

Opinion

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TERROR IN AFGHANISTAN

President of the US, Donald Trump

We wiped out the caliphate 100 per cent...Look, India is right there. They are not fighting it. We are fighting it. Pakistan is right next door. They are fighting it very little. Very, very little. It's not fair

Rational Expectations

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Preventing cases like Chidambaram

His guilt has to be proved but the larger point is that corruption can only fall when govt discretion reduces

GIVEN THE TRACK record of India's investigative agencies in securing convictions—something the Chief Justice of India also spoke of recently—it remains to be seen whether the CBI will finally be able to prove its case against ex-finance minister P Chidambaram; keep in mind that, while the evidence against UPA telecom minister A Raja also appeared very strong, the trial court threw it out, and the CBI is now appealing that. So, if the charges against Chidambaram are to stick, not only do the investigating agencies need to show the clearances given by the Foreign Investment Promotion Board (FIPB) were bad in law, they have to prove that the six secretaries to the Government of India on the FIPB gave clearances to INX Media because Chidambaram asked them to, and they also have to show the money trail going to Chidambaram or his son Karti; the money trail also seemed quite straightforward to the lay person in the Raja case, but the trial court didn't seem to think so. This is not to say the trial court got it right, or wrong, in the Raja case; just that proving charges isn't necessarily simple.

While the courts will take a call on the merits of the allegations—Chidambaram's main defence is that six secretaries to the government took the decision in the FIPB—and a final decision can take decades since the case will, eventually, be heard by the Supreme Court, there are several important issues that deserve attention.

Certainly, it is odd that the CBI was not willing to wait for two days till the Supreme Court disposed off Chidambaram's bail plea; after all, he is a former finance minister and hasn't been a flight risk all this while, so it is difficult to believe he would be now. But, it is equally worrying that the former FM went into hiding for one day after the High Court denied him bail; indeed, given his stature, once he didn't get bail, Chidambaram should have surrendered to the CBI. If the image of the CBI and Delhi Police scaling the walls of Chidambaram's house to arrest him remain etched in your mind as a sign of excessive use of force, it has to be kept in mind that, after Chidambaram returned home following his press conference, the security guards were instructed not to open the gates; why else would they not allow the CBI in?

Certainly the Delhi High Court judgement that denied Chidambaram bail seemed excessive since, instead of taking a call on whether the ex-FM was a flight risk, the judge seemed to have decided on the case already when he said "pre-arrest (bail) is not meant for high profile economic offenders" and that "Parliament (must) suitably amend the Law to restrict the provisions of pre-arrest bail and make it inapplicable to economic offenders of high profile cases"; but isn't bail a natural right? That the CBI should want custody of Chidambaram seems like the idea is just to harass him, as his son, Karti, alleges—but as the Supreme Court said in *CBI vs Anil Sharma* "we find force in the submission of the CBI that custodial interrogation is qualitatively more elicitation-oriented than questioning a suspect who is well ensconced with a favourable order (of pre-arrest bail)".

Given the widespread allegations of corruption during the UPA regime—the purchase of planes by Air India are, for instance, being investigated—it is important not just that the government/agencies follow due process, but that they be seen to be allowing the accused every opportunity to prove their innocence.

As part of this process, it is critical that a detailed charge-sheet be filed at the earliest; Chidambaram's son Karti said, after Chidambaram was arrested, that though he had been raided four times, appeared for over 20 summons—each session lasted 10-12 hours—and was arrested for 12 days, there was still no charge-sheet against him. This is a big lacuna since it allows investigation agencies to go on wild-goose chases; courts must ensure that charge-sheets are filed at the earliest.

The larger issue, and this is not specific to the Chidambaram case (which still needs to be proved), is that it is government restrictions that are at the root of most corruption. If foreign investment was freely permitted without a cap, why would government permissions via the FIPB or some other route even be required? In which case, why would anyone need to be bribed? Since India doesn't allow FDI in multi-brand retail, you have foreign money coming in either as FPI—portfolio investors are allowed to buy up to 10% of an Indian retail firm—or as 'marketplaces' in the case of e-commerce firms; it is possible that, in the future, someone could argue that this was illegal, but what if the policy freely allowed FDI in multi-brand retail? There were several allegations of illegality when the government restricted the amount of FDI that could come into telecom, and all manner of permissions were required, but all of this disappeared once all restrictions were removed. There are far too many instances like this where government permissions are still required.

