Decade of Economic Destruction 2004 – 2014

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The Fall & Fall of Rupee

- In January 2012, Indians could buy one US dollar by paying Rs 45. But, by August 12, they needed to pay more, Rs 61 for a dollar, the dollar rising by over 35 %since January 2012, mirroring an equal fall in the rupee value.
- A direct outcome of the burgeoning CAD since 2004-2005.
  - August 12 – Chidambaram announces “measures” to reduce the CAD.
  - August 14 – Within 36 hours, the rupee fell further, to Rs 61.50 per dollar.
- Reserve Bank restricted investments and remittances abroad in vain.
  - Rs 68 to a dollar now [29-08-2013].
  - In January 2013, The Economist magazine [2.1.2013] reported that the real value of the rupee equated a dollar to just Rs 19.75 - a third of the market value of the dollar today.

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Galloping CAD

- CAD in 10 years from 1991 to 2001 – $35 billion.
- Transition from surplus NDA Days into deficit UPA Days
  - But, under the NDA regime, Current Account Surplus - of $22 billion for the first time since 1978.
  - Nine of years of the UPA regime saw unprecedented CADs
  - $339 billion, under Chidambaram [5 1/2 years] & Pranab Mukherjee [3 1/2 years].
  - While the NDA handed to the UPA a current account surplus of $13.5 billion in 2003-2004.
  - UPA quickly turned it into a CAD of $2.7 billion (2004-5)
  - $10 billion each in the second and third years
  - $16 billion (4th year)
  - $28 billion [5th]
  - $38 billion (6th)
  - $48 billion (7th)
  - $78 billion (8th) and
  - $89 billion (9th).
- UPA Government said oil prices and high gold imports are the culprits
- **Is the story of oil and gold as culprits true? Or the complete truth?**

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Reckless Imports Destroy Production

- Unnoticed (or suppressed?) in popular discourse
  - Capital goods import skyrocketed under the UPA rule.
  - Under NDA period averaged about $10 billion a year.
- Under UPA:
  - 2004-2005, it leaped to $25.5 billion
  - $38 billion in the second year
  - $47 billion (3rd)
  - $70 billion (4th)
  - $72 billion (5th)
  - $66 billion (6th)
  - $79 billion (7th)
  - $99 billion (8th)
  - $91.5 billion (9th)
  - Aggregating to $587 billion in nine years.

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Reckless Imports Destroy Production

- Import of capital goods is a sign of vibrant economy? And in theory it generates higher national production?
  - First 4 years of UPA – Index of Industrial Production (IIP) annually averaged 11.5 %.
  - Next five years the annual average IIP came down to less than 5 %-finally to 2.9 % for 12-13.
  - IIP growth has fallen from 11.5% in the first four years to 5 %in the latter five years, a fall of over 56 %.
- In contrast, it was in the latter five-year period the capital goods import was:
  - **$407 billion** (79 %) out of the **$587 billion** for the UPA's entire nine years
  - The average in the first four years being $45 billion
  - The average in the later five years was $80 billion.
  - **A rise of 78 per cent**

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Capital Goods Import kills national Production

- Is it not shocking that when the capital goods import rises by 79 %, the national production falls by 56 %?
- GDP rose by 6.7% in 2008-09 despite the 2008 meltdown.
  - 8.6 % in 2009-2010
  - 9.3 % in 2010-2011.
  - Also, an economic slowdown affects investment first and production later.
- Production falls after investment contracts is normal.
- However, investment (read capital goods import) has risen by two thirds but production has fallen by half. Why this conundrum?
- Rise in imports causes fall in national production
- Domestic capital goods industry slowed down and later declined because of the import of capital goods.
- IIP rise not keeping up with GDP rise
  - GDP rose to 8.6 % in 2009-2010, the IIP rose by 5.3%
  - Capital goods production fell by 4 percent in 2011-2012 and 5.7 percent in 2012-2013.

