Manish Chokhani on geopolitics and markets today – with RN Bhaskar

Key takeaways from the conversation

Part 1 - On geopolitics are markets today.

- The global structure established after World War II, led by Western nations, is breaking down. The reliance of the West on resources from Asia, Africa, Russia, and China, while maintaining technological and financial dominance, is being challenged by the rise of emerging powers like China.
- While the BRIC nations were projected to lead global growth, China has outpaced others by excelling in technology, manufacturing, and global exports. In contrast, Brazil, Russia, and India remain focused on resource-driven economies.
- Established economic dependencies, such as Europe's reliance on Russian gas and the U.S.'s dependence on Chinese goods, are undergoing profound shifts due to geopolitical tensions, including the Ukraine war and Middle East conflicts. These events indicate an urgent rebalancing of the global economic order.
- Many countries, including China, Russia, and India, are diversifying their financial reserves away from the U.S. dollar, with a sharp increase in gold reserves. This reflects diminishing trust in the dollar's stability, exacerbated by the U.S.'s rising deficits and its weaponization of currency systems like SWIFT.
- Southern European countries like Greece, Italy, and Spain are burdened with unsustainable debt levels, making them particularly vulnerable. Germany, while still economically strong, faces structural issues due to dependence on Russian energy and competition from Chinese and Eastern European manufacturing.
- China is emerging as a dominant force, advancing rapidly in technology, military power, and resource management. Their focus on long-term planning and infrastructure development, combined with leadership in critical industries like electric vehicles (EVs) and artificial intelligence (AI), strengthens their position against the U.S.
- India has taken a neutral stance on geopolitical conflicts to avoid depleting resources. The focus is shifting towards transitioning from a

service-oriented economy to one capable of producing its own products, intellectual property, and global brands. This will be key to India's rise as a global economic power.

- The unipolar dominance of the U.S., which followed the collapse of the Soviet Union, is being replaced by a multilateral system with China and the U.S. as central powers. This shift will result in a more balanced global landscape, challenging the traditional Western economic construct.
- Initiatives like the Middle East Corridor, connecting India to Europe via the UAE and Saudi Arabia, highlight the importance of alternative trade routes. These efforts aim to reduce dependency on existing Western-controlled supply chains and expand India's reach in global markets.
- To sustain growth, countries need to address critical challenges, including social inequalities, infrastructure deficits, and reliance on foreign systems. For India, achieving equitable growth, lifting the masses, and creating a self-reliant, innovation-driven economy will be crucial in shaping a successful 21st century.

Part 2 - On investments.

- As the world moves from a unipolar to a multilateral order, there is a growing emphasis on rethinking asset allocation, with hard assets like gold, silver, uranium, and copper taking centre stage. These commodities are vital for supporting advancements in technology, renewable energy, and infrastructure over the next decade.
- Cyclical patterns in financial markets: from equities to hard assets like commodities and back to equities. Historical examples include the rise of Nifty 50 stocks in the 1970s, the dot-com bubble of the 1990s, the dominance of BRIC economies in the 2000s, and the tech boom with companies like FANGs and the Magnificent 7 post-2010. He emphasized the unsustainable dominance of the U.S., which accounts for 65% of global market capitalization despite being only 20-25% of global GDP.
- The focus is on sectors poised to lead future growth, such as renewable energy, AI, med-tech (especially with CRISPR and biotech advances), and metals crucial for these sectors like gold, silver, and uranium.

Nuclear energy and rare earth minerals also play a pivotal role in the energy and technology transitions. Infrastructure, including ports, airports, and telecommunications, was noted, but caution is advised due to regulations and competitive dynamics.

- Cryptocurrency has emerged as a new asset class gaining legitimacy, with even central banks and influential figures like Elon Musk acknowledging its potential. The rising role of digital currencies in global finance, from Central Bank Digital Currencies (CBDCs) to private cryptos like Dogecoin.
- Advances in artificial intelligence and medical technology are expected to transform industries and human capabilities. Developments like AlphaFold's breakthroughs in protein mapping and CRISPR-Cas9's precision in targeting diseases herald a revolution in healthcare. The rapid progress in AI is projected to fundamentally change job markets, with white-collar roles at risk and opportunities for investors in transformative technologies.
- Chokhani advises aligning investment strategies with the pace of change while emphasizing caution in valuations. Rather than focusing on high P/E multiples in well-known sectors, he suggests finding mismatches between perception and reality. This applies to both cutting-edge technologies and undervalued traditional sectors with sound fundamentals.
- Investing in basic infrastructure like ports, airports, and roadways remains viable but requires careful analysis of entry points and regulatory environments. For instance, Indian telecom and utilities demonstrate that even essential sectors can fail under unfavourable market or policy conditions.
- For Indian investors, limited opportunities to participate in global high-growth assets (e.g., Nvidia) have restricted wealth creation. Chokhani emphasized the need for regulatory reforms to allow cross-border investments, enable Indian investors to access transformative technologies, and reverse the outflow of wealth.

Part 3 - Can India win?

- India's biggest failure lies in its inability to solve its energy problem. Despite being dependent on energy imports, India has never made significant efforts to build meaningful trade and diplomatic bridges with countries like Russia or the Middle East to close the trade deficit. This is seen as a key factor stalling India’s progress.

- While India has great solar potential, it lags behind China, the global leader in solar technology production, which supplies India’s needs. The lack of adequate infrastructure and commitment to energy independence has left India vulnerable, requiring much more investment in energy production, especially in solar, nuclear, and other renewable resources, to meet growing energy needs.
- India’s external balance sheet is strained, with reliance on imports for energy and defence. To correct this, India needs to bolster exports, especially to countries it imports from. An immediate priority should be the creation of swap lines with countries like the US and Japan, providing a financial safety net and reducing reliance on foreign exchange reserves.
- India has missed out on joining global supply chains by being inactive in signing FTAs for decades. Even countries like Bangladesh and Vietnam, with less favourable conditions than India, have become textile leaders, highlighting India's failure to leverage its textile industry.
- India’s last-mile logistics is another major problem, hindering exports. The movement of goods, especially in terms of port clearance, customs, and administrative hurdles, significantly impacts India's global competitiveness. This lack of smooth logistical integration means that India is not a preferred option for global supply chains, further slowing economic growth.
- India faces massive challenges in human capital development. With a young workforce expected to grow by millions, there is a critical skills gap. The educational system and training programs have yet to meet industry demands for skilled labour. Compounding this issue are regulatory complexities that prevent businesses from hiring large numbers of workers, making it difficult to scale industries like manufacturing.
- Judicial delays are crippling for businesses, with cases often taking decades to resolve, preventing businesses from pursuing opportunities efficiently. Using AI to speed up the judicial process could help reduce these inefficiencies. Administrative reforms at the local level are needed, where bureaucracy and regulations stifle entrepreneurship.

Simple changes like improving the ease of doing business at local government levels would have a far-reaching impact.

- The education system, skilling programs, and industry need better alignment. While countries like Japan and China progressed by prioritizing low-tech manufacturing and workforce education, India's regulatory complexity and focus on small-scale agriculture continue to hold it back. Investments in value addition to agriculture (e.g., food processing, branding, packaging) are critical to creating industrial and export growth.
- India's over-reliance on labour-intensive sectors needs to be rethought. While capital-intensive and high-tech manufacturing sectors are crucial, India needs to incorporate a broad range of industries. With over a billion people, it can't rely on high-tech alone but must find a balance between industry sectors to lift the population out of poverty, similar to how China evolved its economy.
- Although India's private sector has shown remarkable adaptability, its success relies heavily on supportive governance and favourable regulatory changes. If India is to shift from a trader mindset to industrializing with its own products, the private sector and government must work together. Encouraging long-term investments, creating policies favourable for such investments, and having governance that promotes sustainability in innovation and manufacturing will be crucial to making this transition.

Source:

Part 1- https://www.youtube.com/watch?v=6js6gfKPEkg&t=126s

Part 2 - https://www.youtube.com/watch?v=qplKjVzFf-c

Part 3 - https://www.youtube.com/watch?v=AHVDbsvCT-0&t=200s

Full Transcript

[Part 1]

Description - Join me, in conversation with Manish Chokhani, an eminent investment guru who looks at the geopolitical headwinds that are rocking the world. He looks at possible winners and losers.

Edited Transcript:

Host – RN Bhaskar (RB): Hi, this is RN Bhaskar from Bhaskar ki Business Baatein. For today's interview, we have an amazing person: Manish Chokhani. He is an old friend, a wizard of the markets, and a legend in his own right. We always look up to him when it comes to understanding the markets and the global economy. Manish, it's wonderful having you with us, and I'm going to learn from you, as usual, something or the other that I can.

Manish Chokhani (MC): Bhaskar, you're too kind. It's been so long, back when you used to edit the Financial Express, and I was learning everything from you. I'm hoping to get that back today as well.

RB: No, no, today I'm going to learn from you. Today, you're the person who's speaking, and I'm going to learn. Manish, I wanted to speak to you for several reasons, and we'll be doing some other interviews with you. But today, I want to understand from you: how do you see the world today? The world is more fraught today than it was in the last 100 years. Even the world wars were not as traumatic as the current times, but what's your view?

MC: Well, it's hard to say that the world wars were not traumatic, but you're right that the old orders are breaking down. The post-World War II construct of the world, which was built by the West and controlled by the United States, is now coming apart. The structure was still based on the old colonial style, where resources came from the rest of the world, and the technology, brands, and intellectual property vested in the West. Effectively, they were pulling resources from places like Asia, Africa, Russia, and China, producing goods, and selling them back to these regions.

