Winners, losers and fence sitters

The downfall of Jet Airways has produced at least one long-term winner, one short-term gainer and a few fence sitters

OUT OF THE BLUE

ANJULI BHARGAVA

Even as the industry mourns the downfall of Jet Airways, there are winners, losers and a few fence sitters emerging from the episode. Passengers — like employees — were among the biggest losers as airfares skyrocketed. To cite one instance, the return flight between Dehradun and Delhi (30-minute-flight) was ₹14,000 and ₹21,000 on two different days last week. I decided to stay home!

Jet's shutdown led to a shortage of capacity and vacating of routes, freeing-up of airport slot timings and an oversupply of Boeing commanders, first officers and cabin crew. Moreover, almost the entire Jet fleet that was on lease is available for any taker. Like vultures swooping in on a dead corpse, the players have quickly cornered as many slots as they could, hired the best of Jet staff and some have taken aircraft.

In the short term, SpiceJet appears to be the biggest gainer. The airline is taking 22 of Jet's aircraft, has gained 122 slots so far and has hired around 1,000 ex-Jet pilots and crew. Unlike others who have been silent on their conquests, SpiceJet's steady stream of announcements on new flights have attracted the ire and envy of many. Its chief Ajay Singh has even been labeled the "Naresh Goyal" of the moment on social media.

But all's fair in love and war, as I see it. What I find more worrying is the fact that the airline suddenly has on its hands a whole bunch of aircraft with a configuration quite different from its usual. Unless the airline can charge a premium for these seats, the cost per available seat kilometre (CASKM) will rise. When I asked Singh, he said the airline will be offering a business class product on trunk routes and international sectors from May 11. Whether this turns out a calculated risk or a reckless one, time will reveal.

A second concern with this kind of sudden expansion is what happens if the oil prices don't play ball? In the second quarter of 2018 -- when oil prices rose and the rupee weakened -- IndiGo and SpiceJet reported losses of around ₹650 crore and ₹390 crore respectively. So while it's nice to make hay when the sun shines, a rainy day can reverse the fortunes rather quickly. The larger you are, the higher the price you pay.

The neither here nor there airline — GoAir — too managed to get some slots out of those vacated by Jet but what it hopes to do with them is anybody's guess. I for one have lost count of how many people have resigned in the last six months but I do know that the airline is as rudderless as ever. In fact, things have been so grim since this February that the airline has been struggling to keep its full fleet in the air, let alone add new capacity.

There were unconfirmed reports that Vistara was thinking of taking up to 10 B737-800s from Jet's lot. Now, this sounds rather rash to me. From my limited understanding of this business, it makes almost no sense to bring in a second type of aircraft in your fleet — even on a wet lease — for all the other complications that operating a mixed fleet bring with it. That too for just 10 planes!

In fact, if I were Vistara, instead of worrying about today, I'd be focusing on tomorrow. Kingfisher, Jet and even Air India's record would be giving me the jitters. A more existential question has arisen: Can a full service airline in India actually succeed? Is India some kind of aberration where only a low-fare model can thrive? Do I need to find some innovative way to withdraw from domestic routes and leave that bit to the likes of Air Asia India? It's time for some real introspection here.

In the final analysis, I wouldn't be surprised if the biggest long-term gainer from the Jet episode is again the market leader IndiGo. The airline is adding almost one aircraft a week in any case. It has taken whatever slots it could and hired as much of the Jet staff as it required. It's sticking to the knitting as far as possible. In a business like aviation, that's almost always the best route.

PS: Interesting addendum: Poor old Air India got no slots as it has apparently no aircraft to add and the government is allotting slots only to players who add new capacity

CHINESE WHISPERS

Sleepless elections

Forty-five minutes of sleep is all that your body needs, if Union minister and Bharatiya Janata Party candidate from Delhi's Chandni Chowk constituency, Harsh Vardhan (*pictured*), is to be believed. However, this prescription from the minister, who is also a doctor, is not without a rider. During a press conference held in the capital on Monday, he said if one was "able to put one's conscious and sub-conscious mind to sleep through meditation and other practices for a long time… 45 minutes of sleep is sufficient." He was talking about his own schedule during the campaign season — he said he was sleeping for three-four hours only every day. His latest views on sleep patterns may or may not be backed by research but this is not the first time Vardhan has aired views that challenge conventional wisdom. Last year, he had controversially said that the late physicist Stephen Hawking had once remarked that the Vedas might have a theory superior to Albert Einstein's iconic equation, $E=mc^2$, but could not attribute the source.

'*Sadhvi*' Swara Bhaskar?

