CONTENTS

Vol-18, No. 8
Shravan - Bhadrapad 2070 August 2013

EDITOR
Ajay Bharti

PRINTED AND PUBLISHED BY:
Ishwardas Mahajan on behalf of **Swadeshi Jagaran Samiti,** 'Dharmakshetra', Sector-8, R.K. Puram, New Delhi-22,

COVER & PAGE DESIGNING
Sudama Bhardwaj

EDITORIAL OFFICE
'Dharmakshetra' Sector-8, Babu Genu Marg. R.K. Puram, N. D.-22
E-MAIL : swadeshipatrika@rediffmail.com
WEBSITE : **www.swadeshionline.in**

India and the Tibetan cause

It was revealing to read that a man of B.N.Rau's stature could jeopardize India's strategic interests in the Tibetan cause. An ICS officer and a lawyer of formidably brilliant intellect, he had significantly contributed to the Kashmir and Hyderabad debates in the U.N. Security Council by arguing that India could not afford to have independent islands in the heart of her territory. But in the case of China his blind belief in it seems to have clouded his better judgement by doing what he did as mentioned in the article, as did the likes of Nehru, K.M.Panikkar and of course V.K.Krishna Menon with humiliatingly catastrophic results.

Rau is hailed as the original architect of our constitution, having provided a framework of it and built it by culling from the constitutions of U.S, U.K, Ireland and Canada along with likes of B.R.Ambedkar and others, naturally rendering it essentially un-Indian in character which drew condemnatory responses like "We wanted music of Veena and Sitar but what we have is an English band" by former Karnataka CM K.Hanumanthayya and former Assam Governor Loknath Mishra's "It is slavish imitation of the West" etc.

Unfortunately not much has changed in our attitude towards our neighbours since then, by meekly putting up with every murderous intrusion. The country is indeed today crying for the emergence of a Sardar Patel-like personality to save it from the rapacious clutches of adhaarmic foes on both the sides, with the treacherous western one having said "Has Has ke liya Pakistan, Lad Lad ke lenge Hindustan" and the cold-blooded eastern one that "Tibet is China's fist and Arunachal Pradesh, Sikkim, Bhutan, Nepal and Aksai are its fingers", as if India was their grandfather's property!

– Chintamani Venkata Krishna Manoj, *Hyderabad, Andhra Pradesh*

EDITORIAL OFFICE

SWADESHI PATRIKA

***'Dharmakshetra'*, Sector-8, Rama Krishna Puram, New Delhi-22**

■Tel. : 26184595, *E-Mail*: swadeshipatrika@rediffmail.com

For subscription please send payment by A/c payee Cheque/Demand Draft/ Money Order in favour of 'Swadeshi Patrika' at New Delhi, or Deposit the subscription amount in Bank of India A/C No. 602510110002740, IFSC: BKID 0006025 (Ramakrishnapuram)

Annual Subscription : 150/-

Life Membership : 1500/-

Kindly write your full name and address in capital letters.

If you do not receive any issue of Swadeshi Patrika, kindly e-mail us immediately.

Quote-Unquote

Understand why the US campaigns for FDI into India. The phoney credit money is used to import cheap, borrow back cheap, and invest outside for high returns.

S. Gurumurthy

National Co-Convener, SJM

Political mismanagement of India's once-booming economy is reaching a point that could threaten its financial stability and strategic leeway

Brahma Chellaney

Security Expert

Without factoring high inflation, any estimation on poverty is an exercise in futility. May be an election gimmick!

P. Muralidhar Rao

National General Secretary, BJP

What right Muslim fundos have to ask for freedom of expression when they don't want to give this right to liberal Muslims.

Javed Akhtar

Actor

EDITORIAL

UPA government Changes PMA under pressure

Succumbing once again, to pressure from USA and Global telecom operators, particularly from the United States, the Congress led UPA government has put in abeyance crucial policy on giving preference to domestically manufactured telecom products. The decision to revisit, review & put on hold the policy, called preferential market access (PMA), was, on face of it, taken by a high-level committee, headed by Shivshankar Menon, the National Security Adviser to the Prime Minister and attended by. Finance Secretary R S Gujral, Commerce Secretary S R Rao and others. But in reality it was unrelenting US pressure at the highest levels that is believed to have led to New Delhi's capitulation. Concentrated and well-orchestrated US onslaught that opened with the hearing of the House of Representatives' Ways and Means Trade Subcommittee on the state of India's trade relations with the US followed by a series of missives at regular intervals from industry organisations and lawmakers to President Barack Obama and Secretary of State John Kerry, all of them complaining about India's patent laws and discriminatory trade practices, without looking at its own record & conduct. Three of India's regulatory and policy requirements singled out for attack being Patent law, domestic content rules in solar and ICT policy. In the case of ICT PMA unnerved the Americans. There is rich treasure in this sector and India is being forced to open up to facilitate unethical loot. This belief was further strengthened by the manner in which America Inc, and leading US technology associations rejoiced over Prime Minister's announcement. The Cabinet, we may recall, on February 2, 2012, had approved a PMA policy that called for using indigenously manufactured products to mitigate the threat of cyber espionage. The Telecom Regulatory Authority of India also recommended an increase in the use of domestically produced equipment in telecom networks due to security reasons. On October 5, 2012 Department of Information Technology (DlT) issued Notification for providing preference to domestically manufactured electronic products as a part of procurement process for the electronic products that have security implications for the country. A notification of the department of telecommunications (DoT), on October 30, 2012, said private telecom operators or licensees also would have to give preference to domestically manufactured telecom products if there were "security implications" at stake. The press note issued after approval of the Cabinet clearly mentioned that the policy was 'consistent with our WTO commitments'. While Domestic telecom equipment makers were seeking Prime Minister's intervention to help expedite the notification on policy that aims at boosting indigenous production, he chose to once again side with MNCs and put on hold the policy that has potential of substantially minimising CAD. Experts have for long raised serious questions on the ramifications of India's escalating electronics imports all set to overtake the ballooning oil import bill in the next few years. The rising payout for imports of electronic goods poses a serious threat to the security of Indian cyberspace. In recent times, there have been a number of cases of cyber-security breaches. Cyber crimes and hacking of websites of Government departments and corporates is on the rise. Indigenous development in the electronics sector, especially the creation of domestic infrastructure to produce electronics and sensors that is considered a weak link in defence research is supposed to be the only answer. There is an urgent need to develop and manufacture electronic components and systems to meet the demands of the strategic sector. PMA is just one positive step to achieve this crucial national objective. It is an expression of India's desire for self-reliance& protecting ourselves from being vulnerable.

Electronics, we know, has got a raw deal in this country. The liberalisation of the economy in the early 1990s saw a free flow of electronic goods. The large multinationals quickly captured the market. Public sector undertakings and research labs have made major contributions, However, the intense competition, Government policies and funding issues took a toll on these organisations. In the commercial space, that includes consumer electronics, scientific instruments, medical gadgets and industrial electronics products; the lion's share comes from global players. Even among products that are manufactured in India, more than 60 per cent is imported. Our own value addition is small. The decision of the PMO to change the PMA policy under these circumstances is a serious blow to not only the economy in both short & long term but also to the sovereignty and security of the nation.

