

Develop corporate bond market sustainably

The stunted development is rooted in structural issues with the economy and not the structure of markets



DIVA JAIN

India has a bank-based financial architecture. In the belief that India's growth requirements necessitate a market-based financial architecture, the government has been eager to develop a corporate bond market to force a transition to a market-based system. While such a belief is questionable since neither Germany nor Japan needed a corporate bond market to fuel development, the forced development of a corporate bond market has predictably run into several market hurdles.

In a highly informative RBI paper titled "India's Corporate Bond Market: Issues in Market Microstructure",

Shromona Ganguly provides significant insight into the state of India's nascent bond markets. Liquidity is shallow, a majority of the bond sales are through the private placement route; old, established and high rated firms in the financial and infrastructure sector dominate issuances and secondary market trading activity and a large majority of bonds outstanding are short- to medium-term (two to five years) in tenure.

To surmount these issues, the government has considered several predictably high handed options. These include giving regulatory recognition to low rated debt, nudging corporations to access at least 25 per cent of their debt funding through bond markets and employing a credit enhancement guarantee fund to facilitate low rated issuances. These measures carry a significant amount of risk. The savings and loans crisis of the 1980s precipitated by "junk bonds" should serve as a warning against giving regulatory recognition to low-rated debt.

Similarly, forcing firms to access 25 per cent of their debt capital from an illiquid market will raise the cost of their funding and will compel them to forgo

otherwise positive NPV projects thereby depressing investment. Lastly, the 'starving' role that firms offering credit enhancement such as Freddie Mac, AIG and MBIA played in the crisis of 2008 casts significant doubt on the sensibility of using a credit enhancement guarantee fund to jump-start corporate bond markets in India.

What the government needs to realise is that markets develop organically and they cannot be synthesised in a petri dish with artificial albeit strong stimuli. The two most important nutrients for the development of markets are information and institutions. Any debt contract suffers from a moral hazard problem. This arises from the information asymmetry (in favour of the borrower) between the lender and the borrower. The banks play a critical role in ameliorating this information asymmetry through monitoring. Theoretically, banks are supposed to have superior information about the borrower and greater access to the inner workings of its business compared to an average investor in the market.

Needless to say the information asymmetry between borrowers and

lenders in India is much wider than in developed countries. This immensely amplifies the moral hazard problem. As the recent fiasco (among many others) involving PNB and Bhushan Steel shows, Indian banks have time and again failed miserably in their monitoring role. The question arises is that when a large established bank with immense resources cannot monitor and control moral hazard in lending to crooked Indian businessmen, why will an individual investor in an atomistic market lend to Indian businesses unless they are large, well-established and highly rated. This is exactly why the development of the Indian corporate bond market is skewed.

The reason we don't see low-rated issues from smaller, younger, non-financial firms in the Indian bond market is not because of lack of supply as the government believes but because of the lack of demand. Investors don't trust these issuers and do not have enough information to ex-ante evaluate good issuers from bad.

The second ingredient for the successful development of markets is institutional integrity. In a comprehensive cross country study, Ross Levine and Asli Demirgüç-Kunt (*Financial Structure and Economic Growth — A Cross Country Comparison of Banks, Markets and Development*, MIT Press, 2001) show that

market-based financial systems develop in countries that have strong protections for minority and small investors, good and robust accounting systems, efficient legal processes and low levels of corruption. In other words, market-based systems develop in countries that have high institutional protection for investors.

As India lags significantly in all these areas potential investors in the corporate bond market demur at the prospect of assuming the risk that the lack of institutional protection exposes them to in fractured bond markets, forcing firms to seek funds from banks. Once again, the stunted development of Indian bond markets is rooted in structural issues with the Indian economy and not the structure of markets.

In sum, while transitioning to a market-based system is a commendable goal with many benefits, such a transition cannot be forced on an economy that is structurally devoid of institutions and mechanisms required to support free and functioning debt markets. Instead of synthesising bond markets with steroids loaded with economically distortive incentives, the government should invest its energies in tightening legal, accounting, regulatory, disclosure and governance standards and watch the corporate bond market bloom on its own.