None of this is to absolve Chidambaram—if it is proved money was, in fact, paid for the FIPB clearances—but if the government hadn't put the restrictions, usually to benefit local players by keeping away bigger global competition, there could have been no corruption; if Air India wasn't a PSU, a Praful Patel couldn't even have been accused of influencing its decision on buying aeroplanes. While prime minister Narendra Modi has promised that those who had looted India would have to return each rupee, he will only win the war against graft when he eliminates the discretionary power the government has.

FireALARM

The Amazon rainforests, the "world's lungs", have been burning for more than two weeks now

EARLIER THIS WEEK, a wildfire in the Canary Islands, Spain, caused more than 8,000 people to flee and, the week before, Alaska witnessed serious wildfires. Around 21,000 square miles of forest faced wildfires in Siberia this month, and Denmark had to send firefighters to Greenland to tackle wildfires that were approaching inhabited areas. Even though these instances are alarming, nothing compares to the lungs of the Earth, the Amazon rainforests that produce 20% of the oxygen in the Earth's atmosphere, being on fire for more than two weeks now. The rainforest that experiences torrential rain throughout the year has witnessed the highest number of wildfires this year—of the 72,843 that have been reported so far this year in Brazil, more than half were in the Amazonian rainforests.

The US National Oceanic and Atmospheric Administration reported that July 2019 was the hottest July ever. The global temperature is already 1.7°F above the 20th century levels, and severe droughts have occurred in Alaska and Canary islands. Widespread deforestation, illegal logging and mining have acted as catalysts in the case of Amazon's wildfire. Jair Bolsonaro's government has been busy rolling back crucial protections for the rainforests to facilitate mining and logging, and the forests have witnessed an 88% increase in deforestation over June 2018-June 2019, as per the country's National Institute for Space Research (INPE). Note, INPE's director was fired after the publication of these data, and Bolsonaro termed the findings as lies. There are allegations that the fire could be anthropogenic and, while Bolsonaro has singled out "NGOs" for "starting the fires", the fires, if they are anthropogenic, benefit those seeking to encroach upon the forest land and exploit it. The hit to the Amazon rainforests—they absorb around 2.2 billion tons of CO₂ annually—affects the entire world. If nations take no account, the heavy climatic effects of the disaster will be felt soon, by all.

● THROUGH THE LOOKING GLASS

ACKNOWLEDGING VIETNAM'S EXPORTS GROWTH IS IMPORTANT, BUT OBSESSING OVER ONE ECONOMIC VARIABLE CAN SKEW PRIORITIES

Export focus fine, but there's more to growth

THE EXPORTS PERFORMANCE of Vietnam continues to be contrasted with that of India: the most recent example being the editorial in this newspaper, "Can India learn from Vietnam to manage export-led growth?". The article, similar to other analyses on this topic, focusses on the significant ramp-up in the exports of Vietnam, especially over the last decade or so. With Indian merchandise exports remaining range-bound over the last few years in the \$300-330 billion annual range and Vietnamese exports having risen from \$150 billion in FY14 to \$244 billion in FY18, there is hand-wringing for India having missed a trick. It is important to acknowledge the growth of exports in Vietnam but before we jump to conclusions and recommendations for India, we need to explore this growth more deeply so that we can draw the right lessons.

Exports is one part of the story

Vietnam's GDP over the period FY14-18 has risen from \$186 billion to \$245 billion, a cumulative growth of \$59 billion. As noted above, exports have cumulatively grown by \$94 billion. Why has the spectacular growth in exports not lead to a similar growth in GDP? Indeed, the cumulative growth in annual GDP is significantly lower than the growth in exports.

The calculation of GDP is the sum total of consumption, investment, government expenditure and net exports, or $GDP = C + I + G + NX$. Net export refers to exports minus imports. So, while increase in exports leads to a direct increase in the GDP, any increase in imports is deducted

from the calculation of GDP. In effect, what the GDP number captures is the 'net value addition' in the economy. If the economy imports a lot to export, only the value added to the imports for the purpose of exports is added to the calculation of the GDP.