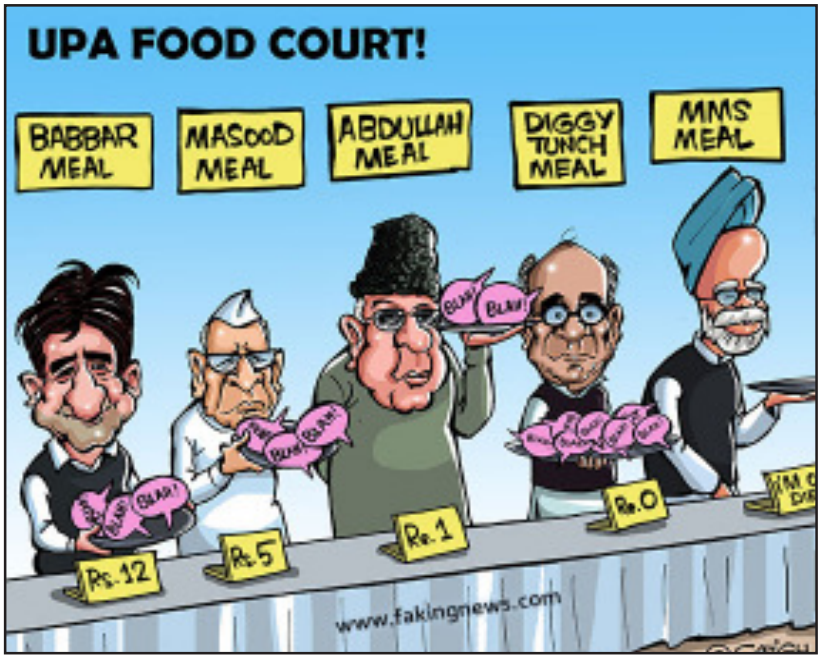
Food Security Bill

A Political move masked as Safety net for Poor

Congress Party has history of raising attractive catchy slogans making tall promises to win elections. The Party is presumptuous about this 'time tested' formula to allure voters, finds **G. Raina**

The National Food Security Bill 2012, we know is more about votes than the food security of the people – particularly poor and marginalised. Congress is hell bent upon ensuring that Food Security Ordinance/Bill is put in place before the general election to claim its authorship. The party had made it clear that in case the parliament was unable to give its nod to the controversial Bill, the party will not hesitate to get Government Issue the ordinance. When opposition parties showed their willingness to have even a special session of the Parliament for discussing the Bill, Congress unwilling to allow them share the credit, went ahead to issue an ordinance.

Congress Party has history of raising attractive catchy slogans making tall promises to win elections. 'Garibi Hatao', 'Bank Nationalisation', 'AAm Aadmi', 'Loan Waiver', regularization of unauthorized colonies' are some of these slogans that were raised to woo electorate before elections at different point of time in the past. The Party is visibly over-confident about this 'time tested' formula to entice voters. This time it seems to be a combination of Food Security Bill, Land Acquisition Bill and Cash Transfer for subsidy. Food Security Bill is being already talked as game changer.



Opposition parties along with some allies of Congress Party comprehend the politics behind the move and are unwilling to allow congress a walkover. It is this stiff opposition from all sides that compelled the union cabinet to delay the ordinance route, twice.

Experts, stakeholders and people at large seem disinclined to oblige Congress this time. Thanks to internet and social media the Congress Party and the Government is being challenged in an effective manner. The controversy surrounding the bill and explicable hurry of the congress party have some sort of food security Act in place has fittingly generated a debate in the country. Different aspects of the bill are being scrutinised by quite a number of people. It was not so few months earlier. It is therefore, essential to discuss various aspects of food security and the bill in question in detail.

Some interesting facts

Before discussing merits and the demerits of the Bill it will be useful to have a look on certain facts.

1. The National Food Security Bill, 2011 was introduced in the Lok Sabha by the Minister of Food, Consumer Affairs and Public Distribution on December 22,

2011. The Bill was referred to the Standing Committee on January 5, 2012. The standing committee gave its report on Jan 17, 2013.

2. One significant aspect of the Bill is its extent as mentioned in ch (I-2) saying that ' It extends to the whole of India' thereby indicating that the state of Jammu Kashmir is not excluded from the purview of the bill as is normal procedure for any Bill presented to the Parliament..
3. On March 20, 2013 significant official amendments were circulated in the Lok Sabha. The Key official amendments change the bill completely on crucial aspects.
4. The Cabinet, which deferred a decision many times on the issue following differences within, approved promulgation of an ordinance to implement the Food Security Bill on July3. It reached President's Office on 4th night and President Pranab Mukherjee signed the ordinance on 5th July 2013.
5. The Ordinance came hurriedly just weeks before the scheduled Monsoon session of Parliament and political parties demanding that the Food Security Bill be debated in both Houses before being passed.

Key official Amendments

First major amendment introduced is the identification of the beneficiaries under the proposed Act. The original Bill classified beneficiaries into three groups, viz Priority households, General households and specific groups. Another category of households suggested was of those falling under the exclusion criteria, which was to be prescribed by the Central Government and could not be included either in the priority households or general households.

Government is yet to identify those living below poverty line.

Under the earlier Bill the centre was to determine the percentage of people in each state that will be covered under the Bill. It was to prescribe guidelines for their identification also. States were made responsible for identifying persons belonging to priority and general households as well as those suffering from malnutrition, starvation, destitution and homelessness.

The official amendment seeks centre to use population estimates as per the census to determine the total number of persons to be covered in each state and also State governments, and not the central government, shall specify guidelines for the identification of priority households while AAY households shall be identified according to the scheme guidelines.

Destitute defined as persons with no resources, means and support required for food and nutrition enabling their survival; to the extent that makes them vulnerable to live with or die of starvation were entitled to meals in original form. Clause stands deleted in amended form. It is replaced with a definition for eligible households, as those covered under the priority and the Antodaya Anna Yojana (AAY) groups.

Ironically enough, the government is yet to identify those living below the poverty line. The report of the Saxena Committee, constituted by the union ministry of rural development, is particularly shocking. In fact, 49.1 per cent of the population, according to this report, exists below the poverty line. An estimated 23 per cent of the poor do not have a ration card, let alone the BPL card. The report has revealed that 17.4 per cent of the cards are held by the rich. The committee has recommended that the government should undertake a national survey to identify the poor.

Last December, Prof SD Tendulkar, the former chief economic adviser to the Prime Minister, submitted the report of the expert group to review the Methodology for Estimation of Poverty. According to Prof Tendulkar's findings, in 2004-05, 37 per cent of the country's population was living below the poverty line. This figure is significantly higher than the figure released by the Planning Commission, according to which 27.5 per cent are below the poverty line. Prof Tendulkar's figure

Definition of foodgrains is another significant issue.

of headcount is higher because of the larger basket of consumption, which includes expenditure on education and health by the poor.

