FACTS against MYTHS

VIKAS ADHYAYAN KENDRA FEBRUARY - MARCH 2004 INFORMATION BULLETIN

Is India Shining?

Myths on the "Shining India" Campaign - I

COMMENT

The 13th Lok Sabha was dissolved a few months before its term expired and parliamentary elections were declared. They will now be held on five different days in April and May 2004.

One of the main reasons to prepone the elections was, of course, the success enjoyed by the ruling National Democratic Alliance in three of the four states that went to polls to elect state legislatures late last year, viz., Rajasthan, Madhya Pradesh and Chhattisgadh. It suffered defeat only in Delhi. This was new ground gained by the NDA – essentially the Bharatiya Janata Party. It had wrested these states from the Indian National Congress. The results, not realistically expected even by the BJP, obviously created a sense of delight and a new confidence. It was felt that the popular opinion had now swung in favour of the NDA and BJP. Obviously again, the NDA and BJP wanted to take advantage of the public mood. It was also felt that such mood was quite unstable – only in August 2003 opinion polls had suggested that the popularity of the NDA and BJP was on the wane and that the Congress was gaining at their cost across the country. It could swing again in a few months time. It was best to take advantage of the popularity while it lasted.

Some other factors too had prompted the decision. There was drought in some parts of the country. Some areas not traditionally considered drought prone too faced severe water scarcity. However, there was no famine as such. There were neither starvation deaths nor large scale famine related migrations out of villages. One more bad monsoon could, however, change the situation drastically. Really bad monsoons in India always strengthen the anti-incumbency factor and shift opinions against the ruling party. This was an unacceptable risk.

Yet another reason was the apparent feeling of wellbeing in mainly the middle class. There was no recession. Enterprises were posting good returns and the share markets were booming. True, interest rates had been reduced and were to hit the fixed income groups as well as the small domestic investors but the overall mood was not of despondency. The retail markets had shown normal trading activity during the festival seasons of Dussehra, Diwali, Christmas and New Year.

The new peace initiatives with Pakistan also produced a sense of possible secure and peaceful existence. For sometime there were no major terrorist strikes outside the beleaguered state Jammu and Kashmir. There were no major communal riots. The VHP-fuelled controversy over the construction of a Ram Temple at the site of the demolished Babri Masjid in Ayodhya continued to simmer but did not reach explosive proportions.

The situation in short, was good enough to neutralise or mitigate any anti-incumbency factors.

The campaign managers and poll strategists of NDA-BJP decided not only to make the greatest use of the atmosphere but also to create a campaign to boost the image of the ruling coalition.

The Government of India launched an advertisement campaign that acquired two sobriquets – Shining India and Feel Good Factor. It is reported that the government spent Rs 400 crores of the tax payers' money on this campaign. The ostensible purpose of the advertising campaign was to emphasize the achievements of the government under the leadership of Prime Minister Atal Bihari Vajpayee. The actual campaign however went far beyond statement of facts. The points that it made were in the nature of NDA – BJP propaganda rather than a public information exercise of the Government of India.

In the first instance it said that for 50 years since independence under Congress rule there was no development in the country. The development had really taken off only since 1999 – when this government came to power. It also said that the economic growth of India was unprecedented during this period – such rates of growth had never been achieved in any sector till this period. It further said that all sections of the population had gained during this period and the people never had better lives. It laid particular stress on the construction of roads including the Golden Quadrilateral Project as yet on the drawing boards, the telecom and IT revolutions, the various small savings schemes, varied irrigation schemes including the highly controversial river linkage project, schemes for the poor, etc. This was hailed as a vision of the government in general and the Prime Minister in particular to create a golden future for India.