So is she prepping for a political debut? Actress Swara Bhaskar, who was in Bhopal on Monday, courted controversy with her remarks about Bharatiya Janata Party candidate Pragya Singh Thakur. Bhaskar, who was in the city to attend an event hosted by an NGO, called her a "Hindu terror suspect". "I will also put on a *bhagwa* (saffron) sari and urge everyone to call me '*sadhvi*' Swara Bhaskar. Is that possible?" Though not in active politics, Bhaskar has been a vocal critic of the government and has attacked trolls for criticising her on Twitter over her repeated criticism of the government. In April, she had campaigned for the Communist Party of India's Begusarai candidate Kanhaiya Kumar and said the country needed leaders like him.

IT cell for Kishor

Much like the information technology cell he had helped set up for the Bharatiya Janata Party five years ago, Janata Dal (United) National Vice-President Prashant Kishor is working behind the scenes to set up another such unit to bolster his image as a bankable leader in Bihar and nearby states. To this end, Kishor is learnt to have planned a "yatra" which will include politically active and enthusiastic student leaders from the grassroots. Preference will be given to students who do not belong to a political family. These students will be groomed to become future leaders in the party. Scholarship along these lines is also being considered.

Mini-ministerial and its contents

Nations still differ widely on the key issues that will be discussed at the meeting being held in India on May 13 and 14

SUBHAYAN CHAKRABORTY

India wants the upcoming mini-ministerial in New Delhi to focus on ways to reduce protectionism in global trade and uphold the sanctity of the World Trade Organization (WTO). Come May 13, however, it will be hard pressed to also discuss global e-commerce rules, something it has avoided so far.

After five rocky years of choppy global trade, increasing protectionism in most markets and little headway in key trade policy debates, the government is keen to end its term with a final push at the WTO. Subsequently, the commerce department obtained Election Commission approval to hold the two-day long event. It is expected to see attendance by at least 25 key WTO member-nations, including China, Brazil and South Africa. However, most other participants are least developed countries (LDC).

TAKE TWO

Although the focus will firmly remain on the creation of a global coalition against the United States, to reduce counter-protectionism and affirm support to multilateral talks at the WTO, India and participating nations have a different view of even the topics that should get the most discussion time.

Rich vs poor nation

India is no stranger to mini-ministerial trade diplomacy, with New Delhi having held a two-day mini-ministerial in March, last year with 50 participant nations. India's focus then — the liberalisation of services trade and the creation of a trade facilitation agreement for global services — had been discussed in working group meetings at the WTO but has lost impetus since then.

"While we will bring up the services agreement, we also have a responsibility to voice the serious concerns on behalf of the developing nations who are fighting to sustain their eligibility to get Special and Differential Treatment (S&DT) at the WTO," a senior Commerce Department official said. The S&DT debate has seen richer nations increasingly voice their opposition towards developing countries continuing to enjoy special provisions such as longer time periods to implement agreements and commitments, and clauses to safeguard their trade interests, among others.

Similarly, development-based issues of great importance to India, such as a permanent solution to agricultural stockpiling for the purpose of food security, are expected to be sidelined at the upcoming talks. Instead, richer nations led by the European Union, Japan, Canada and the US, have consistently pushed for newer issues such as investment facilitation, and rules for small and medium enterprises, promoting gender equality, and most importantly, e-commerce.

E-commerce battle hardens

While the proposal to create a set of global rules for e-commerce has been pushed by the developed world since the last WTO ministerial conference in Buenos Aires in 2017, things have moved fast since January this year when 77 nations agreed to officially initiate talks on the subject. On May 3, the EU submitted a nine-page proposal to the general body that aims to shield traders from attempts to restrict data flows or seize their data and source code.

TRADE TALK

- Stalemate at WTO necessitated New Delhi's second WTO mini-ministerial in as many years
- 25 key nations, including China, Brazil, South Africa and a wide group of LDCs to reach New Delhi
- The developing nations bloc will focus on their fight to preserve Special and Differential Treatment rights
- But global e-commerce talks expected to remain a hot topic

The move was unprecedented since WTO protocol dictates nations set the agenda for and start talks on issues that are agreed to unanimously. But sudden, aggressive support by China set the ball rolling. "The deal has been pushed hard by Jack Ma-led Chinese e-commerce conglomerate Alibaba, which has partnered with WTO and World Economic Forum to create the Electronic World Trade Platform (eWTP) — an e-commerce trade portal for small enterprises," an official said.

India fears that new rules could provide the pretext for unfair mandatory market access to foreign companies, thereby hurting the rapidly growing domestic e-commerce sector, which is still finding its niche. "Significant foreign business interests have also started looking for an official route to tap India's lucrative online markets. These businesses are major players in their domains, in many cases for more than a decade, and have often been seen to exploit regulatory loopholes," a note on the subject sent by the Commerce Department to brief the Prime Ministers Office, says.

