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No idea left behind

A newspaper report suggests that the CPI(M)'s suggestions on how to restrict large format retail stores are being worked upon by various government agencies and that it is only a matter of time before formal licensing regulations are put in place. While the report talks only of licensing stores that are larger than 10,000 square feet, at least to begin with, it is instructive to understand what exactly the CPI(M) wants by way of regulation of such stores. For a start, it says, the licensing authority should be a committee that includes representatives from street vendors and small retailer associations. This is something like asking the owners of individual power-looms to decide whether large textile mills should be allowed to exist, or getting Hindustan Motors to sit in judgement on whether Maruti should be allowed to make cars.

But that is only the least of the contradictions. Among the other suggestions by the CPI(M), made in its note on May 30, one says that licences for new shops should be given on the basis of a population criterion (not more than X large shops per Y population, with the ratio to vary from state to state, and city to city), and there should be size slabs for different types of formats—one size for discount stores, another for supermarkets, a third for hypermarkets, and so on. In case a large retailer is allowed to set up shop within an existing commercial area (say, by buying out an existing bunch of smaller retailers), this should be allowed only if the large retailer agrees to "share a substantial proportion of its floor area with small retailers at a concessional rent"—imagine the glee of a bureaucrat who has to define, and then implement, what "substantial" and "concessional" are!

It gets even better. Large retailers hoping to sell fresh fruit and vegetables, at prices that are lower than those of unorganised retailers/vendors, will have to set up large procurement centres and enter into long-term contracts with farmers—the CPI(M) wants each large procurement centre that is set up by corporate retailers to reserve separate space for government agencies, and the contracts they sign with farmers should not allow them to refuse to buy the farmers' produce on grounds of poor quality. And, the government must take over private stocks [so far, the CPI(M) wants this only for foodgrains] if they exceed a certain level.

Apart from the absurdity of introducing such elaborate and patently unworkable controls, the opposition to large retail doesn't take into account several important points. For one, it ignores the large welfare gains to be made if households get a 20-25 per cent price-off on household items that account for 50-60 per cent of their monthly expenses, and the resulting impact on the consumption of other goods, and overall savings and investment. Besides which, the fundamental premise of a market economy is that competition will displace some players, who will then look for opportunities elsewhere. To seek to protect every existing player is to freeze out change, which is simply not possible if you don't want the ossified kind of economy that the Soviet Union's became. Restricting organised retailing activity will perpetuate low-yielding jobs in an efficient sector, resulting in lower prices for producers and higher prices for consumers. Why the CPI(M) would want that is a mystery, especially given what Marxists are taught about the role played by trade in an economy.

IPO rush

The success of the DLF IPO, which was oversubscribed nearly 3.5 times, should give confidence to merchant bankers and companies that want to raise money in the capital market. DLF has raised Rs 9,000 crore, despite the fact that the issue was considered expensive—even optimistic analysts had recommended subscribing at the lower end of the price band. The story in the much smaller Vishal Retail IPO is even better. With a hot-button business like retail, the issue attracted over-subscription to the extent of 69 times. At the upper end of the price band, the company will collect Rs 129 crore. Meanwhile, ICICI Bank's follow-on issue will open today and is expected to raise Rs 10,000 crore from the domestic market, and another Rs 10,000 crore through an overseas issue. Even this issue should sail through comfortably.

The IPO market is based on two pillars—companies' need for capital, and the market's appetite for new paper. Merchant bankers are unanimous when they say that there will be a lot of fund-raising activity in the capital market from the real estate sector, in the wake of the DLF issue. Omaxe, for instance, is in the queue to raise Rs 1,400 crore, and is expected to come to the market next month. The other big sector that is slated to raise funds is banking. Central Bank of India will be coming with its maiden issue, while State Bank of India is expected to garner Rs 5,000 crore through a follow-on issue. Many other public and private sector banks will be raising capital this year. After all, the banking sector has seen advances grow 30 per cent annually for the past three years; and though this is likely to slow to about 25 per cent this year, banks will need more funds to finance loans and to shore up their capital adequacy ratios. Besides, there are state-owned enterprises like Bharat Earth Movers, National Hydroelectric Power Corporation and Power Grid Corporation of India, all of which have filed their draft red herring prospectuses with Sebi.

