Three contradictions

The Modi regime wants a bigger role for the government but it does not have the comfort of having enough financial resources

RAISINA HILL

A K BHATTACHARYA

Three broad contradictory trends have marked the government's management of the Indian economy in recent months. The contradictions have made the policy challenge to overcome the current economic slowdown even more formidable. How soon the Modi government can resolve these contradictions is difficult to say, but their early recognition at least will perhaps be the first step towards a resolution.

The first contradiction stems from the Centre's stressed finances. The headline number for the government's fiscal deficit does not tell the entire story. Yes, the fiscal deficit in 2018-19 was 3.4 per cent of the gross domestic product (GDP) and is projected to be 3.3 per cent in 2019-20. But these figures mask the real stress in the government's finances. With a substantial amount of off-Budget borrowing and slowing tax collections, the actual gap in the government's revenues and expenditure is much higher than what the headline number of the fiscal deficit indicates.

Yet, the government has gone into overdrive with its welfarism. Such a direction means that the government has to provide for more resources from the exchequer to finance a host of welfare schemes. If it is the piped water supply scheme for all in the latest Budget, then the interim Budget in February this year talked about the scheme for income transfer to farmers. A year ago, there was a massive scheme for health insurance for over half of India's total population. Add to these the many other welfare schemes like subsidised gas connection for the poor, affordable housing and the rural employment guarantee scheme that was started by the Manmohan Singh government, it becomes clear why the fiscal burden on the Centre's finances has been rising at a disconcerting pace.

Ideally, welfare schemes should not be questioned. But when the government's finances are under stress, the contradiction between the growing burden of welfarism and the government's tight fiscal situation becomes acute. In short, the Modi regime wants that the government should play a bigger role, but it does not have the comfort, let alone the luxury, of having enough financial resources with the exchequer.

The consequences are evident in the way tax collection departments of the government have become overactive, with complaints of harassment of corporate taxpayers rising. Tax collection targets have been set at levels that are ambitious and unrealistic, not recognising the slowing growth trend in the economy and, therefore, in tax collections. At another level, the government has also begun exploring options of sequestering a part of government revenues in a way that these do not have to be shared with the states. The growing incidence of surcharge and cess on taxes, which are not shared with the states, and exploring a separate mechanism for funding defence and internal security to ensure an assured allocation of finances for them are among such disturbing trends.

The second contradiction arises out of the Modi government's political stance. The results of the general elections in 2019 showed that the Modi government has grown its political capital by a huge margin. Not only has it won more seats in the Lok Sabha, but it has vanquished the opposition political parties in almost all the states, barring a few in southern India. It faces very little opposition in getting virtually any legislative bill passed by Parliament.

But the irony is that the Modi regime is not willing to use its huge political capital for taking any economic policy measure that it fears might undermine that political strength. It appears to be reluctant to initiate any economic policy move that might show the government to be favouring the big business, as this can upset its voters base, composed of the ordinary middle class and the poor people. Thus, taxes are raised on the rich and the reports of committees that recommend a more friendly or lower taxation system for India Inc do not see the light of day.

The third contradiction is seen in the manner in which it has tried to revive investment. Recognising that the government or the Indian private sector is facing a resources crunch, it is increasingly relying on foreign inflows to fuel an investment drive in the country. But there is no simultaneous attempt to promote exports to prevent any adverse impact such foreign inflows can have on the country's balance of payments. And instead of fixing the flawed exchange rate policy to eliminate the negative fallout of an overvalued currency on exports, the government appears to have embarked on a path of import substitution, a signal of which is evident from the manner in which import duties have been raised successively in the last couple of Budgets.

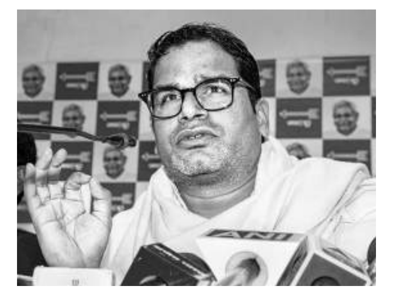
The short point is unless these contradictions are resolved over the next few months, there is very little chance of the government coming to grips with the challenges of an economic slowdown.

CHINESE WHISPERS

Expose corruption, get notice

A case of "shooting the messenger" has raised questions about the Uttar Pradesh administration's willingness to clean up the system. Recently, a police sub-inspector on duty at the state secretariat in Lucknow was caught on camera taking a bribe of ₹100 to allow a contractor to enter the premises without a valid pass. The clip became viral, following which the police person was suspended and an inquiry into the matter was ordered by the UP secretariat's administration. Now three government employees have been served notice for video-graphing the incident and making it public on social media. When an employees' body flayed the action against the three, the head of the department expressed ignorance about this, adding that he would "look into the matter".

