

India must lift exports to withstand global risks, Modi aide says

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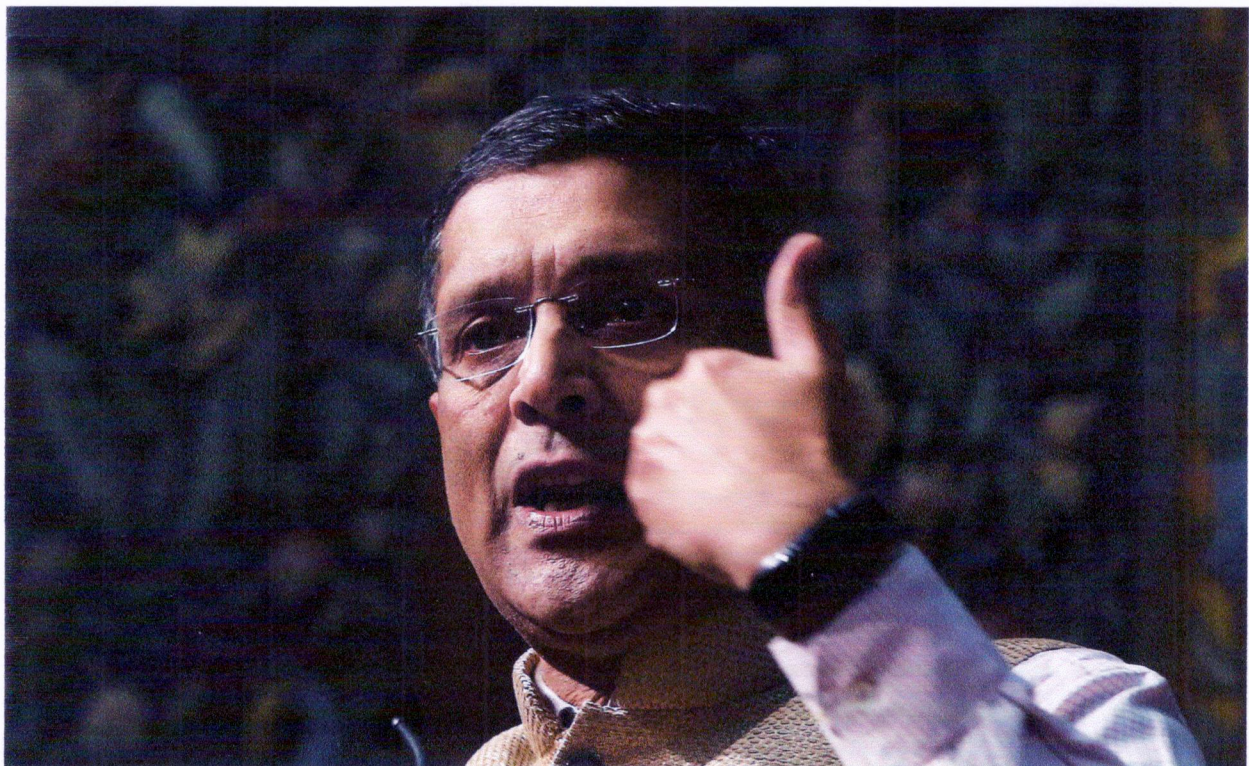
Economy