The NSSO, which conducts a sample survey of consumer spending, estimated that the people living the below poverty line constituted only 28.3 per cent of the population in 2004-05. In contrast to this figure, the Arjun Sen Gupta Committee, formed by the government for the unorganised sector, stated that more than 77 per cent of the people are forced to live on Rs 20 or less per day. This is insufficient even for the minimum requirement of a person's food, health, shelter and clothing. Clearly, more than 77 per cent of the people cannot meet their basic needs.

There are still serious problems about the identification of the beneficiaries; so far none of the committees which have been constituted have come up with a concrete criterion for the purposes of identification. The government has not come up with a concrete method of identification of the beneficiaries. In case this remains vague there is bound to be huge amount of leakage.

Change in entitlement is another major change proposed through official amendment. In earlier version Priority households were entitled to 7 kg of subsidised foodgrains per person per month while General households were entitled to at least 3 kg. Now their entitlement has been scaled down to five kgs per person per month.

Definition of Foodgrains is another significant change. Earlier it referred to rice, wheat, coarse grains or any of their combinations. Now the definition includes quality norms to be determined by the central government through orders passed from time to time. A deliberate grey area supposed to help Agro MNCs.

There are some other issues involved also. Like for example:

a) ***Issues of Federalism;*** as There is too much of concentration of power in the hands of the center for the purpose of formulation of policy & overseeing of implementation. This is completely against the concept of federalism.

b) ***Dependence on Imports:*** By giving a right, there becomes an obligation on the govt to provide the basic minimum under all circumstances; this may mean that the government may be forced to import food stuff from outside the country. For the enforcement of the law, 612.3 lakh tonnes of food grains will be required. there will be a huge requirement of food stocks. It is to be noted that for the last two years, government food stocks have not exceeded 50 lakh tonnes food grains (wheat and rice). It is true that in the last few years, there has been a rapid increase in the purchase of food grains by the government; however, due to lack of storage capacity of the governmental godowns, we hear a number of incidents of rottening of food grains.

Even if the government is able to manage the required financial resources somehow, it will still be difficult for the government to ensure the supply of sufficient food grains in the market. It is because, generally the farmers retain sufficient food grains for their own household consumption and then they bring the rest of the food grains in the market. We should remember that in the last 20-22 years, the pace of increase in food production has been less than the increase in population due to the neglect of agricultural sector. Consequently, per capita food grain availability has gone down from 510 grams per day to 436 grams per day at present and is continually decreasing. In such a scenario, the government will be responsible for providing food security to the targeted population after the enforcement of the Food Security Law. This would necessitate food imports.

That is the reason why experts fear that said Bill may jeopardize food security and self sufficiency in food that we have built up since PL 480 incident.

Cash subsidy in place of food as suggested can be done under the Act would result in the same amount of leakage as NREGA. Similarly Aadhar cannot be accepted as valid identity document.

There are several other issues also that need to be careful evaluated. But Congress led UPA has decided to discount all objections. It is clear for them it is not important to have an effective and well thought out Food Security Law in country. What they actually want is in reality a TRAP. The party is shamelessly entrapping the poor people of the country to regain the power. ❑❑

Planning Commission manages to say Poverty has dropped in India?

The Planning Commission , in brazen an attempt believed to help Congress Party election campaign, has published latest poverty estimates in a manner that show a 7 percentage-point drop in India's poor, the largest fall since the figure was first calculated in 1962. These estimates have put the country on boil. People are miffed over the fact that the Planning Commission has reduced an already controversially low poverty line even further, using the new thresholds to create the appearance of a large drop in absolute numbers. It conveniently forgot the fact that public was outraged at the idea that the poverty line should be 32 rupees, or 63 cents, a day in urban areas and has audacity to say it should really be 29 rupees.

The controversial estimates of Planning Commission have been criticized everywhere. The panel had released the poverty data based on the 66th round of the National Sample Survey (2009-10) on household consumer expenditure. The poverty ratio has been pegged at 29.8 per cent for 2009-10, down from 37.2 per cent in 2004-05. The estimates are based on the daily per capita consumption of Rs 28.65 in urban cities and Rs 22.42 in rural areas.

The opposition rightly fears that the new poverty statistics do not reveal the real extent of poverty in the country. Panel Deputy chairman, an obstinate Montek Singh Ahluwalia, however, continues to defend the revised poverty estimates.

He said the figures revealed that poverty had declined twice as much between 2004-05 and 2009-10 than the 11 years before it. He claimed the trend signified that the UPA's poverty alleviation programmes had shown results.

The opposition parties, however, say reducing the number of people living below the poverty line was a ploy to fool the poor. The current figures are lower than those submitted by the plan panel in its affidavit before the apex court last year. The earlier figure based on the June 2011 price level was pegged at Rs 965 (Rs 32 per day) per capita per month in urban areas and Rs 781 (Rs 26 per day) in rural areas. The internationally accepted extreme-poverty line is $1.25 a day or Rs 76.4 @ 61.1175 exchange rate.

The commission claims in its weak defense that it is using the same methodology it did when it last published poverty estimates in 2009, based on data from a nationwide survey in 2004-5.

The figures released are based on 2009-10 N.S.S. data, which include actual consumption by households measured by the costs of food, rent and clothing, rather than estimates.

So in fact, only two official poverty lines exist for the period between 2004 and 2010 based on N.S.S. surveys. The 32 rupees a day was an estimate and should be disregarded when evaluating the poverty figures. For the purpose of comparison, the revised poverty line of 29 rupees a day for 2009-10 should be weighed against the line of 19 rupees a day in 2004-5 in urban areas.

Some say the furor over the poverty lines should be focused instead on the distinction between an ethical and an administrative poverty line.

The contradiction is not only in the different definitions of poverty line. More important is the double standards being used by the government for different purposes. The much-publicised Food Security Bill has says 75 per cent of the rural population and 50 per cent of the urban population will be covered under the Law to. That means 75 per cent of the rural population and 50 per cent of the urban population require assistance as the Bill should and claims to aim at providing food security to the poorest of the poor; really speaking, this means people below the poverty line.

Short of saying that this is the proportion of our country which is poor, The Planning Commission estimates indicate that population below poverty line is 27.5 per cent. Further, even if one considers the Tendulkar Committee estimates on poverty, the population benefiting from the FSB should not exceed 37.2 per cent (to be precise, 41.8 per cent in rural areas and 25.7 per cent in urban areas).

So which of the positions of the government shall we believe? There is an obvious contradiction. ❑❑

Will the WTO torpedo India's massive cheap food programme?