The open advertising campaign was accompanied by various official and semi-official releases. This year, since the dissolution of the Lok Sabha and the elections were in the offing the government did not table a full budget in the Lok Sabha but only a vote on account. This was preceded by what was termed a 'mini-budget' that announced many concessions to the business community and to a section of the middle class. Since no budget was to be presented the Economic Survey was also not tabled. No consolidated statistical and analytical picture of the national economy was thus available. Suddenly over the months of February and March varied euphoric figures of progress and development were released by different agencies. These showed unprecedented growth rates for the year 2003-2004 and particularly for the last quarter for that year that is just getting over. These figures claimed growth in economy – in Gross Domestic Product, in national income, in agriculture, in manufacturing, in IT sector, in employment. They also highlighted the tremendous growth in the country's foreign exchange reserves. The unofficial estimates put India well on to the path of becoming a super power – an economic giant in the foreseeable future.

There is another subtext to the campaign. These 'shining' effects creating the 'good feeling' were results of the economic reforms regime – the path of privatisation, disinvestment, rationalisation, liberalisation, modernisation and globalisation. India in its quest to integrate with the world economy has followed this path assiduously along with a withdrawal of the state from particularly the functions of economic control and provision of social security and social welfare. The 'economic progress' thus was presented as a success also of the prescriptions of the World Bank – International Monetary Fund – World Trade Organisation combine.

The government and the ruling coalition were themselves creating the ground work for the Feel Good Factor and the image of a Shining India. The advertising blitzkrieg was something quite unique. Press and television advertisements have been a part of our political, particularly, electoral process for sometime. Images of individual leaders along with their parties have been built up and projected and constantly hammered in this way during the past few elections. This campaign – government funded and official – was however blatantly shameless and cynical. The vulgarity was not seen earlier. Moreover it was based on twisted facts and (possible) lies.

Some 'facts' and 'data' so conveniently released as the election campaign got into gear were suspect. They were also presented in a piecemeal manner. The overall picture never emerged.

It is therefore necessary to look at the claims of the Shining India campaign.

Any knowledge of the conditions of the people of India tells us that the average toiling person in rural or urban India has no reasons to "feel good", nor does s/he find a shine anywhere in her/his life.

Agriculture is in crisis in all areas where ever-newer cash crops do not dominate the scene. The small farmer cannot make ends meet. The food grains a poor peasant family manages to grow on their small plots of land are not enough to feed the family round the year. Minimal survival can be assured only through additional work as agricultural labourers or as workers on say ~~the~~ Employment Guarantee Scheme – if any such schemes are functional and available in the particular area. No technological innovations have reached the common – poor and middle peasant – except perhaps the disastrous use of chemical fertilisers and pesticides. No cheap credit is available to these peasants. They have to take recourse to private moneylenders who continue to rule the rural scene. Indebtedness is increasing. The poor and middle peasants never manage to realise the prices announced by the government as support prices since the marketing mechanisms are not accessible to them. Failures or destructions of crops push the already poor farmer into destitution. Farmers' suicides have been a characteristic of the 'Feel Good' 'Shining' era – in almost all states of the country – particularly those that have recorded rapid monetisation, commercialisation, and capitalisation of agrarian economy. Andhra Pradesh, Maharashtra, Karnataka, and Punjab are replete with stories of farmers' distress and suicides. The concealed or partial reversals of land reforms in some states along with the introduction of corporate operations in agriculture completely drive the poor farmers to the wall.

There is virtually no scope of any change of occupations. There are simply no opportunities for gainful employment in the rural areas. Often then the only choice is to migrate to the cities in search of livelihoods. More often than not the men in the family migrate leaving the women in the village to cope with the agricultural situation and poverty. There is thus a distinct feminisation of agricultural labour, agriculture and of rural poverty.

