The digital divide

The questions publishers tackle online and their responses are the same anywhere in the world

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

Exercise make us happier than money", says the headline. It was one of the half a dozen stories on the Stylist website this Monday. The magazine that sells 403,000 copies is doing well in its digital avatar says Ella Dolphin, CEO, The Stylist Group. The thing that worked was "voice and purpose," which Dolphin spoke about at length at Campaign's Digital Media Strategies 2019 in London last week. It was the specificity of what Stylist offers, a clear, no-nonsense voice on feminism with a twist, which appealed to almost all of us sitting in the room.

The Guardian's Chief Customer Officer Anna Bateson talked at length about its campaign to raise money from reader donations. More than a million readers had contributed to this independent, liberal brand, ensuring that it was out of the woods. A bulk of its donations is coming from the US followed by the UK, among many other countries. As an aside — most British news brands, BBC and *The Guardian* in particular, are having an exceptionally good time in the US. The rise of Donald Trump, polarisation and the questions on the credibility of mainstream media means that British brands are seen as neutral and trustworthy.

Stylist and *The Guardian* were among the 30 odd media brands that talked about their digital journeys at the Digital Media Strategies 2019 event. What hit me, again and again, was that the examples might be different but the questions that publishers were tackling while moving online and the answers they were getting were the same everywhere in the world.

And India, where publishing is still going through its online tutorial, is no different. Publishers have to be clear about what they want to do online, they have to tackle cultural challenges that going online involves and tech is a big spooky thing that most hate dealing with. All this talk of 'productising the content' baffles them. And then there are revenues. The gap between what a brand gets for an online reader/viewer is usually a tenth or less than offline.

Some of the most successful online publishers in India — Times Internet, The Express Group, Vikatan — have tackled these questions for years before hitting the right notes. Times Internet, the digital arm of one of India's largest media groups, has chosen to become this wide arching firm that facilitates transactions online (through ET Money or Dineout among other brands), bought a video player and made it a streaming brand (MX Player) and has worked hard at putting data science and tech at the centre of its universe. The group has been at the internet since 1995 but hit the big numbers only when a member of the promoter family, Satyan Gajwani, took charge in 2011 and brought in among other people Gautam Sinha, a data scientist who is now CEO of the firm. Times Internet at a claimed 400 million unique users globally and over ₹1,300 crore in online revenues, is by far one of the largest digital publishers.

The Indian Express is about a tenth of *The Times of India* on readership and one of the smaller publishers. However, it is now India's second largest online publisher after Times Internet at a claimed 138 million unique users across its group properties. What worked is focus says Anant Goenka, executive director, The Express Group, who took over in 2012. "Brand is equal to credibility, that clarity helped me with decision making while fighting in a commoditised market. A lot of people were throwing lot of things on the wall and seeing what sticks, we throw fewer things. The other clarity was thinking of us as business-to-consumer not a business-to-business," says he. The ₹30,550 crore publishing industry's abject dependence on advertising has over the decades warped the business that is focussed on advertisers not readers. In the last few years, across media segments, the firms that have done well online have had a BtoC focus — from Netflix to *Financial Times* that just crossed a million paying readers.

Just like their developed market counterparts, many digital publishers in India are trying to make revenue through subscriptions (The Ken, Rocket Post, Caravan, Vikatan) or donations (The Wire). Of course, it will be many years before Indian publishers hit the cliff that the ones in the UK or the US did. But it is good to know that the paths they have chosen are well-trodden.

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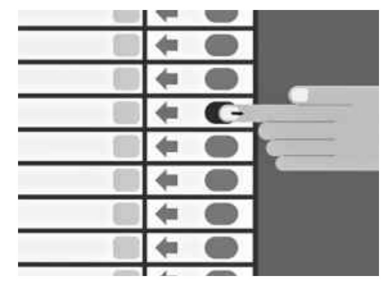
CHINESE WHISPERS

Language of ambition

The Trinamool thinks of itself as a national party, which is strong in one region. It also believes it would be one of the top three parties in the next Lok Sabha and a key player in the next government. On Tuesday, party leader Derek O'Brien *(pictured)* addressed a press conference in New Delhi, his first this election season in the capital. O'Brien, who is more fluent in English and Bengali, addressed the press conference almost entirely in Hindi to underscore his party's ambition to play a more central role in national politics in the months to come. He said he would hold more press conferences in the next few weeks and speak increasingly in Hindi.

Ranking NOTA



The Trinamool is set to approach the Election Commission (EC) with a rare request. Usually, each EVM, or electronic voting machine, has space for 16 buttons, with the bottom most being "none of the above", or NOTA. However, in the Darjeeling Lok Sabha constituency, the NOTA is the 17th button, that is, the topmost button on the second EVM machine in a booth. The Trinamool argues this would confuse voters as there is nothing above the "none of the above" button (and nothing below it as the constituency has 16 candidates) and wants the EC to make it the last button on the second machine.

