

# Opinion

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## Does Modi know there's a crisis?

There is little in its policy measures—including in the Budget—since May to suggest govt is too worried about growth

**W**AKE UP AND smell the coffee, that's what the government needs to do. It's not clear whether the advisors—in the ministry and think tanks—are bringing in the right perspective or whether the government genuinely believes there's nothing much to worry about. If there is concern it's not showing. That must change; the government must acknowledge unambiguously the economy is in serious trouble. When the finance minister speaks of 7% growth, whose numbers is she working with? No top economist in India is talking of 7%; the most optimistic number is 6.9% and the average is closer to 6.6%. Very pertinently, these estimates are predicated on a favourable base effect in the second half of the year because growth in Q4FY19, remember, was an anaemic 5.8%.

If Maruti Suzuki is not able to sell even one lakh units a month—a number that had become par for the course—it means consumer confidence is well and truly damaged. The first signs of this weakness were apparent last Diwali but we chose to downplay that; rather than trying to meet industry halfway on lowering prices and making vehicles more affordable to spur demand, NITI Aayog asked two-wheeler makers to come up with an EV roadmap in two weeks! That sales of bikes and scooters should be falling the way they are means consumers either don't want to buy or they don't have the means to spend; both are bad news. It is true many HFCs and NBFCs were lending to customers who were not credit-worthy and that some of these businesses are unviable. But, if HDFC's loan growth in Q1FY20 was the slowest in its history and its asset quality the worst, we have a problem.

There is no doubt India's growth is correlated with global growth and trade, both of which are slowing, but the slide cannot all be blamed only on this. Surely the telecom sector is not bleeding—with the exception of one player—because the global economy is slowing. Bharti Airtel and Vodafone Idea did not report losses of ₹2,866 crore and ₹4,800 crore respectively in Q2FY20 because of the global market, but because of the unfriendly regulatory environment.

We need to look inwards and set our house in order; talking about a \$5 trn economy will not help. This is not just another downcycle; the problem is, at least partly, a structural one. For example, if the elasticity in our exports is turning negative, one big reason is that we are simply not competitive, our wage structures are simply too high and our labour laws too rigid. But the government is doing little to address this; instead it wants to impose a minimum wage.

Making the environment friendly is critical. There is no doubt the IBC has been the best reform the country has seen and the government deserves full credit for making it clear to companies they can't simply default and get away with it. The clean-up in the NBFC and HFC spaces too was long overdue. But, now that there's effective legislation in place, we need to rekindle animal spirits, else the ₹100 lakh crore investment target will remain just that. NITI Aayog believes there is room for banks to lend—apparently we are among the most under-leveraged economies in the world. That may be so, but the fact is that to lend, banks need capital and the NPA cycle isn't quite over; sectors such as telecom, power—thermal and renewable—aviation, MSME and agriculture are all very stressed. CRISIL noted that some ₹15,000 crore of assets would be at risk if the AP discoms stop paying wind and solar power producers following the tiff over the revision of tariffs. While bankers may have provided for some of the assets, one doubts they have provided for everything. More importantly, there need to be credit-worthy borrowers. Also, there is increasingly higher aversion to risk. A few months back, State Bank of India (SBI) tightened the lending norms for dealers of Hyundai and other car makers because it simply could not afford to take a chance when so many dealerships are closing down. Indeed, credit to industry is crawling, partly because companies remain over-leveraged and partly because bankers are cautious. Some private sector banks lend little or nothing to infrastructure; given how they have burnt their fingers, this time around they will be doubly cautious. Fresh slippages at SBI soared to a staggering ₹17,000 crore in Q1FY20. Even a much smaller lender like Axis Bank reported slippages of close to ₹5,000 crore and write-offs of around ₹3,000 crore; this, after a clean-up. Let's get real, the NPA cycle hasn't peaked.

If the private sector is to invest, and invest it must if the economy is to come out of the trough, it needs to get a much better deal; people cannot be jailed for not meeting CSR norms. Regulation needs to be non-partisan, whether for domestic or foreign players—favouring some players to the detriment of the others will cost the economy tens of thousands of jobs and this is clearly visible in the telecom sector. New rules cannot be forced on companies without their approval; it is their investments that are at stake. The government is strapped for revenues, but if it taxes companies beyond a point and penalises them unnecessarily, it will leave companies with no resources to invest. The government's investments aren't enough to put the economy back on the high growth track or create the jobs needed, and so, it must incentivise the private sector to invest. Right now there are no signs this is happening.