"While India should accept technology as it comes, we need to know which segments it will hurt most. A disruptive move like this will see tech-driven commerce displacing a significant number of players in the traditional market," trade expert and Jawaharlal Nehru University professor Biswajit Dhar said.

Finally, the government believes the push for initiating negotiations on substantive obligations related to e-commerce will oblige India to permanently accept the current moratorium on imposing customs duties on electronic transmissions. "With increasing digitisation, more and more products such as books, music, and video games are being traded electronically. By agreeing to the permanent moratorium, countries with tariff schedules, which allow putting duties on these kinds of products, will give up these rights and lose revenues," the draft e-commerce policy says.

Fight with US

The summit is being hosted at a time when the US under the Donald Trump administration continues to question the need for a body such as the WTO. Despite condemnations from WTO headquarters in Geneva and major member nations, the US has simply stepped up imposition of unilateral tariffs on its trade partners. Earlier this week, both nations discussed a wide array of trade issues, including the impasse at WTO when US Commerce Secretary Wilbur Ross met with Commerce Minister Suresh Prabhu.

Although the US is no ally to India on most issues at the WTO, repeated clashes with its largest export destination has put New Delhi on edge. Repeated threats of high counter-tariffs on Indian goods by US President Trump has derailed the initial progress made in crafting a mutually acceptable trade package between the countries, another senior Commerce Department official said.

The package has been in the works for the past one year and trade officials have met as many as six times to hammer out a deal that provides an amicable solution to grouses from both sides. India is considering dismantling its current price cap regime for coronary stents with a trade margin policy, while it may also allow lower duties on import of certain information and communication technologies products such as high-end mobile phone from the US.

Talks finally came apart in February after Washington DC cut off India's duty-free access to the American market under its largest preferential trade scheme, the Generalised System of Preferences (GSP). India is the largest beneficiary nation under the GSP, having exported goods worth $5.6 billion to the US in 2017-18.

The fate of the trade package now hangs in the balance with US Secretary of Commerce Ross set to finally reach New Delhi on May 6. In the meantime, New Delhi has deferred the imposition of higher duties on 29 key imports from the US, an unprecedented six times since last year. Originally set to go live from June 28, 2018, the tariffs have been repeatedly postponed by the government. New Delhi had announced higher tax by up to 50 per cent on import of agri goods and some industrial products, which are proposed to rake in an estimated $240 million worth of additional taxes. The commerce department claims the amount is equal to the estimated loss faced by India after the US imposed a 25 per cent extra levy on steel and 10 per cent on aluminium from many countries, including India, in May, 2018.

ON THE JOB

Standard errors

MAHESH VYAS

A sharp rise in the unemployment rate during the third week of April and then a sharper fall in the fourth week caught the attention of the stylish and sometimes combative TV anchor, Karan Thapar.

He quizzed me on his show, *UpFront with Karan Thapar*, on April 29 on the zig-zag nature of unemployment rates being put out by CMIE recently. The rate rose during December, January and February. But, it dipped sharply in March 2019. And then, it was shooting up during the first three weeks of April but then it nose-dived in last week.

I explained that a few deviations apart, the trend was undeniably one of a rising unemployment rate.

The debate after this explanation turned out to be very engaging. I avoid participating in TV debates and Karan was kind to excuse me.

Dr. Shamika Ravi, director of research at Brookings India and member of the Economic Advisory Council to the Prime Minister, was dismissive of the CMIE data on unemployment. She stated that she does not take CMIE data seriously. That's her choice. But, I take her several remarks on Karan Thapar's show seriously.

A point she made repeatedly was that CMIE does not release the standard error of its estimates. Well, if she was seriously looking for those estimates and did not find them, all she had to do was to ask.

Hitherto, exactly one economist, of Indian Statistical Institute, asked for the standard errors of the estimates and we provided these in March 2019.

Dr. Ravi said that she will start putting faith in CMIE estimates the day they put out standard errors systematically. We make a beginning here.

In the first week of April, the unemployment rate was estimated at 7.91 per cent with a standard error of 0.006195. During the second, third and fourth weeks of April, the unemployment rate and the corresponding standard errors were: 8.06 and 0.005309; 8.38 and 0.007408; and 6.65 and 0.005139. As is evident from these, the standard errors are so low that the estimates are likely to be correct with a probability of 95 per cent up to the first place after decimal. We therefore, mostly report the unemployment rate up to the first place after the decimal point.

The average standard error of our weekly estimates of the unemployment rate is around 0.0064. In comparison, standard error of the monthly estimates is much smaller at around 0.0032. We therefore consider the monthly estimates to be a lot more robust than the weekly estimates. This is not rocket science. It is easy for even an undergraduate statistics student to expect a low standard error if the sample is large. The sample for our weekly estimates is of the order of 30,000 respondents and that for the monthly estimates is 130,000 with minor variations every week or month.

