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[Home](#) > Indian Economy in perspective: People's commitment - The need of the hour

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## Indian Economy in perspective: People's commitment - The need of the hour

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The irony of today's democracy is that, year after year, we are witnessing a hung parliament. This demands the PM of any coalition to keep himself always busy managing the contradictions between the various allies and the compulsions of his own parent party. He does not have the necessary mandate to have the important bills passed in the parliament. The economy therefore remains in a limbo as has been the case for the past 3 years.

Indian and Foreign businessmen have run out of patience and are not going to wait on and on. These investments can be expected to migrate to other Asian markets.

These countries will thereafter access the Indian market by exporting their produce to India with obvious financial benefits to themselves. Already investments though in small measure, have started migrating to Sri Lanka. There are many littoral countries in the Indian Ocean waiting in the wings for such god sent opportunities. These countries, being small in size, suffer no disadvantages of gigantic bureaucracy and fragmented polity which have become the mainstay in India.

The service sector is one serious area requiring everybody's attention. Banking, reinsurance activities (thanks to internet, e-commerce etc) are some of the businesses which can easily be operated from a virtual office and do not require an address within India. Also it must be remembered that post Pokhran-II, Indian business is finding it more and more difficult to access cheaper foreign debt. Under such circumstances, investments in a third country would offer a natural solution. A look at Essar Steel's condition of default would explain the pathetic condition a promising steel plant has come to. Even domestic financial institutions do not have the wherewithals to secure their own exposure in the project. This and many more similar examples only go to compound fears of possible flight of western debt and capital to various destinations in other Asian Countries for an indirect assault on the Indian market

The buyer has certainly started visiting the market. The BSE index after being in the death valley for an extra long time has finally started showing signs of good health (it currently stands at a +4500 level with predictions of rising). With the black market rate still at only 20%, it is some solace that the present level of BSE index has been achieved even without the support of speculators and is in fact founded on good fundamentals. The market for cyclicals like cement has improved and so also the automobile sales have picked up. But it would be premature to conclude that the Big-F (feel good factor) has taken a firm seat. The agricultural production has, no doubt, been good and that has helped in building up the rural demand. But the big question is--- Will this upswing in the economy sustain or will it be another passing phase?

**The answer is how strong a PM the forthcoming elections throw up because the gap between smart polity and good economics is disappearing.**

## **Agricultural Sector:**

We have spent the first 50 years in consolidating our agricultural and industrial production. The agricultural production today stands at 203 million tons but we are still so dependant on the vagaries of weather that self-sufficiency still remains an alluding scene.

Over the years, the land holding per family has come down drastically. In the countries' granary, Punjab, the problem is serious. With family size splitting up (brother to brother), the level of land holding per family is so low as less than 2 acres per family. As a result of this low land holding, the farmer is not able to invest in tractors, fertilizers etc, nor does he have the wherewithals to exploit the advantages thrown up by technology. The agriculture sector when taken up as an industry, would encourage downstream diversification. The wheat produced can be taken up for manufacture of ready to eat food.

Crop Insurance, an other spin off that would come by treating agriculture as an industry, is a subject receiving media attention but it is too early to conclude if the farmer has started applying this on a large scale. In events of repeated bad monsoon or rain failure, the farmer diverts his past earnings to many unproductive purchases instead of investing on the field for fear the monsoon would fail once again. The farmer needs proper motivation to exploit this facility of crop insurance so that in an event of repeated monsoon failure, he is not demoralized and he does not fight shy of investing in fertilizers etc at the time of the next crop.

Treating agriculture as an industry would also help in looking into aspects of handling and transport. Punjab the nation's wheat granary has surplus production far excess of local demand and the farmer is naturally not getting the desired returns (only Rs.500 per quintal). Lack of adequate storage facility prevents storage of grains for future selling in an environment of scarcity. It is an irony that while wheat is wasted on rats in Punjab, 200million people elsewhere in the country are still starving. A freight pool and proper marketing network to even out the market demand-supply discrepancies can go miles in alleviating this problem. Unfortunately this problem remains unattended because while food production is the responsibility of the Ministry of Agriculture, distribution is the responsibility of Ministry of Civil Supplies. This is a typical example of left hand not knowing what the right hand is doing!

## **Service Sector:**

The thrust should now be on service sector. It ought to be remembered that only agricultural sector as well as service sector can offer the maximum opportunities for employment. Manufacturing sector does not match these two sectors in this regard. Take a look at what Maruti employs at its Gurgaon facility and it will be seen to be a miniscule when compared with the employment opportunities offered by the various marketing and servicing facilities/franchisee companies spread out over the entire length and breadth of the country. Examples of service oriented economy are Singapore, Hongkong and they are doing fine. Closer home Bombay offers a good example. By the same token, we receive a lot of money (US\$ 12 billion) as worker's remittances. Till yesteryears the inflow was essentially from the Indian workers employed in Gulf nations, but now there are software engineers in US and UK adding to the list. The next Finance Minister should look into this and start addressing their problems. In fact the PM can appoint a minister of cabinet ranking to exclusively oversee this sector.