## Branded LIES

The Consumer Protection Bill's penalisation of endorsers is ridiculous and unwarranted

**T**HE CONSUMER PROTECTION Bill, 2019, passed recently by the Lok Sabha seeks to make endorsers, including celebrities, legally liable for the products they advertise. To implement what is being understood as the moral responsibility of celebrities endorsing products, the Bill, prescribes a fine up to ₹10 lakh for first time offenders, going up to ₹50 lakh and a jail term for repeat offences. Additionally, it has a provision to ban offending celebrities from taking on advertising projects for a year, extending up to three years for repeat offenders. Moreover, the Bill proposes stringent laws against endorsers, with the only grounds for exception from legal liability being presentation of evidence by the celebrities. In comparison, manufacturers and service providers face a penalty of ₹10 lakh in fines and imprisonment up to two years. While the Bill does provide the caveat that manufacturers and/or endorsers will only be penalised in cases they fail to discontinue or modify a patently false/misleading advert, this does not take away from the absurdity of attaching legal liability to endorsers of commercials, which, by their very nature, are designed to represent products in a manner that increases their attractiveness as commodities.

Of course, it is immoral, unethical, and downright illegal to advertise a product or service on false grounds, but to put the complete burden of ensuring the veracity of a product's commercial on its endorser would achieve nothing more than disincentivising celebrities from signing on any advertisements. This would not only hurt the interests of multiple industries but also those of consumers too. Besides, the Bill absolves consumers of both agency and responsibility of choice. In a case like the infamous Axe lawsuit, where an Indian man sued the makers of the body spray for misleading consumers, the Bill not only legitimises what is clearly a ridiculous claim but also allows for the lawsuit to extend to the endorser. Surely the laws of natural justice do not allow consumer protection to come at the cost of unfair burdens on other parties.

**I**N JULY, TWO interesting things happened that can, to a large extent, help Indian farmers augment their incomes. First, the Union finance minister (FM), in her maiden budget speech, asked why *annadata* (farmer) cannot become *urjadata* (producer of solar power). Second, in the Parliament the Minister of State for agriculture, responding to a question on the prime minister's promise of doubling farmers' income (DFI) by 2022, admitted that the existing set of policies cannot double farmers' real incomes by 2022. I welcome and appreciate this honesty, although the PM may still be optimistic to fulfil his dream of DFI by 2022. I have been saying, for the last two years through this newspaper column, that it is almost impossible to DFI by 2022 with the set of policies that the government has adopted; they will not achieve even half the target. The remaining 4 years till 2022-23 require the real incomes of farmers to go up by 13-15% per annum. But, as they say, nothing is impossible in this world, so here is my single suggestion to move in that direction.

But before that, let us quickly recapitulate the debate on this slogan of DFI given by the PM in February 2016 in Bareilly. The PM said it is his "dream" to DFI by 2022. It was followed by setting up a committee, headed by Ashok Dalwai, in April 2016. The committee clarified that it is real income that needs to be doubled over 7 years (over the base income of 2015-16), requiring a growth rate of 10.4% per year. The committee submitted its final report in September 2018. It comprises of 14 volumes (almost 3,000 pages) and 619 recommendations! These volumes contain a wealth of information, but I doubt any government can implement 619 recommendations even in five years. My humble submission to our friend Ashok Dalwai and his team is that they will do a great national service

## FROM PLATE TO PLOUGH

CALCULATIONS SUGGEST THAT USING 'SOLAR TREES' TO GENERATE SOLAR POWER ON FARMERS' LAND IS THE ONLY WAY TO DOUBLE FARMERS' INCOMES BY 2022