Kishor missing in action



The Janata Dal (United), or JD(U), has started preparing its strategy for next year's Assembly elections in Bihar, but its professional poll strategist, Prashant Kishor, is busy elsewhere. Kishor is on a professional assignment with West Bengal Chief Minister Mamata Banerjee. Sources say the JD(U)'s centre of action has shifted to Delhi, where Rajya Sabha MP Ram Chandra Prasad Singh has started working on two crucial aspects — — identifying the probable candidates and balancing the equations with the Bharatiya Janata Party (BJP), an ally. JD(U) sources say Kishor's designated number two status in the party is largely symbolic; after President Nitish Kumar, Singh's writ runs in the party. Given Kumar's fast-changing preferences of allies and key aides within the party, one really doesn't know...

Laddoos for breaking rules?

Motorcycle riders in Palakkad, Kerala, were in for a treat last weekend. The traffic police in the city distributed over 300 laddoos among them. No, there was no festival; it wasn't even a traffic department party. In fact, the two-wheeler riders got a warning after they enjoyed their sweet treat. "It is laddoos today but if you do not pay heed to traffic rules, you will have to pay ₹1,000 as fine," the riders not wearing the helmet were told. This was part of an awareness campaign highlighting the need to follow safety rules. The state has made mandatory that pillion riders on two-wheelers wear the helmet and those sitting in the back seat of a car wear the seat belt.

Hobson's choice before the Reserve Bank...

... between a harder forward premium and a sharp decline in the domestic rates

BANKER'S TRUST

TAMAL BANDYOPADHYAY

Till Reserve Bank of India (RBI) Governor Shaktikanta Das said in his recent interviews that shifting of the stance of the monetary policy from neutral to accommodative itself meant a rate cut of 25 basis points (bps) at least and, therefore, effectively, the rate cuts have been 100 bps, every analyst and his aunt were pencilling yet another rate cut on August 7.

Even now, against the backdrop of the US Federal Reserve's rather hawkish rate cut, a 25 bps drop in policy rate could be on the table in India as core inflation is modest, overall retail inflation remains below 4 per cent and there are telltale signs of growth slowing down. Had Das not made this comment, the expectation was building up for a 50 bps rate cut. One bps is a hundredth of a percentage point.

Let's shift the focus from the policy rate and monetary transmission or the lack of it to the recent liquidity conundrum in the Indian financial system.

The RBI has pumped in ₹52,500 crore through the so-called open market operation (OMO) — buying bonds from banks and releasing money into the system. Besides diversifying its liquidity management toolkit, the central bank has also infused around ₹69,500 crore through three-year US$/INR buy-sell swap auctions in two tranches in March and April.

Finally in June, the central bank cut its policy rate yet again, the third in a row; changed the stance of the monetary policy and committed to ensure "adequate" liquidity for all productive purposes. A series of RBI actions has changed the liquidity scenario — from deficit to a zone of surplus.

Till now, the narrative is quite straightforward. It takes a new turn with the RBI starting to intervene in the foreign exchange market to mop up dollar flow. This is adding to the liquidity in the system as for every dollar bought, an equivalent amount of rupee flows in. At the same time, the RBI has also been conducting sell-buy swaps, postponing the rupee liquidity infusion.

Simply put, on the one hand, the RBI has been injecting rupee liquidity through OMO purchases and US$/INR buy-sell swap auctions and, on the other, it is "sterilising" any rupee liquidity infusion following its dollar buying in the spot market. What is the result? A rise in forward premia and a spike in the implied INR rates that drives up the hedging cost for importers. This starkly contrasts the fall in yields of government bonds and other instruments.

To put things in perspective, the implied INR rates (annualised hedging cost) crossed 7 per cent briefly, up from 6.25 per cent, and is currently veering around 6.6 per cent while the one-year treasury bill yields have fallen. The hedging cost for two years and beyond has gone up more than half a percentage point in the past two months.

An unstated objective of the three-year $10 billion US$/INR buy-sell swaps was to bring down implied INR rates and hedging costs so that it makes the external financial window more accessible to borrowers. The recent RBI actions have negated the gains from the buy/sell swaps.

To be sure, the spike in the forward premia is also being caused by the new large exposure framework or LEF guidelines, effective April 1. The LEF requires banks to limit their exposure to individual entities. This constrains inter-bank trading activities and reduces market liquidity, especially at quarter ends.

While bond yields are going down, forward premiums are rising. The rise in hedging costs may inhibit the importers from taking cover. It can also make life difficult for those who want to borrow overseas.

Is the RBI sending conflicting signals? To be fair to the regulator, the RBI is facing the classic impossible trinity or trilemma: Can it have a fixed foreign exchange rate, an open capital market and independent monetary policy, targeting inflation? First, through OMO buying and US$/INR buy-sell swap auctions, the RBI had sent signals that they were relevant options before the central bank to infuse liquidity. When the dollar flow strengthened, it started buying the greenback. But if it does not sterilise the forward liabilities, it would end up injecting further liquidity when the system is already in surplus. Till April, the system was in a liquidity-deficit mode. In May, it turned surplus by an average of ₹25,000 crore daily, which crossed ₹1 trillion in June and went close to ₹1.5 trillion in July.