### **Industrial Sector:**

Import substitution took us on the path of self sufficiency. But all this came at a very high cost and we ended up with an inefficient system. We worked in a cost plus environment and there was no incentive to become cost conscious. (Remember how the car manufacturers would flock year after year to the tariff commission and get their annual dose of price hike; similar rituals were followed by the steel, cement, sugar industries-the list is endless). This attitude has put us behind by 20yrs.

I had observed that in a factory manufacturing various types of broaching tools, the rejection is as high as 5%. The cause being only human error. This adds to the cost of production resulting in the company being unable to face competition from cheaper imports. Automation is the obvious solution, software for which is now readily available in the country, but the company's executives are reluctant to adopt the solutions for fear of loosing their job due to worker and staff redundancy.

By giving importance to the service sector, one does not intend underplaying the importance of the manufacturing sector. This sector after all offers tangible assets. It is, no doubt, important to offer a level playing ground to the domestic manufacturers and also protect them from nations indulging in dumping.

**Taxes** have to be rationalized. The manufacturer is paying taxes at various levels. As an example, take a look at the cement industry. They pay royalty for the limestone quarried, then they pay taxes at various other stages of production ie on the power, water, spares consumed. Then at dispatch stage they pay excise, sales tax on the product. These taxes also differ from state to state. This inhibits cross movement of produce from state to state. Similar protests are expressed by automobile, white goods and other industries. No one disputes that the state aspirations should be given its due, but certainly an amicable solution must be found by a properly constituted panel of tax experts to avoid repeated taxation. A one stage tax will augur well for a lower product price. This will lead to higher consumption level and consequently a higher demand and a higher tax collection. Higher demand will also promote a boost for much needed project investment. In this regard, it would also be worth studying the tax structure of countries accused of dumping and draw some inferences from there. Then there are also some anomalies which need government's scrutiny, like for example issue of double taxation of services rendered by foreign companies for market survey conduct by themselves for potential markets in their respective countries against a request made by a domestic company. Then there is the question of why such expenses as also advertising expenses can not be treated as investment for tax computation. Once this problem is addressed and a level playing field is delivered then the government has full liberty to demand that the manufacturing companies either shape up or ship out.

**Public Sector disinvestment** is an issue flogged by every Finance minister and no appreciable success has been achieved. The market condition not being conducive is the common refrain. By conservative estimate the gold stock in public and government hands totals about 15000 tons of which the government holding is only 6000 tons and the balance is with the public as some measure of security. If custom duty and levies on gold are removed, the domestic prices of this yellow metal can be brought at par with and move in tandem with international prices. The public would then find it sensible to liquidate these holdings and shift their savings to equity and real estate market or some alternate destinations. This would heat up the equity markets and thereby enable LIC and its subsidiary to invest in the equities. At present, the investments made by these institutions are languishing far below their allowed levels.

Interest rates are indeed very high if we are made to believe that the inflation rate is really falling below 2% level. Consumption pattern has undergone a sea change, but the commodities in the basket and their respective weightages have not seen any changes since '84. The computation of inflation rate by itself is a therefore a jugglery. For an entrepreneur, what is important is study of demand trend and the lag between supply and demand. There are several agencies to investigate causes whenever prices are skyrocketing ie when there is a bull run but there is no agency to investigate causes for price-crashes. Interest rates are no doubt important but takes a position secondary to demand and price realization. Whatever be the interest rate no businessman in his right senses will borrow from the bank to invest in projects when the price realization is poor.

Distribution network for agricultural and industrial production as well as natural resources is an issue requiring attention of all. We, Indians, are experts in the field of construction of mammoth production and storage facilities but we fail miserably when it comes to setting up distribution networks to take the produce to the remotest nook and corner of the country. Is it not a shame that we have 3600 dams (3<sup>rd</sup> largest in the world) brimming with water, yet when one part of the country is flooded, 200 million people (one fifth the population) elsewhere are crying for drinking water. See Punjab where the market is flooded with wheat, 200 million people elsewhere are dying of starvation. A similar mismatch was observed in 60s in the nation wide demand for cement. While cement was in surplus in the South, there was severe paucity in the North. While producers in South were not getting remunerative returns, the traders in the North were selling at high premiums. The producers in North and South along with the government got their act together and came out with an innovative freight pool system. Today the system has been dismantled, of course only after the mismatch has been removed. This distribution network has taken cement demand to above 90million level. Now respective cement manufacturers (L&T, Ambuja, Saurashtra cement cos) are working individually and taking the sea route to carry cement from surplus market in Gujarat to deficit areas in South. With a country blessed with perennial waterways, robust railways and network of various highways, it only needs a commitment from the people to design a good distribution network for carrying the produce to the village level outlets. Internet, e-commerce (B2B and B2C) are only going to add pressure on people to get their acts together.

<p><b>Bottom line is that if we are to see sustained upswing in the market, the forthcoming elections should throw up a strong and able Prime minister to enable him to select a cabinet of his choice and people's commitment is equally necessary.</b></p>	
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Ramesh Natarajan

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*The writer is a free lance Engineering consultant.*

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**Topics:**

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