



## **One Step Forward, Two Backwards! How Indian regulations continue to throttle development**

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India as a country amazes millions of people. Foreigners like this country for its rich heritage and cultural diversity. Foreign Investors like it for its huge and young population and potential demand. Indians themselves love their country for its resilience and the fact that 'anything goes' and 'life must go on'. Come to think of it, India has numerous reasons to fall in love with. But there's one that has historically been a drawback of this country- the Regulations! That word needs be read with an emphasis on the capital R.

On 24th April, the Reserve Bank of India announced an encouraging measure. It decided to double the limit for resident individuals for remittance of foreign exchange from US\$ 50,000 to 100,000. Wow! Isn't that a breath of fresh air! Well, ask any Indian and he will tell you what that means. But just a few paragraphs into the notification, we come by a stunning inclusion which bars any such remittance to be used as margin money for trading overseas. That takes away the access to international commodities markets. While for over two years now, when the central bank was comfortable with individuals trading in overseas commodities and futures, what has changed to turn the tables – and so abruptly? To me this indicates a retrograde step in economic policy. While we all know the benefits that an economy reaps from free markets and efficient pricing, this is being glaringly ignored by Indian policies.

While the government professes the virtues of competition to the private sector, it basks in its monopolistic position. Indian investors are compelled to invest in assets that are artificially supported by such captive policies. It compels Indians to invest only in those markets that are made available. For years and years, Indians have had just domestic equity markets to trade on (the preferential tax status now drives people all the more to invest there without putting any thought to fundamental valuations). Bond markets permit retail investors but there's nothing done to improve the depth of that market to make it accessible for individuals. Real estate involves much bigger sums and obviously isn't as liquid as the other assets. Gold is something that is hardly looked upon as an investment, yet all households have a good amount of it. The one thing that almost the entire population of this country (a gigantic lot of 1.1 billion) does not have is investments in real assets like commodities! While everyone has been invested in financial assets, there is little exposure to real assets. Inflation has cropped up to a level that has the policy makers concerned and the average man is facing a faster rise in cost of living than the inflation indices suggest. Interest rates are guided by policy (and to an extent, by the market forces which in turn are largely captive due to regulatory requirements such as SLR). In times of inflation, as economics has taught us repeatedly, corporate profits take a good beating and ultimately stock valuations plummet. Where does the individual's savings go? The only way an honest citizen can protect his hard earned capital is by investing in real assets and buying commodities. Domestic commodities markets are facing an uphill task as the regulators have been on a round of banning and de-listing commodities on the misplaced apprehension that futures markets drive up inflation. Now even the populace has been brainwashed by the politicians' statements that appear in the local media.



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There have been reports in local media about the government's concerns about commodities markets being used for illegal purposes and laundering money but tell me which market and in which country don't we face these problems? Are we sure that the other markets within India (equities, real estate, industry) are free from similar operations? If history has anything to prove, it is that the larger the restrictions, the more the violators. And to worsen things, the honest people are denied the access to those facilities / markets than can help efficient pricing and reduce economic costs.

Indians have been making it to the cover pages of top publications of the world. India has for a long time, been known to produce the best brains in the fields of medicine, science, IT and are now even being recognized for the management and entrepreneurial skills. How many of these people have actually made it big by living and operating in India? Why do most of successful Indians have to be Non-Resident Indians (NRI)? It is simply because they get the freedom, exposure, infrastructure and stimulus that lacks in their own country. Such policies will only ensure that more and more Indians will dream of migrating overseas and live a more fruitful and rewarding life. A majority of Indians who have settled overseas have always had the best environment (political, social and economic) to succeed by competing in a free and competitive environment, increasing their capabilities and efficiencies. If this country is going to be setting down restrictions and regulations which have no significance I'm afraid India will continue to be the largest exporter of good brains in the world.

Today, an Indian pays quite a sizeable portion (one-third) of his income towards direct taxes; he pays 12% tax on virtually everything that he consumes. Lately, he's paying through his nose for the inflation all around. Does he not have the right to hedge his savings and ensure a protected future? Do we think his savings invested in rates below inflation + taxes are going to help him any bit? Obviously not and that's why he needs to buy some commodities for himself. And though Indians haven't even got 2% of their wealth in commodities, our policy makers are getting worried.

I have put forward many questions in this article. I leave you with just one more. How many of us would look back at this measure as a pragmatic, practical decision and how many would say it seems more like a political one?

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