The fact of the matter is that there are no jobs in the city – at least not well paid and secure jobs. The organised sector employment is on decline. The most dramatic decline is in the public sector where disinvestment has meant a clear reduction of jobs. The story of the private sector is not very different. There is growth in manufacturing and in the corporate sector but it is a jobless growth. The growth is jobless because of two reasons – one is the introduction of heavily capital intensive and labour replacing technology considered essential for survival and insertion in the world markets. The second is the new organisational and management practice that depends on 'out sourcing' the production from larger factories to the small scale and tiny sector. In this sector the labour laws almost do not apply. Employment and wages are not guaranteed or protected. Working conditions are terrible. The gloss of globalised production technology is accompanied by mandatory sweat shops. Employment even in these sweat shops is a privilege available only to a few. Most are left to find means of survival through petty self employment, meanest casual labour, and uncertain occupational activities. The retrenched or cashiered workers swell these ranks of unemployed casual toilers.

There is a clear increase in the destitution and poverty in the cities. Women as is well known bear the brunt of the harsh conditions.

The situation for the lower levels of the white collared workers – the so called lower middle class - is no better. Their salaries have not increased while the aspirations certainly have. For them every thing now costs more from food grains, transport, housing, health, and education. The young men and women from this section – who generally do not have fancy technological education – find no employment. Their traditional jobs – mainly clerical in nature – are largely eliminated by today's technological advances and management philosophy.

The sufferers of this economic development are not a small section. They constitute at least 70% of the population.

They have no cause to Feel Good or to find India Shining.

The media blitz at best distorts the facts and often blatantly lies.

In this part we look at the myths of economic advancement of India – miraculous and dramatic according to the propaganda – in detail. We do so in simple words and simple terms, with a minimum use of statistics that often confuse and confound rather than clarify issues. In the next part we shall examine the social situation of Shining India and try to discover whether there is any reason to Feel Good on that front.

MYTH: These are boom times for the Indian economy with stellar achievements in GDP growth, foreign exchange reserves, etc.

FACT: These achievements however fail to mirror the cold, hard facts at the ground level. For instance, at $460-470 per capita income, India ranks (162) way below most nations, given the population size (around 1050 m.). From a 3 per cent average, the economy started growing at 5 to 6 per cent in the 1980s and the momentum was not only sustained but also enhanced during the 1990s. The 10th Plan was formulated on the expectation that the momentum of growth would be sustained, though over the last 5 years (1997 onwards) there has been a slowdown with a somewhat disappointing 5.5 per cent average in the previous 9th Plan (1997-2002) against the 6.5 per cent target. Apart from growth deceleration, the past decade did not generate the assumed level of employment. Labour absorption was less than 1 per cent in 1994-2000 as against the over 2 per cent annual population growth for the period (2002-07) calling for a massive mobilisation of domestic savings as well as greater reliance on foreign (direct investment and other flows) to achieve the desired targets by 2007. The deceleration was further accentuated by the severe drought in 2002 which led to a sharp decline in food grain production to 182 m. tonnes in 2002-03 from the previous year's 212 m. tonnes and agriculture growth fell by over 3 per cent. The human developed record is uneven with wide disparities among States. India's Human Development Index has slipped to 127th position among 175 countries, according to the UN Human Development Report 2003.

Related to the above, the growth rate of food grains output, since the mid 90s, has been lower than that of the population. Estimates made on the basis of data published in Economic Surveys and the Census, suggest that net food grains output per capita had fallen from 181.59 kgs in 1994-95 to 164.59 kgs in 2002-2003. Per capita net availability of food fell much more drastically from 177 kgs in the early 1990s to an all time low level of 151.06 kgs in 2000-01. By 2000-01 an average Indian family was absorbing 93 kg less food grains, compared to 3 years earlier. An illustrative irony is the burgeoning food grains stocks that continue to rot in the open or are devoured by rodents on the one hand, and starvation deaths on the other. In 2001, starvation deaths were reported in over 13 States. (See also Box below)

When export markets could not be found for this surplus, there was a proposal to dump it in the sea to make storage space for the next crop! And when this food stock was exported it is at subsidised prices for consumption as animal feed. The case was filed by some NGOs in the Supreme Court asking for directions to ensure the fundamental right to food of every citizen. A bench comprising of Justice B.N. Kripal and Justice K.G. Balakrishnan had directed the government to "devise a scheme where no person goes hungry when the granaries are full and lots being wasted due to non-availability of storage space".