With the United States hardening its position on the G-33 proposal to exempt public stock holding programmes and is unwilling to extend the subsidy limit for addressing the nutrition needs of the hungry and malnourished, the National Food Security Bill could run into serious problems, worries **Dr. Devendra Sharma**

By bringing in an Ordinance on the food security bill, the UPA-II has certainly bypassed the need for a cumbersome and noisy parliamentary debate. But there still hangs a bigger hurdle that needs to be crossed to make the dream programme a reality. With the United States hardening its position on the G-33 proposal to exempt public stock holding programmes and is unwilling to extend the subsidy limit for addressing the nutrition needs of the hungry and malnourished, the National Food Security bill could run into serious problems.

President Pranab Mukherjee signed into law the National Food Security bill on July 5, 2013, two days after the Union Cabinet decided to issue on Ordinance.

While Commerce Minister Anand Sharma has gone on record saying there can be no compromise on feeding the poor and hungry, the US WTO Ambassador Michael Punke has launched a blistering attack on the developing countries proposal, singling out India as "creating a massive new loophole for potentially unlimited trade-distorting subsidies." Calling it as a step backward, he said "The new loophole, moreover, will be available only to a few emerging economies with the cash to use it. Other developing countries will accrue no benefit – and in fact will pay for the consequences."

The controversial proposal moved by G-33 countries, which is a group of countries including China, India, Indonesia, Pakistan and others that came together to protect food security, livelihoods and rural development in the Doha Development Agenda, seeks amendments in the revised Doha draft modalities for agriculture. Knowing that procurement of wheat and rice under the National Food Security bill will rise manifold, India is wanting that the enhanced subsidy outgo for food procurement from small farmers as not being seen as a trade-distorting subsidy support. These subsidies, required to meet the food security needs of the hungry population, should be outside the maximum limit of 'Aggregate Measurement of Support' (AMS) that each country has to adhere to. The food the developing countries buy at a minimum support price from 'low-income, resource poor farmers' should not be computed in the AMS limit. At the same time, India wants the 'de-minimis' require-

ment for public stock holding – which at present stands at 10 per cent of the total production of wheat and rice that can be procured for meeting the nutritional needs of the food insecure population – be also suitably amended.

Despite Anand Sharma's behind the scene discussions with the outgoing WTO Chief Pascal Lamy and the Director General-designate Roberto Carvalho de Azevedo of Brazil, the US continues to harden its stand. It has warned that if India's new proposal on the table are not rejected "it will hurtle the WTO talks to irrelevance".

Interestingly, India's proposals are closely linked with the developed country's proposal for an agreement on trade facilitation. Trade facilitation actually means setting up the required infrastructure at the ports, and making available appropriate transport and communication facilities that would make it easier for the trade and business to operate. In other words, the developed countries are actually pushing the developing countries to invest on facilitating the trade interests of its corporations and agribusiness giants. This agreement, which has some 600 contentious clauses or what is called as brackets in WTO language, will have serious implications for the domestic agriculture sector in developing countries. Unfortunately, Anand Sharma is willing to go by the trade facilitation agreement without even assessing the negative fallout it will have by acerbating the prevailing agrarian crisis and food security requirements.

Nevertheless, it is important to understand why the G-33 proposal that calls for appropriate measures to ensure food and nutritional security for the poor and needy, is so important. First, let us be very clear that the AMS calculations were done keeping the prevailing prices in 1986-88. Since then, and especially after the 2007 global food crisis, the farm commodity prices have seen a quantum jump. The 1986-88 reference prices, which was a period when prices were very low, no longer holds true and have lost all its relevance. Secondly, the trade distorting subsidies that the US/EU has been providing all these years have not been done away with.

Might of the Developed nations has so far controlled the direction& out come of talks at WTO.

In fact, the developed countries have expressed jubilation over the fact that the massive agricultural subsidies that OECD provides for agriculture, with 80 per cent going to big corporations and rich farmers, are not on the negotiating table at the forthcoming Bali Ministerial in December 2013.

On the other hand, in an analysis presented by Jacques Berthelot of France, the angry outburst of the US Ambassador to WTO appears completely unjustified. Accordingly, the average food aid that in 2010 that India gave to its 475 million people (65 million families below poverty line plus 10 million above poverty line) to meet their food security needs was to the tune of 58 kg/per person. Comparatively, the US provides 385kg/person to its 65 million people, who received food aid under several programmes like the food coupons, child nutrition programme etc.

Moreover, the procurement of wheat and rice from resource poor farmers by India does not mean the grains are being dumped in the international market thereby distorting trade. In reality, Jacques Berthelot has computed that the low global prices of wheat and rice in 1986-88 – the reference period – were because of massive dumping by both US/EU. Given that 53.2 per cent of the global exports of wheat came from US/EU, the role dumping played in depressing the global prices becomes quite obvious. The reference period of 1986-88 against which the administered prices of 2012-13 are being evaluated therefore becomes meaningless and absurd.

But still, at the WTO negotiations, it is the might of the developed countries that have so far controlled the directions and the outcome of the negotiations. If the US/EU continues to oppose the proposal floated by India through the G-33 countries, India will find it difficult to implement the National Food Security bill. And let us not forget, India has no provisions of introducing an Ordinance this time to bypass the WTO. ❑❑

Why growth has stalled – And it's not what the FM is telling us

Even though the unorganized or non-corporate sector is fastest growing its credit needs are met by private money lenders etc. at 5 to 6 % per month or 70 % per annum, while corporate sector which has less than 12% of our national income gobbles up nearly half of the bank credit, tells **Prof. R. Vaidyanathan**

The growth rate of our economy has declined from around 8 percent in the mid part of decade to nearly 5.5 percent and expected to be around 6.3 percent in this fiscal. Many an expert is breaking the head to find the reasons for the slowdown in growth. The government economists like Rangarajan and Raguram Rajan ascribe this to global slow down as well as delayed decisions in acquiring land and providing clearances for major infrastructural projects. They are right but only to a very small extent.

The main growth in our economy has come about due to service sector whose share in GDP is around 65%. Whenever the term 'service sector' is mentioned, the immediate recall is IT and companies like Infosys or Wipro. Factually, all software related activities come under business services, which itself is less than 5% per cent of our National Income. The service sector covers a much larger canvas and this sector is the fastest growing sector in our economy, generating scope for large-scale employment. We have mentioned the activities, which constitute the service sector in Table-1. We observe that this sector encompasses diverse activities carried on by large multinationals as well as roadside entrepreneurs. Normally construction is included in the secondary sector along with manufacturing in developed countries. But given the labor intensive construction and major single house construction by smaller contractors, we have included it in service sector; National statistical commission has included construction as part of service sector.