What happened over the last 30-40 years is that countries have risen. For example, Japan famously started creating its own products and intellectual property and began exporting finished goods back to the West. This gave rise to a new model that the Chinese have followed very well, and they've become the manufacturing powerhouse of the world. They are now shipping goods back to the West and have climbed up the value chain in terms of producing high-quality products, including the best electric vehicles (EVs). In robotics and AI, they are ahead.

So, if this model holds out, there is a rebalancing of the world that has been overdue for some time. It was held in the 2000s when the famous acronym BRIC (Brazil, Russia, India, China) was coined, signifying that these countries would lead the next 30-40 years. Unfortunately, Brazil, Russia, and India have remained resource-type economies, whereas China has led the charge in technology and manufacturing, becoming the manufacturing powerhouse of the world.

If you think of the construct, it was cheap Russian oil and gas powering the German economy, which became the powerhouse of Europe. It was cheap Chinese goods that powered the U.S. consumption economy, and the surpluses generated were sent back to the U.S. to buy treasuries. Surpluses from oil-exporting countries like Russia, Saudi Arabia, and China were going back to finance the West and keeping interest rates low. I think that story is playing out. We're heading into an era where we'll likely see higher inflation in the West and, maybe at some point, currency starts tumbling. How we play out in this scenario is yet to be seen. We have to catch up.

RB: Since you mentioned the U.S., the world has changed more in the last 2 years than it has in the last 20 years.

MC: Yes, and last month with Trump coming...

RB: Yes, with Trump coming it is going to change even more. In the last two years, the most important developments were the Ukraine war and the war in the Middle East. Both have the potential to bankrupt America on the one hand and cripple Europe on the other. What's your view on that?

MC: No, I think saying America will be bankrupted is overstating the case. These both are unfinished agendas from earlier decades. When the British left Asia and Africa, drawing lines in the sand, they left the unfinished problem of Israel and Palestine. The Israelis, every 12 years, say they need to clean up and prepare for the next generation, and that's what's going on now. What's happening there is horrific, but I'm told they already have a ceasefire drawn.

As for Trump, he's been clear about his support for Israel, as he was in the past, for instance, with moving the U.S. embassy to Jerusalem. He's clearly in the Israeli camp. The Palestinians realize that the rest of the Arab world hasn't fully rallied around them. Iran has been shown to have feet of clay with Hezbollah and Hamas, which were their proxies, they haven't managed to do anything to dent Israelis. I think that war will play itself out.

As for the Ukraine situation, this is a legacy of the breakup of the Soviet Union. When they were promised that NATO would not move an inch eastward, you can't entirely blame what happened there. When Russia first moved into Crimea in 2014, they said they needed access to the sea and the land border. It was a war waiting to happen. The West egged on Ukraine foolishly beyond a point, and now they've run out of arms.

If tomorrow China were to cross the Taiwan Strait, I don't know what the American arsenal is available to ship to that part of the world. So, it may bankrupt America in terms of armaments, not necessarily in terms of money power, since they are still the reserve currency of the world.

RB: Even with a $35 trillion debt?

MC: Yes, the world is financing them, including India. We're proud of our $700 billion of reserves, which they print in three months. As I said earlier, the architecture of the world is coming apart at the seams. The Russians, Saudis, and Chinese clearly no longer want to hold their money in the U.S. and the U.S. treasuries. The way the U.S. weaponized the dollar and the SWIFT network when the Ukraine war broke out, it sent shockwaves across countries worldwide, that our money may not be our money anymore.

Therefore, over the last 4/5 years, people have started diversifying both the movement of money and the store of value away from the dollar. It's still a small shift, but at the margin, you can see this happening. For example, the gold reserves of China, Russia, Saudi Arabia, and India have been rising at a tremendous pace, while the U.S. continues printing money. The deficits the U.S. is running now are absolutely crazy; they are running a 6% fiscal deficit. I'm staggered by the numbers they have on the current account.

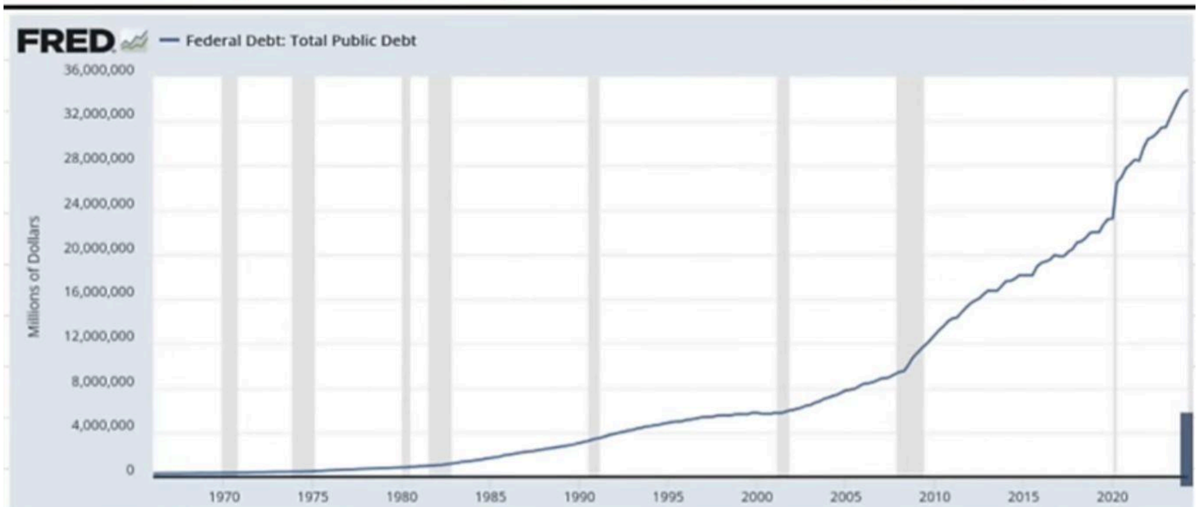
India rushing to build gold reserves

Largest increases by countries

***Notes** : India has hurriedly begun to increase its gold holdings. Is it because it wants to have a better position in BRICS' new monetary system?*

Source: World Gold Council -- https://www.gold.org/goldhub/data/gold-reserves-by-country

At $ 35 trillion, US debt is staggering



Note: Today, the US accounts for over one third of global debt.

Sourcea: U.S. Department of the Treasury. Fiscal Service; FRED Economic Data -- https://fred.stlouisfed.org/series/GFDEBTN

So, bond markets are signaling this, even though the U.S. Fed has cut rates, the bond rates are at 4.4%, even though the Fed rate is at 3%. This signals that there's a crisis brewing. Having said that, the U.S. is still the cleanest dirty shirt in the West. I would expect the crisis to emerge from economies like the U.K., for instance. Their fiscal balance and current account balance look like those of a third-world country. There's no manufacturing left in the U.K., and the taxation policies are forcing people to leave. All the money coming in from oligarchs and Arabs to buy property in London and keep their money safe over there, with the tax levels going up, especially now with this labour government there, I think that'll be the canary in the cold mine, that something blows over there.

The UK in a sea of red

The UK's current account deficit narrowed in Quarter 1 2024

Main current account flows and change compared with Quarter 4 (Oct to Dec) 2023

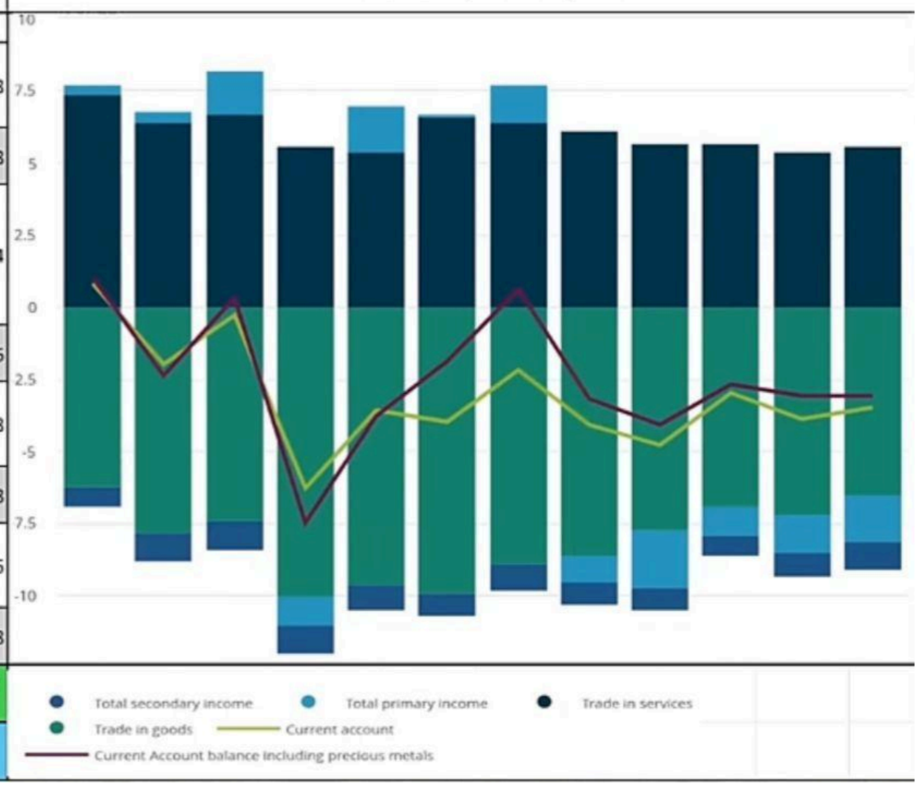
		Credits	Debits
Total current account	Value (£bn)	314	337.8
	Change (bn)	-3.3	-5.8
Total trade in goods and services	Value (£bn)	210.2	216.4
	Change (bn)	-0.2	-6.6
Total Trade in Goods	Value (£bn)	91.2	135.8
	Change (bn)	-1.4	-5.8
Total Trade in Services	Value (£bn)	119.1	80.6
	Change (bn)	1.2	-0.8

