Business Standard
VOLUME XIII NUMBER 25

Still growing, but…

Mixed signals abound in the data released by the government last week. First, the ministry of agriculture announced revised estimates of crop production during 2004-05, which will lower the base for that year and push up the growth rate for 2005-06, thereby raising the bar for the current year. The specific impact of this revision is likely to be quite small, but it adds to the rather confusing range of signals coming from various economic indicators. While there is a relatively broad consensus that GDP will grow by around 7.5 per cent during 2006-07, it appears that some of the key assumptions underlying this optimism are under threat. This hasn't begun to show up in performance measures yet. But is this because the factors pointing to a slowdown are being offset by strong countervailing influences, or is it only a matter of time before they take their toll on growth?

Both industrial production data and corporate performance numbers for the last quarter (January-March) of 2005-06 do not provide any indication of the momentum running out. Profitability for the corporate sector as a whole is very much in line with the recent healthy trends, in fact bouncing back after a minor negative blip during the previous quarter. And the Index of Industrial Production (IIP) numbers for March, released last week, showed the manufacturing sector growing at 8.9 per cent over March 2005, taking the growth rate for the year as a whole to 9 per cent, which is close to the previous year's performance of 9.2 per cent. The IIP as a whole slowed to 7.7 per cent during March 2006 and 8 per cent for 2005-06, down from 9.8 per cent and 8.4 per cent from the comparable periods in 2004-05. However, this was entirely due to a rather sharp reduction in the growth rate of mining. Since minerals are largely importable, slackening domestic mining activity should not act as a supply-side constraint on growth. The same cannot be said about electricity, which is the third component of the IIP; however, the numbers show growth in the generation of electricity; though it slowed moderately from the previous year, it grew at over 5 per cent during 2005-06. Summer discomfort for millions may be, but not yet a complete drag on growth.

So, the strong momentum appears to persist and it is perhaps too early in the day to be talking of negative portents. But it would be wise to keep a sharp eye out for the looming trouble-spots. First, there is no way in which the government can resist increasing domestic prices of petroleum products, when there are no indications whatsoever that crude prices will come down in the months ahead. Second, interest rates, particularly in the retail segments, are rising rather rapidly. Considering the contribution of retail finance to the recent growth momentum, this is likely to be a significant detractor from the growth rate. Third, related to the oil scenario, exports, also a major contributor over the last few years, will be hit by a possible global slowdown. Of course, the economy may be resilient enough to withstand all these eventualities, but one is likely to find fewer people betting on this as time passes.

Murli Shankar Aiyar

Two things stood out during Mani Shankar Aiyar's tenure in the petroleum ministry: the enthusiasm with which he pursued "oil diplomacy", working out deals to ensure energy supplies to India from remote corners of the world, and the zeal with which he resisted passing on the burden of rising crude prices to domestic consumers of various petroleum products. His successor, Murli Deora, was seen as somewhat more of a pragmatist on the second issue and there were expectations that after the long bout of state elections was complete, prices would indeed be raised. These expectations were, however, rudely shattered by reports that Mr Deora has himself fallen prey to the price control bug and has cited commitments under the Common Minimum Programme in arguing that retail prices of petroleum products should not be raised. His solution to the problem is to reduce the already reduced rates of indirect taxes on this category of products another notch, thus allowing retail prices to be maintained at current levels.

This is not to question the good intentions of Messrs Aiyar and Deora in wanting to insulate the mass of domestic consumers from high oil prices. However, when these good intentions fly in the face of economic logic, concerns have to be voiced. The country is supposed to have terminated the so-called Administered Price Mechanism over four years ago. The successor regime was to have allowed oil-marketing companies the freedom to quickly adjust prices upwards or downwards, while letting the government decide on the degree to which it would subsidise products like LPG and kerosene. Instead, in the face of persistently increasing crude prices since the outbreak of the Iraq conflict, administered prices are back with a vengeance. While seeming to protect consumers, the reluctance to increase prices is imposing significant costs on some oil companies and on the economy.

First, a crucial response to higher prices is enhanced conservation. Everybody starts to re-organise activities and processes so as to reduce energy consumption. Successful conservation is the best buffer between rising prices and economic performance. Further, frequent, relatively small changes in prices both keep the consumer alert about the situation and allow him to make gradual adjustments in his usage pattern. Postponing the increase to a point where a large adjustment is unavoidable will cause much greater disruption to both individuals and the economy as a whole.