# Annadata as Urjadata Harvesting solar on farms

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Views are personal



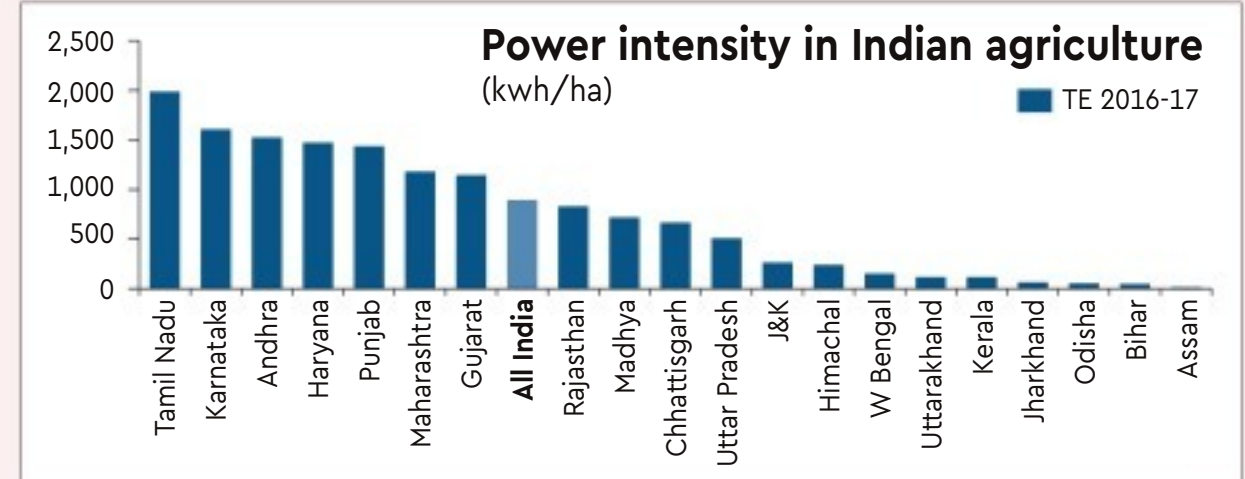
if they bring out a summary of 14 volumes in 20-25 pages, and prioritise just 5-10 recommendations from a laundry list of 619 recommendations.

But, let us get back to the FM's statement of why the *annadata* can't become the *urjadata*. This one policy has the potential to DFI within a year or two. How? Here are the details.

The PM has also set a target of producing 100 GW of solar power by 2022. He wants to be one of the frontrunners in International Solar Alliance for clean energy. So far, the model that has been adopted to develop solar power is inviting bids from large business players. And big players did enter, ranging from Mahindra and Mahindra to Adanis, and so on. Some of them who entered early into Power Purchase Agreements (PPA) with state governments had to burn their hands when the costs came down and the state governments forced them to revise the costs of PPA downwards, upsetting their economic calculations. But, this model of generating solar

power was not very inclusive. The land has been locked for solar panels for almost 25 years, and the benefits go only to a few investors.

The alternative model is to help farmers produce solar power on their lands, making *annadata* an *urjadata*! After all, farmers occupy the largest chunk of land in this country. This model will be much more inclusive and can help augment their incomes significantly. There are two variants of this: (a) replace all pump sets, especially diesel ones, with solar pumps and the excess power generated through solar panels can be purchased by the state government at a price that gives farmers a good margin over their cost of producing solar power; (b) encourage farmers to grow "solar trees" on their lands, to the height of about 10-12 feet, in a manner that enough sunlight keeps coming to plants below. Under the second variant, farmers can keep growing two irrigated crops as they have been doing, but the solar trees generate a lot of excess power that can be purchased by the state gov-



## How to create a crisis to solve another

The real danger of Brexit is uncertainty. Is Boris Johnson bluffing just to make the EU give him a better deal or is he serious?

**MEGHNAD DESAI**

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Views are personal



**THE BRITISH ECONOMY** is a good story to follow for anyone who wants to test how strong their heart is. Since the Referendum in June 2016, which resulted in a win for Leavers, two prime ministers have left defeated and now Boris Johnson is promising to exit on the deadline of October 31, come what may. Do or die is another expression.

UK was supposed to exit on March 29, 2019, two years after invoking Article 50 of the Lisbon Treaty (the Constitution of the European Union). That deadline slipped. The Deal that Theresa May had negotiated was rejected thrice by the House of Commons. Under pressure, Theresa May negotiated two new deadlines. First, in the last week of May to avoid UK having to send MPs to the European Parliament; that deadline slipped. The new deadline is October 31, 2019—Halloween day.

The Conservative Party is the single largest party in Parliament, but does not have a majority (thanks to Theresa May's mistake in calling a snap election in 2017, which lost her enough seats to lose the majority). They have an informal coalition with the DUP, a Northern Ireland Party. Despite that, she lost the vote on her Deal three times, because a core of around thirty "Hard Brexiters" in her own Party thought her Deal was not enough to eliminate the influence of the EU on the UK economy completely. These Hard Brexiters are like a fanatical religious sect. They want an exit at any cost, preferably with No Deal.

