When both yin & yang play truant

All is not well at the country's largest private airline

OUT OF THE BLUE

ANJULI BHARGAVA

In a news report that appeared in one of the dailies earlier this month, IndiGo CEO Ronojoy Dutta claimed that differences between the airline's two promoters have been successfully resolved and peace has been restored.

In response to his "phew" of relief, I have only one word: Hah! A glass once cracked is never the same again and this one is no different. Differences to my mind would be satisfactorily resolved when one promoter asks to be reintegrated into the day-to-day running of the airline and the other gracefully accepts. Even if it may be a while away for this to happen, there are other problems that have beset the airline of late.

I'll begin with the very latest. As Mumbai rains wreaked havoc once again last week, it was IndiGo that found itself drowning in a pool of public anger as 36 of its flights failed to take off on time or were cancelled in a single day. The airline found itself acutely short of ground staff to handle irate passengers and faced a massive public relations crisis. Several passengers are still reeling from the poor handling and many — including a few who wrote to me — have sworn never to fly the airline again.

If this can be dismissed as just an angry reaction to a moment, I would not call it a cause for concern. But IndiGo's sheen — and its efficiency in domestic operations — has been on the wane for a while now.

I'll cite just one example to highlight why I'm finally putting pen to paper although I have numerous such examples in stock; Since I write frequently on aviation, readers, friends, friends of friends, family and acquaintances have reduced me to an agony aunt, albeit a reluctant one!

A frequent flier of the airline — who usually takes anywhere between 12 to 15 flights a month, many of which are on IndiGo, on account of its frequencies — wrote to tell me that she had decided to boycott the airline after facing a spate of cancellations in the last few months, most of which she learnt about less than 24 to 36 hours in advance. Since her work requires her to be in cities for meetings at specific times, she is forced to rebook — at a far higher cost — each time on another carrier operating in the same time frame. Since the cancellations were sudden, she ended up paying almost double the regular fare for each sector.

But her saga is filled with more anguish. In one of the cases, her mother was travelling with her from Delhi to Bengaluru on an evening flight when it was cancelled last minute. Since she had no option but to reach Bengaluru the same night, she and her mother were first sent by the carrier to Mumbai and then Bengaluru, eventually landing there at 2.30 am. Imagine enduring all this delay and hassle with an 83-year-old in tow! In two cases, she was livid when she learnt of the cancellations only upon arrival at the Mumbai airport (this happened to me recently in February on the Delhi-Dehradun sector so I know how she feels).

I use her example only as illustrative. This has happened so many times to so many people I know that a growing number — especially those who are more time conscious than price conscious — have boycotted the airline as far as possible including some of the editors and columnists of this paper.

The airline is cancelling less than in January and February this year (when the pilot crisis was at a peak) and even compared to its total flights, the numbers cancelled may be insignificant. But the loss of goodwill in every such instance is both immeasurable and irreplaceable. If the airline could work out flight disruption arrangements with other airlines that allow it to put passengers on a rival for the same fare within a similar time band, the goodwill it would earn would be immeasurable. People value concern.

Lastly, IndiGo to my mind is making the classic mistake of adding fat cats at the top of the pyramid while trying to cut costs at the bottom. In 2017-18, when it brought in expats at fancy salaries, it failed to add ground staff at airports in keeping with its expanding fleet to cut flab. Had it not done so, it would have had staff available on the spot to handle just the kind of crisis it found itself in at Mumbai recently. In terms of loss of reputation, it's paid a hefty price for being penny wise and pound foolish.

Train 18 off the beaten track

Controversies over tenders and vigilance enquiries have brought the government's showcase Make in India project to a standstill

SHINE JACOB

In his Independence Day address this year, Prime Minister Narendra Modi said the Vande Bharat Express was a symbol of people's aspirations in India. "People's thinking has changed. Earlier, they were happy with merely a plan to set up a railway station. Now people ask, 'when will Vande Bharat Express come to my area'," he said. Despite being the prime minister's pet project — on a par with the Chandrayaan missions — the Vande Bharat trainset, or Train 18, project, is currently on a very bumpy track.

In the past six months, two consecutive bulk tenders for propulsion systems were cancelled on technical grounds. Then, vigilance cases were filed against the men behind the first train. In March, trade union protests erupted at the Integral Coach Factory (ICF) in Chennai over the likely transfer of the project. Finally, the Train 20 project, for high speed long distance trains, has been shelved.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

Train 18 — named for the year of its launch —was India's first semi-high speed train. Capable of clocking 160-200 kmph, against the average sub-100 kmph speed of India's express trains, it was built at 40 per cent of global prices. The first Vande Bharat Express from New Delhi to Varanasi, the prime minister's constituency, was launched on February 15. Covering 800-odd km in just eight hours, it has been running successfully. Its maiden journey saw massive receptions in various stations and along the track up to Varanasi, proof of Modi's observations about aspirational Indians. Train 18 is a showpiece of Modi's Make in India policy: 80 per cent of its components are indigenous, and it took just 18 months from conceptualisation to manufacturing, no mean feat in a country where such projects take decades to materialise.

