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FROM THE RINGSIDE

Investors: The 'take off' and 'landing' mode

The Prime Minister's first visit to the UK and US after he assumed office was preceded by a flurry of activity. The Cabinet approved the promulgation of three ordinances pertaining to Banking Regulation (Amendment and Miscellaneous Provisions), Securities Contract (Regulations) Act 1956 as well as the Depositories Act, 1996, apart from deciding to set up a Competitiveness Commission. Officials habitually use prime ministerial visits to push through pending decisions on the ground that this will improve investor perceptions. All prime ministers are susceptible to this. When their aircraft are in 'take-off mode', the investor constituency becomes more compelling, just as on return, when the aircraft is in the 'landing mode', domestic concerns and political compulsions once again dominate their thought processes.

Given the present Prime Minister's professional integrity and high international credibility, it is not surprising that he was a big hit with the CEOs both in London and New York. Shortly after the Prime Minister's return to India, the Finance Minister would also be interacting with the merchant bankers and investing community both in New York and London, after participating in the annual meeting of the IMF and World Bank in Washington. The 'India Roadshow' has got off to a mega start; in quick succession, the international business community would have interfaced with the Prime Minister and the Finance Minister of the new government.

So what are the prospects? First and foremost, we must recognise that even after more than a decade of significant market liberalisation, FDI annual flows hover around $4-5 billion depending on the methodology we use and our preferred way of computing these figures. This is quite abysmal. This is even more so because on the whole, India has a credible record in terms of the GDP growth it has achieved during the 1990s. There has been significant infrastructure deregulation, particularly in Telecom and Roads, coupled with a modest degree of banking and financial sector reforms. The present economic environment is stable and attractive. The macro-fundamentals look reasonably healthy, with the assurance that the fiscal deficit target is likely to be achieved, tax revenues are buoyant, market borrowings are lower than anticipated, inflation may have peaked and the external sector buoyant.

Along with these is the repeated assurance of the Prime Minister that ''reforms with a human face'' (whatever that means—different prime ministers use different phrases at different points of time depending on the constituency they want to address) is firmly on track. So what are the subsisting major concerns of investors? Some of these include:

a) Coalition politics will hurt economic reforms. Everyday we hear discordant voices both from coalition partners in the Government and outside. While the

Prime Minister reassures us that the Government is committed to decisions that have been taken, the proof of the pudding lies in the eating.

b) Budget proposals relating to sector caps on Telecom, Civil Aviation have yet to be notified. Nor has the Cabinet approved the proposal on raising the FDI cap on insurance from 26 to 49 per cent, much less introduce a Bill in Parliament. We hear there will be more discussions on these. Is there much left to be discussed since arguments and concerns, the pros and cons have been thoroughly discussed and are in public domain? Chidambaram is not naive enough to believe that the removal of these caps will lead to a burst of foreign investment from the very next day, but these are symbolic of the credibility of the Government in implementing its own decisions, taken consciously. Fullest consultations/consensus should precede announcement; but policies once announced must be implemented. Beyond sector cap, the issue of policies, procedures and promotion of foreign investment needs to be holistically addressed.

The same is true of airport privatisation and power sector reforms. Actually there has been a slide-back. Foreign equity in airports was brought down from 74 to 49 per cent, and there is yet no final clarity on whether we are going ahead even with the newly visualised joint-venture agreement, though 10 parties have been shortlisted and the date extended by another few months. On power sector reforms, the classic issue of application of user charges, moderating the cross-subsidy to tolerable levels which do not render manufacturing activity uncompetitive, along with a finality about the Electricity Act and its follow-up in terms of National Electricity Policy and Tariff policy will keep the investing community confused.

c) There are other issues which continue to haunt investors, like the unresolved Enron problem; the issue of resiling on banking liberalisation, on removing the 10 per cent cap on voting rights decided by the earlier Government; and raising the foreign equity cap to 74 per cent. Further, how to improve the cost and quality of infrastructure? Except in the case of Telecom, the cost of most infrastructure is 50-100 per cent higher than in China. Chinese highway network is seven times larger than India, with China spending 2.5 per cent of its GDP in improving the highways. The total freight payment in Indian ports is 11 per cent of import value, compared to a global average of just 5 per cent.

A clearer enunciation of our disinvestment policy—perhaps a roadmap/time-frame—will lend comfort to the hapless lot of merchant bankers in attempting to second guess the next move by the Government. Issues pertaining to inculcation of labour skills and improving labour productivity also figure high on investor concerns.

d) The Government was perhaps left with no option than to promulgate some ordinances since Parliament hardly enacted any legislation during the last Budget session. These ordinances would need to be converted into Bills. But will the Bills be passed? And what will be the fate of several other important legislations in the offing? Investors would like to believe that the breakfast meeting between the Prime Minister and his predecessor on Pakistan is the beginning of wider cooperation between the two mainstream parties on crucial economic issues. Unless this is achieved, important legislation will remain in limbo as the Government's flexibility is greatly circumscribed. Besides, there are limits beyond which the ordinance route cannot be pursued. How does one achieve this? This is an important question with no clear answers.

Hopefully, in the post-Maharashtra election period, there may be ‘‘a window of opportunity’’ to secure greater understanding between the Government and Opposition. But alas, this window would be shortlived because then there are the Bihar elections and so on! We have elections almost round the year and so clearly bipartisan cooperation must look beyond the arithmetic of constant elections in one form or the other.

The Prime Minister is right in reminding the foreign investor community of what Keynes had said describing ‘‘investment as an act of faith’’. While this is true, Keynes had also said that ‘‘the social object of skilled investment should be to defeat the dark forces of time and ignorance which envelope our future’’. No ‘‘act of faith’’ can be sustained without trust and credibility. Can we be ‘‘faithful’’ enough in keeping promises made and implementing decisions announced? Actions always speak louder than words. These must not be forgotten in the ‘landing mode’.

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