The author is a "probabilist" who researches and writes on behavioral finance and economics

CHINESE WHISPERS

Lithuania connection



Vice-President M Venkaiah Naidu (pictured) is on a five-day visit to the Baltic nations of Lithuania, Latvia, and Estonia. On the second day of his visit on

Sunday, Naidu was in the Lithuanian capital, Vilnius. Addressing the Indian diaspora there, Naidu said Lithuania had a special place in the heart of Indians because Mahatma Gandhi's closest friend and soulmate, Hermann Kallenbach, was from Lithuania. Naidu thanked the Lithuanian government for commemorating their friendship by installing a sculpture of Gandhi and Kallenbach near the latter's birthplace in Rusne. The statue, funded by Cipla Chairman Yusuf Hamied, was unveiled in 2015. Hamied's mother, Luba Derczanski Hamied, was a Lithuanian Jew, and a plaque on the statue records that it was "donated by the Yusuf and Farida Hamied Foundation in memory of Luba Derczanski Hamied (born February 3, 1903) who lived in Vilnius Lithuania till 1928 and thereafter in India until her demise on 4th April 1991".

Tongue in cheek

To set right the reverses the Trinamool Congress (TMC) suffered during the Lok Sabha elections, the party is banking on its past association with political honchos — even rivals — to project itself as progressive. With young voters as its target, a campaign has been released on social media. No political campaign is ever complete without satire and this campaign by the TMC, *Amar garbo Mamata* (Mamata, my pride), or AGM, too, has its share. Taking a dig at the Centre after the Income-Tax Department asked various puja committees to file returns, one of the AGM series ads on Twitter shows goddess Durga being urged by a tax official to file her I-T returns. A message at the end of the post asks if the goddess now needs to also apply for her PAN and Aadhaar cards.

Anxious Sunday

The murmurs of the first-ever cabinet expansion of the two-year-old Yogi Adityanath government in Uttar Pradesh (UP) — initially speculated to take place on Monday — kept Bharatiya Janata Party (BJP) ministers and legislators on their toes all of Sunday. While "good performers" were eyeing a promotion, laggards were anxious that they were not in the line of fire. That as many as 14 more ministers would be accommodated in the council gave hope to many. The party leadership had advised its ministers and legislators to be present in Lucknow on Monday morning. However, late on Sunday night it was "informally" conveyed to all that the purported expansion had been postponed because former Union minister and senior BJP leader Arun Jaitley remained critical.

Sunrise for solar rooftops

The sector has grown rapidly over the past year just as capacity addition from ground-mounted utility-scale system has slowed

JYOTI MUKUL

India's solar power sector is seeing two parallel capacity addition movements, the pace of which are neither connected nor bring in any predictability to the government's renewable energy target. One is the traditional ground-mounted utility-scale solar systems that put their entire power into the grid; the other is rooftop generation, that can be either standalone or connected to the grid.

India is aiming to install 100 Gw of solar power by 2022, of which 40 Gw is to come from solar rooftop. Over the past year, it is solar rooftop installations that have seen a record addition, with large-scale ground-mounted installations facing challenges ranging from the abrogation of power purchase agreements by state electricity boards, land acquisition, payment issues and increase in safeguard duty on panel imports.

As of May 31, 2019, India's installed solar power capacity was 29.4 Gw out of a total renewable capacity of 79 Gw. According to a report of Bridge to India, a renewable energy consultancy, the country is estimated to have added a record 1,836 Mw (1,000 Mw = 1Gw of rooftop solar capacity in FY 2019, taking the total to 4,375 Mw. This is still just 15

per cent of solar power generation but as the Bridge to India report points out, "Rooftop solar continues to grow rapidly, registering a growth rate of 61 per cent over the previous financial year." Maharashtra (618 Mw), Rajasthan (393 Mw), Tamil Nadu (365 Mw), Gujarat (314 Mw) and Karnataka (298 Mw) are the top rooftop solar power-generating states.

This pace in harnessing solar energy on the roof itself is in contrast to utility-scale grid-connected solar,

where Bridge to India data show that capacity addition fell to 4,810 Mw in FY2019, a steep fall of 47 per cent over the previous year. As on March 31, 2019, another 17,887 Mw of utility scale solar projects were under various stages of execution.

To be sure, at least part of the reason for the surge in rooftop solar is the low base. Nonetheless, there has been a surge in rooftop capacity addition, both from the government and individual companies and organisations that are focused on reducing their carbon footprint.

According to Energy Economics & Financial Analysis (IEEFA), a philanthropic venture fund focused on clean energy, though India installed 28 Gw of solar capacity as of March 2019, a four-fold increase in less than three years, the share of rooftop solar was just 14



LIGHT AND POWER

TARGETS FOR 2022

100 Gw For solar power

40 Gw For rooftop

INSTALLED CAPACITY

(As of May 31, 2019)

29.4 Gw Solar power

5,375 Mw Rooftop power

CAPACITY ADDITION

(in %, FY19 over FY18)

61 Rooftop solar

-47% Ground-mounted utilities

Source: Bridge to India

per cent of the cumulative solar installation in India, reaching 3,855 Mw by December 2018. This is far away from the envisaged 40 per cent share. Madhya Pradesh's recent experience points to some of the challenges.