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Capital Goods Import kills national Production

- In the last three years to 2012-2013
  - Production of intermediate goods hardly grew.
  - Foreign-manufactured goods flooded the Indian market.
- The average annual import of manufactured goods
  - NDA Period – 2001-2004 (the NDA period) – $600 million and a total of $2.5 billions
  - Under UPA 2004-2005 to 2012-2013, the average soared to $5.5 billion and a total of $50 billions
- Aided by import of manufactured goods and capital goods, domestic manufacturing was destroyed

CAD kills GDP growth

- Trade surplus adds to national wealth (GDP) and trade deficit cuts into it.
- So, the CAD, which is the trade deficit, brings down the nominal GDP.
- If the CADs were removed, theoretically, the nominal GDP of India would have been
  - 16.9 % (not 16.1 %) in 2007-2008
  - 14.4 % (not 12.9 %) in 2008-2009
  - 17.2 % (not 15.1%) in 2009-2010
  - 21.7 % (not 20.3 %) in 2010-2011
  - 17.7% (not 15.1%) in 2011-2012.
  - 15.6% (not 11.7%) in 2012-2013
- Indians buy a quarter to a third of the global supply of gold, which is not produced in India.
- Indians need to import ¾ of oil requirements.
- Imported capital goods, which are actually produced in India, displaced domestic production of capital goods and brought down the GDP.

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Partial Truth of Oil and Gold story

- Gold & Jewelry
  - The gross value of gold, silver and precious stones import is $402 billion during the UPA's nine years.
  - If the export of jewelry and precious stones of $251 billion is set off
  - The net deficit is $161 billion in nine years.
- Oil
  - Petroleum imports of $804 billion in nine years.
  - Export of petroleum products ($279 billion)
  - The net import is down to $515 billion, less than the total capital goods import of $587 billion.
- In the last five years
  - The net petroleum import is worth $360 billion, but the capital goods import is worth $407 billion.
- Reckless capital goods import killed the rupee through the CAD and hit domestic production and GDP?
  - But the CAD is only part one of the story of destruction.

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Fiscal Deficit - Also a Culprit

- Under UPA, CAD of $339 billion has directly hit the Rupee unconscious, but not the only cause.
- Fiscal deficit is as much a culprit.
- Fiscal deficit is the excess outgo of government over its revenues.
- The UPA Government has incurred a fiscal deficit of over Rs 27 lakh crore
  - It incurred Rs 22.66 lakh crore in the last five years at an average of Rs 4.5 lakh per year
  - Against the average of Rs 1.35 lakh a year in the earlier four years.
- The government's alibi for the huge deficit of almost Rs 23 lakh crore in the last five years
  - The stimulus it gave to the economy by cuts in excise and customs tariff because of the global meltdown in 2008.
- Because of the tax cuts
  - Revenue deficit shot up to Rs 16 lakh crore in five years averaging over Rs 3 lakh a year
  - Against the average of Rs 0.75 lakh in the first four years.
  - The stimulus given in 2008 is still on, partially- benefited only the corporates.

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Rs 30 Lakh crore revenue foregone

- The Statements Revenue Foregone, details the tax waivers given by the government since 2006-7.
- In the nine-year UPA rule
  - The tax waivers have accumulated to Rs 30 lakh crore!
  - In the two years before the stimulus in 2008, the waiver averaged Rs 2.6 lakh crore a year.
- Rationale for stimulus was the stressed economy.
- But surprisingly the corporate profits were more in the stimulus period than before.
  - The corporate profits were 11pc of the GDP in 2005-6, before the 2008 meltdown, when the GDP growth was also one of the highest – 9.5pc.
  - Against this base year numbers, the corporate profits to GDP ratio rose up year after year thus: 12.94% [2006-7],
  - 14.26% [2007-8]
  - 11.86% [2008-9]
  - 12.71% [2009-10]
  - 12.15% [2010-11].
- Corporate Profits over base year's gain is Rs. 4.8 Lakh crore
- Corporates had swallowed the substantial stimulus meant for the economy.
- GDP
  - Average GDP is 9% Before the stimulus [2008-9]
  - In 2008-9 it was 6.7%
  - After the stimulus it averaged 9% till 2010-11. Only later it declined.

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Who Saved India? Culture saves India

- Due to Traditional Indian Culture, Indian Families safely bank their savings a deposit equalling Rs. 10 Lakh Corers a Year
- The government could borrow within India because of this savings.
- Indian Deposits saves India from internal bankruptcy.
- But how is the bankrupting CAD really met?
  - The truth, ‘remittances from the Indian workers for family expenses’ and ‘local withdrawals’ from the non-resident Indian accounts
  - The forex contributed by Indian families totalled $335 billion during the nine-year UPA regime
  - Almost equal to the CAD.
- This remittance is:
  - Non-returnable
  - Bears no interest.
- Remittance is the traditional, cultural gift to the Indian economy.
- Traditional Indian families, struggling against modern individualism, has held together.
- Has the Indian establishment discourse ever noticed this culturally devised protection to the economy?
- Relation-based nature of the Indian society makes this remittance culturally mandatory.
- This cannot happen in contract- based societies like those in the West.
- Yet the government is making laws and the public discourse is striving hard to atomise the Indian family and society and turn it into a contract-based
- The establishment takes this lifeline for granted, perhaps not even conscious of it.
- But it tom-toms the investment inflows and debts.