Veteran psephologist, accomplished academic and ever-gentle politician, Yogendra Yadav patiently explained to Dr. Ravi on the show that the CMIE sample is large enough to dispel her doubts but to little avail.

The second point Dr. Ravi made was that we do not control for seasonality. There are two problems she needs to understand here. First, adjusting for seasonality requires long time-series of monthly estimates. CMIE is the only organisation that produces monthly estimates of unemployment for India and its effort is only three years and four months old so far. We require at least five years of monthly data before we start working on seasonality. Second, the available monthly series was disrupted by the shock of demonetisation.

The third criticism by Dr. Ravi was that the definitions used by CMIE are "curious". She seemed to suggest that CMIE considers people who are not employed, not looking for jobs but desirous of jobs as unemployed. She is completely wrong. CMIE's definition of an unemployed person is one who is not employed, is actively looking for job but is not able to find one. This is what she said is the ILO definition. But, this is the CMIE definition.

The fourth point was that CMIE's data is proprietary, where all kinds of puzzling things happen. With the display of her limited knowledge of the CMIE dataset on Karan's show, it is understandable that she is puzzled. But, is Dr. Ravi suggesting that datasets produced by private agencies should not be used? Will she dismiss the surveys conducted by Brookings Institution, similarly?

It would have been better for Dr. Ravi to answer Karan Thapar's question to her that has the unemployment situation gotten worse than it was during UPA or after 2017-18 rather than display her disdain and ignorance of the CMIE datasets.

The author is the MD & CEO of CMIE

LETTERS

Unfair indeed

I refer to the edit "Unfair intervention" (May 1) which holds that the term of the anti-profiteering authority should not be extended. This article is both timely and appropriate. I fully agree with the contention that the two-year sunset horizon must take place as the original intention was like that. Extending the life of the director general of anti-profiteering will be great disaster for the economy. The department of revenue and the Central Board of Indirect Taxes and Customs will try hard to continue it saying that many cases being investigated which should be allowed to be finished. The Indian Revenue Service will also find it a source to increase the number of posts at higher level for better promotion of the senior officers who have been recruited in huge numbers, but who have hardly any work. This view is not right. The existing cases can be looked after by the other directorates which are aplenty now.

Coming to the merit of the anti-profit organisation, to begin with, the introduction of this system was a huge mistake. Studies by empirical analysis by experts such as Alan Tait in his book, *Value Added Tax: International Practice and Problems*, have shown that there is no inflationary tendency associated with introduction of VAT. And in India we converted VAT (already introduced earlier in 2005) into the GST by amalgamation of taxes. Capitalism must be allowed to thrive. Profit is not a dirty word. Market forces will play out any extra undue profit. Populist measures to impress people is not necessary as that will kill the system.

It is known that no other country in the world has this law. Not America, England, Europe, Japan, China, Russia and others. Only Malaysia has it. The empowered committee noted this. Since when has Malaysia become the leader of thoughts in economics to our GST Council? And this provision will be a great hurdle to the government`s policy of improving the ease of doing business. There is Competition Commission and so there is no need to have another watchdog on the same issue. In 1991 liberalisation took place which made the economy free from interference. This good tendency for the business to thrive must continue. It is high time the CII and the FICCI take up the issue to free the economy from this vice like grip of the anti-profit authority.

Sukumar Mukhopadhyay via email

More lessons to learn

This refers to "Standing up to Fani" (May 6). The piece illustrates the various aspects of the super cyclone and rightly gives the credit to Odisha state government, disaster management authorities, local administration, meteorological department and many more for a tough job done well.

A few more lessons are worth considering by all. First, maximum thrust on pucca houses in coastal areas needs a separate policy, as every such event has confirmed. Secondly, the care of the animal wealth of those displaced, especially automatic insurance coverage of their animals and quick settlement of claims, need policy prescriptions. Thirdly, why can't we store pre-cooked food and drinking water for a few days, at 1,000 shelters, relieving the volunteers for other, more urgent jobs. Fourthly, low mortality may dampen the national spirits to come forward to rehabilitate the people who have lost their everything.

Y P Issar Karnal

Correction

CARE Ratings has put PNB Housing Finance on 'credit watch', but has not downgraded its rating as mentioned in "The NBFC crisis" (May 6). The error is regretted.