Opposition renamed

TTV Dhinakaran, who has been ousted from the AIADMK and is V K Sasikala's nephew, has a sharp tongue. The saving grace is when he criticises his opponents in election rallies he doesn't refer to them by their names but uses pseudonyms. He addresses Tamil Nadu Chief Minister Edappadi K Palaniswami as 'Tyagi' (sacrificer) and his faction of the AIADMK as Tyagi & Company. Palaniswami's deputy, O Panneerselvam, is 'Mr Dharma Yuddham'; minister Rajendra Balaji is 'Manthiravadhi' (black magic specialist); the DMDK treasurer and Vijaykanth's wife is named after a recent Rajinikanth horror movie *Chandramukhi*; and BJP leader and Union Minister of State for Finance and Shipping Pon Radhakrishnan is referred to as 'Bayilvan' (wrestler). State ministers Velumani and Thangamani, who are close aides of Palaniswami, are referred to as "tender" ministers.

Hydropower gets a late booster

The policy, announced just before the election dates were declared, offers hope for this neglected sector

JYOTI MUKUL

Six days before the dates for the general elections were announced, the government announced a hydropower policy that had gone through years of debate. The last-minute passage of the policy together with approvals for four power projects worth ₹31,000 crore could be seen as an effort to revive the power sector and help India meet its climate change targets, since hydropower will be counted as renewable energy.

India currently has 45,400 Mw of installed hydropower capacity, 13 per cent of the country's power generation capacity. Compare it with the government-owned NTPC's 41,580 Mw of coal-based power generation, and it becomes clear why there was a need for a focused hydro-power policy in the first place.

TAKE TWO

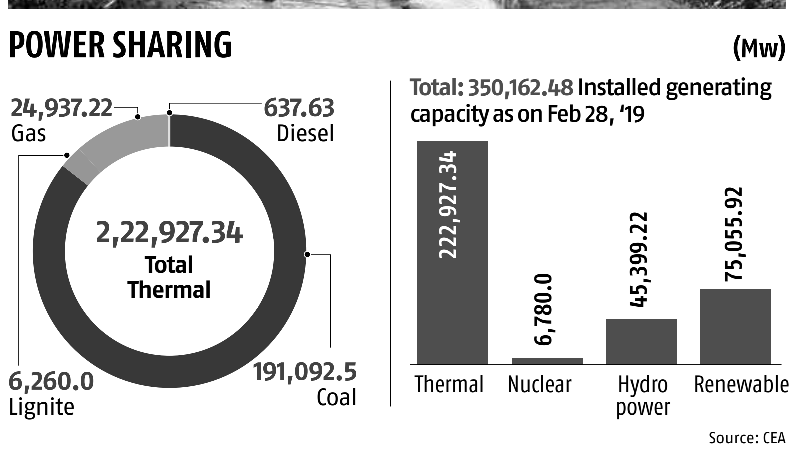
"It's better late than never. In fact, the policy is opportune and is likely to infuse life into some of the projects that were on the back burner due to commercial viability issues. The measures are a fallout of the required grid stability because of the intermittent nature of solar and wind power. It shows the government's concern to address the issue in advance," says Balraj Joshi, chairman and managing director, National Hydroelectric Power Corporation. The public sector undertaking operates 6,971 MW or 15 per cent of the total hydropower capacity.

According to the government, India has hydropower potential of 1,45,320 Mw but in the past 10 years only about 10,000 Mw has been added. The share of hydropower in total capacity has declined from 50.36 per cent in the 1960s to around 13 per cent in 2018-19. "Just as solar and wind, a similar push is required for hydropower because it is a capital-intensive sector," says Prashant Jain, chief executive officer, JSW Energy.

Hydro-power's status as renewable energy allows for a hydropower purchase obligation (HPO) on the power distribution companies, which will have to meet a fixed percentage of their power demand from hydropower. The HPO guidelines will need to ensure that it does not come at the cost of wind power since it will be part of the non-solar renewable purchase obligation. "This is critical. Distribution companies will be obliged to buy and more power purchase agreements (PPAs) will take place. This will also help in financial closures," says Jain.

Besides HPO, the new policy provides for direct budgetary support for infrastructure creation and flood control. Enabling infrastructure — such as roads and bridges — will get funds up to ₹1.5 crore a Mw for up to 200Mw projects and ₹1 a Mw for above 200-Mw projects. "The budgetary support for flood control and connecting infrastructure will reduce the capital requirement and make it easier to finance the projects," says Kameswara Rao, partner, PricewaterhouseCoopers.

The policy also provides for tariff rationalisation measures including providing flexibility to developers to determine tariff by back loading it after increasing the project life to 40 years, increasing the debt repayment period to 18 years and introducing escalating tariff of 2 per cent. Joshi says this will bring more projects in the "commercially viable" bracket and they will now be taken up.