In the case of Vietnam, imports over the same period have risen from \$138 billion to \$229 billion, a cumulative growth of \$91 billion. Compared with the \$94 billion of cumulative growth in exports, we note that the net GDP effect of the increased imports and exports on the GDP is \$3 billion. The net trade over the period has, hence, added only \$3 billion to the \$59 billion of incremental growth in the GDP, or a contribution of only around 5%.

Trading is important...

The 'right' lesson from the Vietnamese export miracle, hence, is not that its exports have increased dramatically but that the overall trade-to-GDP ratio of the country has materially changed. While in FY14, the total of import and export was \$288 billion on a GDP of \$186 billion (implying a trade to GDP ratio of 1.54), the FY18 trade was \$473 billion on a GDP of \$245 billion, or a ratio of 1.93. The country now does more trading as a proportion of its GDP. *Wall Street Journal*, among other publications, have reports that sug-



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gest Vietnam may now be a conduit for trade as barriers come up in the USA for Chinese exports.

The increase in overall trade-to-GDP ratio is an important entry point for any country before it starts to build an ecosystem of forward and backward linkages in any industry. For example, India is a major importer and exporter of crude and its refined products, and of rough diamonds and polished gems.

Over the last many decades, as India has engaged in these trades, it has built an entire ecosystem that supports these industries. Over time, such industries can build scale on their own, or bring in other players as suppliers or customers domestically. In due course, this can attract capital investment in various segments of the value chain.

It must be noted that these changes are gradual and sometimes take many years, or maybe decades, before the country moves from being a trading partner to being a large value-addition intermediary to being a large reservoir for capital and skills. *To establish presence in the global value-chain requires a holistic approach in trade, production and investment, and not merely the building*

of an export engine.

...but not the only way

There are other, possibly faster, ways to build scale which need not start with trading. One way is to identify sectors which are expected to grow and to frontload investments in them to build global scale—for example, renewables, electronic vehicles, battery technologies, etc. The other is to build globally-competitive products in sectors where there is a large local market, for example, in agriculture, two- and four-wheelers, etc. In natural or primary sectors like minerals, oil, etc, opening up exploration for domestic consumption as well as exports (either raw or processed), can create scale.

The above measures relate to the more tangible outputs, which count as

export of goods. Another

From purely a financial perspective of current account deficit, the distinction between goods and services does not matter

aspect that has recently gained some attention is that India will soon export more services than goods. From purely a financial perspective of current account deficit, the distinction between goods and services does not matter—though, admittedly, service exports may not be as capital or labour intensive as manufacturing. Globally-competitive services have been the forte of

India and new segments can now be built

out of India, whether in payments, entertainment, or in technologically high-end segments, like machine learning, artificial intelligence, gaming, etc.

Approaching development of industries and the economy holistically, as opposed to maximising one variable, will make it more balanced and sustainable.

The red herring in Kashmir

The claim that the government's recent political actions have anything positive to do with economic development lacks any basis in experience or theory

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"AUDACIOUS" SEEMS TO be an appropriate word to describe the step that the Indian government took in early August, not only dispensing with Kashmir's special constitutional status under Article 370 but also splitting it into two, and downgrading both parts to Union Territories. The ruling party had long and openly declared its intentions for Article 370, but the manner of its implementation of those intentions was more than surprising.

There are many dimensions of the implications of what the ruling party has done. Internationally, the government's actions may increase regional tensions, and escalate the existing level of conflict, at least in the short run. Domestically, the implications for Indian federalism, which has tried to balance the complex heterogeneity of India, especially its peripheries, seem to be negative as well. That the national government has flexed its muscles so obviously, both as a regional power and as a centre that dominates subnational units, is unsurprising, and fits with its larger project of creating a homogenised, "Hinduised" nation.

Much has been, and will continue to be written on these two aspects of the Kashmir action. What deserves a little more analysis are the implications for Kashmir's and India's development. India's current rulers have gone to some lengths to stress that "integrating" Kashmir into India will be good for Kashmir's economic development. Is there a basis for this claim?