After taking up the ultra-mega Rewa solar park with a combined capacity of 750 Mw, Madhya Pradesh embarked on a solar rooftop programme last year, under which government buildings, universities and institutes were bid out for solar rooftop contracts on a Resco (renewable energy supply company) model, where the customer neither owns the system nor makes any investment. The rooftop plant is put up and operated by a Resco developer. "The reason the rooftop model picked up was that the tariffs that emerged were very low," explains Manu Srivastava, principal secretary, renewable energy, government of Madhya Pradesh. The state discovered ₹1.38-2.17/kWh (net of

capital subsidies) in its 8.6 Mw solar rooftop auction held in October 2018. This was far lower than tariffs discovered earlier. In 2012, a Central Electricity Regulatory Commission guideline had estimated cost of building a 1 Mw plant at ₹8 crore, from ₹16.9 crore in 2010-11. This translated to power cost of ₹7-8 per kWh. In 2016-17, the cost was again notified higher at ₹12 crore for 1 Mw. More recently in April 2019, Solar Energy Corporation capped rooftop solar tariffs in the range of ₹2.5 to ₹3.5 per kWh.

Srivastava, however, says there are more regulatory challenges in rooftop solar projects because the developer is "standing against the distribution company" by taking away part of its business. "The electricity bill of buildings tend to be reduced by one third in some cases. So roof-top generation by customers makes sense only when a discom suffers a power deficit," he

ON THE JOB

Reforming labour statistics



MAHESH WAS

proper sub-set of work.

Work is now defined as one of five types of activities. One of these, work for pay or profit is employment. The other four are not employment but are still work. These are work for production of goods (such as food) or services (such as child-care) for own-use including family; work without pay or profit as a trainee, a volunteer or any other unpaid work. This structure eliminates the rather obnoxious "inactive" classification for people who worked pretty hard but worked selflessly.

This framework makes a big difference in the way we understand the contribution of women in the space of work. Because of the way society is organised, women do a lot more selfless work, without any payments and without any motives of profits, than men do.

In India, it is apparent that women spend a lot more time on work that does not relate to employment activities than they do in other parts of the world. It therefore makes more sense for India, compared to any other country, to capture the distribution of work in addition to the distribution of employment.

The draft report of the Task Force on Improving Employment Data released in July 2017 nearly four years after the 19th ICLS recommendations makes no mention of the recommendations, or any recommendations of any ICLS. The Periodic Labour Force Survey conducted in July 2017 through June 2018 also does not mention the 19th ICLS although it does refer to the earlier ICLS recommendations. But the NSSO has

been debating these recommendations. So it is likely that it will take these into consideration in some form, eventually.

As the official system considers aligning its practices with the recommendations of the 19th ICLS, it may also consider modifying appropriately, two practices in the official collection of labour statistics that render the data less reliable than they can be.

First, it must do away with the priority rule in assigning an employment/unemployment status to a person. Currently, in the official statistical system, a person is assigned the status of being employed in precedence over any other status if the time-distribution shows mixed statuses including employed, during a reference period.

There is no justification for assigning a priority to one particular observation of the employment/unemployment status of a person over other observations during an observation period. This is arbitrary or worse still, it is prejudiced. It necessarily inflates the employment estimate. Such inflation of employment status happens mostly for women because women flip-flop between employment and unemployment and even between being in the labour force or being out of it within a reference period. Just a little employment during the reference period classifies them as employed only because of the priority assigned to this status.

The second and related problem is the reference period and the extremely low "requirement" to be classified as employed. One needs to be employed for only one

hour in a reference period of seven days to be classified as employed. While this is the international practice, it is ridiculously low.

An extremely low bar of just one hour in a week and the priority criterion prejudiced in favour of employment together ensure that women who do just a little work for pay or profit or for a family business including agriculture, get classified as employed. It is a shame that the female work participation rate is still abysmally low. But it is worse that statistical contortions do not help us understand the problem adequately.

CMIE's CPHS does not assign any such arbitrary priority of one status over another and it uses the reference period of just one day. It considers a person to be employed if the person is engaged in an economic activity which is for pay, profit or for a family business including agriculture even for own consumption. This fairer treatment is the root cause for the CPHS estimates of employment among women to be much lower than the official estimates.

Going forward, CPHS aims to adopt some of the ideas of the 19th ICLS recommendations.

Beginning September 2019, CMIE's CPHS will start capturing the time-distribution of activities of adult members of a household in addition to capturing the employment/unemployment status. Results will be released from January 2020.