Notes: The UK economy looks more like a third world country

Source : Balance of payments from the Office for National Statistics

The UK's current account deficit narrowed in Quarter 1 2024

The UK's current account balance as a percentage of gross domestic product, Quarter 2 (Apr to June) 2021 to Quarter 1 (Jan to Mar) 2024

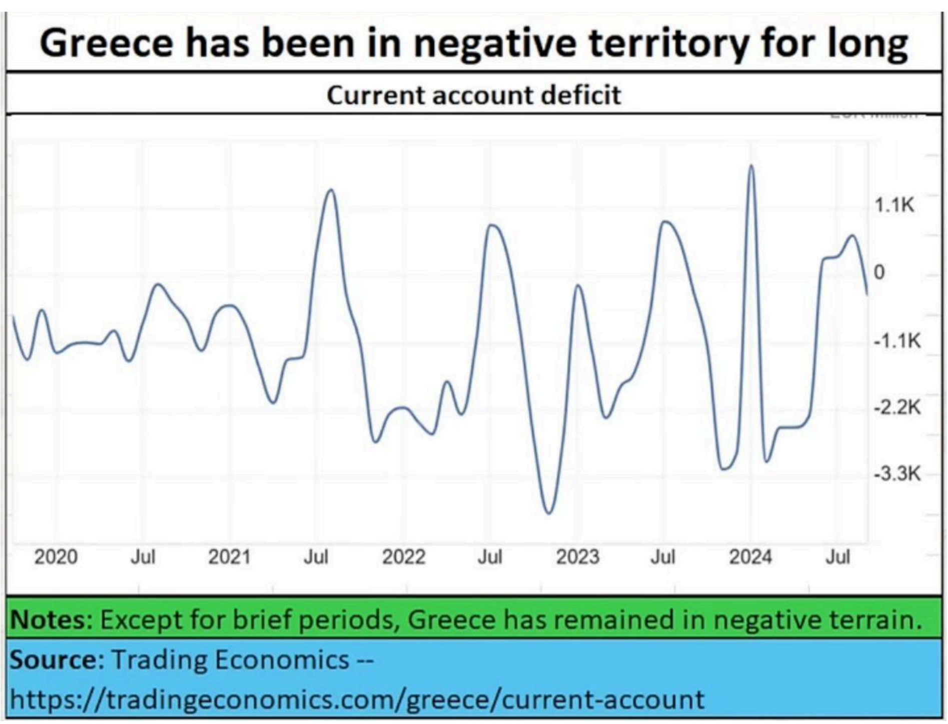


Like you saw with the Asian crisis in the late '90s, I think you'll see a European crisis at some point. But debt levels—remember, it's not just the UK, which is now out of the Euro—but Greece, Spain, and France, debt levels are absurd over there, so there's something coming on the currency and debt market. This time, it's going to come from there.

RB: How do you see Germany? Germany was the powerhouse of Europe.
MC: Unfortunately, Germany has made some structural mistakes. They shut down all their nuclear and coal plants and became completely dependent on gas supplies from Russia, completely at Russia's mercy. Now, with the advent of the Chinese, who have come in with EVs, the largest manufacturing in automobiles, which is kind of finished, the chemical businesses have migrated to China as well. So, Germany used to run all the small enterprises that used to support these large ones. It's a structural issue in that country, and a lot of manufacturing will move more to Eastern Europe than it would stay in Western Europe. So, I think it's a difficult time for Europe.

RB – So would say that Germany and UK are the first to collapse?

MC – No, France and Italy's balance sheets are even worse than Germany's. So, Germany is the strongest; they'll hold out more, and they are more about sound money. But there is a crisis coming. I would expect the UK to be the first to blow, but they have friends across the ocean, and they might get bailed out. But I don't know what happens to Italy, France, Greece, and Spain—the so-called PIGS countries.



RB: Yes, the acronym was very apt. Whoever coined it was brilliant. When you look at China today, China is emerging as a huge power, both financially and militarily. If you look at the number of technologies where they have surpassed the U.S., the numbers are increasing day by day. Education is improving there. With this kind of scenario, do you see tensions rising in this part of the world?

MC: It's inevitable. In geopolitical terms, every time a new power rises to challenge the existing superpower like China challenging the U.S. today, you tend to see wars breaking out. This has been anticipated by everyone, including the U.S. The Pentagon has already said that by 2027, China's military power will surpass that of the U.S.

If you recall, the British focused on the Navy during World War I, while in World War II, the focus shifted to the Air Force. Today, we focus on what we can do with our air force or aircraft carriers, but that's outdated. With missiles and drones, you can take it out now.

RB: Iran is sure... you can have very low-cost missiles that change the equations completely.

MC: Exactly. Israel did that to Iran they showed they had no air force and Ukraine has also managed to hold out against Russia. This should be a wake-up call for India, which relies heavily on Russian armaments. Even Russia's use of hypersonic missiles to strike Kyiv shows that you don't need a nuclear weapon. The kinetic force of a hypersonic missile is enough to cause massive destruction.

On the military front, in terms of sheer manpower, technology, and the ability to operate in cyberspace, China is far ahead, even in throwing bodies. I think they've made peace with India on the Ladakh border and other areas. They understand they can't afford too many open fronts, especially with the U.S. escalating tensions. India has been playing a neutral role because it's not in our interest to spend resources on war.

Honestly, I don't see why China would threaten India. Most of their population faces the Pacific Ocean, and the Himalayas separate both countries. The war with India was effectively settled in 1962 when China took control of the Tibetan plateaus, securing access to vital water resources. Water is going to be the next major cause of conflict globally. China controls much of the world's water table, which gives them leverage. They've already formed alliances on energy and are far ahead in renewable energy. As you mentioned, in critical technologies like EVs, robotics, and even biotech, they are leading.

The American Chips Act also tried to prevent them from getting access to chips, but they made their own chips. So, I don't think it's easy to keep them down. You can keep them fenced in, but the fact of the matter is, that all supply chains of the world end up in China. It's very fashionable to say "China +1," but even if you want to do that, it's still 10 years away because you will build the factories, then you will build the scale, and then you will build the cost to get there.

What Trump is doing with tariffs is a classic negotiation ploy—making it costly so that companies will produce more locally or near-shore. But this is inflationary, and inflation at a time when your budget is out of balance, and markets are not in the mood to provide cheap financing, blows all calculations out of the water. At the same time, Trump wants to deport Mexicans who are working in the U.S. This creates a situation of both goods inflation and labour shortages, while people like Musk and Ramaswamy are calling for cuts in government spending, which would create a deflationary shock. So, it could be a very interesting scenario what plays out.

RB: The other thing which I thought was very interesting is that China, to mitigate its water problems, has already signed a pact in 2016 with Russia to tap water from Lake Baikal, which is the world's largest freshwater reserve. Do you think Russia and China will get closer even to the waterfront?

MC: See, for Russia, if you realize, when this war broke out and they were cut off from the West, it became a very large export market because consumption was still going on. Putin had pretty much insulated his economy from the West, the sanctions have not made a material difference to them. But at the same time, I think if you're sitting in Putin's shoes, you realize that you cannot be inside the pocket of the Chinese. Therefore, he kept his friendship going with the Indians. So, it's like a three-way lock in Asia between the three great powers, where you have two friends and one not-so-friendly country, and you keep that equation going as long as you can. Because, again, as I said, there's no basic fight between these countries—just a fight of egos, where number one feels number two is coming to be his equal and wants to show him his place. Number two, in this case, China and India, feels that number three should not rise to equal him and so wants to show him his place as well. It's that sort of political game going on.

In theory, if China and India had worked together, it would have been an Asian century. There would have been no need to waste money on military spending. There's ample water, agriculture, manufacturing, and consumers for everyone. So investors can be optimistic and hopeful, but we have to deal with the realities as they are.

RB: At present, there are two versions about Israel. One version is that Israel has been so badly hit—its exports have stopped, all its ports have been damaged completely, and the Negev, which used to be home to the F-34s, is completely destroyed. Now, you have a situation where Israelis are leaving Israel. When the brightest leave, you have a crisis internally because you don't have those bright people.

MC: I think you underestimate the resilience of the Israelis. This is a country that came out of the Holocaust and has become very powerful in the US. You'd be surprised at how fast Israel bounces back. I don't think they're as devastated as you say in the first place the shoe's on the other foot. They have the Arab world kind of holding back. Otherwise, in theory, they're surrounded by everyone. The Arabs could have come and taken them out, but they haven't done anything of that sort. The friendship with Saudi Arabia and the UAE, which is what sparked this war, I think, in the first place, was to prevent that peace treaty from being signed. We are a player as well, right? Because we put the Middle East Corridor through the UAE and Saudi Arabia, with Israel going into Europe. We are very interested parties in that peace and the potential alternative route for Indian exports. The famous book by William Dalrymple, The Golden Road, talks about the ancient trade routes between Rome and India passing through Arabia, and that is something that ought to be revived.

RB: So, effectively, who are the winners and losers in the next 20-30 years?

