Investment in manufacturing key for India

Without rapid expansion of this sector, fast and consistent growth is unlikely

THE OTHER SIDE

A V RAJWADE

During his recent visit to the US, Prime Minister Narendra Modi met the chief executives of several American corporations, presumably to market India as an investment opportunity. Press reports indicate that most of the CEOs present were from enterprises in the service sector (Amazon, Google, Cisco, Microsoft, Mastercard etc) and few from the manufacturing or industrial sectors, when there is a great need to increase the contribution of these segments to our gross domestic product (GDP), growth and job creation. In the last 70 years, no Asian economy has grown fast and consistently without rapid expansion of the manufacturing sector. And, the government's own objective for "make in India" is to increase the contribution of the manufacturing sector to 25 per cent of GDP by 2025, from the current level of around 16 per cent.

This preponderance of service sector CEOs in the meeting is also reflected in the actual inflows of foreign direct investment (FDI) in India, in which manufacturing has a very small proportion — but manufacturing dominates outflows. General Motors recently announced closure. Lafarge, the cement giant, has sold its holdings. One wonders whether cases like the tax demand on Cairns UK, currently under international arbitration, has something to do with the issue. (Some US investors in Cairns had requested their government to raise the issue during the Prime Minister's visit.) Nokia also left India because of tax issues. Posco and Arcelor Mittal seem to have given up the idea of investing in Indian manufacturing. Nor do domestic entrepreneurs seem very enthusiastic about creating new capacity. Project investments have fallen sharply in the first quarter of 2017-18, even as stalled projects have ballooned.

As for FDI, do our low sovereign ratings by international agencies have something to do with this? One doubts, but it is humiliating to see policymakers of the world's third-largest economy (in public-private partnership terms) pleading for higher ratings; adopting fiscal deficit targets at least partly to please international agencies even at the cost of starving the economy of needed investments. On the subject of sovereign ratings and how much they matter, one recent case is worth recalling. China was downgraded by Moody's a couple of months back. This has not stopped the European Central Bank from starting to invest part of its reserves in the Chinese currency — or MSCI from including China's "A" shares (that is, those traded on the domestic exchanges) in its index of international equities.

The introduction of a uniform goods and services tax (GST) from July 1 should help ease of doing business in India. (We currently rank a low 130 in the World Bank's rankings.) President Pranab Mukherjee praised the Prime Minister and the finance minister for this reform, which governments of all hues had tried to implement for decades without success. (Mukherjee should know the difficulties — he himself tried to make the change when he was the finance minister, but failed despite the full backing of the then prime minister.)

But it is perhaps the need for larger investment in infrastructure that is the biggest shortcoming. Infrastructure projects are, almost by definition, capital-intensive, with long gestation periods and not really suitable for commercial bank finance. They need public funding. But self-imposed fiscal constraints have passed on the burden to the banking system. There is no empirical evidence to suggest that public debt beyond 60 per cent of nominal GDP is risky or counterproductive. (The euro zone's parallel is not relevant for us: The euro is, for public debt purposes, a foreign currency for member countries.)

The other problem in manufacturing growth is that bank lending to industry has slowed down considerably after non-performing assets grabbed the headlines. In the latest Financial Stability Report, the Reserve Bank of India has emphasised that the stressed banking sector may drag down growth. This apart, the introduction of the new accounting standard (Ind-AS) would mean greater provisioning and add to the capital needed for meeting the Basel III norms. Mitigating the bad debt problem and recapitalising banks for them to increase lending, both would need substantial commitment of public resources; institutional and regulatory reforms alone may not do the trick.

Our Prime Minister has demonstrated his willingness to take bold decisions, some recent examples being demonetisation, the move to privatise the perpetually loss-making Air India and the introduction of GST. (In a recent full-page article, *Financial Times* headlined GST as a "great tax gamble".) Will he be bold enough to relax fiscal constraints that are coming in the way of both infrastructure investment in the economy and resolving the bad debt problem on a sustainable basis?

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Unlocking growth, integration in transport infrastructure

There is a need to move away from a single-asset view of traditional planning to building efficient, multi-modal networks

