on steel product imports from

China, even setting a floor price on steel imports for the first time in 15 years. Import duties have been raised on wheat, edible oil, medical devices, and gold.

Inward-looking and protectionist policies are not compatible with Modi's Make in India mission. Modi and a galaxy of his senior ministers will be speaking at a giant six-day Make in India jamboree in Mumbai starting this Saturday at which hundreds of companies from around the world are expected to strut their stuff. But whether billions of dollars in potential manufacturing-venture promises will translate into actual investments remains to be seen.

In just over two weeks Arun Jaitley will present his third budget for this government. With the Goods and Services Tax still gummed up in parliament, the finance minister will have to walk a high wire between increasing tax revenue and stimulating growth by expanding government spending. Already, a growing chorus led by Chief Economic Adviser Arvind Subramanian seems to be prodding Jaitley towards reneging on his pledge to reduce the government's fiscal deficit to 3.9 per cent of GDP this financial year and 3.5 per cent in 2016/17. Rajan warned in a recent speech that the combined central and state governments' deficits totalled 7.2 per cent of GDP last year. He also reminded the government that fiscal profligacy in 2010 and 2011 had triggered high inflation and lower growth in 2013 and 2014. Will Jaitley heed these warnings?

The signs are that Jaitley is leaning towards the 'spend your way to growth' school. Reversing his scathing attacks on the rural-employment Mahatma Gandhi National Rural

Employment Guarantee Scheme, the Congress government's flagship programme, Modi has now enthusiastically embraced its expansion, even raising the minimum number of employment days to 150 annually from 100. His government is also about to double expenditure on the Food Security programme launched by his predecessor. With two years of droughts snapping at his heels,

you can be sure Jaitley's budget will be populist, although he has said it will not be. He has little choice – in the next three months five states will hold elections to their legislatures. Jaitley has to burnish the National Democratic Alliance government's credentials if his Bharatiya Janata Party can have any hope of expanding its footprint.

Don't forget that the BJP does not

rule in any of the four states (Tamil Nadu, West Bengal, Kerala and Assam) and one union territory (Puducherry) going to the polls in April or May. It desperately needs a victory after its humiliating defeat in Bihar. The bad news is that it has very slim hopes of winning power by itself in any of the five elections.

Even in Assam, where the BJP won an unprecedented seven of 14 parliamentary seats in the 2014 general election, there is no guarantee that the incumbent Congress, which has ruled the north-eastern state for 15 years, will be toppled even though it is quite unpopular. The Assam vote promises to be sharply polarised, with the Assamese Hindus siding with the BJP while the Bengali-speaking Muslims stick with Congress.

Although the BJP has already declared Modi's colleague, Youth and Sports Minister Sarbananda Sonowal, as its candidate for chief minister, the party is taking no chances in Assam. Sonowal is considered a hero by 'indigenous' Assamese because he won two key Supreme Court rulings in 2005 and 2006 against illegal immigrants from Bangladesh. Central ministers in New Delhi have made a staggering total of 211 trips to Assam over the past year and a half of Modi's rule, and Modi himself has travelled three times to the oil- and tea-producing state in the past few weeks. Last Friday he got a rousing reception from a huge crowd of mainly immigrant tea-plantation workers in the town of Moran. He repeatedly attacked the Gandhi family for blocking progress. "Please give the BJP just one chance," he pleaded. "You will have 'ananda' (joy) in your lives from Sarbananda (everybody's joy)."

## NEEDED A BALANCING ACT



SALVADOR DALI, THE SHIP