Outgoing chief economic adviser

Subramanian warns trade war threatens growth

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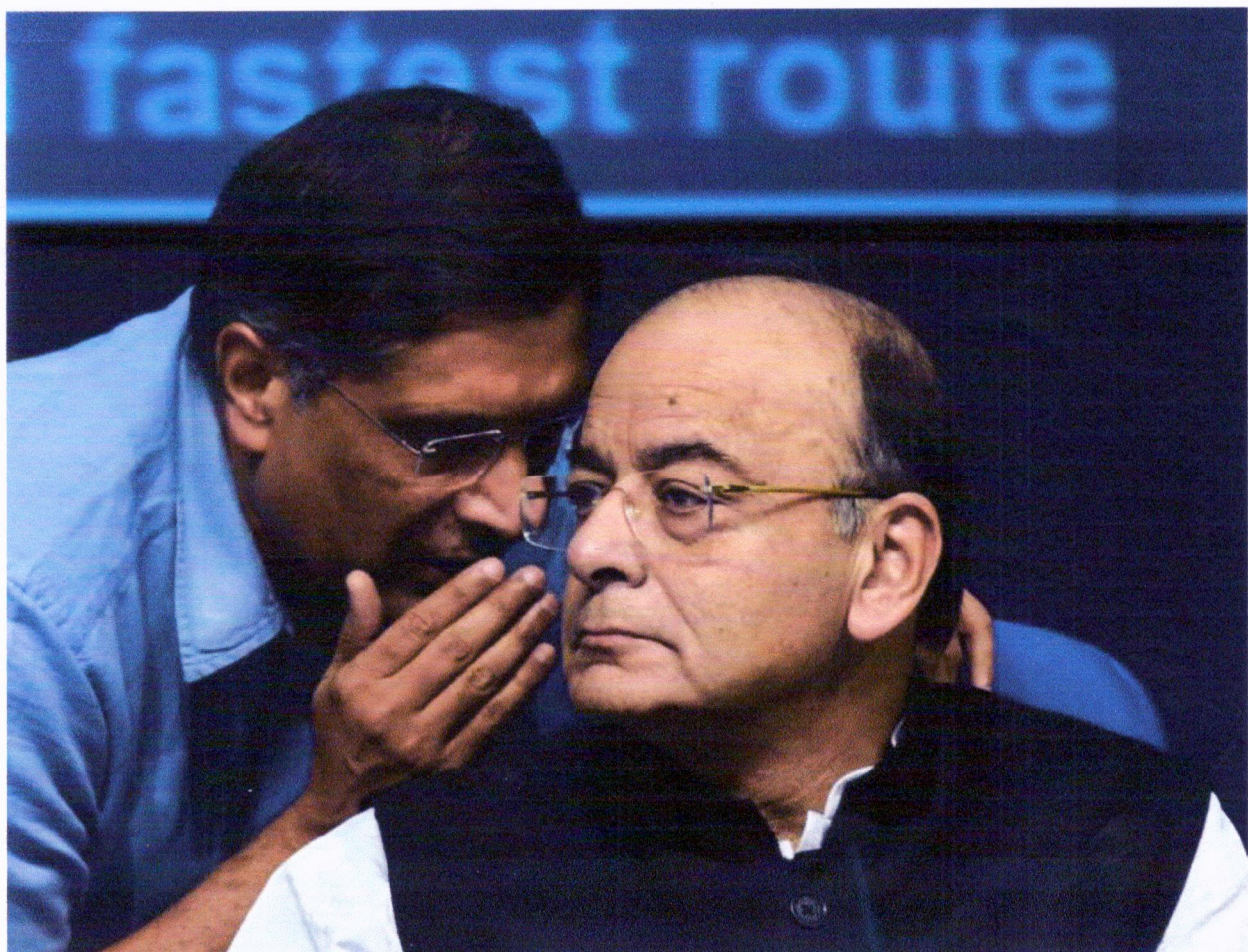
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The external environment has deteriorated, Subramanian said. Interest rates have gone up globally so there is a capital outflow, and now the major new development is the prospect of trade wars, especially if China converts it into something bigger, like a currency war. We could see very unsettling times. So just to hold the fort and get us through to next year -- that would be a major accomplishment."

Subramanian is returning to academia in the U.S. later in July. He took up the post of chief economic adviser not long after Prime Minister Narendra Modi won a sweeping victory in the 2014 elections.