The EU is a customs union, which means trade within the Union is free of tariffs or quotas. A Deal would list the conditions under which trade could continue on favourable conditions after exit. A No Deal exit could bring trade to a shuddering halt or long delays. Brexit, with or without a

Deal, is predicted to have a severe negative effect on the British economy. But, the fanatics reject these predictions as 'Project Fear' and argue that once free of the EU, the British economy would be free to prosper.

The country is gripped by the prospects of Brexit. There are deep differences between the Leavers and the Remainers, and also differences within each group. When given the freedom to take indicative votes on what Parliament would prefer rather than Theresa May's Deal, there was no majority of any of the eleven alternatives!

For a country known for the maturity of its political system, Britain is behaving very strangely. Both of the main parties are divided within themselves and obsessed about Brexit. But, the whole movement to leave the EU, which was a hard Left obsession in the 70's, has more recently been argued for by the Right. The UK Independence Party (UKIP)—a fringe party obsessively arguing about leaving EU—became a threat to the Conservatives who imitated them to minimise the former's chances of parliamentary success. But, the real winner of the Referendum was UKIP, which then collapsed because it had no other programme.

Leaving Europe is proving much more complicated than anyone had expected. It was not (to use a current topic analogy) as simple as triple *talaq*, but an elaborate, long drawn-out divorce battle with fights over who gets the house, the children, the pets, the furniture, etc. The Withdrawal Agreement is 586 pages long. There is

a shorter document about future relations. The Brexiters had been boasting that as soon as the UK left the EU, it could sign free trade treaties with many countries. No one had told them that leaving the free trade arrangement that they were in would take time, and negotiating new treaties would take longer still.

No one had expected that the UK would need to contest the European Parliament elections in May 2019, as March 29 was the departure date. That slipped and in the European elections, the Brexit Party quickly formed by Nigel Farage, the former UKIP leader, came on top. Liberal Democrats, who are staunch Remainers, came second. The two main parties trailed behind. This is what hastened the departure of Theresa May, as her colleagues feared slaughter at the next elections if Brexit had not been delivered. This has brought Boris Johnson to the top. He has promised Brexit by October 31, even if he has to leave risk strategy, which Donald Trump has made popular.

Is he bluffing just to make the EU give him a better deal or is he serious? There are only 87 days left to the deadline. A crash departure will depress the economy by 5%, at least. The pound sterling has begun to depreciate on fears of a No Deal Brexit. Boris Johnson has stuck to his threat and promised a large budget to prepare for the No Deal outcome.

The real danger is uncertainty. Once we know what kind of Brexit we will face, then, maybe, the economy will adjust. If not, catastrophe will be the outcome.

ernment. The power generated under this variant is multiple times more than that produced under the first variant, and, therefore, the income augmentation can also be several times more.

At ICRIR, we did a global survey and found that it is being practiced in many countries, from Japan to China to Germany, and India is ripe for this. The problem is mobilising enough capital to install these solar trees. In one acre, you can have 500 solar trees in a such a manner that even tractors can move through them and farmers can keep growing their normal crops. It does not impact their productivity as there is ample sunlight coming from the sides for the crops to perform photosynthesis. The second precondition is that the state should be ready to sign the power purchase agreement.

The current LG of Delhi, Anil Baijal, got excited about this idea and wanted to implement it in Delhi's agri-belt as a demonstration plot. After several meetings with him and his team, the Delhi government actually announced a policy to that effect. As per their calculation, 500 trees can be planted per acre of farming land; the investment in solar panels (trees) will be done by other business persons. The only thing that farmers have to assure is that for 25 years, they will not convert their land to other uses. The economic calculations suggested that farmers can be given ₹one lakh/acre per annum as net income, with 6% increase every year for the next 25 years! This can easily DFI overnight. They do not have to mobilise capital for solar panels since that is done by other businesses, who also make a profit in the process.

Given that power consumption per hectare in Indian agriculture is still very low (see graph), this holds a great promise for several poorer states.

Can the Modi government unleash this revolution of solar power and double farmers' income?

