

Modi Has To Steer India Through a Narrower World

The Needle's Eye



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And time yet for a
hundred indecisions.
And for a hundred
visions and
revisions – TS Eliot

And time yet to revel in a plentiful monsoon, never mind that food prices continue to rise and tomatoes now cost more than Rs 100 a kilo. There have been several good government decisions in the past few weeks. Reforms in the beleaguered textile and garment sector will potentially trigger thousands of new jobs and breathe life into flagging exports. Pay rises for millions of government employees and pensioners will be very

generous, and spur domestic spending. A new mineral-exploration policy will bring in more investors and revenue. Foreign direct investment (FDI) rules have been loosened further and are now among the best in the world. The taxman will go after domestic black money with a vengeance after a September 30 deadline.

If you were looking down from a great height, you might think that there is a forest of elbows sticking up from our peninsula, but that is just us patting ourselves on our backs.

There is nothing wrong in feel-goodism. Heaven knows we needed it this week after the Brexit vote. It buoyed us: the stock markets did not crash nor the rupee crumble for fear of a Rajan-less RBI or a Britain cast asunder from the Continent.

Why then the nagging feeling that all is not hunky-dory twenty-five months after this government took charge? The authoritative Deutsche Börse MNI Consumer Sentiment indicator for India was at 111.70 last month, a five-year low; it stood at 133.70 in November 2011. The MNI Business Sentiment Indicator, which surveys BSE-listed companies, is at its lowest since December 2015 and stood at 61.8 in May. The RBI's rate cut in April failed to buck up business morale.

India is ranked No.3 in the world in corruption-linked fraud. An RBI report earlier this week said gross non-performing advances among India's

banks had risen to 7.6 per cent at end-March from 5.1 per cent at end-September 2015, and could rise to 8.5 per cent by March 2017. Stressed loans at state-owned banks rose to 14.5 per cent. "As per the banking stability indicator, risks to the banking sector increased significantly during the second half of 2015/16 due to deteriorating asset quality and lower profitability," the central bank said.

The momentum of reforms continues at a steady pace, but will India be

Vijay Mallya will now find it cheaper to hide out in Britain because of the weakened pound.

What does Brexit presage for India? The Bharatiya Janata Party (BJP) was widely perceived as a right-wing nationalist party when it won power, although it confounded that label with this year's decidedly socialist budget. At the same time, led by the peripatetic Narendra Modi, the BJP government is doggedly pursuing a global agenda that seeks greater trade, in-

won a stunning upset in the European Parliament elections on the same day in 2014 that Modi was sworn into office. On Tuesday, Farage was jeered and booed as he made a taunting speech to the European Parliament, saying "...the little people...rejected the multinationals, they rejected the merchant banks, they rejected big politics and they said actually, we want our country back, we want our fishing waters back, we want our borders back".



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able to draw upon its huge population and mammoth internal markets to withstand the gales buffeting the global economy? The UK's Brexit vote is merely one more squawk from a heart-lung machine that signals a multiple organ failure, and we need to look beyond the here and now of stock indices or whether or not Lalit Modi and

vestment and strategic engagement. This is in sharp contrast to the isolationist and nationalist ideologies that are on the ascendant worldwide. Few will remember that Nigel Farage, the leader of the United Kingdom Independence Party (UKIP) who probably gained the most from the UK's EU referendum,

Across the Atlantic, Donald Trump seems set to be swept to an overpowering Republican nomination in less than three weeks on the back of his 'America first' beast. Both Farage and Trump are strongly anti-immigration and have an inverted view of foreign relations. Trump was delighted about Brexit: "Come

November, the American people will have the chance to re-declare their independence. Americans will have a chance to vote for trade, immigration and foreign policies that put our citizens first."

This drift towards a devil-may-care insularity does not bode well for India, which needs a more open global market if it is to achieve double-digit economic growth. World trade has been crawling upward for five years now at less than three per cent annually. It is like looking through the wrong end of a telescope. Possibly the only way India can become richer is by creating tens of millions of new jobs. This is a tough call when exports are comatose and manufacturing is in feeble recovery.

Raghuram Rajan put this well in a December 2014 speech: "We are more dependent on the global economy than we think. That it is growing more slowly, and is more inward looking, than in the past means that we have to look to regional and domestic demand for our growth – to make in India primarily for India."

Will this happen quickly enough? Last week's announcement of even more liberalisation in FDI rules will hopefully boost manufacturing. There is no question that FDI has risen sharply. Gross FDI inflows rose from \$36 billion in 2013/14, the year before Modi took power, to \$45 billion in 2014/15 and \$55.45 billion in

2015/16. But this was by no means a quantum leap. During the United Progressive Alliance's decade in office, gross FDI inflows rose from \$6 billion in 2004/05 to as high as \$46.6 billion in 2011/12.

But these figures pale in comparison with FDI flows into China. World Bank data show that foreign investment in China totalled \$289 billion in 2014. In the first five months of 2016 alone, FDI into China totalled \$54.2 billion, even while the country's economy visibly slowed.

How important is FDI in a developing economy? Looked at from another perspective, FDI into China equalled 2.8% of its GDP but only 1.7% of India's GDP in 2014. In another comparison, FDI in Indonesia totalled \$29.3 billion in 2015 and equalled about 3% of its GDP. More investment will certainly create more jobs, but before India gets too excited about rising to 130 out of 189 countries in the World Bank's Ease of Doing Business rankings, it might be worth remembering that China is at 84, and Indonesia at 109, on that same scale. So there is a long way to go.

Perhaps the way to go is shopping at midnight. One of the decisions Modi and his cabinet took this week was an amendment to the Shops and Establishments Act that will permit cinemas, restaurants, malls and even banks to stay open all night. At least there will be less traffic then.



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