Following its success, Union Railway Minister Piyush Goyal had announced that 100 such trains would be launched, even with sleeper facilities, soon. Based on the production programme the Railway Board issued earlier this year, the second trainset was supposed to be on the tracks by April 2019, followed by the third in October 2019. After that, ICF had lined up one trainset each in every alternate month till March 2020 and one rake each per month from April 2020. Based on this road map, the plan was to come up with at least 45 trainsets till 2021-22.

All these dreams seem to be a distant reality now. Now the notion of procuring fully-built trainsets from the open market to get best international technology is doing the rounds, defeating the Make in India policy. A scaled-up Train 18 project is still to leave the station. So what went wrong, considering Train 18 was on a par with the Chandrayaan mission in terms of the national importance accorded to it?

The first sign of trouble started in March when all the trade unions protested against a possible transfer of designing and manufacturing to the Modern Coach Factory in Raebareli, Congress president Sonia Gandhi's long-time constituency which the Bharatiya Janata Party hopes to wrest in the next elections.

Eighty per cent of Train 18's components are indigenous, and it took just 18 months from conceptualisation to manufacturing, no mean feat in a country where such projects take decades to materialise

This crisis was averted after the unions were assured that ICF Chennai would get firm orders.

After this, the first bid for 43 Train-18 propulsion systems were floated. Of this, orders for only three trains were awarded, one for Spanish major CAF and two for the Medha Group, a Hyderabad-based group that supplied systems for the first Vande Bharat train. The propulsion system is considered the most important part of Train 18, accounting for ₹35 crore of the ₹100-odd crore spent on the first train.

So far so good until the government cancelled the first tender on grounds that it was tailor-made to favour the Indian company. At the same time, the government ordered a vigilance enquiry against some members of the Train 18 team for "violation of procedure" for contract awards. To this, the ICF officials counter that global majors such as Bombardier and Siemens had participated in the tender as well, and the first two rakes were awarded on an L1 (lowest bid) basis.

The second tender for 37 trains, too, saw participation from CAF, Cummins, Medha, Titagarh, Bhel and CRRC. This was cancelled, too, for not meeting the specifications set out by Research Designs and Standards Organisation (RDSO), the Railways' research arm. Writing in *The Hindu* on September 16, K Balakesari, a former member, Staff, Railway Board, attributes these failures to the "interdepartmental rivalries and internecine turf wars within the Indian Railways". Speaking to *Business Standard*, Railway Board Chairman V K Yadav said one of the major reasons for the delay on bids was the government's effort to improve certain efficiency parameters. "The energy consumption in Vande Bharat was very high compared to the trains in same category globally. To make it more efficient, we felt it is better to delay further," he said. The RDSO has already come out with new specification and a fresh bid will be floated before October 15, he added. Sudhanshu Mani, the mastermind behind Train 18, declined to comment on the issue.

A senior Railways official said the project will go ahead despite these hiccups. "Such roadblocks are natural in all major infrastructure and manufacturing projects. We always keep on updating tenders as and when required, hence cancellation of a particular tender cannot be considered a hindrance for a particular project," he said. Train 18, he insists, will turn out be a success because the railways minister is constantly monitoring it to ensure that it becomes a reality.

CHINESE WHISPERS

Jaitley Point

Ever since he rejoined active politics in the late 1990s, the late Arun Jaitley would gather each morning with his friends from different fields at a point in Lodhi Gardens. They would take a round or two, and then sit for an extended gossip session. The group included Jaitley's friends from his school and college days, lawyers, journalists, businessmen, and politicians of various parties. One among this group would bring tea for the rest every day. On Sundays, there would be *samosas* and *kachoris* too. Now, some of his friends, including the Congress' Rajeev Shukla and former attorney general Mukul Rohatgi, are planning to write to the New Delhi Municipal Council, the civic body responsible for the upkeep of the park, to declare the corner where Jaitley sat with his friends "Jaitley Point".

A self-goal

Uttar Pradesh Energy and Additional Sources of Energy Minister Shrikant Sharma, who is also the state government spokesperson, has been waxing eloquent about the work done by his department to ensure round-the-clock electricity in urban areas and power supply in rural areas as much as possible. However, his colleague in the council of ministers, Dara Singh Chauhan, who holds the portfolio of forest, has caused much embarrassment to Sharma by stating just the opposite. Chauhan recently wrote to Sharma, complaining about erratic power supply in his Assembly constituency in Mau district. This, he said, was breeding resentment among farmers. The letter was leaked to the media and became viral before being lapped up by the Opposition to target the ruling dispensation. At a time when the Adityanath government is preparing for bypolls in 13 UP Assembly seats, the episode has left the government in disarray.

