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THE INDIAN FLAT STEEL INDUSTRY

An Overview

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Unlock Hidden Value of Rupee @ INR 35/USD

R. P. Gupta
Author
Turn Around India

We should improve economic efficiency for becoming globally competitive and unlocking hidden value of Rupee that is below INR 35/- per USD. This depends upon whole gamut of policy and regulation. We must improve business environment that is currently at rock bottom. Let us set our house in order instead of depending upon the mercy of foreign investors. Dependency upon monetary policy alone will be futile. Current problems are self-made and global factors are merely an excuse.

We must strengthen rupee and bring rupee-dollar conversion to a level of INR 35/USD by the end of 12th plan through a gradual process. At the very outset, such target looks imaginary in view of the current trend. But it is a feasible proposition as elaborated in the book 'TURN AROUND INDIA'. Unfortunately, we have a pre-set mind to live in a regime of trade deficit and depreciating rupee; this must be reversed. Many a times we advocate for a weak rupee to boost exports. Such prescription can only help in short term and thereafter imports start seeming costlier. Rather, we will import inflation and lose competitive edge. Finally, export shall drop and we shall land in to bigger problems.

Historically, we have been financing trade deficit through forex inflows in various ways such as NRI transfers, FDI, External debt and FII investments. Such inflows depend upon investor's confidence that comes from business friendly environment. Unfortunately, we have destroyed it badly by regulatory and political activism; moreover, judiciary, central audit, media and civil society have joined the fray. Closure of plants and mines clubbed with arbitrary demands has become common affair. Frequent criminal proceedings against corporate houses are recent phenomenon. Under such vitiated atmosphere, domestic investments are shying away let alone the mobilisation of FDI. Tightening liquidity and hiking interest rates will have reverse impact under the prevailing situation. Rather, the monetary policy needs innovation.

During 2007-08, the Indian economy was at peak and we could achieve valuation of INR 38/USD. Till July 2011, it was INR 44 but it depreciated to over 68 in August 2013. Minor improvement in September is mirage. This concludes that the valuation of rupee is closely linked with economic performance of the country; primarily upon 'Inflation and Trade Deficit'. We must therefore improve economic efficiency of the country and become globally competitive. The economic efficiency does not depend upon producers alone; rather on the entire gamut of policy and regulations related to economic activities. Interestingly, this will also ease on the inflation front. In fact inflation, trade deficit and rupee depreciation are closely interlinked. Controlling inflation through rate hike is another mirage and a failed concept.

We must regain 9% growth by improving political and regulatory environment for economic activities and promoting private capital. Stress on manufacturing must be relieved that forms a major portion of international trade. At the same time we must reduce energy imports by enhancing domestic production. We must reduce gold imports through publicity campaign and promote innovative model of gold ETF as discussed in the book 'Turn around India'.

Normally, purchasing power parity (PPP) method is adopted for comparing GDP of various countries. In such method GDP is arrived in terms of USD with an assumption of selling entire goods and services produced in each country in the US market. This is an indirect comparison by barter system in the US market. This comparison in terms of purchasing power shall reveal the inherent value of rupee as INR 20-25/USD which is grossly under-valued by about 2-2.5 times. Value of other currencies is mostly in line except for China's.

Nominal GDP & by PPP Method (2010) in billion USD

Country name	GDP by PPP Method	GDP (Nominal)	Ratio PPP/Nominal
United States	14,527	14,527	1.00
China	10,120	5,878	1.72
Japan	4,324	5,459	0.79
Germany	2,944	3,286	0.90
France	2,135	2,563	0.83
United Kingdom	2,181	2,250	0.97
Brazil	2,179	2,090	1.04
India	**4,058**	**1,632**	**2.48**

Source: Turn Around India

Such situation has occurred due to poor economic efficiency of the country in most fronts, particularly in the industry group. Currently, about 85% export relates to manufactured goods. The manufacturing sector is suffering because of political and regulatory activism and its share in country's GDP is declining. Basic inputs like energy, minerals, logistic cost, and capital cost are either over-regulated or under government monopoly. Regulations are too many that increase regulatory risks and its compliance cost. Taxation burden is also high and it is further loaded with cross subsidy. These all factors convert Indian manufacturing sector as non-competitive and therefore, export growth is slowing down. We have not tapped huge potential in the export of services like Education, Medical, Tourism, Legal, Accounting and Engineering services.

On the other side, we are importing energy, gold and manufactured goods which can be reduced by various methods as discussed in the book. We are importing about 135 MnT Coal a year but objecting coal block allotment and curbing production on the plea of forest & environment.

Petroleum & fertilizer import is accelerating and both continue to be subsidized. There are no sincere efforts towards new exploration and increasing Oil & Gas production from existing sources. Our petroleum minister has stated that we can float in surplus oil provided we invest and open this sector in aggressive manner.

We are importing steel but keeping domestic capacity idle by shutting iron ore mines. We are net importers of agro products (excluding plantation agriculture) but restricting food grain exports. We are importing about 40% manufactured goods rather than giving fillip to the domestic industries. New production capacities are not coming due to illogical forest, environment and land laws. Domestic manufacturing facilities like electronics, power, aviation and defense equipment are not developed and we are still depending on imports. Like-wise examples are many.

If all such hurdles are removed through regulatory easement and policy support; we can certainly become trade surplus (including goods and services) in next 3-5 years. Indian entrepreneurs are much capable provided friendly policies and conducive business environment. Incidentally, these actions will also cool down inflation in the country. Forex inflow both from trade and investment shall increase. If these inflows are rightly used for infrastructure and productive assets; it will deliver compounding benefits on growth, inflation and trade deficit. In such event, rupee shall certainly reach near its intrinsic value of INR 25-35/USD. Now it is left to our choice; whether we work efficiently or we continue with political and regulatory activism resulting in to poor economic efficiency, depreciating rupee and rising inflation. ■

The article was written on 22nd of Sep 2013.