MC: No, it's undeniable that the way the Western construct has been is not going to last. It will change, and it will become a lot more multilateral than a bipolar superpower world. The US became unipolar after the collapse of the Soviet Union, but now I would still call it bipolar because China is very powerful. I don't think it should be underestimated. We shouldn't rely on the Western media to tell us that there's a crisis in China. They have a property bust and a growth issue, but having said that, their population is declining.

Despite that, they've made almost a trillion-dollar surplus. Their surpluses have been growing, It's a very powerful country. They think very strategically and very long-term. So, as you said, whether it's for minerals, energy, water, military, or even stopping social evils like excessive gaming, all the stuff people are doing with coaching classes and so on, their eyes are on everything. Typically, centrally planned economies don't last long because they don't allow market forces to take place, but it takes 10-15 years to play out. So, while Xi

Jinping has inherited an economy that was taking off, the lid he has put on it is going to make it a tinderbox. Let's see how that plays out over the next 10 years while he's still in power.
But if they can make this transition, it's undeniable that the infrastructure and capabilities they have built are going to see them through.

India, fortunately, is also in a good state in terms of good leadership and a break from the past. But we have a lot to do, as I said. Moving from being a resource exporter or processor of things like IT, pharma, or manufacturing for somebody else, we will hopefully transition in the next 15-20 years to building our own IP, our own products, and our own brands. As a country moves from number five in the world to number three, inevitably, our brands and products will have to travel outside. If we don't do that, we won't make it. We also have to lift the masses because we are still, as they say, a very Mughal-type empire where the elite are consuming and the billions are working for this elite, who are exporting a bit out to the West. We need a fundamental shift in our economy as well.

RB: We'll talk about that shortly, yes. But thank you very much, Manish. It's good to understand your perspective of the world. In these confusing times, it's good to have a voice of sanity.

MC: Thanks for having me.

RB: Thank you. Pleasure.

Source - https://www.youtube.com/watch?v=6js6gfKPEkg&t=126s

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Manish Chokhani on investments – with RN Bhaskar

[Part 2]

Description - The world is changing faster than ever before. It will be totally transformed in 5-10 years' time. There is a need to look at investment areas with tomorrow's vision. Yesterday's spectacles may not do.

<u>*Edited Transcript:*</u>

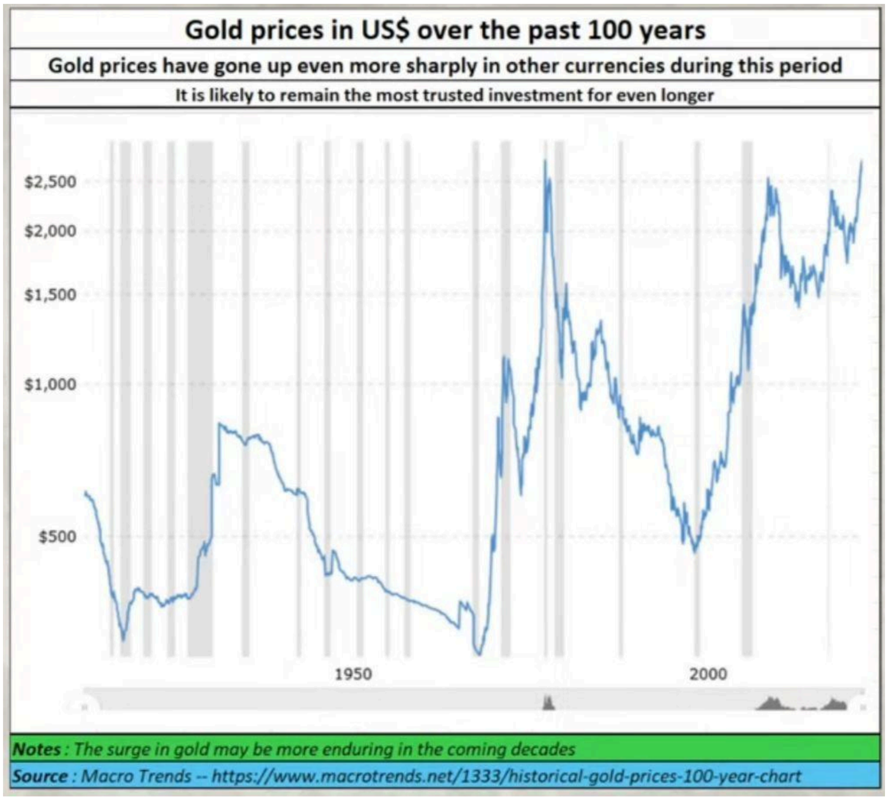
Host – RN Bhaskar (RB): Hi, this is RN Bhaskar from Bhaskar ki Business Baatein, and this time we're lucky to have with us once again, Manish Chokhani—the legend in the investment community, one of the big financial geniuses that India has produced, and someone we always look to for information, advice, and a perspective that we sometimes lose. Today, we'll be looking at investment areas. When the world is in turmoil and countries keep bouncing up and down, money becomes skittish and wants to find a good place to park. It's important to know which areas are the best for investment. And for that, as always, I go to Manish for advice. Manish, thank you for being with us.

Manish Chokhani (MC): You're being over-generous with your description…

RB: Thank you, Manish. It's wonderful to have you here. When you look at the world now, old investment strategies may not work. You have to think afresh and look at what the possible investment areas are for the next 20-30 years. Let's start.

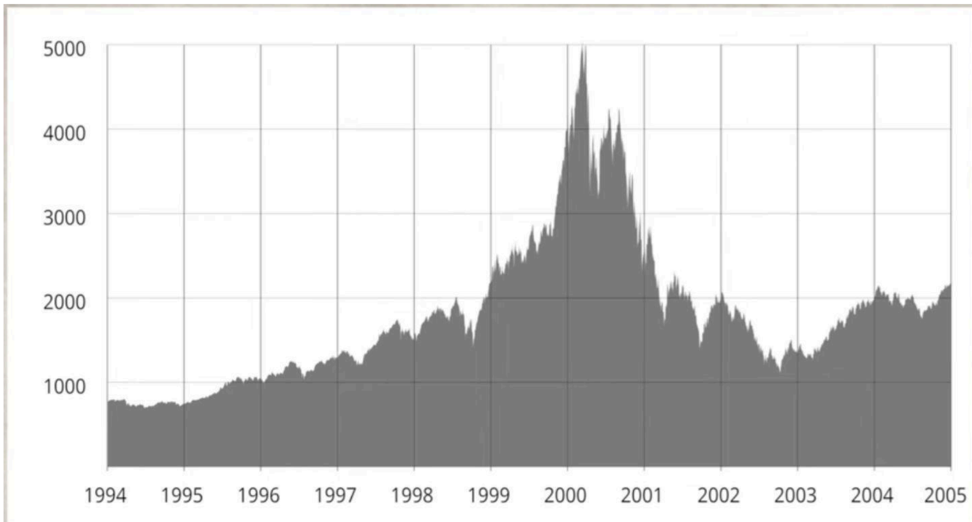
MC: So, I think when the world became unipolar with the US taking control, we had an unprecedented era of globalization and a consistent decline in interest rates. That gave a huge boost to equities as an asset class and a rise in P/E multiples. But if you look back across history, number one, most currencies that have been printed have lost 99% of their value against gold in the last 100 years. So, just park that thought.

RB: Very true. And the chart we're going to show, right, is perhaps indicative of how they lost value.



MC: Gold has been the go-to place for the world for centuries, and it's not likely to change for decades to come. We are going through a tumultuous change as the world moves away from a unipolar world to a multilateral world. The second takeaway is that until the world was pegged to the gold standard, and then the US broke it in the '70s, we created bubbles in every decade where excess money found the best asset class of that decade.

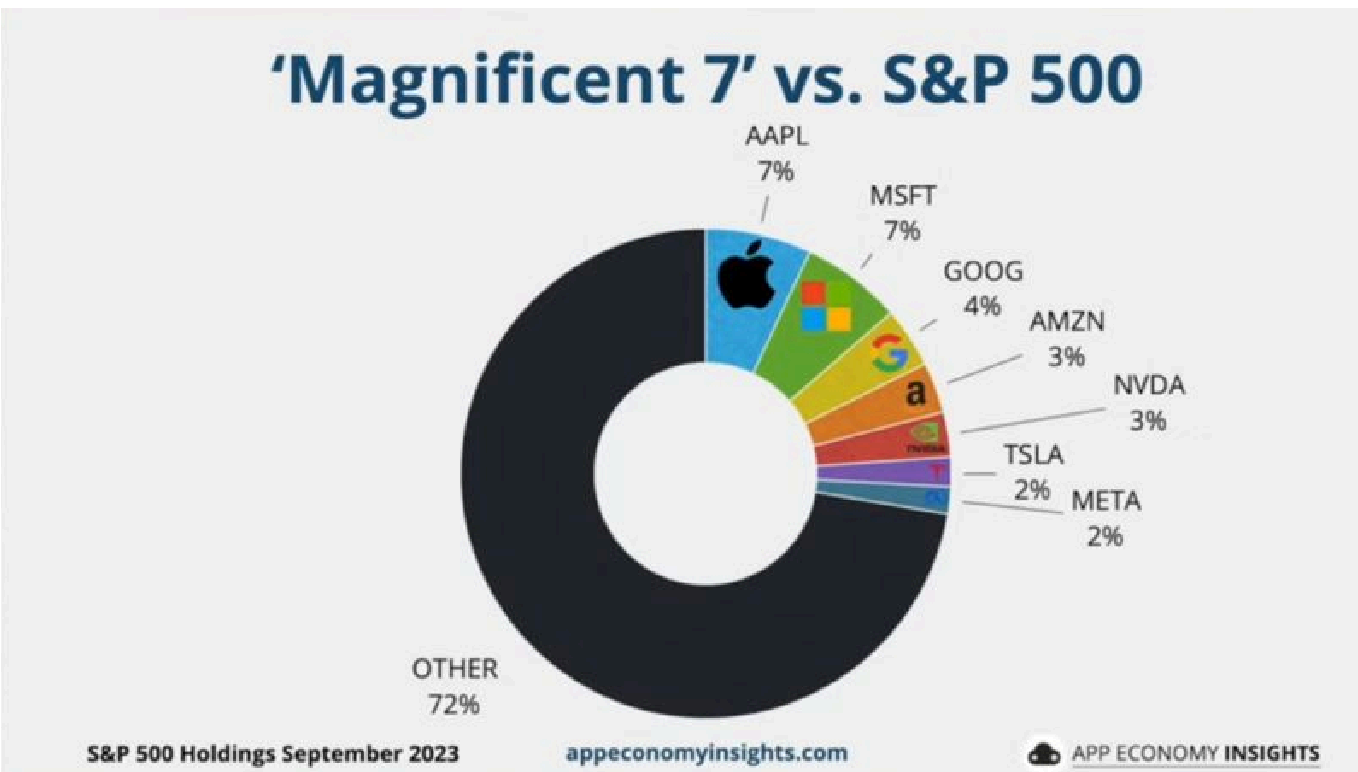
If I draw you back to the '70s, we had the rise of the Nifty 50 in the US. If you remember, Disney, Polaroid, and Kodak—these stocks went up 10 times in that decade. Towards the end of the decade, the focus shifted to commodities, and oil peaked in 1980. The famous Hunt Brothers did a short squeeze on silver and gold. Then, in the '80s, gold entered a bear market for the next 20 years. Towards the end of the 1980s, money moved to emerging markets, primarily Japan and Taiwan, which rose 10 to 12 times in that period. You see this cyclical pattern: growth to hard assets, growth to hard assets.