Brand Govinda

The Madhya Pradesh government, say sources, has roped in film actor and former Congress Member of Parliament Govinda (*pictured*) as brand ambassador for the state. Chief Minister Kamal Nath will make an announcement to that effect just before the state investment summit, Magnificent MP, kicks off next month. Govinda will help promote brand Madhya Pradesh as a tourist and investment destination. He met Nath at the state secretariat in March, but Nath's aide R K Miglani then said the actor was the chief minister's friend and he met him "in that capacity only".

ON THE JOB

Labour supply expands by 4.5 million

MAHESH VYAS

The 17th Wave of Consumer Pyramids Household Survey conducted during May through August 2019 indicates stabilisation of labour participation rate (LPR) at about 43 per cent. At 42.85 per cent it is the same as it was in the 16th Wave. The 14th and 15th Waves had recorded an LPR of 42.74 per cent. Evidently, the LPR is rising in small, cautious steps.

These small changes make big differences. A stable LPR implies a greater number of people have joined the labour force. This is because the underlying population keeps increasing. An increase in the LPR means that a greater proportion of the increased population is participating in the labour markets. A greater proportion of a rising population joining the labour force is the best of both worlds.

The labour force expands by about 3.4 million even when the LPR remains stable. When the LPR expanded by just 11 basis points from 42.74 to 42.85 per cent between the 15th and the 16th Waves, the labour force expanded by 4.5 million.

If all of these 4.5 million, or the 5 per cent increase in the labour force, get gainful employment, even with no change in productivity, they could cause a 5 per cent real growth in GDP. Real life is not so simplistic, but the point here is to merely demonstrate that small changes in participation and gainful employment can make a big difference to overall income and wealth in India.

One big challenge is that India's LPR is too low. Less than half the working age population is employed or seeking employment. It is impossible for any country to grow at anywhere close to full capacity if most people do not contribute to growth by staying out of the labour markets.

In this context, the small recent increase in the participation rate is most welcome in an atmosphere that has mostly projected much gloom and doom.

Labour seems to have overcome the deep scepticism regarding availability of jobs following the twin shocks of demonetisation and GST in 2016 and 2017. The near-precipitous fall in the participation rate during 2017 and 2018 has been arrested. We have not recovered lost ground but we have stopped losing any.

Labour participation has increased substantially among youngsters — those in their twenties. We describe below the data that leads to this conclusion.

To eliminate seasonality, we compare the participation rate in the latest Wave of May-August 2019 against the same in May-August 2018 and in May-August 2017. Besides being exactly two-years ago and one-year ago points of observation, they are interesting in other ways as well. May-August 2017 was the last Wave of the steep fall in the LPR that began in September-December 2016. And, May-August 2018 was the first Wave of the relative stabilisation of the LPR. We study the sources of the stabilisation.

LPR of the age group 20-24 years was 38.8 per cent in May-August 2017. It rose to 42.8 per cent in May-August 2019. Age group 25-29 saw 3.8 percentage points increase to 59.3 per cent. Other age groups have continued to record declines or very small increases.

Amongst males, the increase in LPR is across age groups except among the very young (15-19 years) and the relatively old (60 years or more). The highest increase is in the age group 25-29 years while the fall in the relatively older people is sharp enough to bring down the overall LPR among men. Arguably, this is not a very bad outcome.

There is an increase in the participation rate of young women and that is concentrated in the 20-24 age group.

The next question, of course, is to find jobs for these young men and women who are joining the labour markets.

But is the labour market full of people who cannot find jobs or does it also consist of a lot of employers who cannot find appropriately skilled labour?

Union Labour Minister Santosh Gangwar is reported to have stated last week that there is dearth of labour adequately skilled to meet the requirements of potential employers.

The political slugfest that ensued notwithstanding, the remark was not entirely flippant. Many employers do complain about not being able to find adequately skilled labour. The minister's remark merits serious attention.

It is important to measure the labour markets more comprehensively than just a household survey to understand and solve problems related to its requirements of labour. A household survey tells us a lot about the supply of labour and its characteristics but cannot tell us enough about the demand for labour and its expected attributes. That requires an enterprise survey to match the household survey. India needs to systematically understand the needs of industry. Setting up skilling institutions in collaboration with industry is good but needs to be supported with a solid flow of information from industry based on a large-scale enterprise survey.