1. Construction
2. Trade
3. Hotels and Restaurants
4. Transport, including tourist assistance activities as well as activities of travel agencies and
5. Tour Operators
6. Storage and communication
7. Banking and insurance
8. Real estate and ownership of dwellings
   Business services including accounting, software development; data processing services, business and management consultancy; architectural, engineering and other technical consultancy, advertisement and other business services.
9. Public administration and defense
10. Other services including education, medical and health, religious and other community ser-

Table 2

GDP shares and Growth Rates — 2004-05 to 2011-12

Sector	Sector Share	Sector Share	Growth Rate (CAGR)
	2004-05	*2011-12*	*2004-05 to 2011012*
Agriculture	19.0	17.5	14.6
Industry	20.3	18.2	14.5
Services	60.7	64.3	16.8
Total	100.0	100.0	15.9

Source: Statement 10 – NAS- CSO 2013

vices, legal services, recreation and entertainment services

11. Personal services and activities of extra-territorial organisations and bodies

Note: We have considered "Construction" as part of the service sector in our discussion even though sometimes, it is considered as part of the "Secondary sector". See "Report of the National Statistical Commission", [NSC] PP 186, Vol II August 2001. Ministry of Statistics and Programme Implementation, New Delhi.

We find that the service sector had a share of 60% in 2004-05 which increased to nearly 65 % of the GDP and it has grown[CAGR] by 17% during 2004/05 to 2011-12 (current prices) which is higher than that of industry at 15 % and overall growth rate of 16 % . We find that service sector has larger share as well as greater growth during the last seven years. See table-2.

Among the service sector we find that 1)construction 2) trade 3)hotels and restaurant 4) Non-Railway transport 5)business services and 6)other services are major components and in each of them non-corporate sectors namely Partnership / Proprietorship and household enterprises dominate.

Table – 3

Share of Unorganized Sector in Service activities

Category	2004-05	2010-11
Construction	63.4	58.6
Trade hotels & restaurants	77.2	76.5
Non-railway transport	76.7	78.8
Real Estate, business services	73.6	66.0
Other services	42.9	41.4

Note: *Share in respective GDP in current prices*
Sources: *Statement 76.1 NAS: CSO New Delhi*

The share of what is called as "unorganized" sectors in these activities is nearly 80 % in non-railway transport in 2010-11 and 77% in trade hotels and restaurant .Real Estate and business services also have share of more than 65% and it has declined from around 74% in 2004-05—See table-3.

We find that there is significant decline in the growth rate [CAGR] of unorganized manufacturing from 10 % during 04/05 to 07/08 to 4% in 07/08 to 11/12. Similar is the case of construction from 11 % to 7 % trade from 10 % to 8% and restaurants from 15% to 2%. Non-Railway transport fell from 9 to 7 percent and of Course total NDP growth rate itself fell from 9.4% to 7.4 %.—See table-4

Data on Bank credit categorizes "unorgansed" sector under household sector.. It consists of Partnership, Proprietorship concerns, joint families, associations,

Table – 4

Growth Rate Different service activities

	Category	CAGR 2004-05 to 2007-08	CAGR 2007-08 to 2011-12
1	Manufacturing	11.6%	6.0%
	Manufacturing–unorganized – non corporate	10.0%	4.0%
2.	Construction	10.9%	6.5%
3.	Trade Hotels and Restaurant	11.0%	7.6%
	Of which trade	10.7%	8.1%
	Of which hotels and restaurants	15.0%	2.0%
4.	Transport by other means	9.0%	6.8%
5.	Real Estate, Ownership of dwellings & business services	9.6%	8.5%
6.	Other Services	5.6%	6.8%
	Total NDP (including other activities)	9.4%	7.4%

Note: *Computed from NAS, CSO 2012*

Table – 5

Distribution of Outstanding Bank Credit by Categories [0%]

Category	March 1990	March 1996	March 2004	March 2008	March 2009	March 2010	March 2011
Household Sector (1)	58.3	51.1	47.6	36.6	32.8	32.8	36.2
Private Corporate Sector (2)	31.3	38.6	38.0	46.7	48.2	48.6	44.0
Public sector (3)	10.2	10.3	14.3	16.7	19.0	18.6	19.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100

Note: *(1) Household sector includes Partnership, Proprietorship concerns, joint families, associations, clubs, societies, trusts, groups and individuals for all accounts. (2) Private Corporate sector includes private sector and cooperative sector excluding those mentioned in (1). (3) Public Sector, that is all Government activities, includes joint sector undertakings*

Sources: *Extracted from table – 1.15; Outstanding Credit of scheduled commercial Banks according to Organizations, Basic statistical returns; various years; RBI*

clubs, Societies, trusts, groups and individuals for all accounts. Their share of bank credit which was nearly 60% in the early nineties has become 33 % in 2010 showing a consistent decline. The share of corporate sector has gone up from around 30% to 49% and Government from 10% to 20%. As can be seen from table-5.

It is interesting that the corporate sector which has less than 12 percent of our national income gobbles up nearly half of the bank credit.

Even though the unorganized or non-corporate sector is fastest growing its credit needs are not met by the banking sector but by private money lenders etc. and the cost of borrowing us as high as 5 to 6 % per month-namely around 70 % per annum.

In other words the most productive and growing sectors of our economy are starved of bank credit so that they depend on money lenders and other such sources including Saradha type enterprises! We estimate that more than 70 percent of retail trade needs are met by money lenders /chits etc. in 2010/11.The crony capitalists who default bank loans get larger share for their wasteful expenditure. Also, our small entrepreneurs get credit from money lenders using Gold as collateral. Because of declining credit from Bank channels they have to depend more on gold whose demand have shot up.

Instead of meeting the credit requirements of our Kirana stores we find that our Finance Minister is going around with a begging bowl to New York and Tokyo for FII funds. An aura has been created that FII and FDI are the Anna Lakshmi for us even though in the last decade they have only been around 6 to 8 % of our investment needs.

Our Kiranas and Udupi restaurants and one truck operators and barbers /plumbers/masons and small time contractors are crying for credit at reasonable rates. But we will not bother about them. . They are not the sophisticated to argue in CII and FICCI conferences They are pan chewing, dhoti clad and English illiterate entrepreneurs. They are the real engines of our economic growth.

The slowdown is directly linked to the choking of these activities. The huge black money generated in our economy used to be partly financing them. Now that has also been dried up since that money is more in to real estate and gold.

It is imperative we look at the credit starvation of these groups and the regulatory strangulation with concomitant bribes to understand the slowdown in our economy.

The solutions are not in New York or Paris but have to be found out from Kottayam to Kohima and Ahmedabad to Agartala about the credit starved productive sectors. We will find more Saradha institutions going through the cycle of rise and fall unless we understand our reality without the lens of Harvard and Wharton.

The solution is to create a separate body to develop Non-banking Finance Sector [NBFS] and free it from RBI as well as the bureaucratic clutches of State Governments. RBI hands are full and so no point in complaining that it is not alert about millions of non-bank sources and uses and some time abuses. The NBFS developmental authority should primarily focus on the development of partnership and proprietorship firms in the economy by appropriate credit and lesser strangulating regulations.