As usual, the CPHS system would emphasise simplicity in capturing the information and speed in the delivery of results.

The author is the MD & CEO of CMIE

LETTERS

Why just the CBI?



This refers to the statement of the Honourable CJI that the "Central Bureau of Investigation (CBI) failed in judicial scrutiny in politically sensitive cases". In that context, the CJI said: "CBI should be given statutory status through legislation equivalent to that provided to the CAG". Now the legislation provided for the Comptroller and Auditor General of India (CAG) is called the CAG Act (Duties and rights of CAG) passed in 1971 and amended in 1976. It only enumerates where CAG can act, what are his functions etc. There is nothing to protect him from political interference. If none actually interferes with the CAG, it is not because of this Act but because he holds a constitutional post and also he does not do investigation in criminal cases or cases of export of meat by highly suspect characters. Obviously, this sort of Act regarding the CBI will not give it any protection from interference from the political heavyweights.

Frankly, no Act of Parliament can give any protection to officers from political interference. Such interference is not done in writing or in public. The officer is called and told to do this or that, not always by the political boss himself/herself but (may be) by the secretary of the department concerned or somebody else who

counts. I know these things for certain having been an ex-insider. In a government where the strict and honest officers are asked to compromise where intellectual honesty is hardly existent, none should expect very strict and honest officers to reach the highest of height. Ours is a country where in the Supreme Court, senior lawyer Prasant Bhusan declared openly that half of all the Chief Justices of the Supreme Court were dishonest and he gave a sealed cover containing the material against them and no contempt proceeding has been initiated against him. So expecting that only the CBI officers will be the epitome of virtues, is sheer wishful thinking.

The character of people must change and that will take a long time.

Sukumar Mukhopadhyay via email

Unacceptable

It was a crying shame that in some schools in Tamil Nadu students were made to wear colour-coded wrist bands as "caste markers", as distinct from religious threads. The wrist bands — which came in hues of red, yellow, green and saffron — were giveaways of the wearers' caste identity. How students were looked at and treated (with respect or contempt)

depended on the wrist bands they wore. To be branded like animals is the ultimate humiliation. There can be nothing more dehumanising and degrading than designating pupils as lower castes and higher castes. The practice underlines that there is no hope of escape from caste even for school kids. It widens the rifts between castes. It is a stain on the so-called proud culture of Tamil Nadu.

We are at a loss to understand how it became possible for the All India Anna Dravida Munnetra Kazhagam, a party with roots in the Dravidian movement, to validate the naked display of caste discrimination. The humiliation of lower caste people is accepted as a social and cultural norm. Caste is premised on the notions of purity and pollution and superiority and inferiority. It negates the noble idea of equality contained in a Tamil verse *Pirappu okkum ella uyirkum* — all lives are equal in birth. The emergence of a new India is not possible without breaking the hideous chains of caste.

G David Milton Maruthancode

Letters can be mailed, faxed or e-mailed to: The Editor, Business Standard Nehru House, 4 Bahadur Shah Zafar Marg New Delhi 110 002 Fax: (011) 23720201 E-mail: letters@bsmail.in All letters must have a postal address and telephone number

HAMBONE



Nuclear confusion

Many questions surround dilution of no first use

On the first death anniversary of former prime minister Atal Bihari Vajpayee, the government called into question one of the major doctrines associated with his time in power. After visiting the site in Pokhran, where in 1998 the Vajpayee-led National Democratic Alliance government had conducted nuclear tests, Defence Minister Rajnath Singh tweeted: "Pokhran is the area which witnessed Atal ji's firm resolve to make India a nuclear power and yet remain firmly committed to the doctrine of 'No First Use'. India has strictly adhered to this doctrine. What happens in future depends on the circumstances." This is not the first time a Union minister has questioned no first use, or NFU. In 2016, Manohar Parrikar, then defence minister, had also expressed doubts about the policy, which has been official since 2003, when it was combined with the thread of "massive and intolerable" retaliation.

While fundamental elements of defence policy such as NFU are, of course, always open to question and must constantly be re-evaluated, the question is whether the value of both Mr Singh's statement at this point in time, and of the larger question of whether a shift in NFU is required, has been discussed enough in government. There are both theoretical and practical questions to be asked. Theoretically, the point of NFU is to set up a credible deterrent against other nuclear-weapons states, and to simply raise the nuclear threshold in order to bring stability to a volatile environment. It is part of an attempt to ensure that military action remains below the threshold that would cause a catastrophic nuclear exchange. War games have shown that it aids in preventing the deployment of tactical nuclear weapons by the enemy — battlefield nukes that, while tactically appealing, may very well lead to the sort of cataclysmic exchange of strategic nuclear payloads that both warring countries may wish to avoid.