## LETTERS TO THE EDITOR

### The Unnao tragedy

The rape and the attempt on the life of the young woman—now battling for life in a Lucknow hospital—in Uttar Pradesh's Unnao should sear every Indian, stir their conscience and galvanise them into action to prevent such a recurrence anywhere in India. The travails that the victim and her family have gone through since the disclosure of the rape by four-time BJP MLA Kuldeep Sengar do not bear thinking about. The death of a father in police custody due to torture following his implication in an arms case because of his status as a rape victim's father is too harrowing for words. Were the father not the victim's father, the false case under the Arms Act would not have been foisted on him by conniving police officers leading to his custodial death. The stage-managed accident demonstrated the inhumanity the rich and powerful were capable of to punish anyone standing up to them and seeking justice for the wrongs and injustices done to them. The tragedy of the rape survivor mirrors the dark side of our polity. We harp on 'nationalism' and coin slogans like *beti bachao*, but fail to protect India's daughters from sexual predators. The tragedy represents the failure of imaginative patriotism—a failure to imagine ourselves in the place of a vulnerable compatriot. The protection and patronage the rape accused MLA received from the state government agencies was in inverse proportion to the untold plight of the survivor's family. The victim and her family members were treated like flies in the hands of wanton boys. BJP, which claims to be women-friendly, could have empathised with the victim and acted to secure her justice. One only prays and hopes that the day when Sri Aurobindo Ghosh's words, "The mighty perish in their might and the slain survive the slayer" become true comes soon for our country.

— David G Milton, Maruthancode

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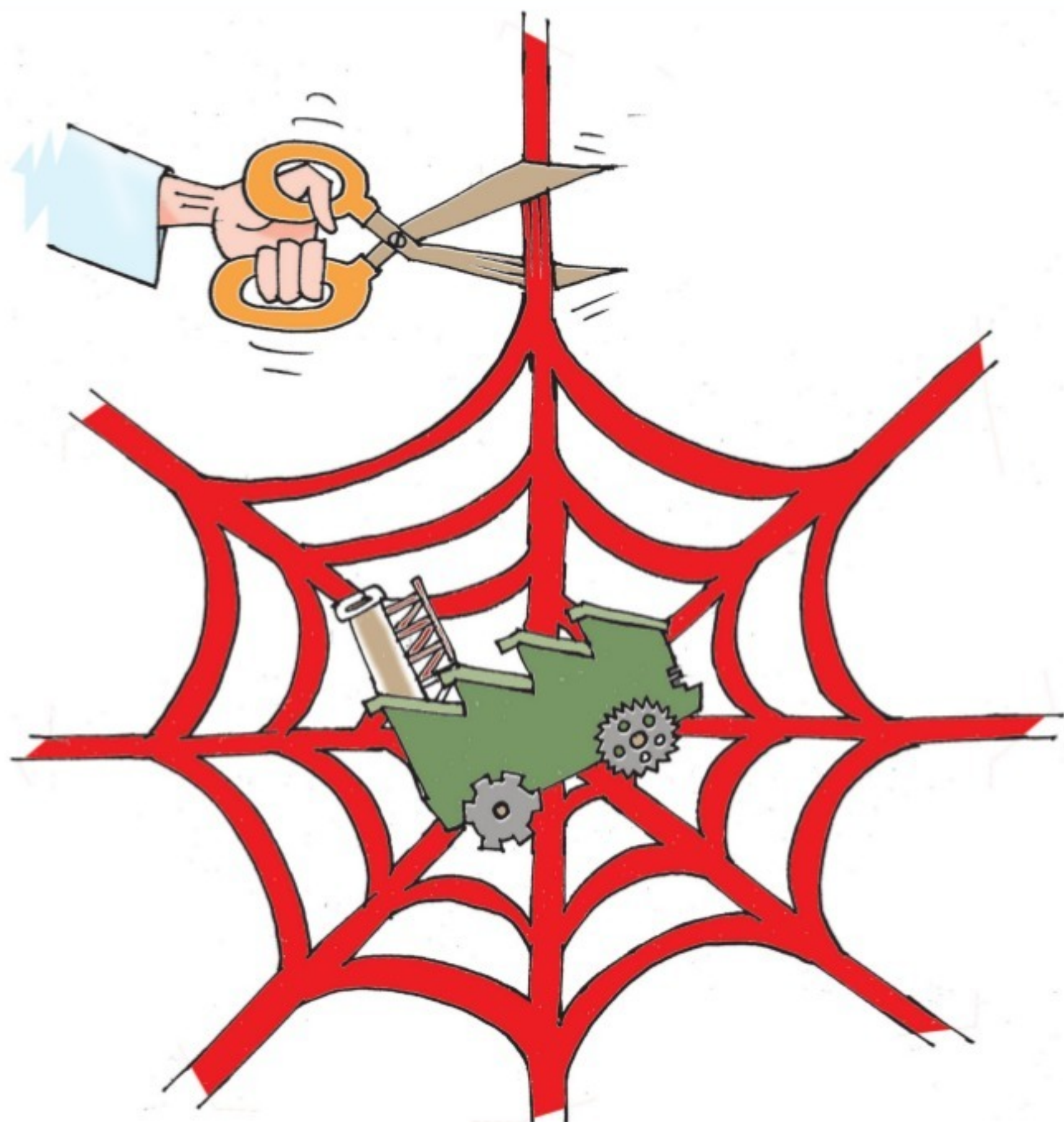


