**a"THE FINANCIAL EXPRESS"**

**"THE ECONOMY-NEED FOR A CLEAN SWEEP OF PAST POLICIES" by S L Rae**

**The Indian economy today is showered with praise as the fastest growing economy in the world. In some ways this is a story of relative perceptions. By comparison with the EU, Japan and even China, India's GDP growth is better. {We will not discuss the "jugglery" in calculations last year that pushed up the number by at least 1%). Remember that our "better" [performance is hardly two years old. China outperformed the rest of the world for two decades.**

**China thrived by being open to foreign direct investment. India has placed many restrictions on investment sectors, and has frequently changing tax terms. Recent changes are only marginal.**

**It is only in recent years that China’s stock markets have been open to foreign investors. By contrast India's has been open for many years and foreign investment has long been a major swing impact on Indian stock prices. The “Mauritius route” allowed capital gains to be madein India that were free of tax.**

**China has also been a regimented society and economy, with hidden subsidies for exports, with state owned enterprises and provincial governments being major investors. For provincial governments and public enterprises, borrowing funds has been easy and they (and lending financial institutions) are now staggering under heavy debt burdens. India has also for years been a much regimented economy (license raj), and even today has many required approvals to invest, set up manufacturing, and to produce.**

**Indian State governments carry large debts. These are now augmented by the UDAY scheme to reduce state-owned power sector debts. UDAY permits converting power sector debts into state government bonds. This will diminish their ability to borrow in future and limit their ability to invest in agriculture and infrastructure.**

**State-owned enterprises in India like in China have been accustomed to operate in an environment that favored them in relation to others. This has changed now in India and many pse’s are inefficient, unprofitable, sick, and in unsustainable debt. Sadly this is also the case with the private corporate sector that is carrying huge and unsustainable borrowings that they are unable to service and repay. These non-performing assets are mainly with nationalized banks, most of whose balance sheets are thus weak.**

**China however has despite these debts built vast infrastructure (roads and highways, power plants, housing, public transportation, etc). India has been very slow in this regard, with unmet deadlines, poor quality, massive corruption leading to heavily padded costs. China has also suffered from corruption but appears to be cracking down on it, unlike India.**

**China’s exports have fallen, as have its imports. This has caused economic turmoil in exporting countries (Canada and Australia in particular, and a drastic fall in the exchange value of the Chinese currency. All currencies in the world have been affected as a result, as has the Rupee which has fallen to record levels. China has foreign exchange reserves that are many multiples of India. It should be able to protect its currency. India may just react to global developments.**

**The falling Rupee and the absence of a full framework of economic policy changes have spooked foreign investors in India’s debt instruments. This will adversely hit India’s economic development.**

**Exports were China's growth engine. Subsidies (power, etc), helped the exports. Its status for long as an assembler for global brands, gave it access to technology and a strong export experience. China’s foreign exchange reserves are invested mainly American Treasury bonds giving the USA a reason to prevent further falls in its currency. A fixed link to the dollar had also helped exports. All this has started unraveling, with the decline in the economies of the European Union, Russia and the middle East, need to control debts, falling imports adversely affecting the economies of China's export markets, a falling currency, a collapse of stock markets.**

**In these respects India is in a worse position. Exports have dropped but the balance of payments has improved because of collapsing prices of imports-especially oil and other commodities.**

**It has also helped domestic inflation to appear under control. In reality the poor are paying much more for their foods. In this respect India has no agricultural policy to speak of except to support the urban poor with cheap food grains. A complex and inefficient web of rising support prices for grains, physical procurement storage, transport, and distribution of ration cards to the deserving, (half of which are said to end up in the markets). The policy contradicts changing food habits, with rising demand for pulses, sugar, vegetables, fruits, and falling demand for grains. Prices of in–demand products have even shooting up, while government stocks of food grains pile up with much of it rotting.**

**Agriculture has received poor investment in irrigation, water storage, warehouses and cold stores, etc. Indian agriculture has low productivity in comparison tom much of Asia.**

**Manufacturing in India has not improved. Nor has employment in manufacturing and in industry. The Pay Commission and the OROP for the military have enhanced employee earnings and this has led to some improvement in heavy consumer durables. But the overall situation is unsatisfactory. The absence of single tax rates for the same products overdifferent states in the country has limited trade. Restrictive labor laws, multiply inspections and red tape, with corruption at all levels, have stiffed efficient production and perhaps kept prices higher than they would have been.**

**India cannot celebrate the decline of China. Given its size and capability, China may over some years, correct itself. Meanwhile China which pushed up world growth by being a major customer for many like Australia and Canada, is now depressing many economies. This has affected Indian exports adversely.**

**India has to make a clean break with past economic policies, legislation and procedures. The Modi government has shown no signs of comprehending this need.It has instrad appeared to do “more of the same”, namely invest in urban infrastructure,welfare programmes, and cosmetic hahnges in tax procedures. A revamped agricultural policy that encourages production of items in demand, a manufacturing policy that attracts foreign and domestic investment to all sectors, employment and production, infrastructure investment that is both in urban and rural India, transparency in government, ruthlessness and speed in penalizing the corrupt in government, making government owned enterprises autonomous or private, making regulation of enterprises much stronger and independent, introduction of a GST, labor law reforms, enabling easier land acquisition with fair compensation-there are many actions that the Budget must introduce and quickly.**

**It appears as if this government is mainly thinking of ramping up infrastructure investment, leading in due course to a resumption of inflation. It has no conception of the interrelated nature and needs for economic policies for growth with little inflation.**

**(1132)**