It is worth looking at the history of NFU: It evolved in the context of the Cold War, during which the Warsaw Pact had an overwhelming advantage in conventional military terms within Europe. The North Atlantic Treaty Organization thus kept open the option of the first use of nuclear weapons in the context of an existential threat to Western Europe from a Soviet invasion across the Iron Curtain. But the Soviets, who held the conventional advantage, embraced NFU in 1983; after the USSR fell and Moscow's conventional advantage evaporated, the Russian Federation abandoned NFU. Given India's conventional superiority over Pakistan, therefore, NFU makes sense; the question is whether it would also make sense in a larger conflict.

These are, however, questions that should be discussed with care and take into account the state of India's conventional forces as well as its nuclear arsenal. Obscure statements such as Mr Singh's only create strategic confusion, which is not in the national interest. It is also worth noting that India's conventional advantage is being eroded, thanks to low defence spending, and that its nuclear deterrent is certainly not so overwhelming that military planners could be sure any first strike would wipe out an enemy's offensive potential. If the defence minister merely wanted to signal that a re-evaluation of nuclear doctrine — in keeping with the ruling party's 2014 manifesto — was ongoing, there are better ways of doing so.

Beyond aggregation

Food aggregators, partners must work out an equitable solution

The ongoing dispute between Zomato and restaurants can have widespread ramifications. In the past few years, the food service aggregator has pioneered the disruption of the traditional hospitality model, and has gained Unicorn status by running its online food delivery services across multiple locations in 25 countries. Apart from deliveries, Zomato also offers ratings and user-generated reviews for its partner-establishments. But its latest move has run into resistance from restaurants, with more than 1,200 of them in India logging out of the aggregator's discount programme, Zomato Gold. The move has been backed by the food and hospitality industry associations. In addition, many people in the hospitality industry have expressed dismay about the allegedly opaque nature of Zomato's ratings and reviews.

Zomato and its rivals such as Swiggy and Uber Eats have disrupted the hospitality industry, which lacked the logistical base or technological skills to address the demands of relatively affluent consumers who do not have the time to dine out. By taking their orders and delivering, Zomato and its peers created a win-win situation: Restaurants could cater for larger numbers while consumers got both the food and convenience they desire.

Efficiently performing this apparently simple task requires plenty of technological nous. Restaurants must be aggregated and sorted on the basis of multiple criteria, such as cuisine, price range, locations, and ratings. The logistics of pickup and delivery must be optimised so that most orders can be serviced in the least possible time by the least possible staff. Vast databases of customers have to be maintained with sensitive information such as contact numbers, email ids, physical addresses, credit card details, and fintech account details. The aggregator must securely process transactions on sundry online platforms, and accept cash on delivery with its inherent risks, and maintain payment schedules with its partner-establishments.

By doing this, Zomato and its peers have created new paradigms and enabled the hospitality industry to service a larger base. But the new model has also given the aggregators unprecedented leverage in dealing with restaurants. The aggregators can demand discounts, including the in-restaurant discounts that sparked this particular confrontation. They impose stringent time limits and penalise partners for overstepping set times. The aggregators collect and disburse all the payments. It has been alleged that they sometimes delay payments, causing a working capital crunch. Ratings and reviews are important because consumer choices are driven by these. These are generated and displayed, using algorithms that the hospitality industry claims to be opaque. One specific complaint is that the ratings appear to favour old establishments with established brands over newcomers.

Zomato has, like any disruptor, made its share of false steps and suffered its share of controversy. Breaches of its databases have put the data of millions of consumers at risk. It has had to face political issues around the religious sensibilities of its delivery personnel and consumers. Zomato Gold also may have been a major miscalculation because so many restaurants claim that it is unprofitable. In a broader sense, such frictions are inevitable when disruptions break down an established business model. Zomato's founder and Chief Executive Officer, Deepinder Goyal, has taken to Twitter, requesting restaurant owners to stop the logout campaign and urging them to initiate a dialogue with aggregators. The restaurant-partners should reciprocate because negotiating an equitable solution is in the interests of both.



What role for a tri-service chief?