ILLUSTRATION: ROHNIT PHORE

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● OVER THE BARREL

# Reviving investor sentiment

Modi 1.0 moved the needle somewhat towards meeting the necessary conditions for incentivising investment. GST, RERA, the Insolvency and Bankruptcy Act, the improvement in the 'ease of doing business' index, digitisation, etc, were welcomed by the business community. More was expected, but the initiatives were appreciated. Modi 2.0 should now push this needle further

investment. Growth cannot be sustained at the 8% level without reversing the current declining trend in private investment (and exports). This fact has been acknowledged by the Chief Economic Adviser in the Economic Survey, and by the finance minister in her Union Budget speech. Both have stressed the need to revive 'animal spirits' to catalyse the virtuous cycle of investment, jobs, productivity, exports, consumption and growth. Investment is the centrepiece of their growth strategy.

The question, therefore, is what must be done to resuscitate investor sentiment?

At a macro level, the answer is clear. Investors look for macroeconomic stability and a supportive regulatory and policy environment.

They are incentivised to invest when inflation is under control; the fiscal deficit is within prudential limits and the external account is broadly in balance. They want connected and efficient infrastructure, and the easing of supply-side 'factor market' constraints. This means expeditious processes for land acquisition, flexible and unshackled labour policy, and deepened capital markets unlogged from the choke of non-performing assets (NPAs). They also want competitive tax rates, simplified procedures, and transparent and fair mechanisms for dispute resolution. These are well-known and frequently-articulated necessary demands.

The issue is whether these are sufficient? Is this all that is required to spur investment? I am not so sure. I believe there is a subtler condition that also needs to be met. The corporate leader must believe that promise will indeed convert to performance. His subjective preference is a non-quantifiable but important driver of investment decisions.

I was involved with a large multinational for many years. What struck me was that investment decisions were often driven by personal perceptions.

The investment proposals were, of course, subject to rigorous economic and geopolitical analysis. Empirical data was gathered on the market, competition, costs, prices and regulations. Scenarios were built to capture the consequences of the unexpected. Sensitivity analysis was carried out to define the range of possible outcomes. But when the analysis was finally presented for a decision, the discussion often focused on the intangibles of geopolitical, bureaucratic and regulatory risk. And the decision was often driven by the leadership's perceptions of these risks than by the hard numbers presented to them.

I was at the helm of the company at a time when China was the flavour of the international investor community. I found myself continually battling perception. People knew more about India than China. But what they 'knew' about India was mostly negative. Their perception was it was tangled in an undergrowth of red tape, bureaucratic encumbrance and regulatory uncertainty. On the other hand, what they knew about China was positive, albeit limited. They did not understand the investment environment. They did not speak the language; and Chinese culture was an enigma. But they 'knew' that China offered a huge market with massive potential. This perception (and, of course, reality) was an important determinant of the final decision. India also offered a large market and potential, but unfortunately perception militated against a positive decision. On at least two occasions, an investment proposal for India was turned down in favour of a project in China even though the projects were similar and the earning power of the former was higher than that of the latter. The reason was the subjective preconditions of the corporate leaders.

The UPA-2 will be remembered for the ignominy of corporate scandals. The telecom and coal scandals showed up the nexus between corrupt politicians and opportunistic businessmen. It was crony capitalism at its worst. The banking crisis has its genesis in this nexus. Modi 1.0 broke this nexus decisively. It ended what Raghuram Rajan has referred to as "relationship-based capitalism," in which the 'quid' of corporate 'hospitality' was exchanged for the 'quo' of 'political favours'. It redefined the nature of engagement between the government and business. Today, few, if any, corporate houses can be confident of extracting favours from the political leadership.

Modi 2.0 should carry forward this reset in the terms of engagement. It runs no risk in forging a collaborative relationship with business. Whereas there might have been a public backlash had it sought such a relationship in the aftermath of the scandals that shook the UPA government.