A survey in Madhya Pradesh found 6,785 children in 43 blocs o Shipper district severely malnourished – an average of 160 per bloc. The situation is equally hopeless in several other states. Malnutrition especially among children and women continues to multiply.

The UN's Millennium Campaign also notes the following:

- 1.25 m. children below 1 year of age died in India in 2003;
- 50 m. children were out of school.
- 11 children die before their 5th birthday;
- 8 lakh children die every year from easily preventable diseases like diarrhoea.
- Children of 150 m. households have no electricity;
- Children of 100 m. families live without water at home;
- Less than half of India's children between the ages of 6 and 14 years go to school; and
- a little over 1/3rd of the children who enrol in Grade 1 reach Grade 8.

In this context two major reports on the state of the economy and development in general were published. These are the RBI Report on Currency and Finance 2002-2003 and National Human Rights Commission (NHRC) 2001-2002.

The latter report reveals that child labour, for instance, continues to illustrate the glaring and persistent violation of human rights. A survey conducted in Rajasthan in 1997 resulted in identifying 8090 child labourers – of which 3026 were working in hazardous occupations. A total of 60,705 child labourers were detected in UP between 1997 and 2002. A survey in Orissa in 1997 brought out a total number of 23,761 children, of which 18,089 were working in hazardous work. Successive surveys were conducted in Maharashtra in 1997, 1999-2000 and 2001-02, and the number of child labourers detected was 1023, 2983 and 4552 respectively.

Essential to realise, however, is that growth rates on their own are notoriously inadequate to measure the status of a nation and its people. To paraphrase Dr. Amartya Sen, it is a gross error to perceive people just as means of production and not its ultimate end.

Behind the Neon Lights of 'Shining India': Mass Hunger

Various indicators – chronic energy deficiency among adults, low weight and height among children, and anaemia among women – indicate that approx. half the population is physically substandard for sheer lack of food. In such circumstances, the Government's decision to wind up the PDS has already had near fatal to fatal impact. Under WB dictat, in 1991, the Government regularly hiked up foodgrain prices. Consequently, people were forced to reduce their annual consumption of cereals to the point of 61.3 kg per capita, or 81.5 kg per household of 5 by 1998. Subsequently, in 1997 the United Front Govt. launched the Targeted PDS, implemented thereafter by the ruling bloc. The TPDS raised the prices for those arbitrarily deemed "above the poverty line" to market prices prevailing or even higher, as a result of which these sections stopped buying PDS grains, and in fact reduced their grain consumption. The price was raised even for those declared "below the poverty line".

Cereal consumption in 1998 was already as low as 144.9 kg. per capita – against the minimum norm of 157 kg. In fact the real cereal requirement in India would be even higher, since the diet actually consumed in India is not as varied as that norm assumes. Cereals are a much cheaper form of calories and protein than other food items. The poorest 40 per cent of the population spend 1/3rd of their food budget on cereals, but get 3/4ths of the nutrition from them. So, they are particularly dependent on cereals for their nutrition.

As the off-take by the PL sections dropped sharply, and the BPL were unable to draw their essential quotas, foodgrain stocks soared from 18 m. tonnes in December 1997 to 58 m. tonnes in December 2001. That is, the growth in foodgrain stocks was the result of the deprivations of the poor of food. The so-called food subsidy rose from Rs.6,066 crore in 1996-97 to Rs.24,200 crore in 2002-03; half this sum was spent for holding stocks in excess of buffer stock levels. In other words, it was not so much a food subsidy as a subsidy for the WB-dictated policy! Hence, the warped argument that there was less demand for grain today.[1] Official documents generated the myth that peoples' tastes and lifestyles had changed; are more interested in other expenditures like consuming higher quality food items like meat, vegetables milk and milk products. Still others presented another warped line of thinking, viz., that progress of farm mechanisation and public transport, meant that people did less physical activity and therefore needed less calories to consume. As a result, the "nation" did not need all that grain, and the PM even exhorted farmers to grow less grain!!