The value of the Chief of Defence Staff will depend on whether he is able to trigger reform of higher defence management structures

Amidst a worrying economic slowdown, the government has made three major security-related moves over the last 15 days. First, it terminated the special status of Jammu & Kashmir (J&K) and bifurcated the state into two Union Territories. How much political resistance and violence this will unleash will only be known when the security clampdown in Kashmir is loosened. Second, in the realm of nuclear weapons, Defence Minister Rajnath Singh backed away from India's long-held doctrine of "no-first-use", declaring that New Delhi might initiate nuclear strikes in certain circumstances, which he did not spell out. Third, in his Independence Day speech, Prime Minister Narendra Modi announced he was appointing a Chief of Defence Staff (CDS) — a tri-service military commander, who would "make the armed forces even more effective."

So far, nothing has been divulged about the form and functions of the new CDS. It remains unclear whether he will be a five-star rank supremo to whom the three service chiefs will report, as recommended by the Kargil Review Committee in 1999 and a Group of Ministers in 2001. Or, will the new CDS be the watered-down compromise the Nareish Chandra Task Force proposed in 2012 — a four-star officer termed the Permanent Chairman of the Chiefs of Staff Committee (PCCSC), who would not be the boss of the three service chiefs, but merely the "first amongst equals" (whatever that means in practice). The creation of a five-star CDS, while only a first step, would signal that political will exists for the root-and-branch reform of higher defence management structures. On the other hand, creating a four-star PCCSC would immediately smack of tokenism. That is because little is to be gained from merely upgrading an already existing, and ineffectual, three-star tri-service chief by pinning another star onto his collar. Ultimately, the value of a CDS will

depend upon what powers and responsibilities he is given, and the additional reform this triggers.

What should be the tasks of the new CDS? The first is clearly to adjudicate between the army, navy and air force. That requires a five-star rank officer, since four-star officers currently head these services. Tough love will be needed, since each chief single-mindedly pursues his service's interests in the competition for turf and in core matters such as budget share. The CDS, therefore, must act as an "honest broker" whose decisions serve the broader national purpose, rather than narrow service interests. Furthermore, a CDS would constitute a single point of advice for the top political leadership.

Many senior generals, fearing that a CDS perched above them would encroach on their turf and limit their powers, pooh-pooh the notion that inter-service rivalries damage the military's functional efficiency. Typically, they trot out the example of cooperation in disaster relief operations to present the soothing (but false) argument that the three services join hands in crises, motivated by a common purpose. In fact, such cooperation is sporadic, as militaries worldwide have experienced for a century. When the US was fighting Japan in World War II, officials in

Washington remarked drolly that the most ferocious fighting in the Pacific Campaign was actually between the army commander, General Douglas MacArthur, and his naval counterpart, Admiral Ernest King. Further illustrating such fratricidal friction, General Eisenhower, who went on to become US president, wrote in his diary: "One thing that might help win this war is to get someone to shoot King." Eventually, after continuing inter-service dissonance during the Vietnam War, it took top-down political intervention to radically reform the American military's command structures, when President Ronald Reagan signed into law the Goldwater-Nichols Act in 1986.



BROADSWORD

AJAI SHUKLA

Development dilemmas, at home and abroad

India's development options are being shaped by dilemmas at home and monumental changes in the external environment.

Domestically, there is a seeming impossible trinity of jobs, growth and sustainability, where at best two out of three objectives get fulfilled. For instance, solar parks attract international investment in sustainable infrastructure but do not create as many jobs as distributed energy infrastructure. Scaling up natural farming is good for soil health, carbon retention and water conservation and is labour-intensive, but value addition in farm yields might not compensate for value loss in the fertiliser industry. With its substantial share of India's industrial output and millions employed in auto and ancillary industries, an aggressive move towards electric mobility is a big bet on emerging industries but will not be free of major trade-offs.

The external environment imposes further constraints on our choices. There is planetary-scale damage to natural ecosystems via climate change, biodiversity loss and unbalanced biogeochemical processes. Deindustrialisation, low productivity growth and rising inequality have made the West turn its back on global integration. There is weakened faith that market-driven growth can ensure social justice. Disruptive technologies — artificial intelligence, big data, automation, quantum computing, among others — are engendering national rivalries and spawning mercantilist approaches to acquire or protect technologies. And populism and nationalism in many countries are calling into question the bases of international order, with the stability of alliances, rules of diplomatic and military engagement, and the institutional structures needed to mediate conflict all under strain.

The confluence of an impossible trinity at home and natural, economic, technological and geopolitical disruptions globally raises at least seven major concerns.

1. Energy and resource security: The two are contingent on securing resources, safe passage, secure

storage and functional international institutions. Reducing imports of hydrocarbons, alone, will not suffice. There will be new interdependencies, such as trade in clean energy products and services or supply of critical minerals for batteries, which will demand credible trade relationships, secure supply chains and effective multilateral institutions.