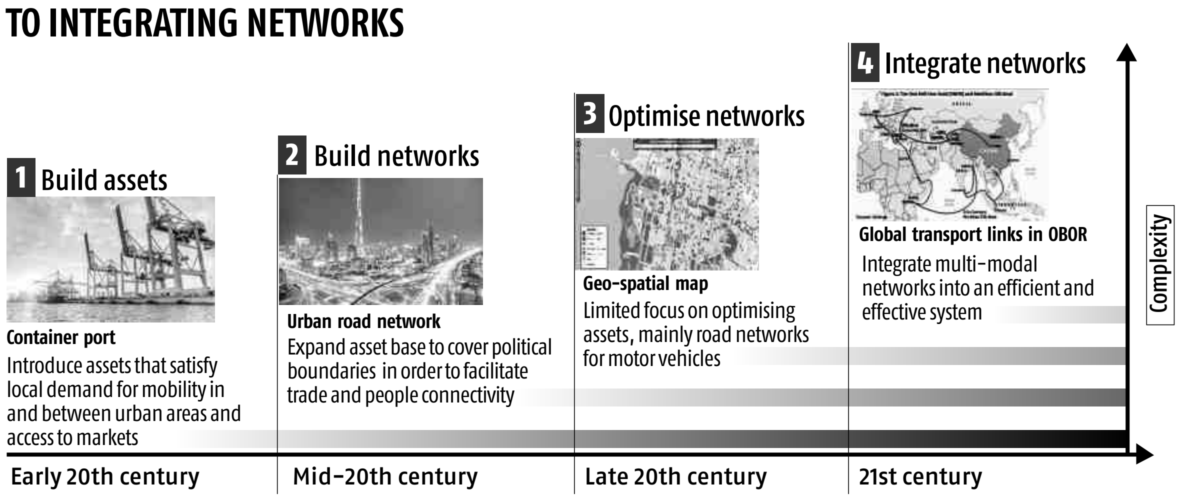
NEETU VASANTA & SURESH SUBUDHI

Asset owners are not only responsible for basic transportation infrastructure but their asset planning decisions also have an impact on an economy's longer-term priorities. A broad perspective on infrastructure planning has an impact on fostering economic development, urban planning and affecting livability of cities. Thus, asset owners need to move away from a "single asset view" of traditional transport planning to building efficient and effective integrated multi-modal transport networks. International economic cooperation forums like the B20 and G20-country coalitions have repeatedly made recommendations to countries urging them to broaden their planning perspective and shift their vision from optimising networks to integrating networks.

However, more often than desired, project decisions are driven by subjective considerations like pressure to early project commitment, preference for highly visible projects, the desire to avoid controversies or response to political interests. In addition, the viability assessment of large projects has increasingly been commissioned using short-term and single-asset cost benefit analysis. This leads to a myopic project pipeline and countering this necessitates some key guiding principles for holistic planning

We have touched upon the key elements that enable asset owners to undertake a holistic planning approach.

ASSET OWNERS NEED TO SHIFT VISION FROM OPTIMISING NETWORKS TO INTEGRATING NETWORKS



Source: BCG Analysis

Mastering asset fundamentals

Transport infrastructure asset owners must embrace an inclusive, life cycle-oriented project prioritisation strategy. Once network plans are created, owners evaluate the potential of assets, based on network objectives, direct welfare impacts, second-order effects like environmental impact, and delivery readiness. For existing assets, owners must leverage efficiency and capacity enhancement planning to augment asset value and curtail unnecessary costs of new construction. In developing assets that improve, or at least maintain, economic and social welfare over the long term, comprehensive multi-criteria asset analysis is crucial. Clear prioritisation basis impact and delivery readiness assessment reveal feasible winners. With the advancement in technology and the onset of big data analytics, it becomes easier to convene rigorous and objective project evaluations with accurate results.

Emphasising network solutions over asset solutions

Across the world, countries, have faced underutilisation or excessive congestion in certain transport modes due to non-integrated asset planning. In India, for example, coastal shipping accounts for close to six per cent of the country's total domestic freight due to poor hinterland connectivity. An effective transport network relies heavily on efficient road systems integrated with airports, railway stations, ports and logistics hubs. Transport infrastructure asset owners need to adopt an integrated inter-modal plan through a three-pronged analysis, including fundamental, strategic and tactical levers that focus on network design, impact and optimisation respectively.

Consider the expansion of the Rotterdam port in Netherlands, where capacity was increased three times. Hinterland strategies were integrated into the expansion plan to ensure the trunk roads, railways and waterways connecting to the port had sufficient capacity to handle increased container volumes.

Integrated transport and land-use planning

The desire for quality urban amenities and easy access to transit modes is a major driving factor in investments made by transport infrastructure asset owners. Forward-thinking owners are developing compact establishments, typically within a half mile distance of transit stations called transit-oriented developments (TOD). TOD is an exciting and fast growing trend in creating sustainable and connected communities. These establishments integrate urban mass transit systems with mixed-use spaces (commercial, residential and civic) to increase location efficiency, reduce congestion by boosting multi-modal transit ridership and provide an attractive sense of community. In northern Virginia, TODs have added 15 million square feet of commercial space, 20,000 residences and two million square feet of retail.