On the demand side, there is enough sustained interest in the stock market. The Sensex and the Nifty are fairly close to their all-time high levels, almost undeterred by the flow of negative news, like rising interest rates, the slowdown in auto sales, cement companies deferring a price increase, and so on. There is also enough liquidity with foreign investors and even domestic retail investors. There is also the charm of running a new business, be it retail or real estate, which keeps the interest in the IPO market alive. Plus, the opportunity to make money is also higher in a primary offering, with many issues listing at a premium to the offer price.

For companies, this is a good time to tap the market. With share prices ruling high, the cost of equity capital is low. Since interest rates are higher than before, term loans are only a secondary source of financing. With demand for funds from diverse sectors, and even some possibility of over-supply in areas like banking, there is little reason to believe that these issues will not go through as long as the pricing is right. For the secondary market, though, there may be a case for some adjustments in valuation—for example, with more paper from the real estate sector coming, the valuations of many companies will not stay at their current stratospheric levels.

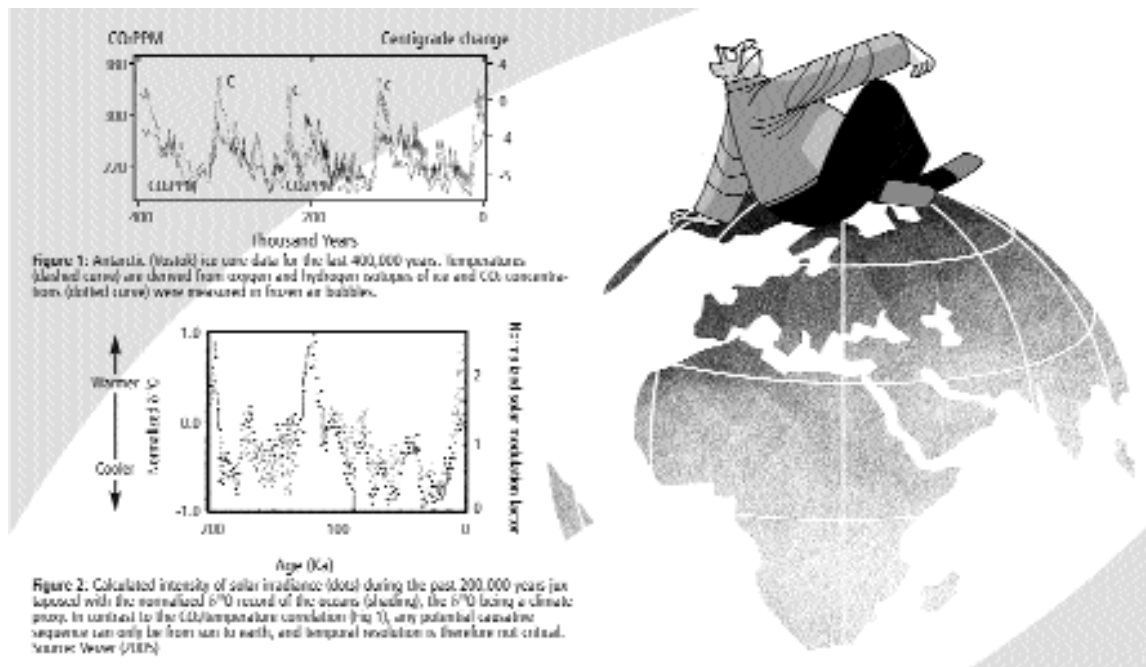

Illustration: BINAY SINHA

Climate change: Sun & the stars vs CO_2 - I

When the sun shines more brightly, global temperatures will rise, and vice versa, says DEEPAK LAL

The world is being spooked by climate change. The great and the good, aided and abetted by the International Panel on Climate Change (IPCC), and the Stern Report in the UK, have convinced themselves and large part of the electorates in the West that global warming is caused by human emissions of noxious greenhouse gases, particularly CO_2. As India and China have the two largest human conglomerations, arising at long last from their pre-industrial slumber with rapid growth, their noxious emissions will inevitably rise. So that, even if the past concentrations of these pollutants were caused by the currently developed countries in their own escape from mass poverty, the future rise in emissions will come largely from the Asian giants. Hence the growing clamour by the developed countries to bring India and China into some global system of mandatory curbs on carbon emissions.

Previous columns have pointed out both the deep immorality of this embrace of the Green ideology, which in effect condemns the poor of these populous countries to continuing poverty, as well as noting that the scientific claims being made—in particular by the IPCC—as irrefutable were no such thing. Given the recent quasi acceptance by US President Bush and Australian Prime Minister John Howard of the current Western political orthodoxy that humans cause global warming, it will not be long before the gentle arm twisting of the Indian and Chinese PMs at G8 meetings will turn into something nastier in the form of trade sanctions, as some in the EU and US are already suggesting. Hence, this and the next column revisit the subject of climate change.