The author is the MD & CEO of CMIE

LETTERS

Illusion of strength

This refers to "Govt's ingenious ways to milk the PSUs" (September 16). The government is facing problems of mounting fiscal deficit with much lower than expected GST and other tax revenues, losses incurred by its enterprises such as Air India, MTNL/BSNL and public sector banks (PSBs) etc and increasing expenditure on welfare schemes. It is working on various ways to create the illusion of a financially strong government. Besides adopting the cross-holding model in PSUs, milking the Reserve Bank of India and parking government expenditure under PSUs, it is increasingly using LIC to lend to and invest in loss-making banks, PSUs and corporates like Infrastructure Leasing & Financial Services Ltd. The interests of minority shareholders in PSUs and LIC policy holders seem to have been completely sacrificed at the altar of political expediency and creating an illusion of well-being of government finances. One has to just read the latest Comptroller and Auditor General of India report to get an idea of what is happening.

Arun Pasricha New Delhi

Lifting exports

This refers to the editorial "India's export problem" (September 16). Compliments for beautifully analysing multiple problems of Indian exports and pointing out, perhaps, the single largest handicap — the cost of logistics — that makes our exports uncompetitive. Logistics costs as a percentage of the total price of exports even in an advanced and high-wage country like Germany are significantly lower than those in India. Our turnaround time for ships and trucks at our ports is several times higher than the global standards — half a day and 30 minutes respectively as cited by you. Obviously, the sloth and inefficiency in this crucial area add to the costs incurred by exporters.

Having said that, we must laud that Union Commerce Minister Piyush Goyal has openly acknowledged that exports are vitally important to meet our economic growth targets and we need "19-20 per cent growth in outbound trade" to achieve those targets. This is a great start; admission of the crucial role of exports should itself spur all concerned to pull up their socks. Recent pronouncements of Finance Minister Nirmala Sitharaman — remission of duties or taxes on exported products, automated refund of input tax credit and the relaxation by the Reserve Bank of India — are also positive steps. Let's not scoff at these.

We do need to address the structural problems of red tape and credit availability but let's acknowledge the fact that what the government has already initiated will certainly help in mitigating the problems faced by exporters. Perhaps our exporters also need to stop being "cry babies" and try to stand on their own feet and run faster. As you pointed out, the ongoing US-China trade war offers a huge opportunity for Indian exporters.

Krishan Kalra Gurugram

Control dynamics

This refers to "The legacy issues of public sector banks" (September 13) by Y V Reddy, former governor of the Reserve Bank of India (RBI). The article, while putting the nationalisation of banks carried out in 1969 and 1980 in perspective, raises certain pertinent points. The public sectors banks (PSBs) face dual control of government of India as well as that of the RBI. In fact, the control of the government over PSBs has been a hindrance for the RBI in regulating these banks. Urjit Patel, former RBI governor, mourned the fact that while he was in office, the RBI did not have adequate regulatory powers to regulate the PSBs. Clearly, time has come for putting PSBs under absolute and unequivocal regulation of the RBI without the government having a say in the matter. As this would require wider political consensus, all stakeholders need to work towards this.

Sanjeev Kumar Singh Jabalpur

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Strategic vulnerabilities

Attack on Aramco raises questions for Indian security

An unprecedented attack using unmanned aerial vehicles or drones on Saudi Arabian petroleum giant Aramco's oil-processing facilities, reportedly by Yemenese Houthi rebels, has shaken up the Indian and world markets. Following Aramco's confirmation that it would shut down half its output — almost 6 million barrels a day, 5 per cent of global production — oil prices showed an intra-day increase of almost 20 per cent, the largest such spike in recent years. Effectively, all the spare processing capacity in the system has been wiped out. Much now depends on how soon Saudi Arabia can bring some of it back online, and whether tensions between Iran, which backs the Houthi rebels, and the Saudi-US alliance can be controlled. Other major oil producers may have to compensate by increasing output — the US has already announced that it will open its strategic reserve in response. In India, the rupee fell against the dollar, reflecting increased concerns about instability in the external sector and inflationary pressure, thanks to higher oil prices.

For India, there are two strategic vulnerabilities that have been exposed by this attack. The first is that India, which imports over 80 per cent of its oil, continues to be dependent on a low and stable price for its macro-economic stability. The current account deficit is currently manageable, thanks to a demand crunch domestically. But every time the price of a barrel of oil goes up by $1, India spends a little over ₹10,500 crore more on imports. The country spent $112 billion on oil imports in 2018-19. Saudi Arabia accounts for around 10 per cent of the global supply and is the second-largest supplier of crude oil and cooking gas to India.

If enough other pressures are brought to bear on the economy at the same time, a spike in the price of oil would lead to severe instability. The government has not done enough, in spite of a long period of low oil prices since 2014, to deal with this strategic vulnerability. There is only one real solution: High and sustainable export earnings, which would provide confidence about the external account. But Indian exports have seen little growth in real terms for years and, in fact, shrank 6 per cent year-on-year in August, the last month for which the data is available. Reviving and renewing the export sector is not just imperative for growth but also for stability.