Modi 1.0 moved the needle somewhat towards meeting the necessary conditions for incentivising investment. GST, RERA, the Insolvency and Bankruptcy Act, and the improvement in the 'ease of doing business' index, digitisation, etc, were welcomed by the business community. More was expected, but the initiatives were appreciated. Modi 2.0 should now push this needle further.

Business and government occupy different spaces. But they have interlocking interests. The walls separating the two should, therefore, be perforated. The finance minister has called for such a perforation. She made explicit in her Budget speech the government's interest in bringing private industry into a partnership relationship with it. She should follow that up with the assurances that the government does not regard every businessman as a tax dodger; or every business as bent on gaming the system. That, instead, it wants to build a relationship based on mutuality of interest and trust.

**Business and gov occupy different spaces. But they have interlocking interests. The walls should, therefore, be perforated. The finance minister has called for such a perforation**

**Correction of India's capital markets more close to medium-term fundamentals may be treated as a healthy sign**

## EFFICIENT CAPITAL MARKETS Kick-starting the investment cycle

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**A**N INNOVATIVE INITIATIVE proposed in the Union Budget 2011-20 relates to the minimum public shareholding (MPS) of listed companies, which would increase from the current level of 25% to 35%, going forward. The time frame for the same is not specified. Going by past experience, India took about eight years to achieve 25% MPS in listed companies, and many PSUs are yet to reach the stipulated MPS. Hence, raising it to 35% may take at least five years from now, unless the government, in consultation with SEBI, issues a whip to achieve it as early as possible.

After the global financial crisis, both Dow Jones Industrial Average and BSE Sensex were hovering at 8,000-9,000 points (December 2008). While the former crossed 27,000 by early July 2010, BSE Sensex surpassed the 40,000 mark before the Budget. It would be unwise to believe that India's macroeconomic fundamentals are more stable than those of the US in the medium term. India's capital markets story points towards excessive speculative activities. This has been possible mainly due to too much money chasing too few floating stocks. Widening of MPS, proposed in the last Budget, is therefore considered a decision in the right direction.

This initiative would not only curb excessive speculative activities, but also channelise household savings towards capital markets in a big way. Moreover, volatility in the Indian stock market may decline due to availability of large floating stocks. When the government is committed to widen the floating stocks, there is little scope for large buybacks of equities. In this context, the government's decision to tax buybacks of shares of a listed company at 20%, similar to those of unlisted companies, is a welcome step. The pressure of the corporate sector to waive tax on buybacks of equity shares of listed company, if entertained, may defeat the very purpose of widening MPS.

As of now, many corporate houses are deleveraging to resolve their balance sheet problem. In fact, they are not in a position to honour their commitments on loan repayments/servicing of debt securities. How can they finance buyback of equities in such a situation? Would it create artificial scarcity of floating stocks and jack up equity prices, leading to speculative bubble? So, buybacks of equity shares of listed companies should not be encouraged, let alone waiving of tax on buybacks.

Price discovery may be efficient if equities are widely held, instead of in the hands of a few stakeholders. Moreover, concentration of shares in the hands of a few encourages governance malpractices, including insider trading, which is rampant in India despite stringent SEBI regulations.

India's equity markets reacted adversely in response to Budget proposals, despite positives like withdrawal of 24% limit on FPIs, merger of NRI investment with FPIs within sectoral limits, development of secondary market in AAA-rated corporate bonds, social stock exchange, etc. Besides hike in MPS, FIIs investing in India as trusts/association of persons were affected due to hike in surcharge on the super-rich—annual income of individual/trust exceeding ₹2 crore.

Currently, about 40% of FIIs are operating as trusts in India. Since FIIs have the option to convert into corporate entities to avoid payment of surcharges, income tax laws need not be revised for them. The government may have to take a call on one-time transfer of shares from trust to corporate floated by FIIs. This will clean up non-transparent and unhealthy practices followed by FIIs to access India's capital markets. Immediate reactions of India's equity markets to Budget proposals need to be seen in the context of speculative positions that might have built up after the landslide victory of the incumbent government in the elections.

Given the twin balance sheet problem, sluggish growth in private investment and poor performance of export sector due to global headwinds, correction of India's capital markets closer to medium-term fundamentals may be treated as a healthy sign—from the point of view of medium-term consolidation of capital markets. Moreover, price discovery based on fundamentals of the economy can encourage fresh equity investments and revive animal spirits amongst entrepreneurs. An efficient capital market may, therefore, kick-start the much-needed virtuous investment cycle in India.