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Macro headwinds

Next govt will face daunting economic challenges

There are multiple indicators that India's prolonged sojourn in a macro-economic sweet spot is coming to an end. Driven by favourable global conditions and commodity prices, the past five years have been fortunate for the Indian macro-economy. Inflation has been brought under control as a partial consequence of these global factors, and the easy availability of global capital has helped finance the current account deficit. Easy inflation and low commodity prices have flattered the fiscal deficit, allowing the government to avoid painful belt-tightening. But that is in doubt now, with the government missing its tax revenue target by 11 per cent in 2018-19 because of lower-than-expected collection from the central goods and services tax, personal income tax and Union excise duties. But government spending has helped support growth rates. This virtuous circle depends crucially on external factors that are beyond India's control. Some of these factors may now be coming to an end. In particular, crude oil prices — while they are unlikely to return to the $100-130 a barrel range that they had hit prior to 2014 — may well remain in the $70-80 range for some time, pushing the rupee towards or past 70 to the dollar. Oil prices have been a third higher this year than the last. It is partially as a reflection of these concerns that the India VIX, which measures volatility on the National Stock Exchange, hit a three-year high recently.

Domestic headwinds are also visible. In particular, there is no sign of recovery in either corporate earnings or private investment. The pipeline for new projects continues to be subdued, in spite of an increase in capacity utilisation. Most obviously, demand remains sub-par according to many high-frequency indicators of urban and rural demand. Passenger car sales grew only 3 per cent in 2018-19. The fourth-quarter results season is now underway, and the early signals point to a slowdown in the economy. The markets have been propped up by firm inflows from abroad, but this is not an inexhaustible tap. In particular, prolonged weak earnings, a depreciating rupee or a recovery in other emerging markets might cause this flow to weaken. There are some contrary indicators, such as recovery in bank lending to the corporate sector — but the latter indicator might simply be a reflection of the collapse of the non-banking financial sector. The headwinds for finance should also be considered. The NBFC crisis is once again in the spotlight after a spate of downgrades, and the insolvency and bankruptcy process continues to under-perform. Meanwhile, other time bombs are being built in the banking sector, including state-directed lending to micro, small and medium enterprises.

The government has kept growth alive through its spending, but its fiscal space is now limited after two successive years in which it has altered the deficit reduction path. Private investment will have to recover to substitute for increasing constraints on government expenditure. The next government will have to face up to these macro headwinds as soon as it takes office. It is best if it embarks early on an ambitious reform programme that will not just boost consumer sentiment but also help create the conditions for a revival in private investment and exports.

Audit rot

There is structural problem with auditing in India

The Union secretary for corporate affairs has warned that the firms auditing group companies of troubled Infrastructure Leasing & Financial Services (IL&FS) have "many questions to answer" regarding the build-up of irregularities within that group. The secretary also said while the government was not expecting an auditor to detect a needle in a haystack, they ought to find if "an elephant is in the room". IL&FS' debt is reportedly over ₹94,000 crore, but there was little suspicion of the scale of the problem prior to some group companies defaulting on repayment last year. Since then, the board has been replaced and an investigation has been started by the Serious Fraud Investigation Office. The auditors themselves are being investigated by the corporate affairs ministry's National Financial Reporting Authority, or NFRA, which was notified last year. This means that the investigation of flaws in the auditing process, if any, is now out of the hands of the accountants' own body, the Institute of Chartered Accountants of India.

While entities related to three of the "big four" accounting multinationals — EY, Deloitte and KPMG — will reportedly be questioned, much attention will probably focus on Deloitte, which was most closely associated with IL&FS in the public mind. A previous investigation that may be relevant is into fraud at the erstwhile software company Satyam. When that was discovered, the board was superseded and eventually the auditors were investigated by the Securities and Exchange Board of India (Sebi). While that process took a long while to close, after nine years PriceWaterhouseCoopers received a sentence: It was required to return ₹13 crore, and was banned from auditing listed companies for two years. Opinion is divided as to whether this was a harsh enough sentence. What is probably true, however, is that given that sentence was handed down only last year, a similar sentence against one or more of the other big auditors will create a supply constraint for auditing. There should therefore be no knee-jerk reaction.

However, it is also clear that there is a systemic problem in how audits are being carried out, especially by big auditors on big companies. Some auditors are paid for "consultancy" services as well. While the audit companies insist that there is no conflict of interest, the recent history of financial services suggests that such mixed incentives should not be allowed to persist. The auditors also point out they do not conduct forensic audits of the sort undertaken by criminal investigators — they largely rely on the numbers and paperwork that they are shown by the company they are auditing. However, this explanation conceals as much as it reveals. Part of the complaint against the auditors in the IL&FS case is from a whistleblower in the IL&FS management who reportedly claims that the auditors relied excessively on "management explanations and comfort letters" when the audit results appeared relatively adverse. Auditors do not serve the companies whose books they are examining, but investors and the general market. While investigations into IL&FS' auditor should be speedy and any wrongdoing should be strictly penalised, it is important that a structural fix to all audit firms' incentives be discussed and implemented.