We get to know the figures of the RBI's dollar buying from the market with a lag. In January, the amount was $293 million which rose to $825 million in February and crossed $9 billion in March. In April, it was close to $5 billion and, in May, half of that.

As a result, the RBI's foreign exchange reserves rose from around $412 billion in March-end to $430.4 billion in mid-July. The local currency, which hit an intra-day low of 70.64 to a dollar in mid-May, is trading at 69.60 (August 2 closing) after dropping to 68.27 in the first half of July. Had the RBI not bought dollars from the market, the rupee would have appreciated more, hitting exporters hard.

If the RBI does not buy dollars, the rupee will appreciate further; if it does not sterilise the rupee liquidity (generated out of dollar buying) through sell-buy swaps, and postpones the rupee liquidity infusion, the flood of liquidity will pull down domestic rates. The 10-year government bond yield, which was 7.5 per cent in the third week of April, dropped to 6.25 per cent in mid-July. (It has risen from that level for different reasons.) The RBI has a Hobson's choice: Between a harder forward premium and a collapse in the domestic rates. It has opted for the first.

The other option could have been a sale of bonds through OMO to suck out liquidity but that would send a wrong signal to the market because till recently, the RBI was buying bonds. Yet another option is stamping out liquidity through short-term cash management bills under the so-called market stabilisation scheme (MSS). The RBI has used this in the past. That could be a sore point. Since the RBI is concerned about monetary transmission, it can also raise the acceptable threshold limit for systemic liquidity.

While the RBI's actions are disrupting the foreign exchange market in sync with the market dynamics, the strategies need to change to deal with shocks. Ideally, the RBI should junk the OMO calendar and conduct such auctions nimbly, say, at a two-day horizon. Will the RBI use the latest monetary policy as a platform to deal with this?

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AS I SEE IT

Why fix something that is not broken?

The government's decision to amend the Right to Information Act doesn't make sense; it also creates suspicion about the actual motives

KARAN THAPAR

It's never wise to mend something that ain't broke. Not only does it not make sense but it also creates understandable suspicion about your actual motives. I'm afraid this is unequivocally true of what the government has done to the Right to Information (RTI) Act.

The Act has perhaps done more to deepen and strengthen Indian democracy than any other measure in the last 15 years. By giving citizens the right to inquire into decision-making and, thus, the very exercise of power it has substantially increased transparency whilst fundamentally shifting the balance between citizen rights and the executive. In the process, it's become a powerful weapon against arbitrariness, privilege and corrupt governance. This is exactly what India needs and, no doubt, explains why as many as 6 million people file RTI applications every year.

At first sight what the government has done seems innocuous but that's misleading. It has amended Sections 13 and 16 of the Act which determine the tenure and salaries of Chief Information Commissioners and Information Commissioners at both the central and state levels. They will no longer have fixed five-year terms nor will their salaries be linked to those of the Election Commissioners at the central level and the Chief Secretaries at the state level. Hereafter, both salaries and tenures will be "for such term as may be prescribed by the central government". In other words, they're left to the arbitrary choice of the executive.

This could lead to several undesirable outcomes. Different people could be given different lengths of service and salary whilst those the government considers "loyalists" granted lengthier tenures and heftier salaries. In fact, an amendment to the rules could arguably permit the government to alter tenures and salaries after appointment. Collectively, this will ensure the RTI system does not stand up to the executive but buckles under pressure. If that happens, the Commission's independence will suffer.

Two other consequences might further undermine the Commission. First, these amendments amount to a serious downgrading of RTI Commissioners and in a hierarchical country, where emoluments and position determine influence and effectiveness, they will demote Information Commissioners and diminish their power. The other impact will be on the sort of people who seek to become Information Commissioners. Anyone with a higher income and status will be uninterested. Once again, the quality of the Commission could suffer.

So when the government claims it's only acted to strengthen the Commission that's baloney. Not a single Information Commissioner I've met, past or present, accepts this. The present ones may not be affected but they know their successors will be badly hit.

The government also has a technical explanation. It says the Information Commission is a statutory body and cannot be treated on par with the Election Commission, a constitutional body. After all, it argues, Information Commission judgments can be appealed in a High Court so how can Commissioners have the status of Supreme Court judges?

These are poor excuses and not good reasons. More importantly, they overlook the fact that the Election Commission judgments are often appealed at the High Court level, yet that doesn't constitute grounds for rethinking its status.

So why has the government done this? Why has it emasculated the Commission in complete disregard of the fact the RTI system has added enormous weight to India's democracy? One can only guess but perhaps the best informed has come from Congress Rajya Sabha MP Jairam Ramesh. He believes the government's decision to shrink the Commission is revenge for five decisions which have embarrassed Narendra Modi.

That could be true in two cases. First is the RTI revelation that Mr. Modi's claim that 40 million bogus ration cards have been eliminated by his government is untrue. The actual number is 23 million. More embarrassing is the Commission's decision to disclose the Prime Minister's educational qualifications against which he has appealed to the Delhi High Court. It seems Mr Modi has something to hide but the Commission won't let him.