The other vulnerability exposed is of India's own refining infrastructure. The giant private sector refineries at Jamnagar in Gujarat, for example, at least since 26/11 have been viewed as exposed to attack from across the border. In fact, the government amended the Central Industrial Security Force Act to ensure that installations even in the private sector that are considered of vital national importance are protected. The threat goes beyond refineries, of course, to other installations — such as solar parks — that may be difficult to secure from drone attacks. Sophisticated anti-missile shields may not work against drones that hug the ground and escape radar notice. These are not precisely low-tech, but are not expensive to buy or maintain. In areas further back from the national frontier, geo-fencing and drone-detection mechanisms will need to be re-examined — the civil aviation ministry released a state-of-the-art drone policy in December last year, but it should be revisited for any loopholes following this attack. Of course, regulations must also recognise that drones have many useful and productive applications, and should not stifle technological innovation or adaptation.

Don't repeat the mistake

Politicians' calls for NRCs in their states are irresponsible

Haryana Chief Minister Manohar Lal Khattar has reportedly said that his state will implement the National Register of Citizens (NRC), the controversial exercise that attempts to enumerate and record all Indian citizens in a state by asking them to submit paperwork demonstrating their, or their forebears', presence within Indian territory prior to a particular cut-off date. Mr Khattar's statement appears to have bipartisan support in Haryana; his predecessor, Bhupinder Singh Hooda of the Congress, also said it was the responsibility of the government to identify non-citizens. Haryana, which includes the prosperous Delhi suburb of Gurugram, has been riven for years with unsubstantiated claims about mass Bangladeshi immigration, and there is much political fodder to be made from an NRC-like process. Indeed, even the chief minister of neighbouring Uttar Pradesh, Yogi Adityanath, has said that the NRC can be started in UP phase-wise, because it is "important for national security and will also put a stop to the rights of the poor being taken away by illegal immigration".

What is odd about this rush by politicians to call for the replication of the Assam NRC process elsewhere in India is that the failures and gaps in how the NRC has been prepared have become glaringly evident over the past weeks. Even the Assam BJP is far from happy with the end result, in which 1.9 million people have been left at risk of statelessness. They believe that too many Muslims have been included in the list of citizens and that too many Hindus have been excluded. The problems of gathering paperwork to demonstrate antecedents in India have also become widely known. Given these problems, it is hard to see how any objective case can be made for replicating such a flawed process elsewhere. It is also important to note that Assam is after all a special case. The NRC process in Assam arose not from a vacuum but from an official accord signed by the Government of India in the 1980s, which committed it to enumerating citizens in Assam. It is also valid to note that the Assam Accord created a citizenship cut-off of 1971, two decades after the cut-off for the rest of the country. Extending the NRC to the rest of India thus will be legally and practically even more complicated. Further, there will be a limited pay-off in terms of identifying illegal immigrants if the NRC Assam is any guide — the exaggerated numbers thrown around for years about "infiltration" were not reflected in the final NRC. Politicians should refrain from scoring political points about something so disruptive and socially problematic.

Questions also need to be asked now about what happens to the 1.9 million identified in Assam as possible non-citizens. Foreigner tribunals — another Assam-specific institution, which are not available as appellate bodies in the rest of the country — are worryingly biased. If a significant proportion of the people are eventually declared non-citizens following legal appeals, then India has the responsibility of dealing with these stateless people — since Bangladesh is certainly not going to take them back. Reports that giant detention camps are being built do not provide much comfort. Such camps cannot be a permanent solution; they will be a humanitarian and economic disaster. Legal re-integration of the stateless into the economy and society, together with a path to citizenship for their children, must be a priority.

ILLUSTRATION: AJAY MOHANTY

Limited choices in strategic partners

The defence ministry has lost sight of what it intends to achieve via the strategic partnership route in manufacturing

Serious drawbacks were highlighted last week in the defence ministry's so-called Strategic Partner (SP) model of procurement, when five Indian entities submitted Expressions of Interest (EoI) for being the SP in Project 75-I — the plan to build six conventional submarines for an estimated ₹45,000 crore. There were two responses from the private sector — Larsen & Toubro (L&T) and Reliance Naval and Engineering (RNaval). Another two came from defence public sector shipyards — Mazagon Dock Ltd, Mumbai (MDL) and Hindustan Shipyard Ltd, Visakhapatnam (HSL). A fifth response came from a proposed special purpose vehicle (SPV) between HSL and Adani Defence, even though SPVs were not invited to bid. HSL thus submitted two bids, effectively competing against itself.