Second, oil-marketing companies, which bear the brunt of retail price rigidity, are no longer the exclusive preserve of government. Two major players have significant, even if minority, private shareholding. To deny these companies and, by extension, their shareholders, their due margins on refining crude petroleum is to violate some basic principles of corporate governance. The government giving up its claims on profits by virtue of its shareholding is itself debatable; treating private shareholders in the same way is definitely not business. Third, given the constraints under which the finance ministry is working to achieve fiscal balance, expecting it to compensate for a clear absence of political will is completely untenable. The only way forward is for the government to increase prices by an amount which will account for both crude prices and normal refining margins, while simultaneously launching a campaign to explain to the public why there is no other alternative.

Illustration: BINAY SINHA

The coming PPP cum Reservations Raj

Since 1991, India's 'best and brightest' have found that they can best pursue their fortunes in India, says DEEPAK LAL

In my last column I had argued that, as by its very nature the basic instincts of the State are predatory, not least so in India, an important means of serving the common weal is to remove as many areas of economic life as possible from the arena of public action and the natural temptations for political corruption that thereby arise. One of the major philosophical differences between the Left and those who may be broadly classified as classical liberals is that the former has an inordinate belief in the benevolence of the State's agents, particularly if they are imbued with its avowedly altruistic beliefs. Classical liberals by contrast, recognising the fallen nature of Man, not least amongst the largely self-serving agents of the State, have always questioned this basic assumption of the Left about human nature. The recognition by the leader of the vanguard of the Left in West Bengal that capitalism is the only game in town shows a realisation that Man may not be perfect or perfectible by human agency. Its own self-interest of remaining in power, therefore, requires a pragmatism which his colleagues supporting the UPA government at the Centre (who, like all courtesans, prefer to exercise power without responsibility) are sill refusing to envisage. They are matched in their cynicism by those fellow travellers in the governing party, who for their own self-interested political reasons are willing to damage the national weal by the destruction of institutions on which the future of the country ultimately depends, and, as always the case with the Left, with the avowed rhetorical aim of helping the poor.

Despite these dangerous underlying political currents, India has been fortunate in having a small group of canny Platonic Guardians, first in the civil service and now in government, who have over the last two decades miraculously steered India away from the economically disastrous soft Fabian socialism of the Nehruvian era. But the emergence of PPPs (public-private partnership), and the threatened rise of the reservation raj pose new threats to India's deserved emergence as a global superpower.

It is to these threats and possible remedies that I turn in this and my next column.

It is important to recognise that both these threats to Indian prosperity arise from systemic State failures. The PPPs being set up for infrastructure projects—as in Britain—arise from a reluctance to privatise infrastructural services for essentially ideological reasons. But there is also a political reason. After the ending of the Licence-Permit Raj, PPPs provide new avenues for rent-seeking by politicians and complaisant businessmen. Consider the euphemistically termed viability subsidy to be offered to the private participants in these schemes. This purports to make good the difference between the prospective and privately acceptable rate of return on PPP projects from government funds. The cost-benefit studies, on which this divergence will presumably be based, can easily be turned into purely cosmetic cost-benefit studies by politicians. I can avow this from my past experience in setting up and undertaking such cost-benefit analyses—not least for the Planning Commission in the 1970s. Hence, there will in effect be unknown and unforeseen future charges on the public purse, albeit in the politically more palatable form of being largely off-budget. The UK experience in this respect does not augur well. As recently reported in the British press, many of the private companies which built the flagship new PPP hospitals have earned ex-post private returns of as high as 60 per cent because of the implicit or explicit subsidies given. The off-budget subsidies will of course ultimately have to be borne by the British taxpayer.

Similarly, as numerous commentators have noted, the recent rush to affirmative action for OBCs, though espoused in the name of social equity, is aimed to detach the OBCs from the Samajwadi Party to allow the dynasty to recapture its ancestral political base in UP. But as they all note, in this—as with Karl Rove's cynical attempt to capture the "grey panther" vote for President Bush through an expansion in Medicare—they are likely to fail. The consequences for India, as with so many of the past cynical short-term manoeuvres by the dynasty to maintain itself in power, are likely to be dire.

One of the major unintended consequences of the economic liberalisation initiated in the 1990s was that for the first time, since the economic failure of the Nehruvian dream became manifest, India's "best and brightest" have found that they can best pursue their fortunes in India—albeit after a brief sojourn abroad for study or training. One of the baleful effects of the Nehruvian settlement was that its economic policies damaged the prospects of their predecessors, who sought and succeeded in getting jobs abroad.

I have come to see the ability of a country to retain its most talented as one important signal that it is on the path to economic prosperity. Thus, when I used to travel to Sri Lanka for the World Bank in the 1970s, every morning I used to find a sheaf of CVs outside my hotel door from many highly educated Sri Lankan youths seeking employment abroad. This changed dramatically when the Jaywardane government began its programme of economic liberalisation in the late 1970s. Similarly, in my travels through the economic Alice in Wonderland of Latin America of the 1980s, there was a dramatic change in the number of CVs outside my hotel door as soon as governments began economic liberalisation and their young saw that they had an economic future in the country.