There is no dispute that global warming is occurring. The only question is: what is the cause? The current orthodoxy accepts the theory espoused by the IPCC that greenhouse gases, in particular the mushrooming CO_2 emissions since the Industrial Revolution, are responsible. A vivid popular depiction has been provided in that redoubtable eco-warrior Al Gore's Academy award-winning documentary *An Inconvenient Truth*. It has successfully linked CO_2 emissions with catastrophic global climate change in the minds of the general public. Thus, one of the questions always asked by UCLA undergraduates in my sceptical lecture on climate change is: "What about the ice-core evidence?" For Al Gore makes much of the apparent correlation between temperature and CO_2 concentrations as revealed in the Vostock ice core data for millions of years (see Fig.1). But, as I remind them correlation does not imply causation. When a correct lagged regression is done of this and other ice-core data: "on long time scales variations in Vostock's CO_2 record lag behind those of its air-temperature record by 1.3 (+/-) 1.0k.a" [M. Mudslee, *Quaternary Science Reviews*, 20 (2001), p. 587].

So CO_2 cannot be the cause of temperature changes. It is changes in temperature which seem to cause changes in atmospheric CO_2. But how? The answer lies in the oceans, which are both the primary sink as well as emitters of CO_2. By comparison the human contribution to global carbon emissions is negligible. When the oceans cool they absorb CO_2, when they warm, they emit CO_2. Given the vastness of oceans in the total surface area of the Earth, it takes a long time for the warming of the atmosphere to heat the oceans (and vice versa). Thence the lag between the rise in global temperature followed by a rise in CO_2, shown by the millennial ice-core evidence.

But what then causes global temperatures to wax and wane, as they have done for millennia? The alternative to the CO_2 theory is that changing levels in solar activity have caused changes in global climate over millennia. But, it was argued that these changes in solar radiation were not large enough by themselves to explain the observed warming of the earth by 0.6 degrees Celsius over the last century. Recent scientific work by Svensmark of Denmark, Shaviv of Israel, and Vezier of Canada, has now provided a fuller alternative theory of climate change which has been labeled "Cosmoclimatology" (see J Vezier: "Celestial Climate Driver," *Geoscience Canada*.32,1,2005; H Svensmark: "Cosmoclimatology," *Astronomy and Geophysics* 48, Feb. 2007 and the book by Svensmark and Calder: *The Chilling Stars*, 2007). They theorise that the climate is controlled by low cloud cover, which when widespread has a cooling effect by reflecting solar energy back into space and vice versa.

These low clouds, in turn, are formed when the sub-atomic particles called cosmic rays, emitted by exploding stars in our galaxy, combine with the water vapour rising from the oceans. The constant bombardment of the planet by cosmic rays, however, is modulated by a solar wind, which when it is blowing prevents the cosmic rays from reaching the earth and thence creating the low clouds. The solar wind in turn is caused by the varying sunspot activity of the sun. When the sun is overactive with lots of sunspots, and the solar wind is blowing intensely, fewer cosmic rays get through to form the low clouds, and the planet experiences global warming, as it is doing in the current transition from the Little Ice Age of the 17th-18th centuries. Thus, on this alternative theory, global temperatures would be correlated with the intensity of the sun. When the sun shines more brightly global temperatures will rise, and vice versa. This seems to be the case (fig.2).

But there is still a missing piece in the cosmoclimatology theory. It depends on a hitherto untested physical hypothesis that cosmic rays influence the formation of low clouds. In 1998 Kirkby at the CERN particle physics lab proposed an experiment called CLOUD to test this theory. There were long delays in getting funds, and the experiment will begin in 2010. Meanwhile, Svensmark and his physicist son set up a mini experiment in a basement of the Danish National Space Center in 2005, which found the physical causal mechanism by which cosmic rays facilitate the production of low clouds. When this is confirmed by the CERN CLOUD experiment, the final nail in the coffin of the CO_2 theory of climate change will be in place. The sun and the stars will have been shown to control our climate and not the puny self-important inhabitants of planet Earth of current CO_2 orthodoxy.