Transport infrastructure asset owners must build capabilities that conduct robust, data-driven and proactive asset planning and selection processes that explicitly avoid the short-term, dependent, uni-modal bias of the past. Every new development in transport infrastructure needs to have an underpinning consideration for linkage to other modes of transit as well as geographies. Owners should be adept at gearing urban development by strategically integrating transit modes, transport networks and land uses. Holistic planning is the key to unlock future growth and global integration.

Vasanta is principal and Subudhi is partner and leads the infrastructure practice for The Boston Consulting Group

CHINESE WHISPERS

Caught on the wrong foot?

The shoe is on the other foot for the Congress. On Wednesday, Congress Lok Sabha member Sushmita Dev alleged that Puducherry Lieutenant Governor Kiran Bedi had transgressed her constitutional mandate by nominating three people to the Union territory's legislature without consulting the Congress government there. Two of the three were Bharatiya Janata Party members, while the third was a member of the Rashtra Swayamsevak Sangh, Dev said. Aam Aadmi Party (AAP) members didn't take long to point out what they considered were the Congress' double standards on the issue. They said the Congress had supported the Delhi Lieutenant Governor when the AAP government in Delhi had a similar complaint against him.

Spirit of independence

Former Securities Exchange Board of India chairman M Damodaran (*pictured*) had an interesting take on how to infuse a spirit of independence among independent directors in companies. While delivering the 7th Subir Raha Memorial Lecture in New Delhi, Damodaran cited an earlier instance when he was asked to comment on the issue of an independent spirit. "I told the person (asking the question) to put them on the board of United Spirits," he said. United Spirits was owned by Vijay Mallya before it was taken over by Diageo in 2014 following his loan defaulting troubles. Damodaran said a large number of independent directors belong to the category of dependent directors — they are "dependent on the promoter".

'Don't call me uncle'

When Mahindra Group Chairman and Managing Director Anand Mahindra (*pictured*) tweeted about Maharashtra Chief Minister Devendra Fadnavis planting the 13 millionth tree as part of the Mahindra Hariyali campaign in Mumbai, he received an unusual request. "Anand uncle, share some Mahindra trees with us as well. I want to plant them in my backyard. Hopefully, they will bring me as much prosperity," a user tweeted. Mahindra seemed unhappy about being called uncle. "You know, I may have sent you some trees, but you made me feel like a fossil by calling me uncle, so I am not sure I am going to oblige," he replied.

BUSINESS LIFE

Did you pack too much? Your suitcase knows

The luggage category is getting a technical features boost, courtesy start-ups

JULIE WEED

Your suitcase has taken on a life of its own. It can now tell you if it has strayed too far, or if you've packed too much, and it may soon be able to call you an Uber car. There's even a suitcase in the works that will take you on a ride through the airport.

Luggage has been a pretty sleepy product category. The industry's last major innovation came nearly 50 years ago, when wheels and a telescoping handle were added to suitcases. Since then, improvements have been incremental, focusing on lighter-weight materials, interior layouts and manoeuvrability.

Now, suitcases are getting a host of technical features, introduced for the most part by start-up companies and sometimes paid for with crowdfunding.

Three types of features dominate this first wave of "smart luggage". There are ports and chargers to re-power a phone or other electronic device. There are GPS trackers that work with a cell phone to pinpoint your luggage's location or to notify you if it has left your side. There is also a set of features focused on making travelling easier, like electronic baggage tags that allow customers to skip luggage check-in lines at the airport and built-in scales to help travellers avoid fees for checked bags that exceed the weight limit.

Bluesmart Luggage, which started with an Indiegogo campaign in 2014, is so focused on the "smart" aspects of its offerings that it prefers to be called a technology company, not a luggage company, its chief executive, Tomi Pierucci, said.

There are GPS trackers that work with a cell phone to pinpoint your luggage's location or to notify you if it has left your side

Bluesmart bags include a digital scale and GPS tracking. The suitcase can be locked by a cell phone app and it automatically locks if it is too far from the owner's cell phone. The company has sold 35,000 suitcases.

But the objective of Bluesmart goes beyond its individual technical features, Pierucci said. He wants to create an ecosystem to help people "avoid the pain in travel", he said, by using the accompanying phone app as an online travel information hub.

"We want to remind you to charge the suitcase the night before your trip," he explained. "We want to offer you an Uber when your plane lands. We want to notify your hotel if your flight is delayed."

Business travellers keep their suitcases an average of three years before buying a new one, Pierucci said, but Bluesmart's software and firmware upgrades can deliver new features and new partnerships to customers as they are developed. And any luggage connected to an app can record when each feature is used, reporting that data back to the company to inform future product iterations.

Stephanie Korey, a co-founder and the chief executive of the new luggage company Away, said she liked to call her suitcases "thoughtful" rather than "smart". The one-year-old company has already sold 75,000 pieces of luggage.