2. Economic and environmental diplomacy: India demonstrated climate leadership via the Paris Agreement. It promoted the International Solar Alliance for cooperative energy security as the world undergoes an energy transition. Next month, India will host parties to the UN Convention to Combat Desertification. But these are episodic interventions. By 2022, when India hosts the G20 summit, it would need to integrate its interests on trade, finance and the economy with energy, climate and sustainability, setting a more consistent agenda for global governance.

3. Jobs and trade environment: The China-US trade war will continue to dampen global trade growth, so international trade will not be a big contributor to job growth for some time. India would have to turn even more to its domestic economy to create jobs. The energy transition offers

one of the best bets for new jobs in a slowing economy. **4. Climate risks and infrastructure investments:** India's growth is now intricately linked to climate risks. Investments in hard infrastructure, such as housing, transport and industries, especially along the coasts, will be severely at risk. With weather-related insurance losses mounting, already there are warning signs of climate change triggering the next financial crisis and the need for central banks to pay attention.

5. Border carbon adjustments and trade barriers: Trade disputes are plaguing clean energy, as countries scramble to grab their share of a growing market. Disputes over climate and energy will increase. By end-2019, the EU might get a deal for carbon neutrality by 2050. Once finalised, it is only a matter of time before it imposes border carbon adjustment taxes to penalise imports arriving from

In India, multiple examples of dysfunctional inter-service relations call for our own Goldwater-Nichols-type restructuring. For example, in the 1962 war with China, the air force was entirely left out of battle. The Indian Navy remained in harbour during the 1965 Indo-Pakistan war. General VP Malik, the army chief during the 1999 Kargil conflict, has recounted how he had to arm-twist his reluctant air force counterpart, Air Chief Marshal Anil Tipnis, into providing air support to the army during the early stages of fighting. Little of this disharmony would be addressed by merely appointing a CDS to languish in an "upgraded" integrated headquarters, without addressing the yawning gulf between the military and the defence ministry. The new apex body must incorporate all the elements — military, bureaucratic and financial — needed for swift and flexible decision-making.

Some tasks for the new CDS are self-evident. He must oversee long-term planning, especially the three services' manpower structure, command and communications, the weapons they would field and technologies that must be driven to build an indigenous arsenal. The CDS would need to "future proof" the three services by anticipating new technologies that might render an entire class of weaponry obsolete — as offensive cyber weapons and anti-satellite weapons threaten to do to contemporary command networks. Also, given India's internal dissonances, the CDS would need to balance between a military structured, trained and equipped for warfighting, and one geared for internal security tasks. Finally, he would save money by pooling facilities and resources all three services wastefully maintain today.

The most contentious question around the appointment of a CDS is: Should he oversee combat operations, heading a tri-service headquarters that synergises all three services' combat power? Or should combat operations be pursued by "geographical commands", each with its need-based complement of army, navy and air forces? Between them, the three services currently have 17 single-service commands, and proponents of geographical commands contend these could be effectively combined into just four tri-service geographical commands. For example, the Pakistan and China threats could be managed by the integrated western and eastern commands, comprising army and air force elements. Meanwhile, the Indo-Pacific maritime theatre could be addressed by the south-western and south-eastern commands that would be predominantly naval, but with components of air force and army troops.

The concept of tri-service, geographical commands offers distinct organisational advantages for a global military like America's, whose Central Command might be fighting a campaign in Iraq, even while its Pacific Command is engaged in a war with North Korea. The sheer distance between America's combat theatres requires each to be self-contained. In the Indian context, where the operational commands are in close proximity, it would be wasteful to emulate the American structure. It would be especially fruitless to pre-commit air force squadrons to fixed commands, since the large combat ranges of modern fighters (further enhanced by mid-air refuelling) make it theoretically possible for a fighter aircraft to take off from an airfield under one command, and strike targets in two other commands in a single sortie. Given this flexibility, it is no accident that the air force is the greatest opponent of fixed affiliations.

countries deemed to be not acting fast enough on climate change. The US, notwithstanding its weakened actions on climate change, could do the same. China might argue that its emissions will peak well before 2030. The resulting havoc in the global trading system would put acute pressure on India's energy choices and development options.

6. Domestic populism and geopolitical risks: The backlash against growing inequality within advanced economies is already resulting in myopic populism. Populist actions elsewhere could spill over into geopolitical risks for India in its Asian neighbourhood. The Iran-US confrontation is one example, which impacts India's energy security. China-US tensions are triggering other reactions, such as China's threats to cut-off rare earths supplies. Such examples of what scholars have called "weaponised interdependence" make it harder for India to navigate technological cooperation with other countries, enact strategic industrial policy and attract investment.