This has happened in India since the economic liberalisation in 1991, as many of its "best and brightest"—sadly still largely urban—have come to see the prospects of a fruitful life in India, while the next stage in this process, when many in the diaspora seek to return "home", is also occurring. This retention and return of human capital is the greatest prize that liberalisation offers, and it would be retrograde if the rush to reservations were once again to lead India's most talented to seek their fortunes abroad. Particularly, as unlike the 1970s, apart from this "push" factor there is also the "pull" factor of the growing demand from the developed world to recruit the world's best and brightest. The possible remedies for this emerging PPP cum Reservations Raj are the subject of my next column.

China: Empty roads, jammed rivers

DOUBLE EDGE

GOVINDRAJ ETHIRAJ

A few weeks ago, driving back from the industrial town of Huzhou to Shanghai in China, I called for a stop. We had been driving for a good hour on a four-lane highway, passing mostly small towns and industrial estates. Here, the road ran parallel to a river with large smoke-belching factories on the other side. It was worth noting that this was the first potholed highway we encountered in mainland China!

We stopped for two reasons. The first was a cigarette break for my companions. The second was to marvel at the constant traffic jams that we had been seeing since we hit this stretch of highway. Not on the road, but on the river. It was a staggering sight. Miles and miles of open barges carrying cement, sand, coal and stones sailing briskly. As far as the eye could see.

The traffic was so dense at times that the barges would bunch up and slow down. Occasionally, smaller boats would "overtake" at the points the channel was wider. Else, it was an unrelenting stream, of traffic. And there was no let-up for the good 20 minutes that we stood and watched. On both sides of the river. Besides us, on the highway, apart from the occasional old Chinese lady scurrying past on a scooter and a few cars, there was no traffic.

Two nights later I was seated atop the open deck Bar Rouge in downtown Shanghai, with breathtaking views of the Huangpu river and the glittering skyscrapers of the new Pudong area beyond. This was 11 pm at night. And the Huangpu river was jammed ... this time with tourist boats and floating restaurants jostling with giant ships and assorted barges. Even the usually packed Shanghai roads are free at this time.

The highly fertile Yangtze River Delta region (that includes Shanghai) beats the southern Pearl River Delta, which hosts the legendary special economic zone of Shenzhen, in economic size. This region is also host to some of the most active waterways in the world. China has some 5,600 navigable rivers and a total navigable length of around 119,000 km (India has 16,000 km). The Huangpu river, which lay before me, is a tributary of the mighty Yangtze River, which empties into the East China Sea.

It's here, in the Yangtze Delta, that the Chinese have combined natural resources with sheer industrial might to their advantage. To building and powering factories to sending their produce down the river. Right up to Shanghai, now the world's largest port. The dependence on water transport is high. Power plants in areas like Changxing, another industrial centre in the Delta, depend on river transport to ensure that they get a steady supply of coal.

The maritime jams brought back memories of a river trip I made two years ago on the Hooghly (one of three "national" waterways), with Praful Tayal, then chairman of the Central Inland Water Transport Corporation. The CIWTC is in a shambles and Tayal, a former Navy man, was in charge, fighting a mightly battle to revive it. As the empty cargo boat chugged along, on both sides lay decrepit run-down structures and abandoned warehouses, ghosts of a once industrialised zone. Occasionally, a fishing boat would sputter past, slowly.

Traffic on India's inland waterways is sparse. Occasionally, boats muster the courage to take a long trip and often run aground in the process. Close to half of the CIWTC's 100 boats have met this or a similar fate and are immobile. Goa and Kerala are an exception, particularly Goa for transporting freight up the Mandovi river. But then economic activity on the western coast is higher. The overall situation is dismal. In India, inland waterways account for 0.15 per cent of the total cargo carried. In China it's about 10 per cent.

Back home, waterways are more like a hobby project for the ministry of shipping. Rising costs and logjams should have triggered greater focus on river and coastal sea transport. But that has not happened. For dozens of reasons. Some companies have used the sea effectively to move cargo, particularly along the western coast. The scale, however, has not caught on. China, incidentally, has 2,000 inland ports.

And yet the Chinese didn't naturally take to river transport, at least in the last few decades. They were forced to, by crippling capacity shortages in the rail freight system. Which have not entirely been resolved. Because of which, for instance, coal produced inland is not able to reach power plants in coastal, eastern and southern China. Leading to, among other things, power shortages.

It helps that Chinese premier Premier Wen Jiabao routinely takes up the issue of transport logistics. Two years ago, he called for guaranteed transport of coal, oil, fertiliser and grain. He also asked the railways and waterways to chip in or back up. As a result or around the same time, the ministry of communications, which oversees shipping, pulled back ships from the overseas shipping routes for domestic coal. The whole process resembled a war effort.