First, one has to unpack the idea of development. This goes back to recent debates in India about aggregate GDP growth versus broader goals of development, such as the enhancement of freedoms and capabilities, and amelioration of economic inequalities. Whereas those debates were sometimes posed in terms of opposing goals, it is arguable that they are complementary in the medium and long run. From this perspective, the actions in Kashmir do not seem conducive to sustained development. A population that was already feeling discriminated

against and oppressed is only going to feel more so. If growth comes from investment by non-locals, it is likely to exacerbate existing inequalities.

In the case of gender inequality, the claim that Kashmiri women will especially benefit from this move (with the underlying but unspoken idea that Islam is unequal in its treatment of women) seems to be belied by internet postings that now non-Kashmiri men can marry Kashmiri women (along with buying property and take jobs there). There is a certain ugliness to the discourse that the national government's political action has unleashed

There is a certain ugliness to the discourse that the national government's political action has unleashed with respect to Kashmiri identity

of special constitutional status. All of this suggests that the promises of economic development for Kashmir are based on false premises. A centrally controlled effort, dominated by non-locals, in a situation where the local majority already feels oppressed, and where there is international military tension, is unlikely to lead to any significantly positive outcomes.

To summarise, India may indeed demonstrate its regional might by absorbing Kashmir more firmly into a centralised national polity; perhaps the government's radical moves will lead to a recognition of the de facto "lines of control" as proper international boundaries and less conflict in the long run, after some short-run instability. India may also move further along on the current government's project of creating a homogenised, centralised nation, culturally as well as politically (much as China has done and is doing in Tibet and Xinjiang), though that would be a depressing outcome, over any time horizon. But, the claim that the government's recent political actions have anything positive to do with economic development, either as aggregate growth or more broadly interpreted, seems to lack any basis in experience or in theoretical understandings of what leads to sustained progress.

There was no rush of private investment, despite the positive reputation of the state and its people, and Punjab has struggled with violent conflict and societal ills like drug and alcohol abuse.

Indeed, Punjab illustrates another lesson: the national policy of making Punjab subservient to the national goal of foodgrain self-sufficiency without adequate long-run resources, because it arrested Punjab's development, contributed to political conflict. This conflict was exacerbated by Punjab being a minority-majority state, situated on a volatile international border. And none of this had anything to do with any kind of special constitutional status. All of this suggests that the promises of economic development for Kashmir are based on false premises. A centrally controlled effort, dominated by non-locals, in a situation where the local majority already feels oppressed, and where there is international military tension, is unlikely to lead to any significantly positive outcomes.

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LETTERS TO THE EDITOR

Chidambaram's arrest

The sequence of events leading up to P Chidambaram's arrest by CBI and his being locked up had the ingredients of a riveting drama. CBI and ED sleuths scaling a boundary wall to gain entry into Chidambaram's house was worthy of a movie scene. On a more serious note, we can safely say that the dramatic arrest of P Chidambaram came to pass because of his trenchant criticism of the Modi government. It is not a biased overstatement to say that political vendetta is writ large on the exertions made to frame and fix Chidambaram. Evidently, there is substance in the accusation that Chidambaram is targeted for 'speaking the truth to power'. What exposed the holes in our system is the fact that winning and losing elections can determine the course the law takes. The law does not take its own course, but one wished by the government of the day. The cliché, 'political witch-hunt' cannot be avoided to describe what P Chidambaram is subjected to, for the want of a better phrase. 'Fighting corruption' selectively and episodically has become a weapon to pin down and 'punish' political opponents. Niceties, and the rightness and wrongness of two entirely different cases apart, it appears to be a complete reversal of roles for P Chidambaram and Amit Shah. Why the statement of a woman who murdered her own daughter should be accepted as the gospel truth is not clear. The denial of pre-arrest bail by the Delhi High Court, diverging from the norm, and the refusal of the Supreme Court to hear Chidambaram's plea for no good reason (cases involving certain corporate houses were heard out of turn) have inevitably led us to ask if the Indian judiciary is not that keen on ensuring that citizens don't have to endure loss of liberty. Everyone is entitled to the presumption of innocence until they are proved to be guilty. We urge the highest echelons of the judiciary to lose no time to order P Chidambaram's release.

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