7. Perfect storm of shocks: In 2008, there was not just the global financial crisis but also a global food crisis. High energy prices, high-cost fertilisers, diversion of cereals to biofuels, declining food stocks, currency devaluations and adverse weather conditions led to rapid increase in food prices. India must prepare for a perfect storm of global shocks in future, involving water stress, agricultural losses, tensions over energy supplies, growing trade disputes, extreme weather events bankrupting insurance firms and financial institutions, and mass movement of environmentally-displaced people. A large-scale climate geoengineering experiment, say injecting sulphate particles into the stratosphere, could result in unanticipated consequences for precipitation, agriculture or biodiversity — and could trigger political conflict in a completely unguarded area.

To suggest that our development dilemmas could be easily overcome would be naïve. But they also present opportunities — for the rural economy, sustainable urbanisation and green industrialisation — that could help India gain new competitive edge. Time to make hard choices.

The writer is CEO, Council on Energy, Environment and Water (<http://ceew.in>). Follow @GhoshArunabha

The short and the long of it



KITABKHANA
T C A SRINIVASA-RAGHAVAN

Of late I have developed a preference for short stories. I hardly ever used to read them till about a year ago. Suddenly I find that now I am, and that it is pouring new authors whom I like. Or, perhaps, I have at last started looking at

the right genre of fiction.

My latest find is Shubha Mudgal, the mostly classical and sometimes film-song singer. Speaking Tiger, who published my first and last novel last year, have, as usual, once again shown good taste.

Ms Mudgal's short stories — 32 pages long on average — are every bit as good as her singing. As might be expected the stories are about music, the bad notes in it and all.

Ms Mudgal knows the subject from the inside. And she unerringly spots the ludicrous, the alarming and the contemptible aspects of the modern Hindustani classical music universe.

Her first collection is called "Looking for Miss Sargam". Speaking alliteratively, I might say that crass commerce and cynical chicanery come into cold contact with the calmly classical.

There are seven stories in all, each as fascinating as the other for the glimpses we get of the world of Indian music and the foibles, insecurities and vanities of the people who comprise it. Musicians, mavens, managers, marketers and mavericks tumble through them in a wonderfully honest and revelatory procession.

You simply have to read this book to see how things work in the production, distribution and marketing of music and how mass production as well as production for the masses has affected even the most conservative classical musicians. In the end it is the same old story: He who pays the performer calls the tune.

Well, so what? After all, if Pavarotti can sing with Bon Jovi and Celine Dion and Ravi Shankar could perform with the Beatles, why not some famous

Indian classical vocalists with some equally famous Indian playback singers?

Apeculiar problem

There is, however, a problem that I frequently face with collections of short stories. I am never able to read all of them at one go. This never happens with a novel.

But it does, unfortunately, with even the best of the short story writers. Even Jeffrey Archer who, as story tellers go, is in a class by himself.

This should not matter, except that one never goes back and reads the remaining ones. My limit is five in a row. Try as I might, I can't go beyond that.

As a result, I have a couple of dozen half-read collections at home. They remind me of Schrödinger's Cat, which doesn't exist till you see it.

But seriously, this is a serious problem not just for the reader but also for the

publisher. How many stories should make up a collection?

Publishers look at the number of pages because they worry about costs and pricing. So if they want a 250-page book, how many stories should there be? Ten stories of 25 pages each, 25 of 10 pages each or 50 of five pages each?

The answer depends on how you view a short story: Is it just for "time-pass" or do you have your sights on posterity? Can short stories ever achieve ever-lasting glory?

No outlet

I discussed this with a friend who told me to shut up and write a short story. I agreed and, for a model, I chose John O'Hara who used to write 1,000-word stories for American newspaper. The idea, perhaps, was to give commuters something to read.

He must have written a few hundred of them. They are absolutely wonderful

and have been published in various collections. He, certainly, has achieved everlasting fame.

On the other hand, there's me. Out of the 20 stories I have written so far, only four have been published.

This is because — hold your breath — there is no paper or electronic platform in India that publishes short stories anymore. None, at least, that I know of. So willy-nilly, writers have to publish collections which remain unsold for the most part.

Even this newspaper, in a rare show of bad judgement, has refused to publish mine. I would have understood if it had told me that they are terrible. Instead it says we just don't publish short stories but your other drive is welcome.

Imagine if *The Hindu* had told R K Narayan the same thing or the *New Yorker* to John O'Hara. Well, chaps, Frederick Forsyth's *Day of the Jackal* was refused by 35 publishers before someone took it on.