Korey said she and her partner, Jen Rubio, looked at solving customer problems, like recharging a dying phone, keeping smelly clothes away from clean ones or designing wheels that make it easy to roll over cobblestones. "We think about how people pack, what they do at the airport, what they do when they arrive at a hotel," she said.

Korey also shies away from the "luggage company" moniker. "We're a travel company," she said. "Once we establish trust with a customer, and they like what we're doing, we can start creating other travel products for them," like travel accessories or organisers that would go inside luggage.

Other new luggage-tech ideas include the Fugu Travel suitcase, which expands from carry-on to full-size suitcase using an internal air pump. The company just began shipping its first products to those who pre-ordered the bag or donated to the effort via Kickstarter.

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LETTERS

Reverse cash inclination

With reference to the editorial, "Cash is back" (July 5), despite the deficient remonetisation, dependence on cash dealings is on the rise. Cash-dominated segments do not want to migrate to a digital platform due to lack of proper infrastructure and continued incompetence of a major chunk of the population. Convenience and ease of dealing in cash are motivating people to use currency notes.

This inclination towards cash transactions needs to be reversed. The government has to set up a developed digital infrastructure along with extensively increasing digital literacy of people. The cost of internet connection and accessories such as computers are discouraging people. People who cannot bear these costs should get financial support.

Government departments and local self-government offices accepting fees and taxes in cash need to migrate to the digital mode and persuade people to do so.

The rural economy is cash-intensive and transactions relating to rural commerce and agriculture are made in cash by small business owners and farmers. The ability and willingness of these people to shift to the digital platform has be enhanced through awareness programmes.

For greater transparency in transactions and to prevent tax evasion, the government must execute radical measures.

V S K Pillai Changanacherry

Gain from depreciation

With reference to Ajit K Ghose's column, "The pros and cons of RBI rate cut" (July 3), while a hike in interest rates and its impact on rupee value and domestic demand are questions that need to be debated, a depreciating rupee could have positive effects on the economy. It could boost exports and thus promote manufacturing.

Costlier imports could protect domestic industries, especially small and medium enterprises, which have been facing tough competition from cheap imports.

In the service sector, segments such as information technology (IT) and IT-enabled services, tourism including medical tourism, and the hospitality sector could gain from a depreciating rupee and thus generate demand for manufactured goods, which Ghose writes about.

He talks about growth in domestic demand from increased income in agriculture. A depreciating rupee would make agro-based exports more profitable and grant cover to farmers from cheap imports of pulses, oilseeds, sugar etc.

Regarding companies, aren't they supposed to hedge their repayment obligations? Moreover, a company with a reasonable debt equity ratio will likely not face insolvency.

The change in growth strategy from foreign finance-led growth to growth driven by exports and domestic demand, which Ghose advocates, is something worth considering and needs policy attention. A depreciating currency could help achieve that objective.

Vijay Nadkarni Mumbai

Desist from rhetoric

The Chinese Ambassador's assertion that there was no scope for a "compromise" in the military stand-off with India in the Doklam area and that the ball was in India's court is perhaps the most belligerent statement to have come from a Chinese official in recent times. Such a precondition is not acceptable to India from either a political or a military standpoint.

The People's Liberation Army (PLA) has destroyed two of India's unoccupied bunkers. By reminding India of its defeat in the 1962 war, the PLA spokesman betrayed his lack of maturity in addressing sensitive issues. Our defence minister should not have got drawn into a war of words with a junior functionary by claiming that the India of 2017 was different from the one of 1962. This led to another rebuff from the Chinese side.

This is not the time for rhetoric. Both sides should abide by agreements, including the Border Defence Cooperation Agreement of 2012.

S K Choudhury Bengaluru

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HAMBONE BY MIKE FLANAGAN

Business Standard
Volume XXI Number 229
MUMBAI | THURSDAY, 6 JULY 2017

The sustainable solution

UDAY's success relies on genuine power tariff reforms

The Union government has launched a spirited defence of its Ujwal Discom Assurance Yojana (UDAY). The UDAY scheme was launched in November 2015, with the aim of relieving debt-ridden state-owned power distribution companies which, in the absence of economically viable tariffs, were making substantial losses. UDAY focussed on two key parameters. One, a financial turnaround. For this, it unveiled a plan for discom debts to be passed on to the states' books so that discoms could enter into new power purchasing deals. Two, an improvement on the operational front in terms of reducing transmission losses and improved realisation of dues by using better metering and other measures. According to reports, power discoms are expected to save ₹12,000 crore on interest payouts after 16 states joined UDAY for a total debt recast of over ₹2 lakh crore. According to the power ministry, billing efficiency has increased by 2 per cent in 2016-17 across the country and the average aggregate technical and commercial losses have come down to 20.2 per cent. Moreover, the average gap between average cost of supply (ACS) and average revenue realised (ARR) has come down from 59 paise in 2015-16 to 45 paise in 2016-17 on account of reduced interest outgo, better tariff rationalisation and improved billing.