Ramesh says the RTI amendments are "to make sure that these types of embarrassments don't repeat themselves". Is he right? I can't say for sure but it seems to add up. In fact, I'm not unwilling to accept this is why the government has amended an institution that wasn't broke. Now, of course, it is!

Siddhartha refused trappings of power

K P NAYAR

V G Siddhartha was one VIP with high political connections who abjured India's notorious VIP culture. Once he was visiting New York along with his wife Malavika on holiday. Their visit coincided with the presence in Manhattan of Malavika's father, S M Krishna, who was then India's External Affairs Minister.

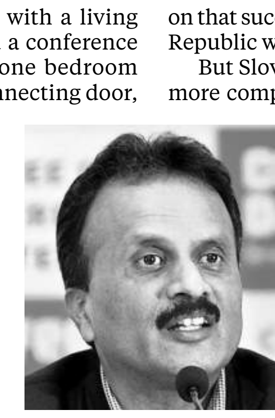
Prime Minister Manmohan Singh had decided that year not to attend the United Nations General Assembly owing to preoccupations at home. So automatically Krishna became the head of the Indian delegation to the General Assembly, which gave him the notional status of head of state or government under UN protocol.

Traffic in Manhattan is a nightmare during the third and last week of September when an average of 100 heads of state or government, including the American President, land up for the "general debate" which marks the start of the General Assembly every year. But as head of delegation, Krishna could sail through New York streets with outriders and other security detail and all traffic would be stopped to let the External Affairs Minister's cavalcade pass unimpeded.

In order to make their passage easier, Krishna used to ask Siddhartha and his wife to travel with him in the custom-secured SUV provided by the government. One day the son-in-law wanted to go to the UN to watch the External Affairs Minister address the General Assembly. Not only on this occasion, but invariably, Siddhartha preferred to walk to such venues and refused all trappings of his reflected power.

When word got around in the Ministry of External Affairs that Siddhartha and Malavika were going to New York and would be with Krishna, protocol officers went to Delhi airport to see off the couple. Siddhartha chided them for doing so and when the officials said a government vehicle would be picking them up at John F Kennedy airport on arrival, he told them that he would take a taxi to reach the New York Palace hotel where his father-in-law was staying.

At the New York Palace hotel, a suite larger than most Manhattan apartments, complete with a living room, dining area and a conference room, in addition to one bedroom and another with a connecting door, is normally reserved for the head of the Indian delegation. Needless to say, Siddhartha and Malavika booked their stay elsewhere in the city.



When word got around in the MEA that Siddhartha and Malavika were going to New York and would be with Krishna, protocol officers went to Delhi airport to see off the couple. Siddhartha chided them for doing so

Siddhartha's innate sense of humour stood those he associated with in good stead even in adversity. Krishna became a teetotaler the day he was sworn in Karnataka Chief Minister in 1999 and remained so for more than a decade. One of the worst days of Krishna's public life was when he read another foreign minister's speech in the UN Security Council. He was lampooned in the media and the Pakistanis at the UN went to town over the Indian minister's gaffe.

That night, a very upset Krishna went to the iconic Smith and Wollensky restaurant, a walking distance from the UN, and got off the wagon, ordering a large Oban 14 single malt, which was his old favourite. After the dinner, he called his son-in-law to tell him that he had a drink after 10 years. Siddhartha's reply was that he hoped it was Black Russian or Kahlúa: both have coffee as ingredients. At the end of a bad day, Krishna laughed about his son-in-law's passion for coffee.

That passion was evident the moment Siddhartha came to know that this writer has family connections in Slovakia. Cafe Coffee Day had already made a roaring success of two its four outlets in Austria. Building on that success it ventured into Czech Republic where it opened nine cafes.

But Slovakia, a smaller and much more competitive market, was turning out to be a bigger challenge. Yet, Siddhartha was determined to enter the Bratislava café scene, especially because there was no restaurant in the city which did justice to Indian cuisine despite the fascination of urban Slovaks to everything Indian. In the end, Cafe Coffee Day was frustrated in these efforts because of Bratislava's high real estate costs owing to its proximity to Vienna.

When Cafe Coffee Day's first outlet opened near the University of Vienna, Siddhartha told this writer that he modelled it on the success of the Indian Tea Board's tea room in Cairo which became a leading hangout for Cairo University students in the 1980s. Cafe Coffee Day's daring foray into this market with its unalloyed loyalty to Austrian coffee and Sachertorte is probably the only example of an Indian company successfully selling coal in Newcastle, proverbially speaking.

The author was a resident correspondent at the UN in New York when the events described in this article took place.

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Beyond the rate cut

RBI alone will not be able drive economic recovery

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) is widely expected to cut the repo rate once again this week. Although the inflation rate based on the consumer price index inched up in June, it is unlikely to cross 4 per cent in the near term. However, the bigger question at this stage is: Will another rate cut be enough to revive economic activity?