[Technology, Media and Telecoms (TMT) bubble, also known as the dot com bubble.]

In the 1990s, money moved to the NASDAQ and the TMT bubble. The peak in 2000 saw the NASDAQ not crossing its previous high until 2013. So, it was a 13-year bear market after the peak. From 2000 to 2010, the world focused on BRICS (Brazil, Russia, India, China) markets, and indeed, we did very well. It was China that broke out, but since then, they haven't produced any returns. For the last 15-16 years, China has been the worst-performing equity market in the world. In the last decade, money went back into US technology, specifically the FANGs, and now we see the rise of the Magnificent 7, driven by the excess money printed during the COVID era which began in the global financial crisis, continuing the bull market.

[FANG" refers to the stocks of four popular American technology companies: Facebook (Meta), Amazon, Netflix, and Google (Alphabet). Since 2017, Apple has also been included, making the acronym FAANG. Each FANG company has shown extraordinary growth, reflected in their revenues and net profits.]



However, the US today is 65% of the global market cap but only 20-25% of global GDP. So, it can't remain three times the world's GDP, and it's absorbing almost 40% of global savings, which is unsustainable. This will change, and it could be devastating for the US.

While we're all focused on three or four companies—Amazon, Nvidia, Apple, Microsoft, and Tesla—no doubt these are exceptional companies, but already, we see chinks in the armour. But we can hold that debate for a subsequent discussion.

You have two key takeaways: First, with a billion people rising in China and them controlling manufacturing, you need to know what they need. Energy remains a scarce resource. When money is printed every 3 or 4 months, people will want stability, which means returning to precious metals like gold and silver. Energy, with the shift towards renewables and nuclear power, is critical. AI data centres require huge amounts of power, and that will consume all of the US power supply. You'll need to double the US grid, double China's, and quintuple India's. That can only be achieved through something like nuclear and solar, which are abundant. So, gold, silver, uranium, copper—all these metals used in energy transmission will be exceptionally strong over the next decade.

RB: So, in a way, you're suggesting Commodities, but specifically Metal Commodities?

MC: If you generalize to all commodities, you might end up with the wrong ones, like iron ore. China has built so many cities and infrastructure that they no longer need the steel. So iron ore is not particularly a commodity of interest. But uranium, gold, silver—those are definitely of great interest. Precious metals, critical minerals like rare earths, will be crucial. Though rare earths are more difficult for people to play, you can invest in ETFs, but it's unlikely to become a trillion-dollar asset. You need assets that can absorb large amounts of capital to generate substantial returns.

Another interesting development has been the rise of cryptocurrency, especially with Donald Trump and Elon Musk giving it legitimacy. It's hard for people over 50 to embrace something like crypto, but it's essentially like giving a central bank a printing press, except here, it's controlled with a limited quantity. Crypto has become an asset class, and if enough people believe in it, it could become the new "religion" of the world.

RB: In fact, as an aside, cryptocurrency has suddenly become very sexy because every politician wants cryptocurrency to transfer funds.

MC: Exactly. It's not just politicians; the black economy, terrorist funding as there is no trace over there, and even central banks are involved. They're creating Central Bank Digital Currencies (CBDCs), which can still move anonymously, although there's some traceability. Crypto has become a large asset class of its own, I can't see myself participating but it is large and it is going to get larger. Elon Musk even named his new department "Department of Government Efficiency" after his favourite cryptocurrency, the Dogecoin. These two big categories are definitely becoming new avenues for investors in currency and bond markets to go ahead.

I think interest rates are going to rise in a secular manner because of inflation, which is unleashed in the West. So, bonds are going to be crushed, and therefore, hard assets come back.

If you own land in proper places, I think you do well. the world in the next five years will dramatically change with the rate of change for example, in artificial intelligence, where today it's at the rate of a high schooler, two years from now it will be at the level of a PhD and Another two years from then, it will be equal to all the PhDs of the world put together. So, in four years, you have a fundamental shift in mankind, of the type when we went from the Agricultural Age to the Industrial Age. In the foreseeable five years, white-collar people who are sitting processing data and converting it into decisions can completely get obliterated.

Also, on med-tech, with the advent of biology-based CRISPR and biotech and so on, it replaces chemistry-based pharmaceuticals. So, you're seeing the tumbling of the multiples of the Western innovators. The J&Js, the Mercks, and the Bristol-Myers are all trading at single-digit or low double-digit multiples because people have realized that what has been released, with both biotech and AI after they mapped the genome and then CRISPR-Cas9 technology came out, is revolutionary. Now, you can go in and basically do a sniper rifle hit into the disease in your body, instead of the old "nuclear bomb" approach, which chemotherapy used to blast the whole area.

What AlphaFold did with Google—that all the scientists in the world put together had processed about 190,000 protein strands, and these chaps came and released 200 million in one go.

Now, when you put the sheer force of AI on that to start creating disease-solving proteins, I think medical science will be transformed again in five years. I've met people in the U.S. who say, "Just don't do anything stupid till 2030."

The field of epigenetics, which is the next wave coming over here, says your body is born with one billion genes. Then how come you go from being a child to a kid, to a young man, to an old man, to death, when the genes are the same? It's because things are being switched on and switched off at different points. We now know—or we are working towards understanding—how to do that.

Therefore, if you choose to be the age of 30 forever, in the next 5 to 10 years, we can deliver that to you. The first mass use of this, for example, are these GLP drugs which have come—OIC and Bov, and so on. They come from that strand of science that you can switch on and switch off certain receptors in your body to not give you hunger pangs, keep your weight down, or keep your skin glowing. All these are coming.

These will be transformational industries of the future. The question though I have is: When the world breaks down from being a global equity world, where money flows freely, and we start now creating hurdles and borders, will we still pay multiples of the kind we are today? A lot of our valuation is on terminal values, which are predicated on certainty, but in an uncertain world, normally you would expect lower multiples.

We are currently on the opposite end of the spectrum because rates are low, money is easy, and multiples are high. So, there is some change that has to happen here. All you can do is, like I said, buy the best innovator in terms of technology companies or brands which will never change, or buy hard assets. That's the sort of lay of the land, and that's how I would construct my portfolio.

From an Indian perspective, even more importantly, our money is trapped here. Effectively, we can't really remit more than what they allow in LRS. We are not allowed to invest globally and harness those technologies ourselves, both as companies and investors. For instance, if an investor in India had bought $10 million worth of Nvidia, it would have been worth a billion dollars by now.

That would have been money which could have flown back into India, rather than waiting for a worker to remit money back to India. You could have had investment flows coming back. So, things like this—I would hope and pray—we have a change in the Indian regime, not just for taking out but also for investing in these technologies, learning from them, bringing them back to India, or indeed creating them over here and taking them global.
We are very much in our urge to protect ourselves...

RB: We've created caskets and blocked everyone.

MC: It's like they very famously said, when the New York guys put rent control, it stopped the supply of new apartments in New York. That's what we've ended up doing in India as well, because of our currency.

MC: And everything around AI, robotics. So, think of your body: your eyes are getting multiplied with the use of AR and VR, your body is being multiplied by the use of biology, energy is your heart, AI is your brain, and robotics is how you move.

All these five things are going to effectively make us into superhumans in the next 10 years, with the technology that's already there. If you think of it 100 years ago, if you couldn't afford glasses or the technology wasn't there, you would have been blind at 40 and unable to move. Similarly, if penicillin hadn't been invented, we would have died of infection.
So, the rate of change—all I'm saying—is completely exponential.

RB: Where does it place old-world stocks and old-world enterprises? Where does that place them?

MC: You'll make your cash flows. People have demonstrated in the US and China, that they do buybacks. So, when you don't get a multiple, you buy back. Your earnings per share can still compound even though the market's not giving you that multiple. If you can buy back at a 3/4/5-year payback, it's still very accretive to the owners of those businesses.