However, this is just one side of the story. The truth is that the only sustainable solution for the problem of the losses and debts that state-owned discoms face lies in timely tariff revisions. Unless discoms are able to make a transition to such a regime most of these gains would not count for much. Of course, debt recast and reductions in transmission losses are steps that would show overall improvement, but neither of them, in the absence of economically viable pricing, will ensure discom health. The financial restructuring of debt, which is the cornerstone of this scheme, can at best provide a one-off relief to discoms. On pricing reforms, however, a lot more has to be achieved. It is true that as many as 25 of the 27 states are shown to have effected tariff revisions in the last couple of years. But not all these revisions have reflected a spirit that would have required states to shun populism and increase tariffs across the board. Instead, evidence from many states suggests that some of them have chosen instead to make the industrial consumers pay extra in order to subsidise other consumer groups such as farmers. In many other cases, state-level electricity regulators have been tardy in reacting to proposals for tariff increases. The government recently criticised this "complacency" and "lack of boldness" on the part of such regulators, urging the regulators to "act independently and professionally" and even take "take *suo motu* actions to bring in reforms".

This is not the first time that a financial restructuring scheme such as UDAY has been introduced to bail out discoms struggling to be viable. However, unlike in the past, this time the situation is more challenging because the mounting losses of discoms have coincided with increasing power generation capacity in the country. So the spurt in power generation happened as the buying capacity declined. Already private power projects worth 25,000 megawatt (Mw) are up for sale because companies are looking to reduce their debt burden. The lack of genuine pricing reforms among all states could further undermine the viability of another 60,000 Mw of power plants that are under construction.

A rudderless Opposition

The Congress needs a credible competing narrative

Bihar Chief Minister and Janata Dal (United) leader Nitish Kumar told his party's state executive meeting in Patna early this week that the Congress alone was to blame for the current mess in the Opposition. This charge is likely to be intensely debated by leaders of the Congress, but what most of them may not be able to contest is the increasingly visible enfeeblement of the Congress, which is still the largest Opposition party in Parliament. Two recent events have exposed the Congress' ideological bankruptcy. The first is the decision to field former Lok Sabha Speaker Meira Kumar as a Dalit opponent after the Bharatiya Janata Party (BJP) nominated Ram Nath Kovind in the forthcoming presidential elections, a transparently reactive decision that demonstrated that the party had been wrong-footed again. The second is boycotting the launch of the nationwide goods and services tax (GST) from the Central Hall of Parliament over the weekend. The upshot is that the Congress is being increasingly perceived as an agenda-less entity that reacts to developments rather than shaping them. More damagingly, it appears to have lost ownership of some of its own big ideas that have impacted socio-economic policy.

It was the Congress-led United Progressive Alliance, for instance, that initiated the difficult work of forging consensus among states for the contours of a complex nationwide value-added tax that enabled the current regime to finally implement it. By staying away from the launch on grounds that the GST was flawed and the function took place in the Central Hall, the Congress has only helped the BJP to lay claim to this most significant of tax reforms in independent India. Indeed, the current BJP-led government has been extraordinarily pro-active in establishing proprietorship over several Congress initiatives, successfully parrying the accusations of "suit-boot *ki sarkar*", the one genuinely impactful jibe from party Vice-President Rahul Gandhi. The BJP government has since co-opted the concept of direct benefits transfer by distributing free cooking gas connections to poor women, presiding over the opening of no-frills Jan Dhan accounts for the poor, and leveraging and extending the UPA's Aadhaar programme in myriad ways. Even the controversial move of demonetisation was marketed adroitly as a means of punishing the black money-accumulating rich against the hapless poor. Despite former prime minister Manmohan Singh's spirited riposte in Parliament, the party was unable to frame a response that would resonate with the common man.

Indeed, India's grand old party and its top leadership would do well to heed Mr Kumar's sage advice: The Congress needs to develop a credible competing narrative around which it can rally the Opposition. It has little time to do so. There are several Assembly elections due before the next general elections in 2019. In many of these states either the Congress is in power or is the main Opposition party. In 2004, its unambiguous pro-poor agenda and prudent choice of allies delivered a significant victory over the BJP-led National Democratic Alliance with its middle-class focused "India Shining" campaign. Instead of quibbling over personalities, as it has done in the case of the presidential election, the Congress needs to introspect and figure out if it can build a viable alternative to the BJP. It needs to clearly articulate the contours of such an alternative vision before it can expect regional parties like the JD(U) to join hands with it.