We were through watching boats on the Changxing-Shanghai canal, also known as the Oriental Rhine. We got back in and drove on. Soon, we joined another newly constructed expressway which would take us into Shanghai. Thinking back, it was clear that this was an area that China had been caught out, in a manner of speaking. The country's freight infrastructure just did not match its output.

While it was trying hard to bridge the gap, it was also focusing elsewhere. On simultaneously building more and more world-class expressways which would take up the slack. Of people, if not freight. China has 41,000 km of expressways, a situation referred to by the government as a short supply. So, from a situation where infrastructure was just in or behind time, the country was creating a surplus. At least for some time. Now that's something to learn from.

Macmillan's Halfway House

SPEAKING VOLUMES

Nilanjana S Roy

There is nothing to differentiate Suroopa Mukherjee's first novel for adults from the score or so of assorted fiction titles on my desk—and that is excellent news for Macmillan.

Mukherjee's novel, *Across the Mystic Shore*, is one of the six books that kicks off Macmillan's controversial New Writing imprint. In 2005, publisher Michael Barnard announced that Macmillan would "give a voice to talented new writers". Macmillan would accept submissions for original first fiction directly from authors, preferably in electronic form.

They would provide minimal editorial services, but decent cover design and printing. In return, the author received no advance and signed away most of his rights, but received a generous 20 per cent of any royalties earned.

Hari Kunzru famously called Macmillan's new imprint "the Ryan-Air of publishing: it's like having to pay for your own uniforms". The UK media and the publishing industry were dismissive, even critical: Macmillan was exploiting new authors, Macmillan was skating terribly close to the vanity publishing model. Writing in *The Bookseller*, Nicholas Clee provided a slightly different perspective: "One gets the impression that more people want to write fiction than want to read it." If you accept Clee's proposition, then Macmillan's New Writing venture becomes clear: this is Macmillan the service provider, not Macmillan the publisher, at work.

Reading the first six off the New Writing imprint when you're sitting in India is an oddly soothing exercise. Most of the debates that exercise authors and publishers elsewhere about Barnard's venture don't apply here. The market for fiction in English isn't large enough, yet, to support literary agents, though that could change in the next decade. Most manuscripts are commissioned, many arrive at the editor's desk through a loose network of contacts, and a few actually make it out of the slushpile into book form. It is still possible to approach an editor at a major publishing firm directly, make your pitch, and get your manuscript published. The size of the average advance for first fiction is negligible: it would barely cover the cost of three martinis, forget a classic three-martini publisher's lunch in London.

The relative novelty of the venture—a respectable publishing house offering a no-frills, get-published imprint for the masses—has operated in strange ways in the UK. Six first novels from unheralded newcomers without the hum of a well-oiled publicity machine behind them would normally have received less attention than a middle-ranking Whitehall bureaucrat's unpublished poems. But the controversy has meant that the first six, at any rate, have been read, reviewed and discussed; the next six might receive reasonable attention as well. This could be disconcerting for mainstream publishing: all that Macmillan's done is sift through about 3,000 manuscripts in order to come up with roughly 14 acceptable novels, without any of them requiring major editorial work.

Brian Martin's *North*, for instance, could have come off any major publisher's mid-list: it's about six people at an Oxford school entangled in complicated games of seduction and manipulation. I didn't take to Conor Corderoy's sci-fi thriller, *Dark Rain*, whose narrator sounds like an android caught in a Raymond Chandler parody, but I had to admit that it was acceptable SF—there's a lot worse coming off the mainstream imprints.

Suroopa Mukherjee's *Across the Mystic Shore* is a tale of lives dislocated, fractured and sent off on different tracks when a young orphan is brought into an ordinary household in India. I can't make huge claims for this novel, but it fits with a score or so of similar books that have crossed my desk in the past month: moderately satisfying, conventional but relatively cleanly written novels with an engaging storyline. And it fits with the bulk of Indian fiction in English—not the books that receive critical attention and public acclamation, but the footsoldiers, the hundreds of not-bad, not-great works that are published each year and sell perhaps a thousand copies apiece, if that.

In most Indian publishing houses, this book would have been on the borderline: there would have been good, but not pressing, reasons to publish *Across the Mystic Shore*, and there would have been valid, but not imperative, reasons to reject it. This, I suspect, is true of most of the novels in Macmillan's New Writing line-up. Most writers slot in between Faulkner and William McGonagall, but in a world where only the freak, the exotic, the genius and the prodigy are welcome, there's no place for the average. Macmillan offers a halfway house, knowing that while all writers dream of being read, they'll settle for just being published.

nilanjanasroy@gmail.com