Will our Mandarins and Minsters who are searching for solutions in salubrious climates abroad shift their focus to India inside? ❑❑

Indian Muslim Politics and Politics of Muslims

Secularism expects, civil society with enlightened citizenship that love democracy to act responsibly. Their participative Public spirit and resistance to socio-economic injustice apart from national outlook, a measure of self-discipline, and law-abidingness only can make India a true secularist country, opines **Anil Javalekar**

BJP lastly named Sri Narendra Modi as chief of its campaign committee for 2014 elections. Indian secularists who survive on vote bank politics may see this as opportune moment. Indian democracy is based on electoral politics and Vote bank politics is one among many electoral politics that forces politicians to indulge in. Father of nation, Mahatma Gandhi, though talked about the politics of principles; most politicians indulge in politics without principles. And as the functional principle of Indian representative democracy is its majority rule, the vote bank politics help to get that most sought after majority. Incidentally, Indian Muslims form a solid group that can influence counting of this majority number and Indian political class has no option but to go after them for support. There is no denying that Indian democracy is run by representatives and every group of people with their cast, sub cast, religion or class etc need representation and Muslim community is no exception. However, Muslim politics by Indian Muslims to get sufficient representation is one thing and politics of Muslims by all others to get that majority number to rule is another. First is a positive idea, if not divisive, and may benefit Muslim society and the nation but another is simply destructive and dangerous to Indian democracy. The tragedy is that most politicians ignore this fact and indulge in disastrous politics.

Indian Muslims

India is a country of its own ancient civilization that survived till today. Indian spiritual life philosophies were first among to travel abroad spreading the message of peace and integral humanism and though India was attacked by sword, Indians greeted the aggressors with tolerance and patience and even allowed them to merge with their societies. Earlier aggressions looted the wealth of India. Later period, however, saw aggressors enslaving Indians and capturing Indian territories and ruling India. Muslim aggressors remained in India and settled. British colonized India and exploited Indian resources for almost 200 years but created no further problems for India after leaving in 1947 except that their legacy of administration, English language and all laws that had British origin still rule Indians. Muslims on the other hand remained in India and some demanded for a separate nation at the time of independence. Muslims in India kept their separate identity and some of their leaders refused to merge with Indian national ethos even after partition. This divisive Muslim politics of Muslim leaders and politics of Muslims by Indian politicians in the name of secularism nurtured the vote banks.

1. Muslim Politics

Start was with Divisive politics : Muslim politics by Muslims for protecting Muslim interests has been there right from British period and All India Muslim League claimed their leadership since then. Majority Muslims however, participated in freedom movement along with Hindus under the banner of Indian National Congress and leadership of Mahatma Gandhi. The emergence of Muhammad Ali Jinnah changed the face of Indian Muslim leadership and its representative character. It is true that Jinnah was active in Indian national politics and participated in Indian National congress and its deliberations. He had no hesitation presiding over a meeting organised by Guajaratis of Mumbai welcoming Mahatma Gandhi on his return from South Africa in 1915 and showing solidarity with Indian national freedom movement. The clash of Muslim league with INC in 1920s and thereafter over protecting Muslim interests led to the start of divisive Muslim politics by Muslim leadership. It ended only with the creation of Pakistan in 1947. The base of this divisive Muslim politics was Hindu-Muslim 'two nation' theory. The Muslim League and its leaders, including Muhammad Ali Jinnah, propagated the theory of two nations and created fears in the minds of Muslims and Hindus; took advantage of heightened feelings of hate and anger of both; asked Pakistan for Muslim populated areas and finally got territorial independence to create Pakistan.

Pakistan was not created for all Muslims in India : First, the intention of divisive Muslim Politics by Jinnah and company was to create Pakistan and second, the Pakistan was not created for all Muslims in India but for some Muslim populated areas. Muslim leaders did not insist for shifting of all Muslims from all over India to Pakistan nor ensured that the last Muslim reaches to Pakistan. In fact, Muslim leadership was not interested in this mobilization but was happy with a territorial separation with limited Muslim Population. They have achieved this territorial independence by creating fear psychosis in Muslim minds and propagation of two nation theory. Nizam of Hyderabad and many others could not build this type of pressure and were to merge with India because Indian government was then in Power and Indian leaders like Sardar Patel took a tough stand.

Divisive Muslim Politics will not help Indian Muslims : This start of divisive Muslim politics by Muslim leaders in the pre independence era created fears in the minds of Hindus and nationalist Indians that still lingers. Muslim Politics for true representation in Indian democracy for the benefit and progress of Muslim community is good and Muslims and their groups should ask for such a representation. However, two nation theory and its propagation, moreover, acting on and representing for that theory is not only dangerous to the nation but to the Muslim community as well. Indian Muslims who remained in India are now citizens of India and their future is linked with the future of India. There is in fact no Islamic world as such and no other country, Islamic or other, even Pakistan, will accommodate Indian Muslims within their country now or anytime in future but positively use divisive Muslim politics to their advantage as Pakistan has consistently been doing. Indian Muslim leaders need to understand this fact and guide Muslim community accordingly and participate in healthy Muslim politics.

Two nation theory is dangerous to both nation and Muslim community.

Muslim future is with India alone : Majority Muslim population remained in India and many not even thought of going to Pakistan. The Muslims in other parts of India remained in India not by choice but due to their birth and ancestral loyalties to the location and people as all other communities remained where they were including Hindus. The propagation of two nation theory was not to divide Hindu and Muslim population in two different nations but was only to liberate and separate some Muslim areas from India by way of pressure tactics and creating fears in the minds of Hindus and Muslims. The present strategy of some Muslim leaders to create a separate state within India by way of divisive Muslim politics is misleading and has no future. No Indian government will allow it in any form. The more Indian Muslims understand this divisive Muslim politics of their leaders, more clearly they will see their future with India alone.

2. Politics of Muslims

Vote bank Politics- Dangerous game : Vote bank Politics applies to various Indian groups like casts and sub casts etc, but it is prominently applied to Politics of

Muslims. The participants are Indian political class and their supporters and beneficiaries and include Indian Muslim leaders. The methodology is very simple. Calculate the constituency wise position of Muslim population and try to woo them by creating simple fear of Hindus and or their leaders or party. This vote bank politics is not to give any more representation to Indian Muslims or increase their participation in Indian Democratic setup or in the development process but to isolate and keep them backward and dependent and use them for political purposes. This is nothing but a political slavery of Indian Muslims. This Vote bank politics is killing Indian democracy and destroying the basic fabrics of Indian society. Indian election system has also been failing to curb this foul play.

Redefine the election constituencies to minimize the impact of vote banks : Real problem is with the election constituencies and unless rules and criteria for defining these constituencies are changed, this vote bank politics will continue. There is a need to go beyond the present criteria of geographical area and administrative convenience and use modern communication technology potentials to introduce new voting system that can avoid such vote bank politics. This can be done by defining constituencies on the basis of voter population irrespective of the geographical area. For example, take geographical area like a district with five assembly constituencies. Instead of asking one area people to vote for that area candidate, voter population of entire district should be divided in five constituencies in such a way that solid group voting will have no impact on election results.

There is need to introduce new voting system using modern communication tools.