Global chilling

BROADSWORD

AJAI SHUKLA

At a meeting in the Prime Minister's Office (PMO) on Monday, the first serious steps since independence were taken towards building a comprehensive network of roads, tracks and hydro power stations in the areas of Ladakh and Arunachal Pradesh that are claimed by both China and India. In contrast, the Middle Kingdom has wasted no time in developing its outlying territories, even those that are disputed. New Delhi, however, has been guided by a military and intelligence establishment, which has argued that any roads that it builds in these areas could be used during hostilities by Chinese invading forces. Also holding back development has been the argument that, with a border dialogue with China progressing nicely, why rock the boat with "provocative" construction activity? But now, 45 years after the 1962 debacle, a more confident PMO has committed Rs 1,000 crore to linking the border areas with mainland India.

This is not a one-off initiative. On Saturday, India's foreign minister, Pranab Mukherjee, travelled to Shillong for a first ever "public diplomacy" initiative, talking of cross-border linkages between the Seven Sisters of the north-east (Arunachal, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura) and the South East Asian countries like Myanmar and Thailand. Mr Mukherjee promised a network of linkages like the Kaladan Multi-Modal Transit Transport facility (connecting Indian eastern ports, through Myanmar's Sittwe port, and then via riverine transport, to a road in Mizoram), an India-Thailand Trilateral Highway Project, an India-Vietnam rail link, and an India-Bangladesh passenger train.

The background to this is an 8-month-old hardening by China of its rhetoric over the border dispute. In November 2006, ahead of President Hu Jintao's visit to India, Beijing turned down an Indian request for a meeting of the Special Representatives who are negotiating a border settlement. Immediately afterwards, the usually silent Chinese ambassador to India stridently and publicly declared that Arunachal was disputed territory. Over the last few months, China has refused visas to Indians from Arunachal, suggesting that they are Chinese citizens who need no visa. And in the G8 summit in Hamburg two weeks ago, China's foreign minister, Yang Jiechi, declared that the presence of "settled populations" in Arunachal would not affect China's claims to that state. In doing so, Beijing has signalled that it could turn its back on the agreement signed by Premier Wen Jiabao during the high water mark in the Sino-Indian relationship in 2005, in which Article 7 agreed that "In reaching a boundary settlement, the two sides shall safeguard due interests of their settled populations in the border areas". The Chinese establishment had never been happy about agreeing to this provision.

Larger global forces usually drive shifts in regional dynamics, of the kind being witnessed between India and China. The new global geo-political order, as seen from New Delhi, is being catalysed by rapidly deteriorating relations between Washington and Moscow. After a decade of viewing China as America's new long-term threat, Russia has re-emerged from the Cold War meltdown as Washington's most likely present-day threat. In tackling Russia, China, like in 1972, could suddenly be Washington's new countervailing ally. Key officials in New Delhi are already visualising a changing environment in which India is no longer the key partner needed to balance China. And China's aggressive new rhetoric on the border question is seen as coming from this realisation in Beijing.

If evidence were needed of the shift in relationships, it was there to see in the G-8 summit in Germany two weeks ago. While global warming was the official summit theme, there was equal focus on the growing chill between former Cold War adversaries, Russia and America. Russian president, Vladimir Putin, focused the spotlight straight on the greatest fault line: a planned US missile interceptor shield in eastern Europe, right at Russia's doorstep, ostensibly to guard against missiles launched from Iran. Russia offered an alternative: the use of an existing Russian radar station in Azerbaijan, right at Iran's doorstep. Washington says the Russian radar was too close to Iran; it still needed the X-band radar that it plans to set up in the Czech Republic and the interceptors that it will base in Poland. On Friday, NATO approved the US interceptor shield.

China, in contrast, is now viewed from Washington as the lesser of the two evils. Washington has appreciated Beijing's "positive role" in driving the dialogue with North Korea. China is also working behind the scenes in resolving Iran's uranium enrichment face-off. And gone are Washington's neo-conservatives, like Donald Rumsfeld and Paul Wolfowitz, who saw the US global challenge as containing China through a ring of allies. In their place now are self-described "Cold Warriors" like Robert Gates, who were brought up seeing China as the irreplaceable cornerstone in the Asia-Pacific security architecture. At the Shangri La Dialogue on June 1, in a forum that had been used before him by Donald Rumsfeld for unrestrained China-bashing, Gates pronounced himself optimistic about America's relationship with China.