ILLUSTRATION BY BINAY SINHA

The next economic powerhouse

Since Poland's transition from Communism to democracy in 1991, its economy has been growing at an average annual rate of 4 per cent

RUCHIR SHARMA

If getting rich is hard for individuals, it is harder still for nations. Of more than 190 countries tracked by the International Monetary Fund (IMF), fewer than 40 count as wealthy or advanced economies. The rest are known as emerging markets, and many of them have been emerging forever. The last large country to make it into the advanced class was South Korea, 20 years ago. The next major nation likely to join that club could be Poland, an under-the-radar economic star that US President Donald Trump will visit this week on his second overseas trip in office.

Mr Trump will meet with leaders of the ruling Law and Justice party, who are thrilled that he has chosen to visit Warsaw before Berlin, Paris or Brussels, and participate in a meeting to promote regional economic ties in eastern Europe. Other European leaders are unnerved by how Mr Trump's populism echoes the right-wing nationalism of his Polish hosts — both have been attacked as illiberal threats to the post-war western order. But so far, two years of populism has not derailed a quarter-century of steady economic progress in Poland.

The IMF has a complex definition of "advanced," but a common thread is that all the nations have a per-capita income of at least around $15,000. Since Poland completed the transition from Communism to democracy in 1991, its economy has been growing at an average annual rate of 4 per cent and, remarkably, has not suffered a single year of negative growth. In those 25 years, Poland's average income has risen to near $13,000, from $2,300, and it is now on pace to pass the $15,000 mark by the turn of this decade.

This is testimony to the long-term fiscal sobriety of Poland's leaders, and its sharp break with Communism. After the collapse of the Soviet bloc, Poland set out to distance itself as far as possible from Russia, and adopted the financial discipline and institutional reforms required to join the European Union.

In the last decade, Warsaw emerged as the conservative opposite of decadent Moscow. Its staid tycoons are almost incapable of the flashy self-promotion common among the Russian oligarchs, and they have embraced American-style entrepreneurship with an enthusiasm rarely found elsewhere in Europe.

This pro-American, anti-Russian streak runs deeper than the current populist mood, making Poland a natural and increasingly potent American ally. In the past the relationship has focused on military ties and geopolitics, but Poland is already one of the few NATO (North Atlantic Treaty Organization) members meeting its commitment to spend at least 2 per cent of gross domestic product (GDP) on defence. This meeting shifts the focus to the regional economy at its breakout moment.

Since World War II, the few poor nations that made it rich tended to do so in regional clusters, starting with Italy, Spain and other countries in southern Europe, and then East Asia. Japan, South Korea and Taiwan went unheralded for years before they were recognised as the "Asian miracle" economies.

Now eastern Europe is rising, just as quietly, with small nations like the Czech Republic leading the way. Poland is close on its heels. With a population of nearly 40 million and a half-trillion-dollar economy that is already the world's 24th largest, it is now big enough to put all of eastern Europe on the global economic map.

Poland is working its way up just as the Asian miracles did, as a manufacturing power, even though this path is much harder now. Manufacturing is declining as a share of the global economy, and with China taking much of this shrinking pie, few other major manufacturing nations are still expanding their share of global exports. That select group of around half a dozen includes South Korea, the Czech Republic — and Poland.

No other sector has as much impact as manufacturing in generating the jobs and productivity gains that can make a nation rich. With its cheap currency and relatively low wages — still one-third of those in Germany — Poland is more than competitive with the Asian manufacturing powers. Exports from manufacturing account for 33 per cent of GDP in Poland, well above the average for emerging nations of 22 per cent.

Moreover, the secret to getting rich is less about speed than stability. Many emerging economies have managed to generate spurts of rapid growth, often well above Poland's 4 per cent average, only to lose all their gains by running up debts and heading into a crisis — like Brazil and Mexico in the early 1980s, and Indonesia and Thailand in the late 1990s.

Other emerging economies remain unstable partly because they still rely on exporting raw materials like oil or soya beans, and thus tie their fate to volatile swings in the global commodities market. Among the leading oil exporters, 90 per cent are no richer today relative to the United States than they were the year they started producing oil. Most are poorer.

Today, of the 13 middle-income countries with average incomes of $10,000 to $15,000, nine are still dependent on commodity exports, including Brazil, Russia and Argentina. The other four are all in eastern Europe, led by Poland.

None of the commodity-dependent economies is likely to grow steadily enough to become the next rich country, certainly not for long. Countries such as Argentina and Venezuela have in the past century become almost as rich as the United States, only to tumble after serial crises.