In February 2004, there were reports that food grain stock have been almost wiped out, and wheat stocks are below minimum buffer stocking norms! Where has all this grain disappeared?! No doubt in 2002-03 there was a considerable hike in PDS distribution in comparison with the recent past. Moreover, the Government off-loaded a substantial quantity through various other welfare schemes such as Food for Work and mid-day meals in schools. However, 3 other heads accounted for a massive amount of subsidised grain; exports, open market sales to traders, and outright theft and some had been sent been sent to Afghanistan during the American bombing of the country![1] On the point of theft, although some of the stocks did rot and was unfit for human consumption and also eaten by rodents, this cannot account for most of the 14.7 m. tonne gap in the accounts of foodgrain stock.

Further, despite procurement of 64 m. tonnes between April 2002 and November 2003, food grain stocks dropped by November 2003 to just 22 m. tonnes, and even further by February. 2004. By January 2004 there were only 7 m. tonnes of wheat remaining in FCI stocks – that is, below minimum buffer stock norms for that time of the year.

In other words, if the quality of life of the majority of the people does not improve in any significant manner (and, in fact, has even declined despite high national growth rates), growth as such is meaningless. 'Shining India' is a great votary of the 'Trickle Down' theory – that is, high growth rates will over time propel the masses out of poverty and misery.

MYTH: The current high economic growth has led to economic progress.

FACT: A reality check contradicts this claim. According to the major credit ratings agency, Moody's Ratings, in its latest yearly update on April 6, 2004 this year's high growth was the exception rather than the rule and hopes of this 8 or "even double digit rates are likely to be dashed". It warned that such a growth may not also be sustainable in the future and will be expected to slow down to 6.5 per cent. It also cautioned that growth, and its positive effects, will be difficult to maintain in the absence of increased investment in human and physical infrastructure and a fiscal adjustment. Besides, the current economic buoyancy can be attributed to the dramatic farm sector recovery following a long drought in certain States and then a good monsoon, as well as continued healthy output gains in the service and industrial sectors in the 3rd quarter. From a lower base, the growth has picked up. And from this high level, it will be difficult to sustain the growth. Though it noted that India's external liquidity position was `strong', as reflected from current foreign currency ceiling for debt and stable outlook, it pointed out that current high oil prices and import growth may lead to current account deficit in 2004-05, but could be fully financed[2]. It also added that other factors may also intervene, including the recent pickup in inflation, which may cause the RBI to hike interests rates in response to signs of an overheating economy. Markets are already indicating unease with the negative real yields on government bonds. It observed that there is all likelihood of India unable to even meets its budget target of 4.4 per cent of GDP in 2004-05 especially when election-related spending and recent tax cuts are considered.

This disclaimer is supported by earlier analysis for instance in the Times of India[3] (19-11-03) which made the following observations on this false claim, viz.,

- despite the over 8 per cent growth that had been projected in the agriculture sector in 2003, farm production had not exceeded the peak levels reached in 2001;
- industrial sector improved in 2003 merely from 5.8 to 6.5 per cent. This modest recovery however owes less to official development policy initiatives than to a decade of corporate cost-cutting.
- the high double digit growth for the first of 2002 gave way to less than 5 per cent growth. While some of this fall can be traded to the rising Rupee, the case of other especially East Asian countries suggests that this is not the complete picture!