Politics of Muslims-thy name is secularism : The tragedy is that this politics of Muslims is based on secularism. India is governed by Indian constitution and aspired to become a Sovereign Socialist Secular Democratic Republic. Indian politicians however, misinterpreted and misrepresented the idea of 'secularism' and targeted majority population of Indian nation-that is Hindu- and branded them as anti secular. They gave a narrow meaning to the 'secular' word and propagated that the secularism means giving protection to Muslim communities. Result is that anything that is talked about by Hindus and their groups is being termed as anti secular as if this will directly hit Muslim community. The great enthusiastic secularists term every such talk as anti Muslim. Even agitations led by Hindus (for example movement against black money by Ramdev Maharaj) have been termed as Hindu politics and thus anti secular. This type of secularism has in fact created fear in the minds of Indian Muslims as also in the minds of Hindus that started giving reciprocal treatment. Therefore, unless Indians understand this politics of secularism and isolate these so called secular politicians, the progressive interests of Muslim community will not get the boost or support.

Secularism insist for enlightened citizenship : Secularism sees that the religion is not interfering in the rights of citizens and their freedom of religion and insist for saving citizens from religious dictums. This is equally applicable for all religions and their draconian dictums. Secularism expects a civil society with enlightened citizenship that love democracy and prepared to act responsibly. Their participative Public spirit and resistance to socio-economic injustice apart from national outlook, a measure of self-discipline, and law-abidingness only can make India a true secularist country. This requires the acceptance and implementation of section 44 of Indian constitution that provides for Uniform civil code for citizens. This is the real answer that Indian Politicians avoid and exploit the secular concept to divide Hindu-Muslims. Religion is not hindrance to such a citizenship as it prescribes righteous lifestyle practices and insists for righteous conduct in socio-economic life.

Therefore there is a need to enlighten the Hindus and Muslims to isolate political players indulged in divisive Muslim politics and politics of Muslims and build Indian democracy worth protecting interests of all citizens. ❑❑

India leading investor in LDCs; record FDI flows to Iran

Indian Economy experienced its slowest growth in 2012 and it is not improving. Inflation and falling growth have affected investor confidence. But the FDI inflows to service sector are likely to grow, explains **Shivaji Sarkar**

India's financial health is now a global concern. There is twilight. It is India, which is leading in green-field investments in the least developed countries (LDCs). But India is losing out on many other areas including on foreign direct investment (FDI), ability to cash on value chains and unstoppable inflation. This is what the World Investment Report (WIR) 2013 of United Nations Conference of Trade and Development summarises. The report is sub-titled Global Value Chains: Investment and Trade for Development.

The report is subtly critical of Global Value Chains (GVC) or global trans-national corporation factories, located largely in Asia. The TNCs in the name of setting up "competitive" export-oriented industries in developing countries "is putting pressure on both wages and working conditions" – a reminder to the recent Bangladesh garment factory fires and collapses. "Jobs created by GVCs vary in quality. Workers can face low pay, tough working conditions and insecurity".

In such a scenario, in 2012, India has emerged as an island as its companies invest in geographically and sectorally diversified LDCs. Indian companies were responsible for 20 per cent of the total value of such investments. Mozambique was the largest recipient of Indian green-field investment (45 per cent), Bangladesh (37 per cent) & Madagascar (8 per cent).

Indian invested $ 4383 million in 2012 in LDCs against $ 4219 million in the previous year. Investment by China during the period has come down to $ 918 million from $ 9955 million. Except South Korea, which invested $ 996 million, investment by other Asian countries declined. Other large investing countries were the US (15 per cent), Japan and United Kingodom (6 per cent each), South Korea (5 per cent) and China (4 per cent).Indian investments were also made in eastern and southern Africa. The projects were not limited to large-scale investments in extractive and heavy industries but also extended to smaller ones in pharmaceuticals and health care. In Asia, Bangladesh was the only LDC where such Indian investment was announced during 2012. Indian projects were spread over various industries, including automotives, IT, textiles and tyre. In pharmaceuticals too companies from India made investments in Uganda and Tanzania and Rwanda. Each investment was worth $ 5 million. Among these there were two health-care ones as well.

India also leads in health care investments. Over a dozen of the 25 health care projects in LDCs originated in India, about 25 per cent of the aggregate value of the projects.

Overall, India continues to remain the dominant recipient of FDI inflows to South Asia. Despite a drop of 29 per cent it received $ 26 billion. Bangladesh at $ 1 billion remained the next highest FDI destination in South Asia.

Iran, amid economic sanctions from the US and EU, recorded historic 17 per cent increase in FDI to $ 5 billion. Despite the sanctions, more than 400 foreign companies are now directly investing in Iran. In the current year, according to MD of Organization for Investment, Economic and Technical Assistance of Iran Behrouz Alis, Iran has signed MoUs valued at $ 7 billion.India is also investing in Iran for developing Chabahar port for linking it to landlocked Afghanistan.A significant aspect has been the rise of United Arab Emirates as an investor. The companies from UAE are active players in the region in mergers and acquisition (M&A). The Jet-Ettihad deal is only an indicator. There are many more in the pipeline. Some UAE countries like Abu Dhabi have assured India of larger investments for every such deal.

Indian economy experienced its slowest growth in 2012 and it is not improving. Inflation and falling growth have affected investor confidence. But the study contends that country's FDI prospects would improve. Inflows to the services sector are likely to growbecause of of efforts to open up key economic areas such as retailing. Flows to manufacturing are expected to increase as a number of countries, including Japan and South Korea establish country and industry-specific industrial zones in the Delhi-Mumbai corridor. Korea is setting special zone for its companies in Rajasthan. These bilateral efforts may result in an increasing amount of FDI. The study would like India to follow Sri Lanka in the garment sector. Domestic firms dominate the garment industry in Sri Lanka unlike those in Bangladesh and to large extent in India. This has made some difference in the working conditions, which are considered to be better in Sri Lanka.

West Asia for long may not remain job market for Indians.

Though between 2005 and 2008 Indian companies had 18 cross-border M&As, that included giant one like Jaguar and Corus by Tatas, in the UK, US, Australia, Sudan, Indonesia and Turkey, there was none in 2012. Bharati Airtel expanded its telecom operations to 15 African countries. Of late, Indian conglomerates have pulled back from large and outbound M&A owing largely to financial constraints.

As a result outflows from India decreased to $ 8.6 billion and the total value of cross-border M&As have dropped by nearly three-fifths in 2012 to about $ 2.65 billion.

West Asia for long may not remain the job market for Indians. It is more indigenising as there is a youth bulge. It has started with Saudi Arabia as it has taken steps to augment Saudi employment in private sector. The policy of "Saudisation" with a new law called called Nitaqat limits the number of foreign workers that companies can hire. This problem has already contracted jobs in West Asia. In the near future, an exodus of Indian workers may begin. It could cause problem for the domestic job market, which has also seen many lost opportunities.

It might affect Indian economy in adverse way as foreign exchange remittances would come down adding to further balance of payment problems.A silver lining is that many companies faced with rising wages as more and more expatriates are replaced with the local people may look for new locations. India has yet to emerge as a new destination for them. There are opportunities to work it out. Would that happen? The world economy would remain in turmoil.

