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“The hidden message : MAKE FOR INDIA”

S L Rao, Dec 29, 2014:

The RBI governor’s slogan encapsulates a whole range of economic policies. The NDA government must move without wasting any time.

RBI Governor Raghuram Rajan has advised the country to adopt the slogan “Make for India” than merely “Make in India”. It is a very perceptive slogan. It tells us to make and market for the large Indian population that the rest of the world wants to sell to.

Hidden in the slogan is another and less understood message. The governor is telling us not to depend so much on world markets, though we must of course get the maximum from them. Except for the USA economy, the other developed economies and China are in difficult positions. The USA is showing 3 per cent growth, sharply dropping unemployment, revival in consumer confidence and retail purchases.

Interest rates at around zero need to rise as they will. The revival in the USA is fuelled to a great extent by the boom in production of oil and gas from shale. It has also led to a collapse in world oil prices as Saudi Arabia tries to make the high cost shale oil production uneconomic. The chances are that world crude oil prices will remain low for two more years.

Germany with its unfortunate decision to phase out nuclear power and its rigid labour markets is becoming as the London Economist says, ‘the sick man of Europe’. Germany was the economic engine for Europe.

The decline in the European economies will be accelerated by the decline in Germany. France is beset by the problems caused by a socialist government that is reluctant to demand more effort from its labour.

Macroeconomic management in many of them has been poor. Then there is Japan which appeared to be coming out of its long recession. That is now stalled by a premature rise (long overdue) in consumption taxes. China is showing signs of a slowdown. China's overall macroeconomic situation is little known because of the deficits of provinces and local authorities.

Russia is another negative in the world economy. The Putin regime has done little to diversify the Russian economy which is heavily dependent on its crude oil and gas production.

The collapse in world crude prices therefore hurts it enormously. The ruble has collapsed and interest rates raised to record levels, with little effect. Inflation is rampant. India has to wonder if it is safe to advance large sums to Russia for defence equipment and new nuclear plants. The plight of the other BRIC economies -Brazil, South Africa- is little better. African economies are also struggling.

What does this mean for India? On the positive side, oil prices will remain low for a while. This will immensely benefit consumer purchases, dampen inflation and help the balance of payments. We have already experienced these benefits. It would be wise from now for government to retain the present consumer prices and the surplus in the Budget for urgent capital expenditures.

Secondly, India cannot depend on any sharp rise in exports, especially since we are so dependent on minerals (iron ore) that will not be in as much demand as the world economies battle declines.

Exports of agricultural products might do well if weather gods are kind and government minimum price support price policies are more flexible. **Third,** foreign direct investment might rise as India could be one beacon in an otherwise depressed global economic environment.

Fourth, we must be much more cautious in large dealings with Russia which has unceremoniously raised prices sharply in the past in the middle of working on contract (for example, the aircraft carrier Gorshkov).

Energy supplies

Fifth, we must resolve energy supplies and costs. For that, we must quickly modify the constraint of our law on unlimited inability on nuclear equipment plant suppliers. This will enable other countries like Japan, USA, and South Korea to enter India with nuclear technology and reduce dependence on coal. We must move quickly on the hydro plants in Nepal for the same reason. We must improve the technology in coal mining so that productivity and production can rise. This will required denationalisation of Coal India.

It is this logic that lies behind the RBI governor's perceptive slogan. The Indian market is huge and yet manufacturing in India is less that a fourth of the GDP. It must rise quickly. That is for another reason as well-the need to increase availability of jobs in organised manufacturing (presently around 6 per cent of the total employment).

Manufacturing jobs will be almost entirely in urban areas and will meet the expected surge in migration to urban from rural areas. We must become less dependent on imports of what we should make in India.

These include defence equipment, silicon chips and solar panels, to name some large ones. The unnecessary cap of 49 per cent on foreign direct investment must be raised to enable the illusion of control to foreign investors.

Coal imports can fall if we move with vigour to change our energy policies. An early introduction of the goods and services tax will stimulate domestic pi=purchases.

The RBI governor’s slogan encapsulates a whole range of economic policies, some of which have been discussed here. The present government must move without wasting any time.