JSW, for instance, is hoping that its 240Mw Kutehr project on the Ravi in Himachal Pradesh is able to benefit from the tariff rationalisation measures.

For NHPC, Joshi says these measures will boost its portfolio besides helping other developers, especially its new projects in the north-east will benefit from the assistance for infrastructure and flood moderation where these aspects form a sizeable part of the project cost.

Private sector interest, however, may not be easy to come, especially since hydropower projects face huge resettlement and rehabilitation issues besides protest on environmental grounds. The policy is silent on these issues.

According to Joshi, it will take some time for the private developers to come to terms with the uncertainties and difficulties associated with hydropower projects and the requirements of meticulous planning in dealing with these aspects to deliver the projects. "It is for the developers to address the issues of all stakeholders in terms of the guidelines. More often than not, it is the lack of will to address these issues that leads to public resentment and consequent effect on the project. The developers have to define and adopt R&R strategies in all honesty and in a spirit of sharing," he says. Jain, however, says the social and environmental issues are mostly state-level challenges and need to be addressed on case-to-case basis.

From a private developer point of view, one crucial incentive missing from the policy is interest subvention. Jain says construction cost is heavy and it takes six to seven years to build a project. If the interest cost during construction comes down, then the cost of power comes down substantially. "PPAs and HPOs are the keys for financial closures to happen but if there is some degree of interest subvention during the construction phase, the cost will come down and distribution companies will buy power. This will be a big boost for the hydropower sector in future," he says. The private sector accounts for 3,394 MW of hydropower capacity, just 7 per cent of the total of 45400Mw.

In the absence of storage and hybrid technology finding wide application, hydropower and gas based generation are needed for tackling the intermittency of renewable power that is expected to touch 170Gw by 2022. The policy marks an attempt to lower costs and incentivise distribution companies to buy hydropower. Much, however, will depend on the policy details. This, after all, could be the last chance for hydropower to grow after years of flat or no growth.

INSIGHT

Why growth is a worry

SONAL VARMA & AURODEEP NANDI

The growth of an economy consists of a trend (potential), and cycles around this trend. In India's case, there are reasons to worry about both. India's potential growth rate has moderated over the last decade. Various techniques — from statistical filters to production function estimates — suggest India's potential GDP growth rate has moderated from around 8 per cent in 2003-08 to around 7 per cent currently, and this decline can be traced to a slower pace of investment (capital accumulation) and lower (total factor) productivity growth.

A significant build-up of core inflationary pressures has typically coincided with periods of GDP growth exceeding 7 per cent, another sign of where trend growth lies. This (slowing trend) is a longer-term worry, which we discuss later.

In the near term, concerns are centered on the cycle itself. India has experienced two full cycles since the 2008 global financial crisis: A V-shaped 2009 recovery followed by a prolonged slowdown over 2011-12, and a recovery starting in 2014 that petered off in 2016 due to weak global demand, fading effects from lower oil prices and the (transitory) hit from demonetisation.

The economy embarked on a third up cycle in mid-2017, aided by a rebound in global growth and remonetisation, but recent data suggests this cycle has also peaked. We see two factors behind our view that a cyclical slowdown is underway. First, the fading impact of US fiscal stimulus, lagged effects from tighter US monetary policy and China's deleveraging campaign, the US-China trade tensions and a weak tech cycle are driving a synchronised global growth slowdown. We expect weak global demand to mainly hurt India's export-oriented and manufacturing sectors, reducing GDP growth by around 0.2-0.3 percentage points (pp) in FY20. Second, the full effects of tight domestic financial conditions (of 2018) have yet to play out. While the non-banking finance company (NBFC) crisis appears contained on its surface, subsurface cracks have formed.

As cyclical growth turns down and domestic policies become more accommodative, growth will pick up cyclically, albeit with a lag, but a discussion on ways to lift the trend is necessary

Banks have stepped up credit expansion, but much of this was either re-directed towards retail lending or pumped back into better-rated NBFCs (and not as growth capital). Segments perceived as higher risk and inherently more dependent on NBFCs for funding remain credit constrained. We would classify commercial real estate and small and medium enterprises in this segment. Thus, there is a growing divergence between the haves and the have-nots.

For the haves (with lower perceived risk), costs have risen but funding is available. For the have-nots (with higher perceived risk), funding availability itself is a challenge. If working capital remains constrained, we would expect production declines and investment delays for under-construction real estate projects. We estimate tighter financial conditions will reduce GDP growth by another 0.2-0.3pp in FY20.

All is not doom and gloom. We need to consider the possible supports from easier fiscal policy, accommodative monetary policy and the global policy pivot (US/China). How much offset can these factors provide?

For both monetary and fiscal policies, there are transmission leakages and lags. The government announced an income support scheme for marginal farmers, but not all states have digital land records that are linked to bank accounts, which will lead to spending undershoot. Weak nominal GDP growth is also a negative for tax revenues and, if revenues disappoint, the higher spend on consumption will come at the cost of lower public capital expenditure. Thus the aggregate fiscal impulse will not be large.