China, not India, could be the new swing state in the new global security architecture. What does that mean for Sino-India relations? What does it mean for the future of the US-India nuclear deal? The answer lies in the way Russia's relationship with America plays out. But whatever the outcome, India must continue with consolidating its internal and regional relationships. In the shifting winds of global diplomacy, these relationships will form its anchor.

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Sir Salman's Satanic Legacy

SPEAKING VOLUMES

Nilanjana S Roy

As Sir Salman Rushdie prepares to celebrate his new knighthood along with cricketer Ian Botham, journalist Christine Amanpour and the few others honoured on the Queen's birthday, the only party poopers are the Iranian government. Teheran protested the honour bestowed on Sir Salman, calling it an example of "Islamophobia" on the part of the British government.

It's been 18 years since Iran's Ayatollah Khomeini, not one of the world's greatest defenders of freedom of speech, reacted to the publication of Rushdie's *The Satanic Verses* by calling for a fatwa and demanding Rushdie's death. One commentator described this as an act of "extreme literary criticism". The fatwa forced Rushdie into hiding for the next decade and triggered a slew of protests across the world.

The Satanic Verses begins with two actors, Gibreel Farishta and Saladin Chamcha, falling out of an airplane, conversing on their way down. Thanks to the efforts of magical realism rather than gravity, they land safely, but discover that Gibreel is transforming into the Archangel Gabriel while Saladdin Chamcha is becoming the Devil. In a controversial section, Rushdie's fictional prophet Mahound writes and then repudiates what are known as the "Satanic Verses"—verses where he apparently agrees to the worship of three desert goddesses.

Rushdie was aware of some of the risks of what he was doing, if not the full implications: the *Satanic Verses* also includes a character called Salman, employed as a scribe to the prophet, who takes the liberty of changing some of the prophet's words. For his blasphemy, he is told that the punishment will be death—but in the book, the prophet Mahound eventually relents.

The Indian government, fearing an outbreak of communal tension, became the first in the world to ban the book on October 5, 1988. By the end of November that year, the book had been banned in South Africa, Pakistan, Saudi Arabia, Egypt, Somalia, Bangladesh, Sudan, Malaysia, Indonesia and Qatar. Later, South Africa would lift the ban.

Speaking at the Jaipur Literary Festival this year, Rushdie mentioned a visit he'd made to Egypt after the ban had been enforced. He was accosted by an eager young man:

"So this man came up to me and said, Rushdie! Rushdie!

I said, yes, yes?

He said, I read That Book!

I said, oh.

He said, I like That Book! It's banned in Egypt! It's TOTALLY banned! But everyone has read it!"

It was the same situation in India. Except for the people who were busy burning copies of the book in protest—who, on principle, wouldn't read Rushdie, and who, in practice, seem to read very little—the rest of us read the *Verses* in poorly Xeroxed copies that were passed from hand-to-hand.

A few months ago, though, a curious thing happened. A close friend came by with a copy of *Satanic Verses*—the 2006 Vintage edition, with a proper bill of sale. "Has the ban been lifted?" he asked.

A book ban is a curious instrument in India, hedged over by all sorts of technicalities. In the strictest legal sense, Rushdie's book has not been banned in India—it is only its importation that has been disallowed. In the eighteen years that followed the ban, it has not been officially reviewed, and so it remains in force. But all it would take to remove the ban is a ruling by a few key people in the Ministry of Home Affairs and the Customs departments. When the distributors discovered that they had imported and sold the *Satanic Verses*, though, the reaction was frozen terror. Two copies of the book had been ordered, imported and sold by mistake. The ban, I learned, was still in force.

Because the *Satanic Verses* is still officially banned in India, I cannot identify the bookshop, the purchaser and the importer involved, for fear of landing them in legal trouble.

But the incident made me think, yet again, of the unfairness of the ban. In 2007, these two copies created no general unrest among the public. It is fair to assume that the situation that provoked the initial ban on *Satanic Verses*—contributing to a series of similar bans that taken as a whole, threaten to severely limit this nation's sometimes shaky commitment to freedom of speech—has changed. Rushdie has travelled to India often in the last decade, and as the crowds at local literary festivals testify, has a loyal base of readers and admirers in the country of his birth.

We may not be in a position to give him a knighthood in compensation for the years of persecution he has suffered. But eighteen years later, it is time to take another look at the ban. The political costs of overturning it may be high, but the moral costs of keeping the ban in force are unconscionable. I hope some day Sir Salman will be able to step into an Indian bookshop and see copies of *Satanic Verses* for free and legal sale available on the shelves.

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