The Indian economy is in the midst of a severe slowdown and indicators such as vehicle sales, corporate results, and the latest core sector data suggest that growth in the first quarter of the current fiscal year might have slipped below 5.8 per cent, registered in the January-March quarter. Further, there is absolutely no fiscal space to support growth. In fact, the data on tax collection indicates that meeting Budget targets will not be easy and may require expenditure compression. An adjustment to accommodate higher spending would not be advisable, because the combined public-sector borrowing is already on the higher side.

The Indian economy is also unlikely to get support from the rest of the world. The global economy is losing momentum. The US Federal Reserve reduced interest rates last week for the first time since the global financial crisis. The ongoing US-China trade war, uncertainty around Brexit, and geopolitical tension in West Asia are risks for global growth.

In the given economic backdrop, it is worth asking whether the monetary policy will need to do the heavy lifting in terms of reviving growth. In the June meeting of the rate-setting committee, Governor Shaktikanta Das had noted: "Keeping in view the evolving growth-inflation dynamics, there is a need for decisive monetary policy action." The growth outlook has only worsened since then. Thus, aside from the rate cut this week, all stakeholders would look for cues for the extent to which the central bank is prepared to support growth. Since the primary objective of the RBI is to keep inflation around 4 per cent (midpoint of the target range), it would be important to see how the MPC expects inflation and growth to move in the coming quarters. If it expects growth to slow significantly, more space could open up for monetary easing. Prices are unlikely to go up sharply with a slowdown in economic activity, as is being reflected by the decline in the core inflation rate in recent months.

Further, the MPC would do well to articulate the level of real interest rate it intends to maintain, and in what circumstances it could be reduced. This will give confidence to the system that the central bank will not deviate from its inflation-targeting mandate and help anchor longer-term inflationary expectations. It is also important to not disincentivise and discourage financial savings. To ensure that the economy benefits from policy accommodation, the central bank would need to work on the transmission of rates.

But monetary accommodation can work only up to a point and won't be sufficient for a meaningful recovery. The government will have to play its part. Some of the recent steps, such as a higher rate of income tax for the super-rich, higher import duty, additional powers to the bureaucracy, etc have significantly affected business confidence. Reassessing some of the recent decisions and the way the economy is being handled would be a good starting point for the government.

The monsoon recovery

Reservoirs are still not adequately restocked

The way the monsoon has recovered this year after a delayed and weak start to near-normal in the very first half of its four-month run (June to September) does not have many parallels. A scary rain deficit of 33 per cent at the end of the first monsoon month of June shrank dramatically to below 9 per cent in just four weeks, thanks to copious precipitation in July. This, coupled with the weather office's prediction of 100 per cent normal rain in August and September, has swung the outlook for monsoon-dependent sectors, chiefly agriculture and hydel power, and rural demand from despair to cautious optimism.

The lag in crop planting, which had mounted to over 30 per cent by June-end, has, by and large, been made up. More sowing is expected in the next week or so, because over 66 per cent of the country has already received normal or excess rain. The anticipated continuation of the monsoon's good showing in the latter half of the season may ensure better crops and higher yields. But the fingers still need to be kept crossed. The intense bouts of rain, as has been the hallmark of this year's monsoon, are seldom without a downside. Parts of Maharashtra, Gujarat, Bihar, and Assam have seen devastating floods. Similar deluges may damage crops, property, and infrastructure, and take human and animal lives in other parts of the country as well.

This apart, the upswing in the rains does not reflect adequately in the restocking of reservoirs. Till July 25, nearly 75 per cent of the major dams have got filled only up to 40 per cent of their capacity. The overall water stock in all the reservoirs taken together, being 63 per cent of capacity, presented a slightly better picture, though even this is below last year's corresponding level of 71 per cent. The river basins in the southern region, including those of the Krishna, Mahanadi, Godavari, and Cauvery, are particularly short of water. Some of the dams in Kerala, which brimmed over to cause catastrophic flooding in August last year, are not even half-full as yet. The silver lining, however, is that there is still time for replenishing these dams. The current vigorous phase of the monsoon and the projected normal showers in the next two months can normalise the situation. Restoring water reserves is essential to meet the needs of irrigation, industry, hydel power production, and the domestic sector in the post-monsoon period right up to the next summer.

Significantly, the unconventional track record of this year's monsoon has been attributed by weather experts largely to the interplay of two counteracting meteorological phenomena — El Nino (monsoon-inimical warming of the Pacific Ocean) and the Indian Ocean Dipole, or IOD (monsoon-friendly temperature gradient in the Indian Ocean). While El Nino, which affected the monsoon in June, is said to have turned neutral and lost its sting, the positive IOD continues to favour the monsoon. Unlike most other weather watchers who were uncertain about the progress of El Nino this year, the India Meteorological Department (IMD) was spot on to foresee that it would not endure long enough to undermine the Indian monsoon. The IMD will, hopefully, prove correct in predicting normal rain in the rest of the season as well.