Everyone who fulfils an economic need is going to be rewarded and remain relevant. The question is, as investors, our job is to take asymmetrical bets. So, if I say technology is very good, but the whole world recognizes it and is already paying a 40-50 multiple for it, you don't make money—even though the business succeeds. We've seen that play out time and time again.

RB: So the future would involve looking for low multiples in these high-growth areas?

MC: Not low multiples, but areas where the perception and reality are not matched. So, as you said, if the old economy gets thrown out and it becomes a two P/E stock or a three P/E stock, you can still make money over there.

Opportunities are there for the agile. And, as has been said in the past, it's not the most powerful creatures that survive, it's the most agile.

RB: One more question here. While all these technologies and all these metals are emerging, there are some basic things that every country needs, like ports, airports, and roadways. I don't think we're going to dispense with these. So, would they be good investment areas?

MC: Everything is a function of your entry price and the terms of trade. For example, let's take the Indian telecom sector. If the terms of trade dictate that the government will extort all the money through license fees, you could be in telecom but end up like Idea-Vodafone, making no money.

Now, if the rules of the game change—for example, Musk wants to bring Starlink to India, or Bharti is trying to play in that game—the dynamics may or may not favour you. Similarly, in airports, if instead of creating 30 airports, you create 120, and there are three airports in the same city jostling for traffic, you won't make money.

Take the Eurotunnel, very famously between France and the UK—a monopoly that still went bankrupt.

I don't want to make an omnibus statement on infrastructure. They also tend to be regulated because they are utility-type assets. Otherwise, for example, a power plant in a city should be making money hand over fist, but tariffs get regulated.

The same applies to ports and airports. It may not happen in India today, but that time will come.

RB: So, in other words, be more careful. These are broad guidelines for sectors that are going to make money, but ultimately, it depends on the ability to generate wealth for you. The principle remains the same.

MC: The owner is going to make money, but you have to decide at what price you can become their partner.

RB: Okay, good show. Thank you. Thank you, Manish. We will have one more podcast with you whenever possible, and that will be on India—what does India do? But thank you very much.

MC: Thanks for having me.

Source - https://www.youtube.com/watch?v=qplKjVzFf-c

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Can India win? Manish Chokhani explains – with RN Bhaskar

[Part 3]

Description - Manish Chokhani underscores the fact that India has tremendous potential. But we have not exploited it. The window of opportunity is small. We must change on a war footing.

<u>*Edited Transcript:*</u>

Host – RN Bhaskar (RB): Hi, this is RN Bhaskar from *Bhaskar Ki Business Baatein*, and while we bring you policy analysis and stories many times, this time we're going to have a conversation. It's the third in our series with Manish Chokhani, a legendary investor, a guide for financial markets, and a personal tutor to me. Manish, it's wonderful having you here.

Manish Chokhani (MC): Last time, I'm reminded of the days when I would read your edits, learn, and benefit from them. So, you're being too kind.

RB: Honoured! But I still learned from you anyway. Manish, we have talked in the past on subjects like geopolitics and which are the best investment areas across the world. This time, I would like you to look at India. India is a country that has huge potential but has fallen short of achieving that potential again and again and again. There's no denying that India is a wonderful place. So, how do you look at India?

MC: There's a line which my friend Ruchir Sharma uses very well. He says, "We consistently disappoint the optimists and we consistently disappoint the pessimists."

RB: Oh, wow! What a wonderful line, what a wonderful thought!

MC: As you said, see, it's a country which has a lot going for it in terms of natural resources, people, and the cheerfulness of the average person. There's an acceptance of what life has laid out for them in terms of destiny. So, you don't get too carried away when you're doing very well, and you don't get too despondent when you're not doing so well. By and large, as a spiritual country and a civilizational power, I think that innate sense of people is there—that "our time will come." It's also true that currently, what we are going through seems to be India's golden era, in terms of demographics, leadership, confidence in the country, even our image outside India when you travel and our geopolitical importance, all kinds of ducks are lined up for India to do much more than what it has done in the past and to accelerate. So, as an investor, you're always hopeful. A lot of good things have happened, but I think you want to talk more about what could or should happen.

RB: What could or should? I mean, bad things will happen, but now, what is the future? Can India do better than what it has done?

MC: Look, I'm, as a patriotic Indian, always hoping for more, like the Pepsi slogan, "Yeh Dil Maange More." Can we do better, faster, and cheaper, in that vein? When I always sit back and think—this goes back to the days when I came back to India, even after my studies—you first look at the financials of any country like you look at a company. You figure out what the loopholes are and where the stress factors lie. When you look at India, the first thing that strikes you is our external balance sheet. I'll start with that first, then I'll come to domestic issues.

On the external side, the first thing is that forever we've been dependent on energy from outside. No country can become great without having control over its own energy source. Even though we know we have to import it from Russia or the Middle East, we haven't built bridges and connectivity sufficiently with those countries. For example, if I know I have to buy goods from someone, I should be thinking early about what I can sell back to that person so I don't have a negative trade balance and become beholden to them. We've been buying oil and defence equipment from Russia but have never had products we could sell back to them. Even with the recent war, we've done a great job of getting discounted oil from them, but during a time when Russia was cut off from the world, we were not able to export to close the gap. They were scrambling to find ways to utilize that gap.

So, let's park that as a huge failure of the Indian state for decades: not solving the energy issue. Fortunes have been made by people who have solved energy crises in different countries, including some in India. But as a country, I think that's our central biggest failure. Then, drawing further from that, in 2007, we signed a nuclear deal under the previous government of Manmohan Singh. It's 2024 now, three governments have changed, and we are still lagging behind on nuclear. We even have our own thorium in Kerala, which has been talked about for years in relation to fast breeder reactors, yet we are lagging far behind in terms of energy. We could have made transportation fuels from oil and the rest from nuclear, but we haven't done that. Thirdly, this Prime Minister has been a big advocate of solar energy, for example. We are blessed with solar, and solar technology has come in abundance. But the reality is that China leads the world in solar technology—everything is made in China, from the panels to the modules. If we don't solve the energy problem for a country going from 50 million rich consumers to hopefully 500 million consumers, we're going to be completely trapped.

Oil importing countries		
Top 5 Importers		
Country/Region	Crude Oil - Imports (bbl/day - est.)	Year of information - est
EU	1,40,60,000	2017
China	1,08,52,615	2020
USA	58,77,000	2020
India	40,33,050	2020
Japan	24,72,364	2020
Each barrel (bbl) - 159 litres		
***Source** : Wikipedia -- https://en.wikipedia.org/wiki/List_of_countries_by_oil_imports*		

India's total merchandise trade				
				(millions of US$)
	2005	**2010**	**2015**	**2022**
Merchandise exports	99 616	226 351	267 951	453 415
Merchandise imports	142 870	350 233	394 131	720 441
Merchandise trade balance	**-43 254**	**-123 881**	**-126 180**	**-267 027**
Notes: Compare the three-month data supplied by the RBI with this perspective from UNCTAD. It then becomes clear why a perspective is required.				
Source: UNCTAD -- https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/356/index.html				

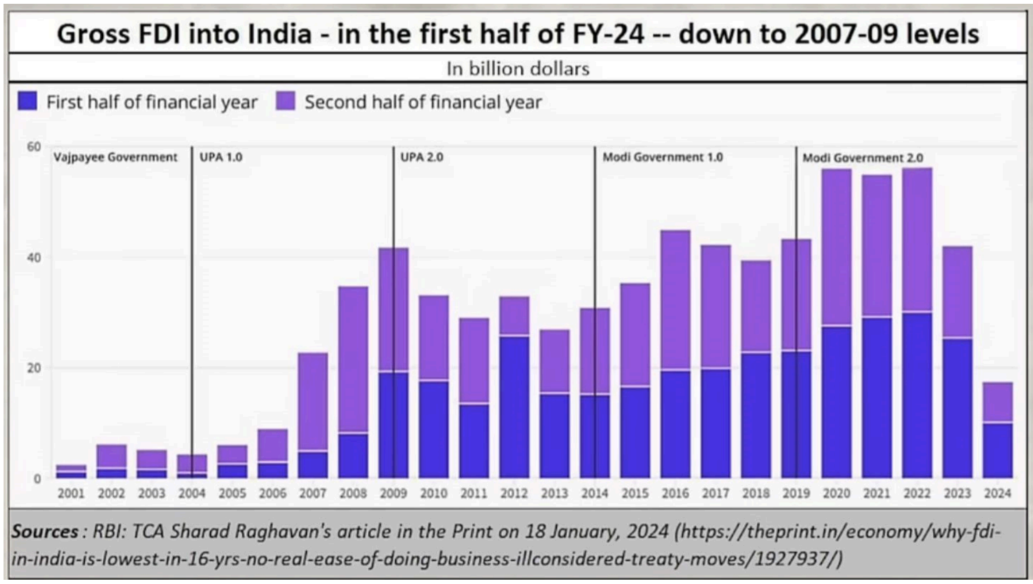
This is a central issue that needs emergency attention as if we are in a state of war. We need 60 GW of energy per year, but we are producing maybe 20 GW incrementally, even today. We went through 10 years of stagnation in energy, and no drilling has happened in India since the NELP rounds. Reliance talked about KG D4 and KG D6, but nothing really came of that. Energy, I can't harp on enough.