Export manufacturing prowess can stabilise a rising economy by generating reliable foreign revenue, allowing countries to invest heavily without running up huge debts. This is what happened in Poland. An exception is the manufacturing giant of China. In a headlong effort to fuel growth after the 2007 financial crisis, the Chinese government has encouraged a domestic lending boom that has driven up debts to nearly 300 per cent of GDP, a risk that reduces China's chances of becoming the next rich country.

If there is a threat to steady growth in Poland, it is its recent autocratic turn. Poland's government has drawn fire from top European Union officials for interfering with the courts, cracking down on the news media and dissent, and refusing to accept Muslim refugees.

When Law and Justice took office, however, the concern was that it would derail growth by meddling in the private sector and trying to fulfil costly populist promises. While it has fulfilled pledges to lower the retirement age and subsidise families with two or more children, so far these policies have not caused much harm.

The deficit and public debt remain manageable. The currency remains stable, exports continue to boom and the trade balance is in surplus. Since its winning streak began in 1991, around 80 per cent of Poland's growth has been delivered by the private sector, and the momentum there remains strong.

So look beyond China and India, Russia and Brazil. Poland, rising the old-fashioned way, through manufacturing, is likely to be the next rich nation. And, as Mr Trump will see, Poland is a vital ally not only on the NATO front line, but also as a leader of the world's most vibrant economic bloc.

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Qatar's isolation: What lies ahead

M MUNEER

The vested interests of a few sheikhs in Saudi Arabia, and their yes-men in the UAE (United Arab Emirates), that led to the isolation of Qatar is indeed yet another example of how Islamic society is getting divided day by day. It is said that by the time the world, as we know it, ends, Islam will have more than 72 sects. Instead of forming a Middle East Union for economic growth, these countries nurse ego-based politics and let the West control them.

The 10-day deadline for Qatar to bend its knees and bow down to the Saudi-led four-nation bloc (UAE, Bahrain and Egypt) has ended on Monday. As there was no sign of Qatar budging on its stance, Saudi Arabia has extended the deadline by two more days.

Qatar, one of the fastest growing gulf economies with the world's highest per capita income, has always been aloof to the Saudi dominance. Saudis, who were in awe of Iran's success, with its principled stance, against the superpowers, found the right opportunity to "teach" Qatar a lesson for its "disobedience" in leaning towards Iran. If the Saudi-led bloc expected Qatar to come down begging for pardon, that would not turn out quite that way even after the extension.

Although there are temporary economic and social setbacks for Qatar, their natural gas wealth and global investments will help them overcome this embargo. The diplomatic juggernaut worked tirelessly to ensure smooth sailing with other countries apart from the supportive Turkey and Iran. The disaster will be in the realignment of the regional politics. Divided, they are happy to be conquered by others in different ways. The House of Saud owes their power to the Americans and the British.

Any sane person in the Middle East, let alone the Qataris, will term the 13-odd demands on Qatar as nothing but atrocious and intended to weaken it. The demands in question include shutting down the blatantly honest *Al Jazeera* and severing ties with Iran. Even senior US government officials believe this to be a no-go.

What could happen in the region once Wednesday's extended deadline is over? Will there be a war, as in Yemen? Is that why Saudi Arabia is buying war machines and helping US President Donald Trump? Or does it want the gas prices to fall so that Qatar suffers as much as the Saudis are doing from lower oil prices?

Is there a possibility for Saudi Arabia to impose more sanctions against all things Qatari, including individuals and businesses owned by Qatar citizens in these countries? This has a high chance, and if done, it will prove that the real agenda for isolating Qatar had nothing to do with terror funding.

As a senior diplomat from the Saudi-bloc indicated, they might "force" their trading partners across the world to impose stringent conditions on Qatari businesses. It may not be practical as it violates international treaties and laws. Qatar Airways is already seeking legal remedy to recover costs from countries that banned it.

They may impose a travel ban for anyone with a Qatari visa on passport just as it is the case for Israeli visa holders. Indians working in Qatar will be affected by this in the short term before Qatar devises paper visa, just as Israel. This extreme step will lead to deep erosion of relations, making it impossible for any patch-ups.

Saudi Arabia and the UAE might initiate a move to kick Qatar out of the Gulf Cooperation Council (GCC) but that is possible only if all five members agree. Arm-twisting Oman and Kuwait, the other two GCC members, may not be easy, though.

Finally, as a face-saving measure for all, Qatar might work with the intermediary Kuwait and agree to some of the atrocious demands while keeping *Al Jazeera* closure out of it. H H Hamad bin Khalifa Al-Thani, the ruler of Qatar, may just demonstrate his political and diplomatic negotiation acumen in this graceful step.

That the impasse is not over the issue of terror funding is clear. If that were the case there would be many other nations in the sanction list for their citizens' contribution to terror outfits.