Monetary policy is likely to remain growth supportive but with transmission lags. Elevated credit-deposit ratios and high government borrowing suggests the transmission to lower deposit and lending rates will be slow. For the 'have-nots', transmission is not just about cost or availability of capital; it is a confidence issue. For confidence to return, an asset quality review of NBFCs may be necessary, albeit at the right time. Together, we expect accommodative monetary and fiscal policies to add around 0.4pp to FY20 growth.

Globally, the policy pivot has perhaps removed the tail risk of a sharp global growth collapse, but China stimulus remains in its early stages and each incremental easing of credit is proving to be less growth effective. Thus, global growth may remain weak in the coming months, but a stabilisation is likely later in 2019.

In sum, we see four clear implications. First, India's economy is currently being hit by both global and domestic shocks, which will likely slow growth to 6.2-6.3 per cent y-o-y in H1 2019 (January-June) from 6.5-7.0 per cent in H2 2018. Second, given policy transmission lags — both global and domestic — any cyclical recovery will likely be backend weighted and visible only in H2 FY20 (October-March). Third, given monetary easing is being transmitted by banks to retail consumers and fiscal spending is geared towards revenue expenditure, the cyclical recovery should be driven by consumption again. And fourth, given the weak starting point, GDP growth in FY20 is unlikely to be higher than in FY19 (7.0 per cent).

Coming back to the medium-term priority of resuscitating trend, larger questions remain: How do we increase domestic investment without support from global growth? If government spending is increasingly geared towards consumption, how do we create space for public capex? Finally, what other reforms should be implemented to increase productivity?

Overall, as cyclical growth turns down and domestic policies become more accommodative, growth will pick up cyclically, albeit with a lag, but a more active dialogue on ways to lift the trend itself is necessary. Otherwise, the economy will continue cycling up and down around a downtrend.

Varma is chief India economist; Nandi is India economist, Nomura

LETTERS

Look for genuine buyers

Apropos your front page lead report, "TPG Capital, Etihad, NIIF likely to bid for cash-strapped Jet Airways" (April 9); it is good news that several entities are likely to bid for the ailing airline. But let's make no mistake, TPG and Etihad will both bid really low prices — on which they hope to acquire a viable asset. The fact that Etihad earlier wanted to sell its stake, and is now expected to bid, clearly shows they are hoping for a bargain purchase. I don't blame them. Why should they pay a rupee more than what is the real worth of the company — and they have the advantage of knowing that inside out.

The only aberration may arise from the National Investment and Infrastructure Fund (NIIF) submitting a higher bid in a misconceived "altruistic and national interest". Such a step would be disastrous. NIIF has no expertise in running an airline. Like the State Bank of India (SBI) they will also be a temporary parking slot; having paid high they will not want to sell low. Meanwhile, the airline will continue to become less and less valuable and eventually may have to be literally gifted back to the original promoters or someone else — even the terminally sick Air India. That could be a great comedy of errors. The banks, led by the SBI, should be only sell to a genuine buyer, for however low the price offered by it.

Krishan Kalra Gurugram

Old wine in new bottle

The Bharatiya Janata Party's (BJP) manifestor *Sankalp Patra* is similar to the manifesto issued by the party five year ago containing several promises including abrogation of Article 370 of the Constitution, implementation of uniform civil code, construction of Ram temple. The nation had heard that the farmers would be stopped from committing suicides, but the number of suicides have increased manifold. The youth of the country were promised 10 crore jobs in the 2014 manifesto; instead the unemployment rate has become the highest in the last 45 years. The *Sankalp Patra* is completely silent on the draconian measure of demonetisation that took the lives of more than 100 innocent people.

The people in the Valley have been alienated and terrorism, which the party had promised to root out, has increased not only in J&K, but in Chhattisgarh and the Northeast of the country. Briefly, while not enough has been promised for the next five years, there certainly is an attempt to sharpen communal polarisation in the country..

S K Khosla Chandigarh

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HAMBONE

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A gush of money

Question marks over sustainability of FPI flows

The net foreign portfolio investment of ₹33,116 crore in March 2019 is nothing short of spectacular in a market in which key indices have been propped up by a few stocks, with a large proportion of listed companies witnessing a bear phase compared to their highs of 2018. Last month's inflow came after a substantial ₹15,328 crore in February, and is the highest in India's history since the ₹33,782 crore in March 2017. It is also a large multiple of the mean and median monthly net investments of ₹2,000-odd crore a month in the past three financial years.