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Who Gained from India’s Loss?

- Import of capital goods for $587 billions
  - Most of which India could make in its own backyard
  - Drained out a third of India's GDP under nose of the UPA regime.
- The UPA government eased customs and excise tariff and consciously ran current account deficits of $339 billions.
  - To that extent India has lost its wealth to the other nations.
- Who gained from India loss? Not America, nor England, Germany, France, Japan, or Russia – countries friendly to India.
- It is China.
- Year after year from 2006-7, it has been the single biggest beneficiary of India's import orders.

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How much did China Gain?

- India's imports from China
  - 13% of the country's total imports in 2006-7.
  - 17% by 2011-12.
  - India's trade deficit with China topped $175 billions in the last six years to 2012-13.
- Trade deficit with China
  - $1 billion in 2001-2.
  - By the third year of the UPA rule, it rose to $9 billion.
  - $16 billion [in the 4 year]
  - $23 billion [in the 5]
  - $19 billion [in the 6]
  - $28 billion [in the 7]
  - $39 billion [in the 8]
  - $41 billion [in the 9]
  - Aggregating to $175 billion or 54pc of India's total current account deficit of $325 billion in the last seven years.
- The capital goods imported from China alone amounted to $150 billion plus.
- India imported from China three times more than it exported to it.

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Not in India's strategic interest

- China, never a great friend of India. India's Cold war with China continues.
  - China breaths hot on Arunachal Pradesh.
  - Builds dams on Brahmaputra.
  - It is a friend of PakistanChina is Pakistan's strategic partner giving economic military and technological support.
  - It has built up, and is still building up, nuclear arsenal and missiles for Pakistan.
- Economic consideration apart, it is certainly not in India's strategic interest to benefit China so hugely, at India's cost.
  - The trade deficit of $175 billion with China [Rs 10 lakh crores] equals India's defence spending for the last six years!
  - Based on the US Department of Defence estimates of $63 billion as China's annual defence budget,
  - $175 billion Indian trade account bounty funds the defence budget of China for some three years!
- The trade deficit with China weakens the Indian Rupee and Indian economy and strengthens the Chinese economy
- How and why did the UPA government commit this geo-political and economic blunder? No answer.
- Apart from failing to resist the Chinese dumping, by cutting India's import and excise taxes
  - UPA has positively helped China, already a cheap producer, to penetrate and dominate the Indian market.
- China's billions of dollars of suppliers' credit virtually at throwaway interest rates lures Indian Importers of Capital Goods.
- An alert UPA government could have prevented or mitigated this disaster

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India not alert to China's dumping

- China entered the Word Trade Organisation [WTO] in 2001.
  - Was preceded by huge tariff cuts effected by India under the WTO regime.
  - India's import-weighted tariff of 50pc in 1990 came down to 20pc by the end of 1990s.
- From the 1980s, China has been a huge dumper of goods world over.
- Dumping means selling goods at less than their cost. Anti-dumping provisions are integral to the WTO regime.
- Previous Indian governments have been extremely alert in dealing with Chinese dumping.
  - So alert that, between 1995 and 2001, India launched as many as 248 anti-dumping cases – which was next only to the US [255 cases].
  - A fifth of India's anti-dumping moves were against China.
- The accelerated dumping of goods by China under the UPA regime coincided with the declining import tariffs of India.
  - The trade-weighted tariff rates of India declined from 50pc in 1990, to 20pc in 1998,
  - 14pc in 2006
  - 12pc in 2007
  - 8pc in 2008.
- Yet shockingly, the anti-dumping efforts by India – instead of intensifying – slackened from 2008.
- Under NDA, In 2002 [The trade-weighted tariff was still high, 20pc]
  - India accounted for a quarter of all global anti-dumping cases.
- The cases dipped later but grew in 2007 to 27pc
  - Halved to 15pc in 2009 when the Indian tariff had hit the bottom
  - 8pc – precisely when the anti-dumping efforts should have been more rigorous.