**ENVIRONMENTAL ISSUES**

**HAVE** been increasingly disturbed because of global business practices, as also due to social issues and problems in handling waste. Environmental concerns are weakening developing countries and they cannot be ignored any more. Several examples show direct connection between growth and environmental degradation: China logged over 75 million hectares of forests in the last decades of the past century. Expectedly, in 1997, severe drought caused by the drying of the Yellow River affected people and industries in northern China. The following year, flash floods in the Yangtze River caused damages worth \$30 billion. The Chinese government concluded that deforestation was behind these events, and it has banned logging.

Some nations prohibit import of goods that cause ecological damage. For example, the US has banned the import of shrimp harvested without the 'turtle excluder device', because of its concern for endangered sea turtles. In 1994, the WTO intervened to address concerns regarding the import of shrimps and its impact on turtles—known as the Shrimp and Turtle case. The ruling was adopted on November 6, 1998. However, Malaysia persisted in their complaint and initiated DSU Article 21.5 proceedings against the US in 2001, but the US prevailed in those hearings.

Developing countries are affected by the relocation of polluting industries from developed areas. Also, many products that

# Making trade work for environment

We must not compromise on environmental quality in international trade

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are banned in developed nations are marketed in the underdeveloped world. Environmental integrity is crucial for a developing nation such as India and must be guarded under all circumstances. In the last couple of years, acute water shortage has forced some companies to shut down. Incidences of droughts and floods have also caused incalculable financial losses. Over 2,000 Himalayan glaciers have reportedly melted in the past few decades, causing floods and climatic changes.

The dumping of nuclear and hazardous waste in developing countries and the shifting of polluting industries to developing countries impose heavy social costs. In August 2006, cargo ship *Probo Koala*

discharged 500 tonnes of toxic waste in Abidjan, West Africa, killing 17 people and poisoning thousands. In 1988, thousands of barrels of hazardous waste disguised as building material was discovered in the village of Koko in Nigeria. Several barrels were unsealed, causing leakage and serious health effects to residents. Exploitation of natural resources of developing countries to satisfy global demand causes ecological problems. African nations have long been at the centre of such incidents.

When MNCs exploit underdeveloped countries by using polluting technologies, they must be severely punished. When we don't care for the environment, it destroys the mankind and living beings unbeliev-



ably. Environmental CSR aims to reduce damaging effects of business processes. CSR activities focus on energy use, water use, waste management, recycling, emissions, etc. At times, developed nations raise environmental issues as a trade barrier rather than for genuine reasons.

The debate has intensified in recent years on the connection between trade and environment, and the role of the WTO can play is important in promoting environmental-friendly trade. Those who have raised a roar of environmental issues at the WTO have a valid reason because of circumstances where trade and the pursuit of trade liberalisation have had harmful environmental effects. Also, trade can neg-

atively impact environment when property rights in environmental resources are ill-defined or prices do not reflect scarcity.

When the ordinance of NAFTA expansion to Peru was passed in 2007, alert citizens and environmental groups warned that the Peru FTA would incentivise a massive sell-off of the sensitive Peruvian Amazon rainforest to oil & gas companies. Such situations result in the abuse of scarce environmental resources and degradation, which worsens through trade. Some of the pollution can be purely local, such as polluting waterbodies because of chemical waste from local factories, or noise pollution due to factories, etc. Other pollution can have global repercussions; for exam-

ple, excessive emission of greenhouse gases, destruction of rainforests, and so on.

Another fact to consider here is if some countries have low environmental standards, big businesses are likely to shift production of environment-intensive or highly-polluting products to the so-called pollution havens. Worse, trade-induced competitive pressure forces countries to lower their environmental and health standards. Women working in Cambodian factories supplying some of the world's best-known sportswear brands are suffering from repeated mass fainting due to excess heat and pathetic working conditions. Factory owners have not properly invested in safety of work environment and are paying very low wages to the workers. Also, short-term contracts are a root cause of job insecurity; workers cannot refuse overtime, because they are insecure about their contract renewal.

A positive point to note in international trade is that some nations have extremely high quantities of raw materials, which they are unable to use domestically. For example, Australia has the most iron ore reserves in the world, at 35 billion metric tonnes. Venezuela has the largest oil reserves, with 297.6 billion barrels. With freer trade, Australia sells easily its excess iron ore and Venezuela sells oil to other nations, and takes advantage of their material surplus to benefit their economy.

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