Year 2018 was not good for the Indian markets in terms of foreign portfolio investment with net outflows of ₹34,163 crore, the second-highest since 2008, the year of the global financial crisis. The reasons for the decline are not surprising — valuations had turned expensive in the first quarter of 2018, and the US Federal Reserve was taking a hawkish stand and was on a rate hike cycle till January 2019. In March, it turned decisively dovish ending three years of tight money policy as US economic growth was slowing. Since then the rupee has gained and emerging markets, including India, which had seen money being pulled out, have seen a reversal. India has become the largest recipient of FPI flows in emerging markets since February 2019 with net equity investment of $8.3 billion, which coincides with the change in the Fed stance.

After nearly a year of see-saw, the Indian markets may not be looking as expensive as they did in early 2018 and hence global portfolio investors are turning aggressive. Expectations of better macros, corporate earnings growth and the domestic consumption story have put India on the FPIs' buy list once again. A stable rupee and benign inflation are also positives. However, the concern in the minds of domestic players is that the flows so far are more due to a risk-on trade driven by liquidity after the Fed's brake on rates, which will be followed by a similar action by other global central banks, or whether it is due to fundamentals. The spread between India's earnings yield and the US 10-year bond yield, which has typically averaged 3.9 per cent, is still below 2.9 per cent. A higher spread would make a foreign investor more comfortable in terms of valuation.

The Sensex has gained 7.4 per cent since February, given the gush of money that has come in. The question is whether the FII flows will sustain, given the fact that they have cooled off a bit over the last week. There are reasons for this concern: The market appears expensive at current levels given that earnings growth has been disappointing in the past few years; moreover, a below normal monsoon forecast does not augur well. Any negative surprise in March quarter results or crude oil prices could lead to a correction. Besides these, foreign money flows will also depend a lot on the new government's policies. More reforms are needed in land and labour, and investors will be watching how the new government, which will take office in May, steps up economic growth and revives business confidence. While capacity utilisation in manufacturing is at a multi-year high, businesses will need more confidence before putting up plants, which is necessary to revive the capital expenditure cycle. The return of foreign investors is obviously a good sign for the Indian economy, but policymakers must be careful not to take them for granted.

The cash-in-elections scourge

Address systemic problems underlying election spending

Nationwide raids have revealed the degree to which election campaigns in India are dependent upon large amounts of — possibly illegal — money. The Election Commission's (EC's) special team has so far seized cash, alcohol and drugs from across the country, the value of which could total ₹1,800 crore. This is clearly not just a major problem but also one that is growing. Polling is not yet properly underway and yet already it seems that the cash seizures during the 2014 election, of ₹300 crore, have been dwarfed. Of the total haul, ₹473 crore has already been seized in cash, and ₹410 crore in gold — ₹220 crore of the latter from Tamil Nadu alone. That state also led in terms of the cash seized, at ₹154 crore. Meanwhile, Punjab and Gujarat had the dubious distinction of having the most drugs seized — ₹500 crore worth from just Gujarat. The EC's seizures are in addition to huge cash confiscations by several government agencies including the Income-Tax Department. There were over 60 such raids in the recent past. The Centre for Media Studies estimates these elections will see an expenditure of ₹50,000 crore, far more than what was spent in the 2016 US presidential election.

It is worth noting that the EC's directive capping the amount of cash each candidate can spend on a campaign is well known to be flouted at every opportunity. The EC allows candidates to spend up to ₹50 lakh or up to ₹70 lakh, depending on the constituency. In any case this cap is meaningless, given party expenditures at the state or national level can help their candidates without breaching the cap. Some opposition parties, including the Dravida Munnetra Kazhagam in Tamil Nadu, have claimed that specific raids are politically motivated. While it may be possible to countermand specific polls or register individual cases, there is a systemic problem that must be addressed. In a volume — *Costs of Democracy: Political Finance in India*, published last year — a group of political scientists led by Devesh Kapur and Milan Vaishnav investigated the problem of electoral financing in India and came to some disturbing conclusions. The rise of candidates who finance their own election campaigns has meant that the composition of the Lok Sabha has now skewed towards the rich — 82 per cent of the 2014 Lok Sabha members, for example, have assets of over ₹1 crore. Over the last three Lok Sabha elections, the wealthiest 20 per cent of candidates were victorious more than 20 times as often as the poorest 20 per cent. The political scientists also found that thinking of this expenditure as merely "cash-for-votes" is simplistic, as it is more like "gift-giving", as well as required spending on the basic electoral machinery.

What is necessary is to control expenditure and cash-raising at the party level, while allowing parties to fund their candidates more transparently. This would reduce the reliance on self-funding candidates. The current government's system of anonymous electoral bonds does not aid in this endeavour. Prof Kapur and Dr Vaishnav suggest a "grand bargain" is necessary, in which all money-raising is accounted for, and ideally raised digitally. Parties submit to third-party audits. In return, limits are loosened to reflect the real cost of elections and state funding of elections be introduced.

