

**Print**

Wednesday, August 3, 2011 1:17 AM PDT

## India: Finance Minister Mukherjee's Missed Opportunities

By Frank Islam

WASHINGTON, DC: Less than a month after he made a dispassionate defense of his stewardship of the Indian economy in Washington, Finance Minister Pranab Mukherjee delivered an encore in London last week. But sadly in both cities, the minister failed to reassure many international investors, as well as critics, who have been questioning India's economic direction lately.

Mukherjee and the Indian government have been under fire both within the country and abroad, where, especially, the investors have been getting increasingly restless about the sluggish pace of economic reforms. The United Progressive Alliance government has also been ineffective in cracking down on corruption, which has become a major national issue in the past year, in any meaningful way, and curbing what seems like a runaway inflation.

Addressing the fourth ministerial-level India-UK Economic and Financial Dialogue on July 25, in London, the septuagenarian minister chose to highlight, mostly, the brighter side. "We have recorded one of the fastest growth rates in the world and are nearly back to our pre-crisis growth levels," he said. "We believe that growth potential of India is over 9 percent."

In both cities, the closest to a straight-talk one heard from the finance minister was on the inflation issue. "[It] continues to be an area of concern" even though India did make "some progress" in containing the phenomenon, he said in London. "Supply side and monetary measures are being actively taken to address it," he added.

Five weeks earlier, addressing a conference jointly hosted by the Brookings Institution and the Confederation of the Indian Industry in Washington, he had said that "Inflation is an important constraint which will have to be tackled."

On reforms, the minister's approach was to maintain that the glass is half full.

"We are in the process of deepening policy reforms in the financial sector and addressing gaps in the overall economic regulatory architecture," he said in London. "Discussions are currently underway to build consensus on further liberalization of the FDI policy in retail and defense sector," he added.

In Washington, he said: "The various structural reforms we have undertaken and which will come in [the] course of time ... will ensure there is investor-friendly environment." He offered no explanation for the sluggish pace of reforms other than implying that it was due to certain compulsions of the coalition politics.

It is no secret that the government's virtual inaction on the reform front, especially on some big-ticket reform items, is a big factor behind investor disillusionment, which is one of the reasons foreign direct investment fell by more than 30 percent last year.

Of an issue that is widely believed to be hurting the Indian economy at the moment — the rampant corruption — Mukherjee said nothing during both visits. It was an issue many in both Washington and London would have loved to hear from Mukherjee, not just because he is spearheading the world's fourth largest economy — by purchasing power parity — but also because of his role as the chairperson of a committee to draft an anti-graft Lokpal bill.

With a number of high-profile corruption cases involving top government officials contributing in equal measure to the sagging morale of investors, one would have expected Mukherjee to, at least, educate his audience about measures his government had put in place, or contemplating against corruption. But he did not even acknowledge that corruption was an issue in India in both places.

In many ways, it was a missed opportunity for the finance minister, who could have used the platforms to respond to critics who had been complaining about the Indian economy veering off-track lately and woo investors who were having second thoughts about putting money in the Indian market.

Mukherjee could have also used the two trips to send the right signal to businesses and investors back home, who are equally unhappy with the policies of the UPA government. The detachment that distance provided could have given such a message more credibility.

An indication that domestic investors are not a happy bunch either came recently when Reserve Bank of India released figures of the foreign direct investment outflow from the country.

It revealed that, in the last fiscal year, Indians invested close to \$44 billion overseas, a 145 percent increase from the previous year. The total FDI outflow from India in the past three years is nearly \$83 billion.

Of course, if the economic conditions were different, one could have gloated about these figures.

First, it shows that the government did make it easy for Indian investors to move their money to whatever market that they think would get them best returns. After all, a lot of these investors are going to repatriate their profits. Secondly, it also gives glimpse into the immense wealth that has been created in India in the past few years.

But these figures are not a positive indicator in this economy, and under the prevailing conditions. What should concern the Indian government is, while the FDI outflow increased dramatically, the inflow fell alarmingly last year, and also in the first quarter of this year.

The difference between the FDI inflow and outflow was a startling \$20 billion last year. It is startling because, an emerging market like India, with its vast potentials, should be receiving more FDI than it is wiring overseas.

India was one of the few emerging markets where the FDI declined last year, according to the Financial Times. It is worth noting that, even at the height of global recession a few years ago, the FDI flow into the county had increased.

During the back-to-back trips to Washington and London, Mukherjee ought to have addressed the investor concerns by having an open dialogue with them about not just the potentials and promises, but also problems and challenges.

Investors would have appreciated such an approach from the minister.

*(Frank Islam is the co-author of the book "Renewing the American Dream: A Citizens Guide", which was released last summer. He is the Chairman and CEO of FI Investment Group, based in the Washington, DC, area. He is also a member of the advisory committee of the US Export-Import Bank and the Department of Commerce Industry Trade Advisory Committee.)*