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| A pessimistic outlook- India's export conundrum  |
| CommentaraoS.L. Rao |
| http://www.telegraphindia.com/1160427/images/27edittop9.jpgTrucks at the Mahadipur export land checkpost, MaldaAlmost 60 years ago, Manmohan Singh's thesis in Oxford was on India's export pessimism. The Indian mindset has not changed. Before the British took over India's governance, India was with China a major economy in the world, and a powerful export-oriented one. British colonial rule systematically destroyed India's export capability in order to give a free rein to British manufacturers.So the declining exports of the last many months happened to a country that was not much interested in exports. For nearly half a century, 'socialism' had made State domination of government economic policies possible through ownership of key sectors; severe restrictions on technology, production and investment; a hostile attitude to private ownership and profits; high taxation, leading to many people hiding proceeds. From over- invoiced imports and under-invoiced exports to poor quality and high costs due to government controls, India became a non-competing exporter. We were good only for commodity exports.In recent months, there has been a sustained decline in exports from India. As percentage of GDP in 2006-10 and 2011-15, it was 41.9 per cent and 38.3 per cent.The coming of Indira Gandhi to power in 1966 increased State dominance and control. She nationalized banks, insurance and financial institutions, and many other industries. Comprehensive industrial and import licensing and centralized control over use of private and government resources brought about a large bureaucracy that was part of a system of complex permissions, numerous demands for detailed information and stingy production capacities.India's balance of payments deficits are due to inflexible imports of oil and gas and weak exports. Significant remittances by Indian workers overseas started only in the 1970s and relieved pressure on the balance of payments. Foreign investment, especially in the stock market, supplemented this inflow. Investment in bricks and mortar was limited.The facile explanation for the recent export decline is that many major world economies have experienced a fall in exports. The reason given is economic decline in the major world economies. This began after the financial crisis of 2008. Soon after oil and gas prices collapsed, hitting the economies of oil exporters. China is adjusting to huge internal debts. European countries have been in economic decline (except for Germany). In Europe, the principal cause is rigid practices in remuneration and employment of labour. The United States of America suffered almost seven years of economic turbulence. Years of very low interest rates and easy lending led to the financial crisis of 2008, the collapse in the value of housing, banks, financial institutions and the automotive industry. Massive government rescue funds have taken years to revive automobile companies, banks and some others from bankruptcy. Recovery began in 2015. Japan is taking years to adjust to an ageing population, low immigration, the Fukushima earthquake and the tsunami.Almost every other country has, therefore, suffered declines in exports. For many, exports were key economic drivers. Another important factor in India was the sharp decline in iron-ore exports after the Supreme Court banned them in Goa and elsewhere because of the illegalities and loss of revenues to government. Soon the key importer, China, reduced imports sharply.Other economists have calculated that the lack of flexibility is in the rupee's real foreign exchange rates. India's foreign exchange inflows were respectable but the composition has been largely volatile. Oil and gas imports are inflexible, and only rose or fell in value not quantity as import prices went up or down. The mistaken subsidy to diesel did not help restrain its consumption. Gold imported legally and otherwise was another rigid source of foreign exchange outflows. Import-export structure kept balance of payments in deficit.India has been largely an exporter of commodities. The industrial base is yet to recover from years of restrictions that make it uncompetitive internationally. Manufacturers of chemicals and pharmaceutical generics did begin to grow. But some pharmaceutical manufacturers damaged the trade by illegal practices, especially in the US. Inward foreign exchange flows have helped, mainly remittances by Indians working overseas and foreign institutional investments.Government policies have only now begun to encourage some foreign direct investment. FII has been high, but volatile in relation to market prices, exchange values, and so on. It includes much non-tax paid funds that have been smuggled out of India and returns from countries like Mauritius with which India has tax agreements that give funds coming from them exemption from capital gains tax in India.The discussion, thus far, shows that many factors are responsible for the export decline from India. But underlying them all is the fact that India is not a country that is export-oriented, one which stimulates exports and has an economic system that actively encourages exports. The reasons go back to the years till liberalization began in 1991. Socialist policies kept the State in control of the essential factors of production-natural resources and infrastructure (travel, power, telecommunications, coal, oil, gas and other fuels. It also owned most of the financial system, from short-term to long-term working capital to investment). Since the government owned, nationalized or set up many basic and key industries, the private sector had to woo government officials for funds. These were made available as loans, but only after onerous conditions on capacities, technology, numbers employed, export obligations, and so on, were met. Thus, government economic policies and ideology created a government-owned and rigidly controlled economic system.The country needed imports and had to export for the purpose. Foreign exchange earnings through FDI or FII during the Indira Gandhi years were limited, and worker remittances had just begun.There was, therefore, an intricate web of rules, regulations, procedures, inspections, and so on, that controlled all exports and imports. They were only extensions of even more complex rules for production and investment. In addition, to enable high-cost Indian exporters to compete, there was another intricate set of cash assistances and import licenses on exports. In an import-short country, these fetched high premiums and, hence, profit. While these no longer exist, governments retain the mindset and the procedures. There is not the same passion to export that is there in some other Asian countries.With basic industries dominated by State-owned enterprises, there was considerable inefficiency in production and indiscipline in management and labour. The limited access to technology also made for inefficiency, poor quality and high cost. It was not surprising that manufactured products played a limited role in Indian exports.It has not helped that India's financial markets are narrow, largely State-owned, and highly oriented to debt. There is much less of the pool of funds for long-term investment that exists in the West. Since FDI has been unwelcome for long, foreign investment in new industry is also limited.High taxation, limited foreign exchange allowances and uncertainty about the future of the Indian economy encouraged many businessmen, politicians and bureaucrats to send their earnings overseas through illegal routes. For the exporter and the importer, under invoicing and over invoicing became staples of their businesses. These practices continue despite lower taxation and economic liberalization.The good signals have come from service exports, which show excellent growth in local and export business. There are few other such areas.To become an export-oriented nation, we have to change the economic system from the legacy that Indira Gandhi left us and move to market orientation, no regimentation and tough independent regulation with heavy penalties for any malfeasance.Ruling elites of every political colour are comfortable with government ownership and control. Radical change to transparency, enterprise and freedom with tough regulation will happen in response to a crisis, as did the liberalization of 1991.The author is former director- |

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