ILLUSTRATION: BINAY SINHA

Modi's foreign policy report card

The minuses of his government exceed its pluses

India is in the midst of a frenzied electoral exercise but foreign policy rarely excites the voters' imagination. There may be an exception when it comes to relations with Pakistan but in the past it has not proved possible to sustain the related national security argument as a vote-catching issue. The same appears to be happening with the Balakot adventure where the effort to project the ruling party in tough nationalist colours is fading rapidly. This election, like several others before it, will be determined primarily by domestic issues even though foreign policy is also a point of contention. The rhetoric of parties on foreign policy issues may be divergent, the leadership style may be different and some departures from the past may be evident but the broad contours of India's external relations have not changed much in the past five years of the Modi government. They are unlikely to change irrespective of the political colour of an incoming government.

SHYAM SARAN

So how should one read the Modi government's record on foreign policy? There are four distinguishing features which spring to mind.

One, Modi has displayed strong belief in the value of personal diplomacy and the efficacy of leader to leader engagement in resolving outstanding issues. There is no doubt that his relationship with former US President Obama played an important role in consolidating and expanding Indo-US relations. The obvious and positive chemistry that exists between him and Japanese Prime Minister Shinzo Abe has helped bring relations between the two countries to an unprecedented high level. But one may argue that Modi was leveraging the very substantive drivers that were already bringing the US and Japan closer to India, the challenge of a rising China being a key factor. Modi has not had much success with Trump in the White House nor has China's Xi Jinping been ready to go beyond optics, such as the Wuhan summit in June last year, to address India's real concerns. Personal diplomacy can be an additionality when substantive factors are already driving relations in a positive direction. They are less efficacious when there are strong adversarial elements at work in the relationship. Positive vibes generated in a leadership level engagement may fall flat if there is weak follow up. This continues to be a persistent shortcoming on our side.

Two, Modi has enhanced the profile of the Indian diaspora in Indian foreign policy going beyond the initiatives taken by previous governments. He has reached out to overseas Indian communities in several countries and they in turn have enhanced his domestic and international profile. This may have paid dividends in terms of political funding for the Bharatiya Janata Party (BJP) and helped in image building but there has been little impact in terms of the Indian diaspora contributing to India's development in the manner that the Chinese diaspora has done for their mother country. From a national perspective one should ask whether the investment made in terms of time and energy, particularly of our overstretched diplomats, has been worthwhile.

Three, Modi is the first prime minister in recent years to welcome foreign investment unreservedly. He has sought foreign capital on all his major visits abroad. He deserves credit for this. It is another matter that the Indian market continues to be challenging for a prospective foreign investor and the fact that Indian investors have been reluctant to invest in their own country is not a very encouraging sign to their foreign counterparts. There are regulatory and tax related issues and, more importantly, policy unpredictability and a positive message from the prime minister has been unable to dispel concerns over them. Economic diplomacy has been a priority for this government but results are sub-optimal. This points to the urgent need to address structural and governance related issues which have long plagued the conduct of foreign policy.

Four, success has been achieved in managing a very complex and rapidly evolving situation in the Gulf and West Asia. The Modi government has been able to upgrade its relations simultaneously with Saudi Arabia and the UAE on the one hand and Iran on the other. It has brought the critical relations with Israel out in the open. In doing so, it has safeguarded India's energy security, found key allies in its fight against terrorism and deflected pressures from the US to alter policy towards Iran and Syria. These have been the objectives of previous governments, too, but the diplomatic deftness evident here has been missing in the past.

It is Modi's Pakistan policy which has left India more vulnerable internationally despite claims to the contrary. The temptation to make Pakistan a domestic political issue has been damaging in foreign policy terms and is sharpening the communal divide in our society. We are unable to deal with Pakistan as yet another state because foreign policy calculations are coloured by domestic political compulsions. Pakistan occupies so much of our mental space that little attention is directed to our other critically important neighbours. China has taken advantage of our distraction to penetrate our neighbourhood. Furthermore, the public escalation of hostility towards Pakistan and rising tensions make India vulnerable to international intervention, thereby bringing back hyphenation with that country. The mis-handling of Jammu and Kashmir, the allegation of pro-Pakistani sympathies among ordinary Kashmiris, all these have brought relations with Pakistan into a dangerous stalemate. A bold regional and global posture lacks credibility if the country remains tied so firmly to the sub-continent.

India over the past 70 years has accumulated invaluable international political capital as a vibrant democracy which has successfully held together a very diverse population professing different creeds and faiths and celebrating dissent and debate. The holding of yet another general election is a reaffirmation of democracy but the political discourse accompanying it is not. We are in danger of diminishing what makes India unique as a country, held up as a model of plural and secular democracy. On this count, the minuses of the Modi government exceed its pluses.

The writer is a former Foreign Secretary and is currently a Senior Fellow at CPR

Why manifestos lose credibility

The divorce between fiscal prudence and manifestos released by national political parties is complete. The Indian National Congress, in its bid to return to power, released its manifesto on April 2 and the Bharatiya Janata Party (BJP), which is seeking another five-year term in office, announced on April 8 what its goals would be if it were voted back to power. Many of the key economic promises in both the manifestos are not only fiscally imprudent, but they also reveal how unrealistic our political parties can become while making economic policy promises.