ILLUSTRATION: AJAY MOHANTY

Leave the renminbi out of US-China trade talks

The accusation that China is manipulating the exchange rate is completely out of touch with recent history

KENNETH ROGOFF

Will a possibly imminent US-China trade agreement exacerbate global business cycles or even plant the seeds of the next Asian financial crisis? If the eventual agreement — assuming there is one — forces China to hew indefinitely to its outmoded, overly rigid exchange-rate regime, then the answer may be yes.

Keeping the renminbi's exchange rate stable against the US dollar would require the Chinese authorities either to match changes in US interest rates, or go through capital-control contortions to try to offset exchange-rate pressures in other ways. But China is simply too big and too global to adhere to an exchange-rate policy that is better suited to a small, open economy.

Moreover, neither approach to keeping the renminbi stable — maintaining interest-rate parity or applying capital controls — makes sense for an economy with business cycles that seldom coincide precisely with those of the United States. With its declining trend economic performance, overbuilt housing sector, and overleveraged regional governments, China will inevitably confront politically sensitive growth problems. When it does, the People's Bank of China will need to be able to loosen monetary conditions without having to worry about supporting the exchange rate.

When a country comes under serious financial and macroeconomic pressures, maintaining an inflexible exchange rate is a well-known recipe for disaster. The International Monetary Fund, along with most academic economists, has been making this point for a very long time.

Such an exchange-rate deal between America and China would be out of tune with other elements of a potential bilateral trade agreement, many of which are "win-win." For example, China has pledged to enforce intellectual-property rights much more vigorously, although just how strongly remains to be seen. Greater Chinese rigour in this area may benefit American and European firms in the near term, but over the long run it will help to fuel competition and innovation in China's own manufacturing and tech sectors.

After all, back in the 1800s, the US, like China today, had little interest in protecting the intellectual-property rights of foreign (then mostly British) firms, and Americans widely copied their ideas and blueprints. However, as American innovators became more successful, they, too, needed their rights protected, and in due course the US brought its patent and intellectual-property laws up to world-leading standards.

Another win-win could result from America's insistence that the Chinese government refrain from lavishing subsidies on exporters. Most of these subsidies go to China's inefficient state-owned firms, sucking credit and other resources away from the more dynamic private sector.

More generally, a trade deal may well give fresh impetus to economic reforms in China, which seem to have stalled or gone into reverse in the past few years. On a recent trip to Beijing to attend the China Development Forum, I asked a very senior Chinese official about this slowdown. I had expected him to reel off a long list of inconsequential reforms, in keeping with the usual line that China is doing things very gradually all the time. So I was surprised when he candidly admitted that "we only do major economic reforms when there is a crisis, and there has not been a big enough crisis of late."

In this sense, US President Donald Trump seems to be just what the doctor ordered, because he has forced the Chinese authorities to recognise that they can no longer rely on American consumer demand to keep China's growth locomotive moving. Indeed, some observers joke that Trump is the saviour of the Chinese economy, because panic at a possible trade war is helping to catalyse long-stalled structural reforms.

But American pressure on China to commit to a more stable renminbi-dollar exchange rate, and avoid competitively devaluing its currency, could undermine further economic reform. In particular, such a regime would prevent China from gradually adopting the greater exchange-rate flexibility required for a more independent monetary policy.

Trump's team seems to be under the misguided impression that China has been intervening to keep its currency weak, in order to promote exports. The view that China manipulates its currency, long overblown by some commentators, downplays the fact that the root of China's hyper-competitiveness has long been its relatively low wages.

More fundamentally, the accusation that China is manipulating the exchange rate is completely out of touch with recent history. In recent years, the pressures on the renminbi have been largely downward, and the government has responded with much tighter restrictions on capital outflows that go both over and under the table. Far from putting a ceiling on the renminbi's exchange rate, the Chinese authorities have been putting a floor beneath it, partly out of fear that overly rapid depreciation would lead to a massive exodus of capital.

An inflexible exchange rate might not be the only potential weakness in an eventual US-China trade deal. American negotiators also have not seemed to appreciate the accounting rule that a country's current account (a broad measure of its trade balance) is always equal to national savings minus national investment. If American consumption growth is strong and the US government runs a massive fiscal deficit, the country has to borrow from somewhere. And if China is forced to reduce its bilateral trade surplus with America, it will simply offshore the final stages of goods production, so that US imports will be recorded as coming from another Asian country, such as Vietnam.

True, pushing China to conform to conventional global trade practices is important for the entire world. Recent speeches by Chinese President Xi Jinping are encouraging in this regard (though one wishes that the trade talks would address environmental protection). But if a final deal prevents China from gaining greater monetary-policy autonomy, it could create major problems when the next big Asian recession hits. In that case, American negotiators will have demonstrated their bargaining power, but not their wisdom.

The writer is a former chief economist of the IMF, is Professor of Economics and Public Policy at Harvard University. ©Project Syndicate, 2019.

Modi: From pariah to messiah?