The second issue is a strategy to export back to these countries' product baskets. Thirdly, we are currently feeling very proud geopolitically, as members of the QUAD, for example. But if you're a member of the QUAD, you should be doing swap lines with India. The memory we have is that we faced a currency crisis, so now we build a huge forex reserve—600-700 billion dollars, which is 16% of India's GDP—locked in low-yielding foreign exchange assets. The last time there was a crisis, we had to pledge our gold. We are haunted by that memory.

However, we don't need such a large cash balance. If we had good bankers who would extend us an overdraft, that's where international treaties, called swap lines. If I can have a $200 billion swap line with the US, or a $100 billion swap line with Japan, or a $50 billion swap line with Australia, it would help us in the Indian Ocean and the military arena. If something bad happens to them, they should help us, and vice versa. If we free up 600-700 billion dollars from our forex kitty, think of what it can do for the pace of change in the country.

So, FTAs (Free Trade Agreements) are another issue. For 30 years, we've been out of everything, while China was embraced by America and brought into the WTO. China has taken over the whole ASEAN block, and trade relations with the US, pre-Trump, were fantastic. It allowed China to build. We haven't been part of any global supply chain. We haven't signed any FTAs. Of course, it's great that we've managed to sign agreements with the UAE and Australia, but the terms of trade were not negotiated well. This isn't about one government; it's about a span of 30-40 years. This is the centrality of what an export strategy has to be.

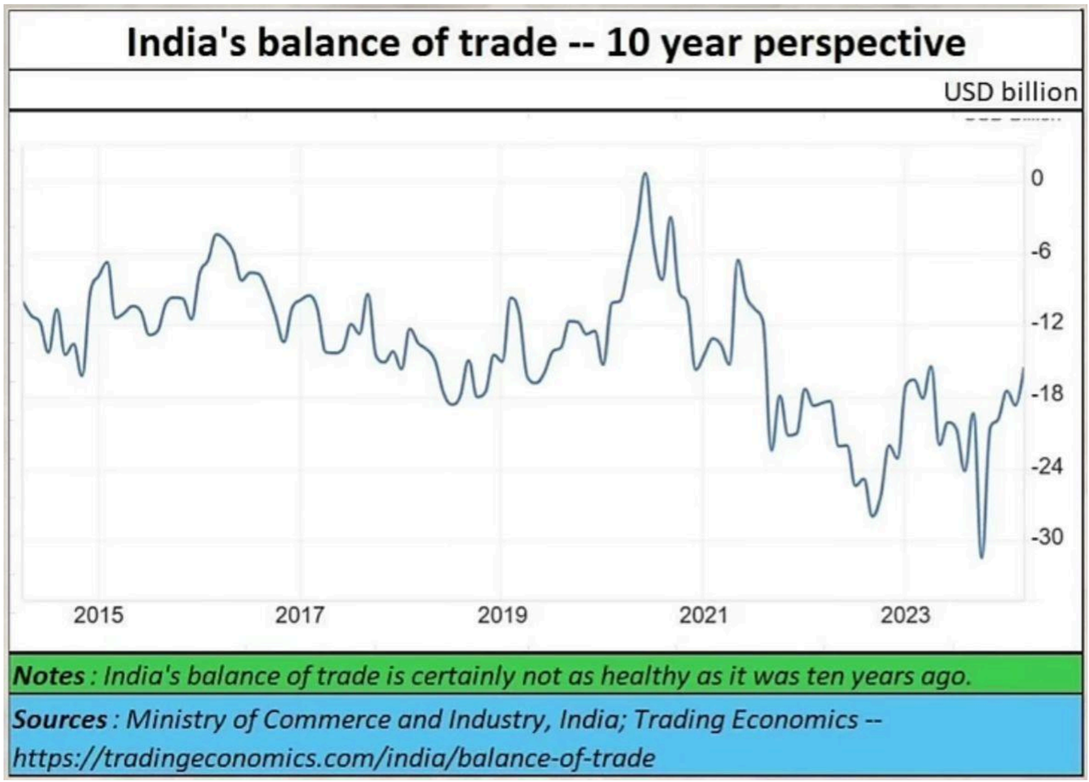
Today, Bangladesh has become the leader in textiles, not India, even though we have cotton, machinery, skills, and markets. Yet, Vietnam and Bangladesh export more than India in textiles. Then, there are local issues that stop us. For example, even if I get an export order, my last-mile linkage at the port is a problem. No one cares about the demurrage you're paying, no one cares about how quickly your goods will get cleared, or how fast they move through customs. Anyone can stop you along the way, and how goods move to the last mile is a major issue. If you want to be part of global supply chains, this has to move seamlessly.



So, this last-mile linkage, including administrative and judicial reform, is critical. The Chief Economic Advisor has even spoken about how, in Tamil Nadu, people are still sitting inside an SEZ (Special Economic Zone) even though there are no benefits anymore, just so their goods can come and go easily. Simple basic administrative reforms at the local level are necessary.

If you want exports and dollars to come in, India is a country that should have had 100 million tourists. We have fewer tourists than Singapore as a country. We may build grand airports or fantastic five-star hotels, but that linkage, when you land anywhere in the world, from the airport, you can roll your bag onto the mass transit train, get off at the city centre, and from there, roll your bag into a cab. The friction points in India are enormous. No one wants to deal with this. On all fronts—whether it's the movement of goods, people, or money—we have friction points that are not being addressed. You're missing the big picture in terms of FTAs currency blocks swap lines there's no strategy that I need to pinpoint which products I want to create for which country to close the trade balance and then also the last mile linkage.

So, on the external front, there's so much to be done. I just wish they had people from the private sector working on these issues. Like we do in management, you set a goal, make a plan, execute it, and review it. Here, we have announcements, but the outlays are not equal to the outcomes. This is something we're missing. Our external balance sheet shows a 2% deficit every year, despite so much remittance coming into India from our workers abroad.



RB: They are our lifeline. They are actually saving us.

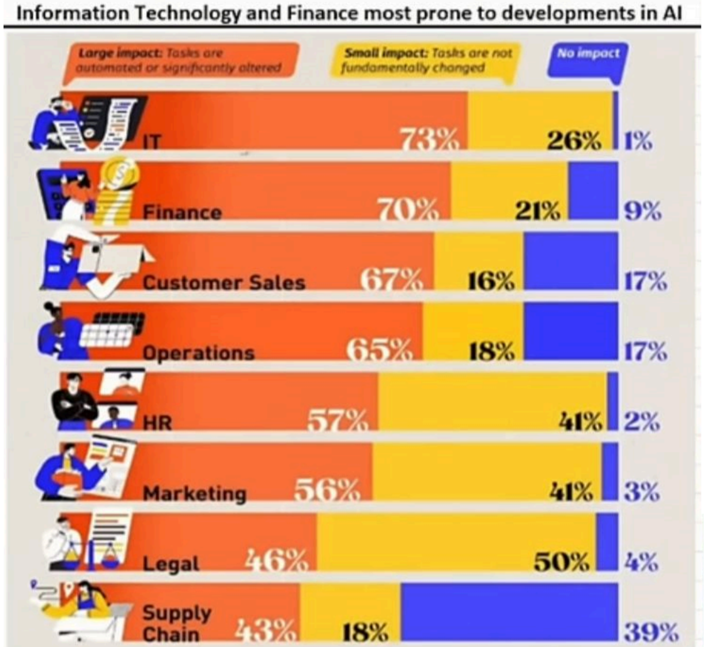
MC: Exactly. And we have 5 to 6 years before AI disrupts our IT and global capability centres. This sector, which came to the rescue of India's manufacturing sector, may not remain as strong in the future. If AI can take over a lot of the coding work and global capability centre tasks, what happens then? We need to work on this on a war footing. Otherwise, both on the energy and forex fronts, we can't remain so vulnerable and captive to the rest of the world.

India's Trade in Services			
Will AI take away some of this income?			
			(US$ million)
Month	**Receipts (Exports)**	**Payments (Imports)**	**Balance of trade**
January – 2024	31,023	14,850	16,173
February – 2024	28,348	15,240	13,108
March – 2024	30,028	16,608	13,420
*Annualised**	*3,57,596*	*1,86,792*	*1,70,804*

Source: RBI - https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR23189DE062040304FD88773CDED1F7F6E1F.PDF

Job that could be impacted most by AI

Information Technology and Finance most prone to developments in AI

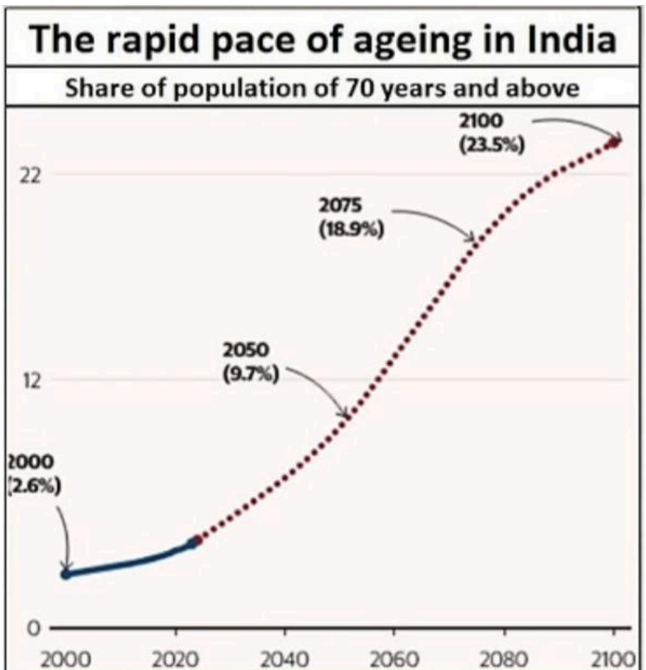


***Notes** : Based on an analysis of over 19,000 tasks across 867 occupations. Data as of Sept 2023. India is extremely vulnerable because most of its service sector jobs are in high risk sectors. With little emphasis on education quality, and medicare, expect a bloodbath.*

***Source** : World Economic Forum -- Jobs of tomorrow: larger language models and jobs -- white paper Sept 2023 -- https://www3.weforum.org/docs/WEF_Jobs_of_Tomorrow_Generative_AI_2023.pdf*

RB: Those are the macro areas. Now, let's talk about the domestic sector. What do you see needs reform there?