In many ways, this mirrored the response to the only other SP procurement that progressed earlier — for building 111 naval utility helicopters (NUH) for ₹21,738 crore. In May, EoIs were received from L&T, Tata Advanced Systems, Adani Defence, Mahindra Defence, Reliance Defence and the Kalyani Group. Although the defence ministry solicited bids only from private firms, public sector Hindustan Aeronautics Ltd (HAL) also threw its hat in the ring, submitting two EoIs — one in its individual capacity and another in a joint venture with Russian Helicopters called Indo-Russian Helicopters Ltd (IRHL). The defence ministry has remained silent.

To understand how the SP model works, let us consider Project 75-I. The selected Indian SP will build the six submarines in technology partnership with a foreign original equipment supplier (OEM) that is being chosen in a separate process. Four OEMs — Rubin Design Bureau (Russia), Thyssenkrupp Marine Systems (Germany), Naval Group (formerly DCNS, France) and Saab-Kockums (Sweden) formally responded to a "request for interest" the Indian Navy floated in October 2017. Since then, two more shipyards — Navantia (Spain) and Daewoo (South Korea) — have also indicated interest. Which of these six are actually in the fray will become clear on September 24, the last date for OEMs to submit EoIs. Then, after examining the SP and OEM proposals, the defence ministry will shortlist those it considers eligible. Shortlisted SPs will then pair up with approved OEMs to submit formal proposals. The defence ministry will award the contract to the SP-OEM pairing that it believes would build the submarines most cheaply, with the highest indigenous content and the most technology transfer. The aim is to equip the Indian defence industry with the skills and infrastructure to design and build the navy's next 12 submarines without foreign help. Towards this end, Project 75-I proposes to incentivise OEMs that will deliver higher indigenous content than the minimum mandated level, which is 45 per cent in the first submarine, increasing to 60 per cent in the sixth.

However, somewhere along the way, the defence ministry has lost sight of what it intended to achieve — which was to nurture private defence firms that would compete on equal terms with the nine defence public sector undertakings (DPSUs) and the 41 factories of the Ordnance Factory Board (OFB) that monopolised defence production until 2001. In 2005-06, the Kelkar Committee recommended that technologically capable and deep-pocketed private firms be nominated Raksha Udyog Ratnas (RuRs, or defence production jewels), each operating in a specific technology sphere. The RuR identified for fighter aircraft would compete with HAL. The RuR chosen for artillery guns would compete with the OFB. The chosen RuR for submarine building would compete with MDL.

BROADSWORD

AJAI SHUKLA

Before long, this excellent initiative encountered push-back from OFB/DPSU trade unions, which feared job losses as manufacturing orders, hitherto handed to them on a plate, flowed instead to the more nimble and productive RuRs. Defence ministry bureaucrats, many of whom directly oversaw the defence public sector, also opposed competition from RuRs. Further, there was deep bureaucratic reluctance to be involved in selecting RuRs, especially after the decision-makers in the allocation of telecom spectrum and coal mining blocks faced corruption accusations. Consequently, for the duration of AK Antony's defence ministership, the plan to pro-actively build up private defence manufacturers was put on the shelf.

In 2015, Manohar Parrikar, a defence minister who had once been an entrepreneur, resurrected a similar proposal, incorporating private sector SPs in place of RuRs. Two Parrikar-appointed committees — the Dhirendra Singh Committee and the VK Aatrey Task Force — set out stringent modalities for choosing SPs, including the financial and technical requirements companies were required to meet. But familiar resistance from bureaucrats and unions held Parrikar back until he relinquished charge as defence minister in March 2017. His successor, Arun Jaitley, took only weeks to announce an SP policy that entirely subverted its original aim. Jaitley allowed in OFB/DPSUs, forcing the private sector to compete with public sector entities that had been built up through decades of government largesse, including land, construction infrastructure, manpower skilling and technology transfer over multiple contracts awarded without tendering. Jaitley's policy also diluted the domain competence needed to be an SP. A company no longer needed submarine building skills or "system-of-systems" domain competence to bid as an SP in a submarine project. Instead, it was enough to have commissioned, or owned a power, steel, chemical or automobile plant.

Besides the requirement for private companies to compete on unequal terms, there are other concerns about how Project 75-I is being pursued. Eyebrows have been raised over the entry of Adani Defence, which neither has a shipyard nor any shipbuilding experience; its participation rests on the parent Adani Group's power plant. Since dry docks, wet basins and outfitting berths are essential for building submarines, Adani Defence relies on its SPV with HSL to meet those EoI conditions. But the rules demand that a bidding company must exist on the date the EoI is submitted — the Adani-HSL entity apparently does not. Nor is HSL eligible to bid alone, since it neither meets the EoI's financial criteria (turnover and net worth), nor has it delivered a platform worth ₹300 crore in the last five years.

