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More on Gold in India

As gold in the physical market in India has been trading at a 20% premium to London spot, I have been suggesting to those who can to sell their gold in India and buy in the international market. This would basically make about 15% in a risk-free trade. I think India gold will end up trading at about 5% premium when the dust has settled.

It constantly amuses how completely different a few things really are compared to what you see in the media.

Media has for several months said that there was a shortage of gold in the Indian market.

Now what is it like selling physical gold to cater to the so-called shortage? Not easy. We have to sell it using select, close-contacts. Why? A sort of seller's-cartel has come into existence, with the politically-connected and mafia asking the traders to buy from them, not from the general public.

The gold market was rather weak during the festival season. As I wrote earlier, India has huge monetary problems—possibility of devaluation and chronic, >9% inflation. India has huge economic problems: stagnant growth and falling saving rate. Without growth, Indians will lack the capacity to buy more gold, despite that they crave for it given monetary problems.

I can get a manual worker to do hard labour for less than \$5 a day (much lower in rural areas). Superficially, it seems that Indian Rupee should increase in value or at least Indian exports should go up significantly. In reality neither is true. Indian market is flooded with Chinese goods. Why?

Indian workers are extremely badly-trained (and they cannot learn for they process the world through Hinduism). If I tell a worker to do five things in order, he will invariably fail to do it. So really if they cannot even do a linear job what about a complex job? India has massive structural problems. The costs of making anything, despite very low labor costs is very, very, very high. As soon as you start going up the value-chain, Indian costs rise exponentially, making Indian exports uncompetitive.

On top, Indian regulatory regime is horrendously corrupt and heavy-handed, worse than it ever was. I have been talking with a lot of businessmen about how things work. Recently a food manufacturer in Bhopal was closed, for the authorities found “adulterated” food in his place. Authorities destroyed the food. The stupid court will accept the word of the authorities as final. The restaurant guy will pay a large bribe, to avoid going to the court. Now, you can see where some of the costs are. And then you can imagine how this businessman will make up for these costs. Would he now actually adulterate? You bet, he will.

People tell me that electricity-guys, tax-guys and plethora of agencies pretty much can walk into your home whenever they want. No one has the courage to stop them. Of course, a lot of crime happens in that pretext. To those who tell me that I am too negative about India... Well, I would find it absolutely suffocating were I economically active here.

So when will India change? Again I couldn't be more pessimistic. Not unlike the mental state of a deer chased by a lion just a few minutes earlier, Indians carry no memory of constant humiliation they face. They never fight. They never feel a moral outrage. So, I would expect India to start improving when either they have started hanging their public servants in the public square or when it starts falling apart because of starvation and other problems. I am betting on the latter. Really the former is a rhetorical statement: The public servant is only a symptom; the source is the Indian culture.

Sincerely,

Jayant Bhandari

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