ILLUSTRATION: AJAY MOHANTY

The geopolitics of climate action

The command of climate-friendly technologies will become the source of geopolitical power in the future

June and July this year have been some of the hottest months in recorded history and 2015-2019 was also the hottest five-year period on record. In India, Delhi recorded a record temperature of 48°C on June 10 this year at Palam and temperatures in excess of 50°C were recorded in Rajasthan. Europe and the United States sweltered in unprecedented heat.

"The extraordinary heat was accompanied by dramatic ice melt in Greenland, in the Arctic and on European glaciers. Unprecedented wildfires raged in the Arctic for the second consecutive month, devastating once pristine forests which used to absorb carbon dioxide and instead turning them into fiery sources of greenhouse gases. This is not science fiction. It is the reality of climate change. It is happening now and it will worsen in the future without urgent climate action," said the Secretary General of the World Meteorological Organization, Petteri Taalas.[1]

NITIN DESAI

These heatwaves are a small sample of what is in store for us if we fail to tackle the threat of climate change. We will see more droughts, more floods, more rain on fewer days, storm surges and saline intrusions in coastal areas, reductions in agricultural and biotic productivity, particularly in the tropics, more climate-related disasters and increases in climate-related health stresses. No country can tackle this on its own since the consequences of greenhouse gas emissions are inherently planetary in nature. That is why the geopolitics of who does what and who is forced to do what are now becoming a central concern in climate diplomacy. The debate on climate change in the United Nations General Assembly in September 2019 will give some indication of what we can expect.

A recent article in *Nature* outlined four possible scenarios of how the geopolitics of climate action would evolve.[2] The first, quite implausible, envisages deep cooperation amongst countries on burden-sharing, finance market-driven marginalisation of fossil fuel companies and emergence of green technology giants, and a vigorous pursuit of the UN's sustainable development goals by all countries. The second scenario envisages a technological breakthrough that changes the economics of clean energy dramatically. A comparable example would be the mobile phone technology, which revolutionised telecommunications. But these technology-driven scenarios also project technological dominance and rivalry between a couple of countries (No prizes for guessing who these could be!). This cannot be ruled out but there is no sufficient evidence for it to be the basis for action today. The third scenario paints the dire consequences of rising populist nationalism which puts an end to all cooperative mitigation efforts. The fourth scenario involves what we are doing now, which is muddling through with weak agreements like the Paris accord. This would moderate some of the potential impacts of business as usual, but, judging by current trends, it would take us to a world where the temperature rise would be about 3°C rather than the 1.5-2°C, which was the goal set at Paris in 2015.

Unfortunately, right now we seem to be moving out of the muddling through to the populist nationalism scenario with the Trump administration denouncing the Paris agreement, the rise of nativism in Europe, which is shifting its attention to immigration, the rejection of globalism in many countries in Latin America and Europe, much of it driven by obscurantist rightist parties that are quite ready to reject the scientific consensus on human-induced climate change. Yet, the public pressure to act on climate change will continue to mount as instances of extreme climate events become more frequent and more intense.

India accounts for about 5 per cent of greenhouse gas (GHG) emissions at present and China for about 25 per cent. However, looking ahead at 2030 each of them will account for 20-30 per cent of incremental GHG emissions and the pressure on them for more vigorous action for mitigation will mount. Given the erosion of multilateralism, this may well take the form of unilateral or plurilateral pressures exercised through trade, technology transfer or global capital markets. India and China should respond, not just defensively by referring to historical responsibility, but by projecting themselves as leaders in climate action.

The Carbon Action Tracker[3] rates India's Paris commitment as being in line with its fair share of what it needs to do in the global cooperation towards the 2°C goal, though it considers China's commitment to be "highly insufficient". Both countries are on track for meeting their Paris commitments and may even end up doing better than promised. A recent study even suggests that China's emissions may peak up to a decade earlier than their Paris promise.[4]

When it comes to climate geopolitics, the two countries have a lot in common. Both have an interest in continuing to press the case for recognising responsibility for past emissions and the needs of development in determining fair shares in the available carbon space. Both are oil deficient and see solar and wind power not just as a carbon mitigation options but as an instrument for energy security. Both depend heavily on coal and have an interest in countering the demonisation of coal use. They have a shared interest in developing technologies like carbon capture and reuse, which can provide them a mitigation option that can make coal use acceptable in a more stringent global environment for climate control.

The fact that domestic development needs and the demands of effective climate action happen to coincide, except of course for the coal dependence, makes it possible for both countries to pursue climate-friendly growth with vigour and press for more effective action by the laggards in the developed world. But what can give them a true leadership position is something rather different. It is the space that they have to develop and implement at scale climate-friendly technologies in areas like motorised transport, building design, urban planning, energy efficiency in manufacturing, power systems that can accommodate large volumes of renewables, and much more. They are better placed to do this as the bulk of their buildings, urban spaces, manufacturing capacity and power systems have yet to be built. What it requires is the recognition that the command of climate-friendly technologies will become the source of geopolitical power in the future. China is already on this path and India must follow suit if it is not to become the fall guy of global climate geopolitics.