A lot has been written about the NYAY agenda of the Congress. It promises up to ₹6,000 per month to the bottom 20 per cent of the poor families. There is a phased roll-out schedule and the cost is expected to be shared with the states. In spite of that, the total cost, when fully implemented, will be huge — estimated at about 1.9 per cent of the country's gross domestic product (GDP). This is bound to raise questions on how the required resources would be mobilised.

NEW DELHI DIARY

A K BHATTACHARYA

Will they come from more taxes or reduced outlays on subsidies and other poverty alleviation schemes? More disturbing than the lack of clarity on such issues is the thought that the scheme's implementation will be fraught with challenges. The scheme will be crucially dependent on identifying the poor households on the basis of income — a task that will be extremely onerous and prone to wrong targeting of beneficiaries, particularly in the absence of any credible up-to-date data on family incomes.

Take another promise made by the Congress on the Goods and Services Tax or GST. The manifesto promises a simplified single-rate GST. This appears to be a big promise. But dig deeper into the document and you will see that the manifesto actually promises as many as three rates. This is certainly better than the existing regime. But then why promise a single-rate GST?

The promised abolition of the e-way bill system, a transparent online instrument of preventing evasion of taxes, will only pose newer challenges for those who administer the GST. The promise is also puzzling as the e-way bill scheme has been implemented largely without any protest or complication. Why change it then? It will of course please traders and small businesses, which do not generally enjoy the idea of increased tax compliance. But will it lead to a more effective GST?

The Congress manifesto's promise on a new package for the micro, small and medium enterprises (MSME) is equally flawed. It comes up with what seems to be a crazy idea of redefining MSMEs on the basis of the number of people employed, at a time when automation and technology have reduced the need for employing more workers. If any unit employs between 101 and 500 workers, then it would classify as a medium enterprise and not qualify for benefits such as exemption from all laws except those for minimum wages and taxation. The exemption will be enjoyed by only the micro and small units employing less than 101 workers. Thus, there will be a perverse incentive among small units to employ less than 101 workers to enjoy the benefits for at least three years.

The economic promises of the BJP manifesto are no less problematic. The additional financial impact of fulfilling the promise of extending the coverage of the Prime Minister Kisan Samman Nidhi Yojana to include all farmers, irrespective of their land holdings, is not significantly huge. The government has budgeted for an annual expenditure of ₹75,000 crore for paying out ₹6,000 a year to each of the 125 million farm holdings of less than two hectares.

Now that all operational land holdings would be covered under this scheme, the remaining 21 million farm holdings of more than two hectares would also be eligible and the total annual cost would be about ₹87,600 crore. The increase is not substantial on a Budget size of ₹27 trillion, but unfortunately the principle of benefitting the needier segment of small and marginal farmers has been diluted.

The idea of extending loans of ₹1 lakh to farmers without any interest is even more fiscally irresponsible. Assuming that all the country's 146 million landholding farmer families go for this interest-free loan of ₹1 lakh, the total credit would amount to ₹14.6 trillion, which is a little more than the annual agricultural credit of around ₹11.6 trillion disbursed in 2017-18. In other words, the government is promising that all loans to the agriculture sector would be free of interest.

Who will bear the cost of interest on this huge amount of loans to farmers? The government already offers partial interest discount through an interest subvention scheme that cost it ₹15,000 crore last year. Its fiscal burden will go up significantly if the entire interest on ₹14.6 trillion of farm loans will have to be waived. Where will this money come from?

Banks are already burdened with the Mudra loans, whose cumulative value in the last four years is estimated at ₹8.26 trillion. Many of these Mudra loans, meant for small and tiny units, are without any collateral. The repayment rate so far has been high, but the risk of some of these loans going sick cannot be ruled out. The banks will then have to take a hit on account of the Mudra loans to small and tiny units. They cannot be expected to take any fresh exposure on account of the interest-free loans of up to ₹1 lakh to farmers.

Finally, the BJP's promise of raising capital investment in infrastructure to ₹100 trillion by 2024 is a goal that would require the government's capital expenditure to grow by 60 per cent every year on an average for a period of five years. The total capital expenditure by the government, including the internal and extra budgetary resources of the PSUs and the Indian Railways, was estimated at ₹6 trillion in 2013-14 and rose to ₹9.61 trillion in 2018-19. This represented an annual average growth rate of 10 per cent in the five years of the Modi government. The promise of raising this growth rate six-fold is too tall a promise.

The net outcome of such rosy manifesto promises is that these documents are becoming increasingly irrelevant as they lack credibility with the voters. A political party's manifesto is the first stage of building a compact with the voters in any governance plan. If that compact is dependent on a document that reeks of fiscal imprudence and lacks credibility, it is a serious setback to the country's democracy and governance.