Project 75-I starkly underlines the ambitions of Adani Defence, which, despite never having manufactured a single defence item, is on track to contend in all the four SP procurements planned. It is already participating in the NUH project and Project 75-I. Having tied up with Saab of Sweden, Adani will almost certainly pitch for the forthcoming SP tender for building 114 fighters in India. That leaves only the project for building tanks and, given the stakes Adani has picked up in tank electronics firm Alpha Design Technology, armoured vehicles seem to be in its crosshairs too.

The Reliance Group seems equally focused, despite the Rafale controversy, RNaval's severe financial woes and a looming corporate insolvency process under the Indian Bankruptcy Code. RNaval might shelter behind its parent group's financials, but Reliance Infrastructure's poor liquidity and a credit rating of 'D' severely dents its prospects to qualify. Intriguingly, the defence ministry has diluted the credit rating requirement in its EoI request. The Defence Procurement Procedure of 2016 requires a credit rating of "A" for projects worth ₹1,000 crore. The EoI request dilutes it to "BBB" for a project worth 45 times more. The logic behind this could be interesting.

Finally, timely delivery is everyone's bugbear, except for L&T, which is delivering vessel after vessel ahead of schedule. RNaval is years overdue in delivering patrol vessels to the navy. HSL was years late in overhauling a navy Kilo-class submarine. MDL is years late in delivering the Scorpene submarines under Project 75. It would seem the defence ministry is not spoilt for choice.

The inseparable twin of a trade war

The trade war that US President Donald Trump initiated last year is morphing into new forms of economic conflict with far-reaching implications for the global economy. On August 1, Trump announced that the US would impose a 10 per cent tariff on all imports from China which were not yet subject to the higher tariffs that he had imposed since March 2018. On August 5, China allowed its currency, the renminbi, to slip below the psychologically important 7 renminbi to a dollar barrier. Since this marks a 11-year low for the Chinese currency, various questions tend to spring up. Are we witnessing a currency war as a fallout of the US-China trade war? Or, is the emergence of a currency war in the current context inevitable?

Purely in terms of first principles, if we consider a two-country world, consisting of a home country (say, the US) and a foreign country (say, China), then a trade war from the standpoint of the home country is perhaps intended to reduce the quantity by increasing the prices of exports from the foreign country. There may be several ways to achieve such an objective. Illustratively, weapons like tariffs, subsidies, import quotas, voluntary export restraints, local content requirements, and anti-dumping policies — all can be employed for this purpose. It may not be an oversimplification to note that the current trade war has — until now — primarily been fought in terms of a tariff war. However, if on a parallel track the exchange rate of the foreign country's currency is undervalued, then the efforts and weapons of trade war will be rendered ineffective. Specifically, if the Chinese renminbi gets depreciated with respect to the dollar, then despite the tariffs imposed by President Trump, these imports can still continue to be cheaper in dollar terms. Thus, faced with the possibility of a trade war, the foreign country can think of retaliating in terms of a currency war — a possibility that Brazilian Finance Minister Guido Mantega flagged in 2010, in the aftermath of the global financial crisis.

Interestingly, the perceptions of the International Monetary Fund (IMF) and the US Treasury on the Chinese exchange rate regime differ quite a bit. Consider the following.

The US Treasury in its 2019 report on macroeconomic and foreign exchange policies of major trading partners of the United States noted that it continues to "have significant concerns about China's currency practices, particularly in light of the misalignment and undervaluation of the RMB relative to the dollar."

On the contrary, the IMF in its latest 2018 annual report on exchange arrangements and exchange restrictions has termed the Chinese currency as one of a group of currencies with "crawl–like arrangement". For a currency to be branded as falling within this group, its exchange rate "must remain within a narrow margin of 2 per cent relative to a statistically identified trend for six months or more (with the exception of a specified number of outliers) and the exchange rate arrangement cannot be considered as floating". More recently, the IMF in its *External Sector Report* of July 2019, has noted, "The large reduction in China's current account surplus — from more than 10 per cent of GDP in 2007 to 0.4 per cent in 2018 — was accompanied by a cumulative 35 per cent real appreciation of the renminbi over that period".

BIJU PAUL ABRAHAM & PARTHA RAY

The depreciation of the renminbi in recent weeks has raised fears that China is aiming to counter US tariffs by weaponising its currency. The US has declared China a "currency manipulator". The initiation of a currency war could mark the opening of a new front in the US-China conflict over trade. President Trump has made increasing tariffs on China a major plank of his 2020 re-election campaign. He has justified punitive US tariffs on China as an effective measure to force China to open up its domestic market to US firms. This, he claims, would increase US exports to China, reduce the imbalance in US-China trade and create more jobs in the US. From a purely domestic standpoint his approach may seem appealing. US workers, worried about the loss of jobs to countries abroad, form the core of his domestic support base. Besides, many US analysts have argued that the US was in danger of losing its position as the world's leading economy unless it pressed China to open up its markets and stopped it from violating intellectual property rights of US firms. The trade war, from this perspective is a means to ensuring continued US dominance of the global economy.