[1] *Climate sceptics may wish to see the scientific studies reported at the website worldweatherattribution.org*
[2] *Model and manage the geopolitics of energy, Andreeas Goldthau et al, Nature 569, 29-31 (2019) 1 May 2019*
[3] *See country profiles for India and China at https://climateactiontracker.org*
[4] *See https://www.carbonbrief.org/chinas-emissions-could-peak-10-years-earlier-than-paris-climate-pledge*

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Don't hope for a structural change

It has been an eventful last week. The founder of Café Coffee Day, V G Siddhartha, killed himself, leaving a note. The note confessed to large-scale but unspecified wrongdoing and a hint of harassment by the revenue authorities. His suicide note catalysed a chain of reactions that covered politics, entrepreneurship, risk-taking, and excessive debt. Most of those were tinged with strong emotion and hence misplaced. (For a more rational understanding, one must remember that suicides are not always correlated to a physical state but to a mental one. After all, many people who have lost virtually everything, including their loved ones, don't commit suicide.)

IRRATIONAL CHOICE

DEBASHIS BASU

The fallout of his death has been a re-examination of the current economic slowdown. Maruti Suzuki, which produces about 50 per cent India's domestic passenger vehicles, reported a 33.5 per cent decline in sales in July this year over July last year and cut its temporary workforce by 6 per cent. Air travel to and from India during the January-March quarter of this calendar year grew at 3.8 per cent, the slowest pace in the last four years. More such depressing bits of data are splashed all over the media.

The slowdown is so severe that businessmen, 90 per cent of whom have been gung-ho about this government's intent and execution since 2014, have started voicing their frustration. T V Mohandas Pai, until recently an aggressive champion of every move of this government, has come out all guns blazing. "Tax terrorism has gone rampant. Compliance burden has gone up massively. There is a fear psychosis. There is a feeling among government officials that all businessmen are crooks and we must go after them. I have never seen mood and morale so down in Mumbai. Businessmen have given up hope."

Rahul Bajaj, chairman of Bajaj Auto, said: "There is no demand and no private investment. So where will growth come from? It doesn't fall from the heavens." A M Naik of Larsen & Toubro said we should feel lucky even if GDP growth comes at 6.5 per cent, adding that he did not believe in the government data anyway (his words were the "situation is challenging" on data credibility) and so one has to use one's judgement to get a sense of actual growth. Economic growth has slipped to a five-year low of 5.8 per cent in the March quarter.

Amusingly, just a few months ago in March, Mr Pai was one of the 131 chartered accountants who trashed the concerns of 108 scholars who had questioned India's economic data and had alleged political interference in the country's statistical bodies. The chorus of disappointment has become so loud that a few English TV channels that set new lows every day in giving sycophantic publicity to this government's agenda while trashing the non-existent opposition, have suddenly flipped. They are now giving airtime to disaffected businessmen.

From the fire to the frying pan…: The UPA rule of 10 years was characterised by two memorable expressions: Policy paralysis and crony capitalism. Nobody mentions these expressions any more. You can accuse this government of many things but not these two ills that sapped the Indian economy for decades. Far from paralysis, this is a hyperactive government that has unleashed hundreds of legal changes and schemes. Why then do we have such poor outcomes?

…But no first principles: The reason is simple — its policies and actions are not founded on fundamental principles. The first principle of growth and justice is to reduce the intrusion and domination of the state. It is too much to expect the state to have empathy for businesses and citizens, although almost all growth in jobs and taxes comes from them. The least the government can do is not increase despondency and anger by calling everyone a crook and unleashing mindlessly coercive actions. After all, we know who the real crooks are among *netas*, *babus*, and the *aam aadmi*. Without the first principles in place, we will have cyclical ups and downs but no fundamental and rapid change, which is defined by higher productivity of capital and labour.

What's your plan?

I see a lot of discussion on what the government should do. Like the story of seven blind men, each expert sees one part of the problem and prescribes a solution that he thinks will work for the whole. Someone thinks a drastic cut in interest rates will solve all problems, someone else wants personal income tax abolished. On Friday, Amitabh Kant, chief executive officer of the NITI Aayog, blamed the "economic reforms" for the current slowdown! The problem is much deeper. While the prime minister called himself a *pradhan sevak* in 2014, almost all the current leaders appear as adamant and arrogant as those of the previous dispensation. A businessman described a minister (whom he met recently as part of a delegation) as "combative, unsympathetic (about) the slowdown, and not keen to listen".

There is little hope that issues that affect the subjects will reach the rulers. Clearly, practical people should not expect the government to do anything other than minor tinkering. It is meaningless to discuss what the government can do. The road map is unknown, the first principles are missing, and the eyes and ears of policymakers are shut. The current economic slowdown will turn on its own, in the next few years, but the structural issues that have prevented a rapid improvement in the quality of life at the bottom of the pyramid and rapid economic growth will remain.