MC: Domestically, while a lot of things have happened, such as GST and RERA, and there have been positive changes, if you step back and look at the larger picture, we are in the middle of a demographic dividend. The country's average age is 27 to 29 years old, and clearly, there's a need for jobs. We will have 70-80 million people coming into the job market every year. Yet, when I talk to companies, they say these people aren't ready. They don't have the skills. So, what kind of education and skills are we providing? While there has been a small start with apprenticeship programs, the scale of this effort is still very large. At the heart of it, the Indian industrialist is not keen on taking on large labour forces because of the plethora of regulations.



***Notes** : An estimated 4.3% of India's population is over 70 years of age. This share is projected to rise to 9.7% by 2050*

***Source** : Mint -- https://www.livemint.com/insurance/health-insurance-elderly-ayushman-bharat-primary-healthcare-centres-out-of-pocket-hospital-expenses-outpatient-inpatient-11726386693064.html*

RB: And they don't want interruptions to the normal flow of work.

MC: Right. So, we are not geared to training people, and we are not geared to taking in armies of people either. The low-tech manufacturing that gave rise to the export economies of East Asia and then China didn't come here because people didn't want to deal with the regulatory complexities. Manish Sabharwal at Team Lease has published a fantastic chart on the "compliance universe." I often joke with my friends that if you're an industrialist, you should be awarded a Padma Shri because you go out to battle each day with armour, not knowing from which side the bullet will come.

More opportunities for graft

India's business regulatory Universe

	Number of laws	Laws with criminal clauses	Compliances with criminal clauses
Union	678	244	5,239
State	858	599	20,895

Total	Number of compliances
Union	25,537
State	43,696

Imprisonment clauses in India's business regulatory universe

	Laws with criminal clauses	Compliances with criminal clauses
Union	244	5,239
State	599	20,895

Breakdown of imprisonment clauses in India's business laws

Imprisonment terms	Number of clauses	Percentage of total
Less than 3 months	5,728	21.90%
3 months to less than 1 year	5,855	22.40%
1 year to less than 3 years	11,042	42.30%
3 years to less than 5 years	1,481	5.70%
5 years to less than 10 years	1,821	7.00%
More than 10 years	207	0.80%
Total	26,134	100.00%

***Notes** : Data denotes the number of laws and compliances applicable to businesses at an aggregate*

***Sources** : TeamLease Regtech; Jailed for doing Business -- a monograph by ORF and Teamlease - https://www.orfonline.org/jailed-for-doing-business/ -- pg 63 & 64*

Unless the regulatory complexity and then the judicial judgements —there are 60 million cases stuck in courts, and justice takes 20-30 years. Everyone asks why don't you to settle out of court, but the average businessman doesn't want to deal with this because there's no return on the time invested. While GST has sped up the velocity of the economy, in all other places, you feel you can be stuck or extorted.

If we can use technology, like AI, as we did in the IT sector like we have faceless assessments and where the whole system works much faster, if that can happen across the value chain, in both commerce and law. Most judgments are fact-based, and you don't need human intervention. Maybe it will take four to five years, but unless we solve this velocity problem in India and stop these tolls nakas along the way, we won't achieve our true potential. We can be hoping for people to be given jobs but that's not going to happen. So one end is this difficult judicial reform by use of technology and the other end is education and skilling. Remember rise of China and Japan are examples in front of us.

We need to align education, skilling and industry, and then start to invest in futuristic technologies. India missed the last industrial revolution and went through 500 years of slavery. Again, if we miss the coming revolution in AI and biotech, we'll remain processors for the rest of the world, like Infosys or TCS, which are great Indian companies but eventually, they are writing code, and the bulk of the money is being made by the Amazons, Microsofts, and Googles who are providing them with the business to do the low-tech stuff. The same story repeats in manufacturing.

Emasculation of the judiciary & law

Constitutional/Statutory authority	Sanctioned strength	Vacancies
Supreme Court of India judges	31	7
High Court judges	1,079	403
Chief justices of High Courts	24	9
SEBI Members	9	2
Securities Appellate Tribunal	3	1
Income Tax Appellate Tribunal	126	34
Central Administrative Tribunal	66	24
Central Information Commission		
Commissioners	11	4
Other Staff	160	117
Competition Commission of India		
Commissioners	7	2
Other Staff	197	79
Central Vigilance Commission		
Commissioners	3	1
Other Staff	296	53
IPS (Police) cadre	4,843	938
CBI	7,274	1,656

Note: *It must be clarified that these numbers were probably the same even when P Chidambaram, the source of these numbers, was himself the home minister and finance minister*

Source: *Excerpted from P Chidambaram's column of 4 March 2018 at http://indianexpress.com/article/opinion/columns/minimum-government-maximum-damage-arun-jaitley-bjp-5085043/*

We start creating our IP, our brands, and our products. It needs a whole ecosystem, and while there are pinpricks of judicial and administrative lack of skilling unless this all starts coming together as part of a master plan, this is not going to happen very easily. So, I really hope and pray that attention is given here.

We focus a lot on the central government, but the bulk of India is administered at the state and the city level. The bulk of the resources, even when I now see centralization of taxes, the centre collects the taxes, and a third of it goes to the states. But it's the state which is building the local roads…

RB: So, you need more allocation to the states?
MC: Yes, money needs to come back to the states. But again, it's a mystery to me what happens to our tax collections. I may be completely wrong here and out of line, but if our median GST rate is 16%, and it is pretty much charged 75% of Indian GDP, the GST

collection itself should be 12% of GDP. We are at 5%. I can't imagine that there is more than 100% evasion. I mean, against 12, you're collecting 5—maybe my math is wrong by a few percentage points, but there's huge evasion going on in this country. And if you keep focusing on only the top, I think the top 0.3 or 0.4% of people are paying 80% of the taxes in India. It can't continue like that, and you'll start losing people.
Everyone wants to be here. Everyone wants to make this, you know—it is the greatest country in the world, with, like I said, an abundance of resources. We are holding ourselves back with the regulatory chains we have bound ourselves in, and the lack of, kind of big-picture thinking. And, like I say, last-mile detailing—you need both. Yes, you need to know the woods and the trees, and we seem to be like, even despite having seen examples of how other large countries have done it, it is like just an anguished cry of a patriotic guy.

RB: In fact, there's a third area, which I think you talked about earlier, and that is the policies themselves seem a little flawed. It's focusing on labour-intensive industries while we focus on capital-intensive industries. Could you dwell on that a little bit?

MC: Well, I mean, if you have more than a billion people, you clearly need to lift them out. And you can't go by this theory like one famous RBI former Governor says, that we should go straight to high-tech and high-tech manufacturing and services—which is a joke. If the guy cannot, you know, come and do a Turner-fitter job, you're expecting him to, you know, start writing software code? It doesn't happen.

And see, in an army, you need generals, lieutenant colonels, majors, soldiers—everything. So, it's not this or that. To lift a billion people out, you have an example of China and the United States in front of you, where there are large populations, and everyone needs to get employed. If you keep trying to reserve things and save the small guy— for example, in agriculture—we'll try to save it for the small guy. But you know that agriculture cannot be remunerative. The world moved from agriculture to industry and then to services, and now it's going to the digital age. Agriculture has to do more value addition. So, they need to have food processing. Food processing needs to then have branding, packaging, and consumer marketing. Unless that entire chain starts getting built by preserving it for the small guy, you're stopping the large guy from coming there to build that whole chain.
The crux of it is return on time invested. If that central message can go, if you have to do two national missions—one is per capita income is my goal, I need to get to $5,000 or $10,000. Second, return on time invested. Treat the citizen as an honest person, and the onus should be on the government to show that something else ought to be done. Currently,

it's the other way. We are still running like the British government. I can go on and on about what the government does not need to do.

Let's turn the focus back on the private sector as well. Historically, we've all been very happy to bring in technology from abroad and make for them and export back to them or just take their license and distribute over here. I think that era is over and it's behind us. We have reached a size of $4 to $4.5 trillion. If we want to get to number three in the world, like I said, we have to have our own IP, products, and brands. Indian industries' expenditure on R&D as well as on marketing has to go up. So, it also then comes back to us as investors: Are we willing to play the longer game where companies are investing and we may not see returns for a few years until it takes off?

I think, by now, the Indian market has demonstrated that we are willing to support companies like that, provided we see capability and governance. The onus then also falls back on any industry, and we'll have to work a lot with the government to say, "Can you at least make these laws conducive so we can start taking a bet over here?"

We will make the change; we will be part of the army of people who will do it. So, as an investor, we're always optimistic and always hopeful, and what I call the inefficiency is the margin which you make. The businessman and the investor always see whether the glass is half-empty or half-full and you proceed on that basis. This is why this market has produced returns equivalent to the US for 25 years because this inefficiency is there, people make money, but the scale of money-making can be completely different.

RB: So, we have to move now…

MC: From this trader and processor mindset to an actual industrialist, and product owner.

RB: Thanks, Manish. It's been a learning curve for me, and thank you for being here.

MC: Thanks for calling me.

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