While from a US perspective this strategy might seem logical, the implications for the rest of the world are perhaps alarming. This US-China conflict has the potential to set-off counter-actions by other countries that could impact global trade and reduce global growth. After all, other countries also have exports and domestic jobs to protect. China is a major competitor to other large emerging economies in global export markets and any depreciation in the Chinese currency makes their products much less competitive. If other emerging economies let their own currencies depreciate, we might see the emergence of a much wider currency war with unpredictable consequences. The depreciating trend in the rupee in the recent period might even be an indication of what lies ahead.

Chinese currency devaluation in 1995 and the decline in exports from Southeast Asian countries triggered the Southeast Asian crisis of 1997. The resulting economic crisis led to political unrest and regime change in many Southeast Asian countries. The only silver lining, in the current context, could be China's recent assurance that it would not use devaluation as a policy tool. But can one accept such Chinese statements at face value? Or will the currency war escalate, drawing in other countries as well? Only time will tell.

The writers are professors at IIM Calcutta

The justice puzzle

KITABKHANA

T C A SRINIVASA-RAGHAVAN

There are two abiding mysteries in India that no one talks about. One is the failure of those who framed India's Constitution to make justice a fundamental right. The other is the complete failure of activists to take this up.

I would not have expected such a basic flaw to be identified by a person from the corporate sector. They normally tend to be reticent about public policy even after retirement.

So we must congratulate R Gopalakrishnan, formerly of Hindustan Lever and Tata Sons and a fellow columnist in this newspaper, for worrying about this. In a book modestly titled *Doodles on Leadership* he does precisely this. The book is published by Rupa and Co.

I have never met him or spoken to him. About a month ago, he wrote an article in this newspaper about how it was important for government officials to have empathy with the citizen. I wrote to him with a thumbs-up emoji. He responded with a single abbreviated word, thnx.

Since then we have exchanged four or five less-than-10-word emails about the justice issue. He then sent me his book to read.

The chapters that he calls doodles have made me wonder: If this is how he doodles, what would he do if he were to produce something more substantial, say, a business history of post-1991 India? A practitioner's critique would surely be very useful for economist-historians who have dominated the business of writing business histories.

Most of the seven of the 10 essays in this book are focussed on business and management issues. They form a subset of intellect of which most economists are blissfully unaware. They should be made aware of it.

The last three are about other things like the Indian mindset and the relationship between a nation and its society of which business enterprises are a crucial part.

And then, there is the chapter on justice, a clear outlier. It stops short of saying wtf. But the sheer bewilderment of the author is writ large.

R Gopalakrishnan makes a devastating point: India doesn't really care about justice for the citizen. Had it done so, it would surely have made justice a fundamental right along with the rest of them

Mr Gopalakrishnan makes a devastating point: India doesn't really care about justice for the citizen. Had it done so, it would surely have made justice a fundamental right along with the rest of them.

He also tells us how the Law Commission has been in existence since 1834 — yes, for 185 years — and has been unable to persuade any government since then that justice should not only be seen to be done but actually be done. In India, he says giving the delays, it rarely is either done or seen to be done.

He cites the example of a bus conductor who, in 1973, was suspended for overcharging by five paise and pocketing the difference. The case is still pending.

He also talks about the Jessica Lal case and the Nirbhaya case where the juvenile rapist was treated leniently on a technicality — that when he committed the crime he was a few weeks short of attaining adulthood.

Then there is the S P S Rathore case in which the offender, a very senior police officer in Haryana got away after 26 years with a ₹1,000 fine. He had been convicted of molesting a young girl.

He quotes the Law Commission to show that successive governments have deliberately kept the judiciary on a tight financial leash. This, by the way, is a complaint a former colleague of his in Hindustan Lever, S L Rao, used to make in the context of regulatory agencies — the government never gave the agencies enough money. Mr Rao was an early chairman of CERC.

Like a good manager, Mr Gopalakrishnan is not content to ask the questions. He also provides the answers.

The problem, he says, is like the broken window problem in criminology where everyone assumes that someone is repairing it but no one actually is.

He also cites Amartya Sen's phrase "inflamed minds," guiding public policy to suggest that outrage can be an effective tool in the hands of the public. But after watching some of our TV anchors I am not very persuaded by this.

Mr Gopalakrishnan has five solutions. One, allocate more money for justice delivery; two, de-emphasise procedure in favour of substance; three, limit the number of adjournments; four, penalise frivolous litigation; and five, a better self-correcting judiciary.

The first four are eminently doable but the last requires Russell's Paradox to be solved: It asks who shaves the barber who only shaves those who do not shave themselves.