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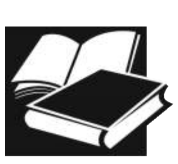
Satire in the Sri Lankan soul



BOOK REVIEW

ADITI PHADNIS

Sri Lanka has a tradition of satire as journalism that is unparalleled in the subcontinent. Barring possibly, Pakistan (*The Diary of a Social Butterfly*), there is no country in South Asia that can match the wit and wordplay of Sri Lankan journalists. There were the greats of the 1950s such as Tarzie Vittachi whose weekly column "Bouquets and Brickbats" had many shifting uncomfortably in their chair every Sunday morning. And in the 1970s and 1980s there were Denzil Peiris's biting comments on the functioning of the government, which were never influenced by the fact that the government owned the paper for which he worked; and Mervyn de Silva's satirical pieces under the pseudonyms Daedalus and The Outsider (nobody knew why he needed pseudonyms, because everyone knew he was the author and if you had a beef with him he could be found every day at the Taprobane hotel for his lunchtime beer). His son Dayan, an important pillar of the establishment now, but an influential commentator on Sri Lanka's society and politics in his own right, keeps the irony sheathed these days but when the flashes show, they are blindingly brilliant. Indian journalism seems earnest and positively stodgy by comparison.

The Sri Lankan tradition of sardonic comment on its bureaucracy, politicians and Important People, is kept alive, we report thankfully, by Andrew Fidel Fernando in *Upon a Sleepless Isle*, a travel diary by a Sri Lankan-born cricket journalist who grew up in New Zealand and has returned to Sri Lanka to report. If, like many of us, you were wondering how Sri Lanka manages to function, in fact thrive, despite its dysfunctional political class, its entitled bureaucracy and incestuous elite, the answer lies in a haiku written by Fernando that is at the heart of the country's political culture: what he calls "Sri Lanka's great propensity to quietly tolerate inconvenience". The haiku reads: *Yes, I'm unhappy/But I'm too scared to complain/Can't somebody else?*

The book chronicles travels through some of the former hot spots on the island but its gaze lingers on aspects ignored by the professional war correspondent. In Mannar, other reporters might have seen remnants of the Sinhala-Tamil conflict. Fernando describes the origins of Catholicism on the island: the Church of Our Lady of Madhu, a centre of pilgrimage for all communities, which has amazingly survived years of war. There's a poignant prayer engraved below her statue. It says, simply: "Grant our country permanent peace".

Fernando also chronicles the arrival of the Muslims — the Marrakalayo, from the Tamil 'maran' for wood and 'kala' for vessel — on the island. Muslims and Sinhalese enjoyed rare cordiality during the medieval era, but British policies of divide and rule caused suspicion and ill will. As Muslims moved from Colombo, further north to Batticaloa they found themselves fighting a two-front war: the Liberation Tigers of Tamil Eelam on the one hand and the Sinhala Buddhists on the other. Both wanted them to take sides, they stayed indifferent to both. Now, the LTTE may have been demolished but extremist Sinhala Buddhists have powerful patrons. Among the (largely) Sunni Muslim community, Sri Lanka is waging its own quiet battle against the rise of Wahhabism. Same war, different names, different actors….

What seems to be missing from Fernando's voyage of re-discovery of the land of his birth is the elephant in the room: India. He makes no comment whatsoever about Sri Lanka's neighbour that has been such a source of tribulation for the island in the recent past. Many attribute to India the distortions in Sri Lanka, the rise and development of its large (and now, unnecessary?) military-industrial complex and its compulsive need to ensure a balance of power in the Indian Ocean by a China tilt (so that there is no Indian-fuelled Tamil nationalism ever in the future, only Sinhala nationalism). If a visitor to Sri Lanka were to read this book as the first introduction to the island, the impression he would get is that India has played no role in Sri Lanka at all — which, we know, is not true.

But that is the only missing element in a book that is utterly engaging, wickedly funny and actually quite heroic: Fernando battles attacks by packs of stray dogs, wild chattering monkeys, elephants in rut (though his preoccupation with animal copulation is, frankly, a bit tedious), three-wheeler and bus drivers and foreign tourists in the line of duty.

He is also brave, as he describes the rise and rise and sudden fall of Hambantota: the constituency of former President Mahinda Rajapaksa ("personal motto: making Sri Lanka wildly prosperous, one immediate family member at a time"). Anyone who has been to Hambantota knows the silent but empty grandeur of enormous stadia and vast airfields (built in anticipation of a huge influx of tourists, especially from China). Nothing has moved in Hambantota after Rajapaksa was ousted from power and these facilities now represent capacity created using public money that no one is using: yet another example of the way Sri Lanka's ruling class works. Everyone who is interested in social processes in South Asia must read this book. Move over Bill Bryson: Andrew Fidel Fernando is the new kid on the block.

UPON A SLEEPLESS ISLE
Andrew Fidel Fernando
Pan Macmillan; ₹599; 256 pages