

# THE HINDU Business Line

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## Budget has big promises to keep

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*Business Line* Faster merchandise export growth can help offset the likely drop in export of invisibles. The widening current account deficit and the fall in the inflow of foreign direct investment has skirted.

The Budget lays out opportunities and challenges that the economy is currently facing. The revival of economic growth now and in future based on fiscal consolidation, in rural economy.

The challenges include further fiscal consolidation, improving supply response programmes, improving regulatory standards and administrative practices in managing the economy.

Continuation of fiscal consolidation is imperative for growth of the economy. It includes subsidy reforms, agricultural procurement and public distribution, boosting as well as the share of manufacturing in GDP, strengthening agricultural supply chain competitiveness of the economy.

Does the Budget provide indicative potential solutions to myriad challenges currently facing? Among the positive aspects of the budget are the soon-to-be strengthened MGNREGA, Bharat Nirman and increased expenditure on social

strengthening financial inclusion and extending benefits to unorganised sector. In APMC-regulated agricultural markets, the real action is yet to be seen.

## Serious Action Points

The National Manufacturing Policy needs serious action plans on the ground. The share of manufacturing in GDP from the current 16 per cent to 25 per cent by 2021 should be a goal.

The share has remained stagnant around 17 per cent for more than three decades. The last 20 years could not improve it further.

The issue of deteriorating balance of merchandise trade is, in fact, more serious. The current deficit to GDP (CAD-to-GDP) ratio has been increasing since 2007-08. It was 2.5 per cent 2008-09 and 3 per cent 2009-10. It is not likely to cross the 3 per cent mark in the next few years.

The worry is on account of the fact that it may move up during the years to come. It is not enough to counter the weakening surplus on invisibles.

Exports of services (Mode-1) may not be expected to keep growing at the rates of the past. They have hit a plateau, at least for the time being.

There is marginal surplus on 'trade in travel' services (Mode-2) which is between 1 and 2 per cent of trade in services.

However, there are no reliable data available on trade in services on Modes-3 (movement of natural persons)

Thus, there is all the more reason for manufacturing sector to grow faster and offset the deficit on merchandise trade. This would require serious reforms of labour law and infrastructure.

Labour-intensive manufacturing units, particularly in primary food processing, should be encouraged. Unemployed as well as give more returns to the farmers through minimising input costs.

## Capital inflows

Another major concern refers to quality of capital inflows. Despite fragile global economic conditions, direct investment (FDI) flows have been brightening up since mid-2009. (World Economic Outlook, April 2010)

It is expected that FDI flows would cross \$1.2 trillion in 2010 and rise up to around \$1.5 trillion by 2012. However, FDI flows are subject to various risks and uncertainties.

Further, the 2010 A.T. Kearney FDI Confidence Index Report cheers up the developing and emerging markets remain attractive to foreign investors. The Index tracks the confidence of executives based on likely political, economic and regulatory changes.

China, India and Brazil are among the top five countries based on FDI Confidence Index. India is ranked third.

FDI flows into India have declined during H1 2010. Gross FDI inflows, at \$16. inflows in H1 2009.

While it may not be easy to mentor FII inflows and outflows, the reasons for d before the policymakers.

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