Apart from this, the RBI's "Report on Currency and Finance" (002-2003) noted that

- There was not enough proof of a clear rise in investment demand;
- resource mobilisation by corporates in the primary market has actually been lower during the year;
- the tax-GDP (ratio) in the economy continues to be low;
- as the revenue deficit is high, the burden of fiscal correction naturally falls on public investment;
- the public sector disinvestment, which began in 1998-99, has been rising over the years;

Moreover, Gujarat and Karnataka experienced large-scale distress and migration. In Rajasthan, fact-finding teams found the starving eating grass. In Orissa, a steady stream of starvation deaths was reported from many districts. In Maharashtra too in recent years there have been starvation deaths in the districts of Amravati, Thane, Dhule and Nandurbar.

Government authorities however always argue that nothing is amiss and, by inference, that India is still shining in all round development! The Maharashtra government ascribed the deaths of Adivasi children to so-called primitive practices. When starving Adivasis of Orissa were forced to consume mango kernels, and died of poisoning as a result, the State Government doggedly refused to classify these to starvation deaths, and claimed that mango kernels were a local delicacy eaten by choice! The P.M. had dismissed the news of starvation deaths in various part of the country as mere media propaganda.

Lest we forget: The most important factor behind the 7 per cent growth rate is the good monsoons, on the background of a series of droughts, that led to the projected rise of 9 per cent in agriculture GDP, which in turn brightened the general economic outlook. What this translates into is that agriculture crucially dependent on the monsoon could go right back to the 4.4 per cent growth rate of 2002, if the monsoon fails this year.

At any rate, it is naïve to consider the 7 per cent (even 8 per cent) growth rate as a long term turn around. To sustain such growth rate in the long term it is essential to have an investment rate of over 30 per cent of the GDP every year! (Dammed Statistics)[4] However, in the past five years, the investment rate has been stagnating at about 24-25 per cent of GDP. Moreover, fixed investment as a proportion of GDP has fallen appreciably from almost 27 per cent in 1995-96 to just over 23 per cent at present.

Citing a study on corporate investment[4] intentions by RBI in December 2003 Regi George shows that after a steep fall of 23.6 percent in capital expenditure in 2001-02, there was a further fall of 9.1 per cent in corporate investment in 2002-03. And in the current fiscal, as against capital expenditure of Rs.37,154 crore in 2002-03 on already sanctioned and new projects, the investment intentions with respect to new projects in 2003-04 amount to a mere Rs.19,518 crore. It is impossible that the remaining part of 2003-04 would be able to garner an additional investment exceeding Rs.17, 636 crores that is needed to register positive growth.

The investment rate in any economy is directly dependent, apart from the degree of public investment, on the domestic savings in the economy. While private sector savings have increased from 18 per dent of GDP in the late 1980s to about 26.5 per cent in 2002-03, public sector savings have fallen from about 2.4 per cent of GDP in the late 1980s to (-) 2.5 per cent in 200-03. The poor public savings is eroding the investment capacity of the country for generating higher economic growth. This is not surprising. In its urge to make available capital at a cheaper rate for the corporate sector, the government has been steadily reducing the interest rates in the economy. This has severely affected the quantum of savings that an average family makes. Consider the following: the wholesale price index currently is growing at 6.9 per cent. The CPI, naturally, would be much higher. As compared to this, the bank interest on savings is currently 5.5 per cent. By saving a part of their earnings, people are actually losing because inflation is higher than the interest rates. There cannot be greater dis-incentive for savings.

Therefore, any sustainable high levels of growth rates for India have to be based on dramatically increasing the levels of capital expenditures and public investment. The policies pursued by the government, on the contrary, are compressing public investment to levels that will dangerously deflate the Indian economy.

As far as the corporate world is concerned, it appears that they are not behind the general Indian experience where the "feel good" factor is confined only to the top 10 per cent of the Indian population. Citing a survey in the Peoples' Democracy George[4] shows that except for the top 100 corporations, the rest of the 900 have shown not only a fall but as one goes down lower, a negative growth both in terms of sales and net profits. The top 100 companies by sales have collectively improved their share of the net profits of the top 1000 companies, from 62.48 per cent in 19934-94 to 87.03 to 87.03 per cent in the first 9 month of 2003-04.