Since then, Subramanian's four economic surveys, which preceded the annual budgets of Finance Minister Arun Jaitley, were hailed as sparkling treatises that highlighted problems like the "twin balance sheet" crisis crippling India's banks and businesses, as well as ideas like a Universal Basic Income (UBI), the internal migration of India's vast unorganized labor force, and the roles of gender and climate in the health of the economy.



Subramanian speaks to Finance Minister Arun Jaitley during a news conference in New Delhi last October. (Getty Images)

Not all of his ideas were embraced by Modi, whose demonetization of high-denomination bank notes in 2016 has failed to end the scourge of black money and has hurt small businesses. Subramanian has tiptoed around the topic of demonetization, implying that he did not support it.

"Given where we are in the election cycle, and given the global economic environment, my message for the government was laid clearly in the [latest] economic survey that this is a year where essentially [we need to] complete the ongoing agenda, and do no harm," he

Subramanian also pushed strongly for privatization of the bleeding national carrier Air India. The government offered to sell 76% of the airline to private investors, but the sale flopped and there were no bidders. "On Air India, it looks like we are back to the drawing board," Subramanian said.

His recommendation that the Goods and Services Tax, launched on July 1 last year, be kept simple and consist of just one or two rates was also ignored. The rollout of the tax was chaotic and marked by software glitches, frequent rate changes, and a confusing array of tax slabs. Garment exporters and the travel industry, for instance, are still struggling with delayed invoicing, a falling rupee and iniquitous duty drawbacks.



Subramanian pushed hard for the privatization of struggling national carrier Air India. © AP

"Exports have not been doing well," Subramanian admitted. "Manufacturing exports as a percentage of [gross domestic product] have been declining over the past few years. Part of the reason is that the external situation has been deteriorating. But we've also had domestic competitive challenges."

The share of India's manufacturing exports has declined steadily from 10.7% in 2013-14, the final year of the Congress-led government, to 8.5% in 2017-18, data from the Centre for Monitoring Indian Economy show. Over the same period, the share of manufacturing exports gross value added to total manufacturing GVA has fallen from 70.1% to 56.5%. Despite a big 'Make in India' push, manufacturing GVA as a share of total GVA has barely risen during the Modi years, to 18.09% in 2017-18 from 17.22% in 2013-14, CMIE data show.

The real exchange rate of the rupee against a basket of currencies appreciated by 21% between 2014 and 2017, making Indian exports uncompetitive. This year, the rupee has been the weakest Asian currency, depreciating by about 8% against the U.S. dollar since

January, but exports of manufactured goods and services are growing weakly with demand slowing from a world economy in turmoil.

"Clearly we need to work a lot more on exports and further easing the cost of doing business. But manufacturing exports need to be very high on the agenda," Subramanian said. "Going forward, in order to create jobs, we have to grow at 8 to 10%, exports have to grow gangbusters, and agriculture must do well."



Prime Minister Narendra Modi's 2016 decision to demonetize high-value bank notes hurt small businesses and caused chaos, with Indians forced to line up to exchange defunct currency. © AP

Hit by demonetization and the messy GST rollout, India's GDP growth slumped to 6.7% in 2017-18 from 7.1% in 2016-17. It is forecast to grow at 7.4% this fiscal year, but Modi is still being criticized by opposition parties for unemployment rates.

Subramanian said in the long term, India needed fewer people in farming, but this had to happen alongside rising agricultural productivity, which leads to rising wages, and people with more skills and higher education moving to take up higher-productivity jobs in cities.

"The risk is that we get migration from not-so-high productivity agriculture to not-so-high productivity jobs in the urban sector as well -- a move from informality to slightly less informality. We need to create a lot of formal-sector jobs," Subramanian said.

Looking back at the past four years of the Modi government, Subramanian said there had been fair progress on reforms. "I've always said reform is not something you can do one-off or Big Bang." Referring to the German philosopher, he said: "It's the Max Weber thing, 'the slow boring of hard boards.' There are no magic bullets; you have to keep working away."