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China grabs Indian market

- China's share of imports into India
  - More than a quarter of the capital goods
  - Half of textile yarn and made ups
  - Three-fourths of cotton yarn/fabric
  - Nine-tenths of silk yarn and raw silk
  - Half of manmade filament yarn/fabric
  - One-third of readymade garments
  - Two-thirds of synthetic fibres
  - One-third of chemicals, medical and pharma items
  - Two-thirds fertilizer manufactures
  - One-sixth of machine tools,
  - One-third of computer software
  - A quarter of steel
  - Two-thirds electronic goods
  - One-tenth of cement
  - One-third of metal manufactures
  - Two-thirds non-metallic manufactures.

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China grabs Indian market

- The dumping by China is an open affair.
  - The Statesman [18.5.2009] had warned that **Chinese dumping was irreparably damaging "the Indian domestic market and producers." and "if the current situation continued Indian industry would cease to exist."**
- After such public warning that the trade deficit with China shot up by $127 billions – three fourths of the total trade deficit of $175 billions with China since 2006-7.
- India did not leverage the market access it provided to China for geo-political gain
  - Settle the border and other disputes with China
  - Negotiate its support for India's entry into UN Security Council.
- This demonstrated the lack of strategic element in India's China policy – pointing to utter failure of diplomacy and national leadership.

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Ostentation and Mismanagement

- UPA Loosing sense of moderation
  - GDP growth rates surpassing 9.5pc in 2005-6 and 2006-7
  - Fiscal deficit coming down
  - Forex flows heavy because of phoney credit monies wandering all over the world
- UPA opened the floodgate of imports and foreign investments by Indians.
- A missed opportunity for fiscal and external consolidation.
  - That was the right time to withdraw the tax waivers and build more reliable forex reserves.
- In the days ahead of 2005 budget Manmohan Singh and Chidambaram did threaten to cut tax waivers but kept silent about it in the budget.
  - Extravagant tax giveaways of over Rs 2.5 lakh a year continued.
  - UPA government behaved as if India had already become a global power, not just one in the making.
- 2008 crisis hit
  - the government went overboard and doubled the tax giveaways to Rs 5 lakhs crore which hit the revenues
  - Made it possible for China and others to invade the Indian market with cheap equipments and products.
  - The economic destruction of India took place between 2005-6 to 2010-11 when things could have been reviewed and controlled.
  - Things tended to become uncontrollable by 2011-12.

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The Way Out

- Now, what is the way out?
  - Not begging for inflow of hot money or external borrowing like the UPA government is doing.
- How about these two big things?
  - Defer the food security bill, that adds additional Rs 2 lakh crore fiscal deficit a year, will be deferred till after the looming crisis is over. This will instantly shock the market to think that the government is serious, to begin regaining confidence.
  - Next, announce complete tax immunity, bring out the un-ornamented hidden gold, estimated at 3000-6000 tons, into interest-bearing government gold bonds, securitise gold
    - Has the potential to turn $200 billion investment into the economy and add equal amount of stable forex reserves.
    - This can transform the internal and external economy dramatically.
- Pranab Mukherjee was keen to do it in the 2012 budget,
  - Scared of being bracketed with black-money holders
  - Will the government have the political will to do it?
- It is time that the government worked with the opposition to build consensus, like they did in 1991, to tackle this serious situation which has the potential to develop into a financial emergency.

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Role of Gold in India

Gold Consumption in India

Gold, which was dominantly used for jewelry but not so insignificantly kept as investment in India, has, of late, emerged as preferred investment asset held in the form of bars and biscuits. This is not only due to economic variables like the instability in financial and stock markets, but also due to cultural pull of gold specific to India and generally to Asia.

During the reform period from 1997 to [Q3] 2011 India has imported 10600 tons of gold. Gradually, in recent times the share of gold as investment has risen, and the trend continues. In 2008, share of gold as investment in the total demand was estimated at 28%, 210 tons. It went up investment up by 25 per cent to 34% of the total demand to 220 tonnes approximately during 2009. It soared by 83 per cent in 2010 from the year earlier to 349 tonnes in 2010, accounting for 34% of the total demand.

In 2011, overall jewelry demand during the first nine months of this year fell to 464.4 metric tons from 471.9 tons a year earlier, but, investment demand grew nearly 26% year on year to 296 tons, according to the World Gold Council.

In recent times, there has been fall in demand for gold for jewelry but it is compensated a huge rise in investment in gold. The message is clear. Gold buying has not reduced; but there has been a shift from ornamental gold to gold as investment. The aggregate gold added to gold in investment for the years 2008 to Q3 2011 – 45 months period – amounted to 1073 tons.