In sharp contrast, the share of the next 100 companies (ranked 101 to 200 in the top 1000 sample) fell from 13.2 per cent in 1993-94 to 5.61 per cent in the first 9 month of 2003-2004. Further, while the bottom 200 companies, ranked 801 to 1000 accounted for 3.06 per cent of the net profits of the top 1000 companies in 1993-94, they cumulatively made losses in the first 9 months in 2003-04.

Clearly, even in the corporate world, India is not shining for all!

Even on the trade front, the situation is not 'shining' as the Government claims. The growth of exports dropped from 42 per cent in December 2003 to a mere 8.7 per cent in January 2004. As result, the trade deficit almost doubled from $7.6 b. to $14,5 b. between April-January 2002-03 to April- January 2003-04.

MYTH: The current Forex reserves of over $100 b. are assets that overcomes India's debt and as investment in goods, etc. that will lead to economic recovery and prosperity for the people.

FACT: According to the ENS economic bureau[5] though the country has achieved $100 b. in foreign exchange reserves its external debt rose to $112.54 b. at the end-September 2003 from $104.70 b. in March. The forex reserves are not enough to cover this debt. NRI (Non-resident Indian) deposits rose to $27.19 b. from $23.16 b., while external commercial borrowings rose to $23.65 b., from $22.37 b.

Further, the Central Government's fiscal deficit crept up to Rs.93,656 crore till November 2003, which is 61 per cent of the budged estimate of Rs.1,53,637 crore for 2003-04. This indicates the government is slipping on the deficit front. The deficit till November which works out to 3.4 per cent of GDP, was marginally higher than Rs.85,978 crore till October 2003.

According to figures by the Comptroller General of Accounts, expenditure surged to Rs.2,80,051 crore while receipts were at Rs.1,86,395 crore.

Additionally, it will be noted that there had been a $155.56 b. in the net capital account but India lost $31.46 through trade deficits. Simply put, India accumulated this huge forex reserves mainly through borrowed cash under different heads. These, in reality, are a liabilities[6]. Foreign investments brought in $55.4 b; NRI deposits accounted for 21.8 b., external aid 11.8 b., external commercial borrowings amounted to 15.3 b and other items in the capital account totalled $11.2b.

This high reserves had a very low level of return (about only 2 per cent) 2003 because of a global low interest regime.

Likewise, our total foreign assets as on March 2003, were about \$94.68 b. Of this, direct investment abroad added up to a mere \$5 b., portfolio investment was 0.72 b., while other investments amounted to \$12.8 b. As against this, foreign liabilities totalled \$154.75 b. This liability included FDI in India (\$30.8 b.), portfolio investment (\$32 b.), and other investments (\$91.7 b.). So, in reality, the liabilities are \$60 b more than the reserves!

On examining the purpose these huge reserves can be put to another reality unfolds. As on September 30,2003 the total foreign currency assets were \$87.2 b. Of this, \$31.7 were invested in securities, \$39.64 b were deposited in other Central Banks and BIS, and \$15.83 b. with foreign commercial banks. The country earned only 2 per cent returns from this reserve[6]. On the other hand, some of the forex flowed back to India as external commercial borrowings by Indian corporates on which the Indian public pay much bigger return.

Keeping all these figures in view against the backdrop of the declining value of the US \$ in the global market, the actual earnings must be much below 2 per cent. Compared to the GDP, the country forex reserve is about 20 percent. There is, thus, much at stake.

Facts Against Myths is a bi-monthly bulletin of factual information on a number of development myths and fallacies, etc, including information against alien development models, paradigms and false concepts on caste, creed and gender.

Produced and Published by :
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Design & Layout : Kartiki Desai

Printed by: Ujwal Arts, 185, Ganesh Krupa, S. G. Barve Marg, Kurla West, Mumbai 400 070

PRINTED MATTER

BOOK - POST