ET CETERA

SHREEKANT SAMBRANI

In the parliamentary elections concluding in two weeks, one candidate, Narendra Modi of the Bharatiya Janata Party (BJP), is fighting against some 7,500 candidates of various political persuasions in 543 constituencies — technically there are 542 other candidates of the National Democratic Alliance (NDA), but in reality it is only Mr Modi that this election is all about. Report after report from various regions, in print and electronic media, including many not BJP-friendly, confirm that people everywhere think voting for or against Mr Modi is *the* issue. The opposition talks of little else.

This is extraordinary. Not even in Indira Gandhi's "India is Indira, Indira is India" heydays of the mid-1970s, the general election was ever about one individual. In 2014, Mr Modi was the leader of a successful campaign, *not* the campaign himself.

But his impact on the BJP's electoral fortunes was not always so benign. The NDA was widely expected to win the 2004 general election hands down but narrowly lost it. Most analysts blamed the India Shining campaign for the loss. But that does not stand scrutiny. India was indeed shining then, based on most objective criteria. The economy was growing at an 8-plus per cent annual rate, inflation was mild and an optimistic view of the future prevailed. The immensely popular Atal Bihari Vajpayee was the tallest leader. So something else caused the shock defeat.

That something else was the Gujarat conflagration of 2002 under Mr Modi's watch. Officially over 750 Muslims died, out of a total of 1,000-plus. Mr Vajpayee admonished Mr Modi publicly, but the BJP did not remove him as the chief minister, apprehensive of upsetting the apple cart of the faction-ridden party in the state, the only major one in its basket then. Mr Modi won the state election later that year but was side-lined in the national polity.

Weather-vane allies such as Ram Vilas Paswan and the Dravida Munnetra Kazhagam quit the NDA in the wake of Gujarat, fearing rightly its toxic impact on their own prospects. The BJP lost 44 seats, 37 in just Uttar Pradesh and Bihar, both with sizeable Muslim populations. In these two states and Andhra Pradesh, the substantial anti-Modi Muslim vote caused the NDA to lose 80 of its 299 seats. How the worst NDA liability in 2004 became its prime asset 10 years later is an enigma of Indian electoral history.

Mr Modi's rehabilitation was long and arduous. He won the 2007 Gujarat election handsomely as well, with little help from the BJP top brass (but considerable boost from the Congress' negative *maut ke saudagar* campaign). His stature and fame grew between 2007 and 2012 as the success of the so-called Gujarat model of development spread. Arvind Subramanian compared it to China. The 2012 state election became a virtual referendum on Mr Modi (as is the current election). Most BJP leaders visited the state but they could have saved themselves the trouble.

The Modi-as-the-BJP face for prime ministership bandwagon started rolling right after the December 2012 Gujarat verdict, but its progress was halting. In April 2013, the late Manohar Parrikar mentioned to this writer the roadblocks he faced as the prime mover of the drive to get Mr Modi anointed the head of the 2014 campaign. The deed was done in the June 2014 BJP executive meeting in Goa and the rest, as they say, is history.

Similarities between the Gujarat 2012 and India 2019 campaigns abound. Mr Modi had then the undisputed command of the well-oiled state BJP machine as he does of the national party now. He had then said that the contest was between the Congress and himself; he now says it is between the entire opposition and himself. In his dozen years in Gujarat, dynamic double-digit agriculture growth contributed hugely to the Modi mythology. Similar fortune lay in his stars (to turn the Bard upside down) with mostly benign oil prices and just-in-time occurrences of Pulwama, Balakot and the Azhar Masood blacklisting, to shift the focus away from more troublesome topics. Further, those universally acknowledged oracles, taxi drivers and vegetable sellers, had then weighed in favour of Mr Modi, as they seem to be doing now. Finally, the mainstream English media and punditry had in 2012 blinkered themselves to the evident ground reality and grabbed the straw of anti-incumbency to predict a Modi defeat. Now the vociferous opposition campaign has similarly allowed many to entertain the possibility of a regime change shortly. *The Economist*, while resigned to the BJP remaining in charge, considers this outcome not just despicable but also dangerous.

Mr Modi won 115 out of the 182 Assembly seats in 2012, a nominal loss of two seats from 2007. His "referendum" netted him 48 per cent of the popular vote. Does this mean that he and the BJP will win in 2019? However much that prospect may discombobulate some of us, we must be prepared to anticipate it. I have made a guess of the BJP winning 255+ seats, but I also remember that in 1948, the venerable *New York Times* had the ignominy of wrongly headlining the Republican Thomas Dewey's victory over president Harry Truman, and so must be prepared to eat the omelette off my face come May 23.