Mother Teresa or Dr Faustus?

BOOK REVIEW

SHREEKANT SAMBRANI

"If Mother Teresa were charged with bank robbery, the jury would still have to determine whether or not she committed a bank robbery." That quip by Federal Judge Jed Rakoff at the 2012 trial of Rajat Gupta, a former managing director of the global consulting gold standard McKinsey and Company for insider trading, is an accurate summary of what Mr Gupta says in his defence in the new book.

Warren Buffett agreed to invest $5 billion in Goldman Sachs on September 23, 2008 at the height of the subprime crisis. Mr Gupta, then on the Goldman Board, learnt of this through a conference call. Minutes afterwards, he telephoned Raj Rajaratnam, the prime mover of Galleon, a hedge fund, who bought 350,000 Goldman shares just before the market closed. Galleon gained handsomely when the news broke the next day.

Mr Rajaratnam was convicted of insider trading in 2011. Mr Gupta's links with Mr Rajaratnam were also under surveillance. Although the above call appeared on the list, there was no transcript. In May 2012, Preet K Bharara, then the United States Attorney for the Southern District of New York, charged Mr Gupta with passing privileged inside information that led to the criminal trial. Mr Gupta was convicted and served a two-year prison term. His last appeal was turned down in January 2019.

Mr Gupta's book is in place of the testimony he wanted to offer in the trial, but did not, on the advice of his legal team. He and Mr Rajaratnam had a venture capital fund going. He says that this deal duped him out of $10 million. His used to call Mr Rajaratnam to recover this money. He claims that there was no quid in the form of financial gain for the quo of supplying inside information. He admits to "judgmental errors" that allowed things to reach the tipping point: trusting Anil Kumar, a protégé in McKinsey who was in cahoots with Mr Rajaratnam, Mr Rajaratnam himself, Ravi Trehan, a friend who was also involved with the venture capital fund and tipped Mr Gupta off about Mr Rajaratnam's underhand ways (but did not come to Mr Gupta's defence in the trial), among many others. The only ones Mr Gupta trusts are his wife and his four daughters.

Mr Gupta says his fateful September call to Mr Rajaratnam, which was in a gap in a busy schedule, was about the money he was owed. Why would he tip off someone with whom he had an ongoing dispute? All the other evidence the prosecution offered was circumstantial. There was no money trail.

Finally, the Mother Teresa defence. Mr Gupta's exceptional career, his leadership of McKinsey, his network of associates which was virtually a Who's Who of global business and, above all, his many charity and community initiatives, are all part of his case.

How does this all add up? Not to a hill of beans, to this reviewer. First, the key call. Immediately after you hear of what is absolute bombshell news, do you call about your long-running dispute? Are you not inclined to use this as leverage to extract your payment? If we accept his claim of lapses of personal judgment, we must wonder how he rose to the top of the consulting ladder. Mr Gupta's insinuation that the US Justice Department and the SEC wanted a headline-snaring case also sounds thin. Mr Bharara, despite his penchant for grandstanding, was not under any extraordinary pressure in 2012, four years after the event, to snare a big fish.

That leaves us with Mother Teresa, the whole point of this manipulative book. No heartstring is too delicate to pluck. We are treated to his history — early deaths of his parents, his indomitable spirit, his hard work, his achievements, his popularity among the high and mighty, sometimes even repeatedly. He refers to the *Bhagwad Gita* as the source of his solace, expecting the reader to think of him as the *shitapragnya* (the ultimate stoic) the scripture defines.

So the enigma persists: As Judge Rakoff asked in sentencing order, "Why did Mr Gupta do it?" Was it simply a case of feeling "frustrated at not finding new worlds to conquer?"

Mr Gupta was an outsider to the power elite, a welcome one, but an outsider nonetheless. People listened to him politely and often with interest, but he had no way of knowing whether they would follow up on what he said. One way of ensuring that was to back up his advice with resources that would lead to actions.

This is where Mr Rajaratnam, enters the picture. Galleon was a large hedge fund and Mr Rajaratnam was already influential because of the money he controlled. That was the hook for Mr Gupta. In 2008, there was a very real possibility that Mr Gupta would be the chairman of Galleon International and enter India with a $10 billion corpus in 2010. He would have been a real builder, with a life-membership in the club he probably desired most.

This power motive is possibly what Judge Rakoff meant when he said that "Gupta, though not immediately profiting from tipping Rajaratnam, viewed it as an avenue for future benefits, opportunities and even excitement." The last word is the crucial one.

"As a rule, I have found that the greater brain a man has, and the better he is educated, the easier it has been to mystify him," Harry Houdini once said to Arthur Conan Doyle. They don't come brainier and better educated than Rajat Gupta!

A longer version of this review appears on the website

MIND WITHOUT FEAR
Rajat Gupta
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