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Bureaucrats & 'conspiracies'

BOOK REVIEW

SUBHOMOY BHATTACHARJEE

P C Parakh has titled his book *The Coal Conundrum* but it could just have easily passed muster as *The Air India Conundrum* — or, indeed, any of the myriad sectors in which the Indian government has tried to reform in the past 25 years. The *dramatis personae* are the same: The hesitant executive, the irresponsible opposition of the day, a constituency for protection (often the unions) and an overzealous judiciary.

Within that framework, you could imagine this book as a set of three lectures. They are complete in themselves; they are a scholars' delight yet an excellent intro for a novice. Most of all, they include a fine case study of how to defend one's position against the judiciary.

Unlike Mr Parakh's earlier book, *Crusader or Conspirator?*, a capsule treatment of his career as an IAS officer and his run-in with politicians, this one has a textbook feel to it as he lays threadbare his run-in with the judiciary. The former book dwelt on many issues besides coal, this one is about how trying to reform the sector has made one of the finest secretaries to the Government of India a victim of India's institutional weaknesses.

As he writes: "The Supreme Court decisions in Coalgate and the subsequent CBI [Central Bureau of Investigation] court order taking cognisance of charges of conspiracy, corruption and abuse of office against me and the former Prime Minister Dr Manmohan Singh... have serious flaws and completely overlook specific provisions of law...While a citizen aggrieved of Parliamentary or Executive arrogance can approach the Judiciary for redressal of his grievance, there is no relief against judicial arrogance".

Before going further, two caveats. First: As a rule, *Business Standard* does not publish reviews of self-published books. An exception has been made for this one because it raises critical and uncomfortable issues about India's political economy.

Second: To research my book *India's Coal Story*, I sat for hours with Mr Parakh at his home in Secunderabad, listening spellbound to his razor-sharp narration of the events that coloured his term as secretary, coal, 10 years ago. I came away convinced he had explained everything but, with this book, Mr Parakh has uncovered much more. And told in his trademark terse way, this is a gripping account.

What Mr Parakh sets out to say is that the failure of the political executive to stay the course on its decisions, held hostage by often minor dissenters, frequently sets the ground for judicial overreach. It ends up laying the blame at the door of the officers who have signed on the decision, criminalising without proof their executive actions.

The victim is tarred for life. "No court in the country has the capacity to compensate the citizen for such loss of reputation and the mental agony caused to him," he writes. It is a disturbing conclusion that he says can take a heavy toll on the country's economy and polity. These are valid arguments drawn from Mr Parakh's experience in the coal ministry.

The P C Parakh-Manmohan Singh-Hindalco-Birla case, which basically questioned the allocation of a coal block, Talabira-II, to Hindalco, has highlighted, like few others, how poorly equipped the Indian courts are to differentiate between legitimate but competing options in a matter of policy and a case of criminal pay-off, making for a mis-trial.

"A clear line with mathematical precision and certainty cannot be drawn between public interest and private interest," Mr Parakh argues about the case where the presiding judge of the special court declined to accept two closure reports filed by the CBI. The former secretary says when the judge attributed conspiracy in giving joint coal mining rights to the Aditya Birla Group's aluminium firm, Hindalco, along with public sector Neyveli Lignite Corporation (NLC) at Talabira-II block, he had not gone into the "merits of the case".

As he explains, "Hindalco had been working on the project since 1988 and had put in considerable effort and resources including obtaining a lease for a bauxite mine.... NLC had done nothing on the ground except applying for a coal block."

Mr Parakh also argues that while the private sector company had a far superior claim on the block, there was no loss envisaged for NLC since as a government company, it could dip into blocks not earmarked for captive mining. Hindalco, on the other hand, as a private sector company, only had a site-specific right, so either it was allocated Talabira-II or it would have to return to the end of a long queue of applicants, and wait for several more years in the bargain.

Again, although the judge has raised questions about why the Hindalco decision was signed by the coal secretary without referring it to the screening committee a second time, Mr Parakh correctly observes, that it was not necessary since the latter was a recommendatory body. The final decision was that of the minister, in this case Manmohan Singh, holding additional charge of coal. In sum, nowhere did the court establish any illegality; instead it based its conclusions on inferences and, Mr Parakh says, "ignorance". The case drags on.

The conclusion is clear. If this is what visits a bureaucrat of Mr Parakh's calibre, this or future governments will find officers extremely reluctant to sign executive orders. We need systemic reforms in governance for files on cases like allocation of public resources or disinvestment to move.

THE COAL CONUNDRUM
Executive Failure and Judicial Arrogance
Prakash Chandra Parakh
Published by P C Parakh
239 pages; ₹600