The writer is an economist

Lost in Arabia

BOOK REVIEW

TALMIZ AHMAD

With this book, Levison Wood has rather self-consciously joined the galaxy of British travellers in West Asia — Charles Doughty, Richard Burton, Gertrude Bell, T E Lawrence and Wilfred Thesiger. His journey of 8,000 km over five months in the autumn and winter of 2017-18 takes him around the Arabian Peninsula, where many countries are experiencing conflicts — ethnic, religious or sectarian — with historic animosities driving them to wreak extraordinary destruction on their enemies.

In Iraq, after witnessing a referendum at Erbil on Kurdish independence that many locals viewed as a sham powerplay, Mr Wood walks into the final stages of the fight against the Islamic State. He sees the destruction at Mosul after ISIS had been evicted and witnesses at first hand the ruthless violence of the clash against ISIS fighters at their last enclave at Hawija.

Mr Wood is appalled at the "normalisation of violence", and the motley bunch of fighters seem to him as if "the cast of *Mad Max* had met Lawrence of Arabia and were off to party". But this is the same Iraq where Wood also visits the Sumerian town of Eridu, where writing was invented, and the historic city of Babylon, contested between Persia and Alexander, that was painstakingly restored by Saddam Hussein.

After desultory visits to the Gulf Sheikhdoms of Bahrain and Abu Dhabi, Mr Wood's next source of excitement is the camel ride through the Empty Quarter in Oman, largely in the footsteps of Thesiger. Thesiger had felt a unique affinity with the desert, a constant "yearning to return", and saw in that "cruel land" a sense of purity. Sadly, Mr Wood experiences none of this allure; instead, he finds in the desert "brutality, cruelty and complexity".

In Saudi Arabia, Mr Wood links himself first with Richard Burton and later with T E Lawrence. Burton, unorthodox soldier, adventurer and polyglot who translated the *Arabian Nights* and the *Kama Sutra*, disguised himself as a Muslim and visited Mecca and Madinah. This feat Mr Wood is unable to repeat, though he does ask his Saudi guide why Christians should be considered non-believers.

Though Mr Wood frequently recalls the travellers who have gone before, nowhere in this work is there the pioneering spirit of the early explorers, or the lyrical, even spiritual, prose of Colin Thubron that evocatively links the historic past of world centres with present-day circumstances

Putting this disappointment behind him, Mr Wood then follows in the footsteps of Lawrence of Arabia and is overjoyed to see the remnants of the Hejaz railway destroyed by Lawrence and his Arab allies in the First World War and an engine lying on its side. At the historic town of Al Ula, he has a rather casual chat with a local cleric on Wahhabism, Osama bin Laden and terrorism; he has misgivings about some of the cleric's remarks distancing the kingdom from extremist doctrine but remains silent. Surprisingly, at Al Ula he does not visit the historic monuments of the Nabatean civilisation.

Mr Wood then goes to Amman, sees important biblical sites in the Holy Land, visits historic spots in Lebanon, and then goes to Palmyra in Syria, which has been recently re-taken from ISIS. He expresses the average tourist's delight at seeing the ancient monuments at Petra. At Bethlehem on Christmas eve, he talks of the pickpockets, hawkers, drug-peddlers and shady money-changers.

He notes that Jerusalem is linked with the biblical prophets, Roman emperors, crusaders and Einstein, Montgomery and Churchill. He agrees it is impossible not to be overwhelmed and then, in the next sentence, says that, in the company of family and friends "the expedition took on a more leisurely pace" and in fact even became a "real holiday". Extraordinary banality at a solemn moment!

The book ends with Mr Wood's visit to the ancient Phoenician town of Byblos in Lebanon that, in his view, made Europe the "centre of the world" and "the launchpad of civilisation itself". Does Wood really believe that Europe becoming the centre of the world marked the launch of civilisation?

Having gone through over 350 pages describing a tour through the fountain-head of human civilisation and the theatre of several visceral conflicts, ancient and modern, we cannot but wonder why the author and his publisher felt this personal account needed to be published. Though Mr Wood frequently recalls the travellers who have gone before, nowhere in this work is there the pioneering spirit of the early explorers, the profound insights and imagination of Thesiger, or the lyrical, even spiritual, prose of Colin Thubron that evocatively links the historic past of world centres with present-day circumstances.

Mr Wood says he went on his tour to learn why West Asia seems to be "the most contested and dangerous region on earth". Even though he visits some of most significant places linked with world history and contemporary politics, at no point is he able to offer an interesting observation or a profound insight or even a deep sense of the flow of history that is fuelling modern-day contentions.

Instead, what we get is a consistent petulance and churlishness through much of the journey — largely caused by recalcitrant, rude and irritating drivers and guides.

We have here a breezy travelogue but one that fails to match Lonely Planet for knowledge and detail.

The reviewer is a former diplomat

ARABIA: A Journey through the Heart of the Middle East
Levison Wood
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