Western economies, WIR says, are having less and less capacity either to absorb investment or invest elsewhere. In this transitional phase, India has many opportunities but it is also facing myriad problems. The biggest of these being erosion of value worth of company reserves amid rupee that is losing its sheen. Would India be able to maintain the lead that it has taken in some areas including creating friends among LDCs? ❑❑

Conflict between Articles 21 and 25 of the Constitution

The distinction between Article 21 and Article 25 is reflective of the difference between consumption and higher seeking. Economic theory recognizes that mere increase in consumption does not lead to human welfare, says **Dr Bharat Jhunjhunwala**

Consumption of food by the hungry, playing with a cricket bat for the youth or cooking on a gas stove for the homemaker are consumption which clearly lead to happiness. This is the ordinary situation. The link between consumption and happiness breaks down in other circumstances. For example Jain ascetics give up consumption of food and slowly embrace death and feel happy in doing so. Or, a young man fights for his religion and gives up his life. Or, a person living in a house having centralized air-conditioning goes for Hajj to Mecca or walks many kilometers to worship at the shrine of Kedarnath. It is clear that sometimes giving up of consumption begets happiness.

The connection between consumption and happiness is established through the heart. Consumption that is in tune with the heart begets happiness while that which is contrary to the heart begets unhappiness. Clearly, the status of the heart is higher because the heart determines which consumption will be good.

The tension between consumption and worship is embodied in our Constitution. Article 25 guarantees that an individual's Right to Worship will not be taken away. This injunction is absolute. The State cannot deprive a person of his Right to Worship for any reasons whatsoever. Article 21 guarantees physical welfare. It is stated that one can be deprived of his life or personal liberty in accordance with law. A person can be deprived of his Right to Life if the Government feels that deprivation of his right to life will enhance the lives of many more. For example, if a lone farmer would refuse to shift from the submergence area of a hydropower project then the Government can forcibly evict him. The benefit to the large numbers of users of electricity would far exceed the loss to an individual. However, similar deprivation of Right to Worship for making a hydropower project is not allowed in the Constitution. There is no provision for depriving a person of his Right to Worship.

The distinction between Article 21 and Article 25 is reflective of the difference between consumption and higher seeking. Economic theory recognizes that mere increase in consumption does not lead to human welfare. For example, a study done for World Commission of Dams show that Human Development improves drastically from 0.2 to 0.75 as electricity consumption per capita rises from 0 units to 1000 units per family per month. Hereafter, further increases in electricity consumption do not add much to HDI. An in-

crease in consumption from 1000 units to 10,000 units per month only adds a trifle 0.10 to the Human Development Index. Implication is that large increases in consumption of the rich are not adding to human welfare.

The twin objectives of Right to Life under Article 21 and Right to Worship under Article 25 can be opposed to each other. An increase in consumption of bananas by a person suffering from cold will beget him illfare, not welfare. A writer may be happier preserving his freedom than by making money by toeing the official line. A Mullah may be happy living frugally. This happens because these persons have evolved to the level of Article 25. They have recognized that unending consumption is a trap. They want to connect with God within even if that entails giving up consumption. Thus it can be said that human beings at the lower level of existence are focused on enforcement of their Right to Life under Article 21; whereas those at higher level of existence are focused on Right to Worship under Article 25.

We may analyze the happenings at Uttarakhand in this backdrop. There was a Dhari Devi Temple. This was coming in the submergence area of the Srinagar hydroelectric project. There is a tradition in Uttarakhand that the Devi descends on some person and speaks live. Two meetings were held between the Pujaris of the Temple and the Company in 2009. On both occasions the Devi appeared and categorically stated that she was not willing to b shifted from her place. On June 15 this year the Devi again appeared and warned that she will bring disaster if shifted forcibly. The Company persisted and lifted the Idol on the afternoon of June 15. Immediately thereafter disaster struck at Kedarnath.

The Concept of Divine retribution is not unique to Hindus.

It is disputed by the Government- and Dam authorities that lifting of the Idol has any connection with the disaster. They say it is mere coincidence. It does not help their argument, however. Our law has a concept of Precautionary Principle which states that something must not be done if there is a lurking danger. Precautionary Principle required that the Idol not be lifted because there was a danger.

This principle was upheld by the Supreme Court in the recently delivered Vedanta judgment. People of Odisha worshipped a particular Mountain as a living Deity. Vedanta wanted to do mining there. The Court said in no uncertain terms that Right to Worship of the local people could not be withdrawn for attaining economic growth. It directed the Company to proceed only if the local people agreed to mining. Consumption of minerals was denied for attaining Right to Worship. Unfortunately the Court refused to stay the uplifting of Dhari Devi Temple on the same principle. As a result the idol was uplifted on June 15th and disaster struck on June 16th.

Right to Worship under Article 25 stands on a higher footing than Right to Life under Article 21. A person can be deprived of his Right to Life under Article 21 by following a due procedure of law. For example, one person may refuse to shift from the submergence are of the dam. He can be forcibly removed because his removal would lead to welfare of larger numbers. However, such a deprivation of Right to Life under Article 25 is not permitted. It was unfortunate; therefore, the Court did not stay the upliftment of the Temple the disaster took place.

This concept of Divine Retribution is not unique to the Hindus. The Holy Koran and Bible give many such instances. For example, the Great Flood was brought upon the earth because wickedness had increased. Thus, the link between lifting of Dhari Temple and the Disaster is not merely a Hindu Imagination but is endorsed by all major religions.

India's Sages like Vivekananda and Aurobindo and Iqbal have stated that India's destiny is in the spiritual domain. We must not only reinstate the Dhari Idol but also prohibit such tinkering with Religion for economic gains. A repeat of such disasters is likely if man does not listen to his inner voice. ❑❑

Indian economy comes to a fullstop

We are witnessing a repeat of the 1991 crisis. This time around, it is threatening to make the previous one look like a walk in the park. Contrary to the popular belief this is not an economic crisis, this is a crisis of national character, stresses **MR Venkatesh**

A fairly large South-Indian group with varied business interests had invited me to a strategy session to turn it around. It was the first meeting and was to be preceded by breakfast. As we waited to be served, I perused their latest balance sheet.

Noticing that it was a profitable, tax and dividend paying company, where was the question of turnaround I wondered? Nevertheless, I instantly zeroed in on the balance sheet. I observed that the company had invested approximately Rs 700 crore on its subsidiaries and lent another Rs 300 crore — in the aggregate Rs 1,000 crore. Flipping across the accounts, I asked a simple question – what is the return from this investment of Rs 1,000 crore? (Amounts changed for obvious reasons.)

The CFO was silent. The executive director hummed and hawed. The body language of the rest was a dead giveaway of their uneasiness to discuss this matter further.

The junior-most amongst them blurted out, perhaps unwittingly, that it was virtually nil. His answer got a cold stare from his superiors. "Nil!" I exclaimed to the horror of my hosts. "You must be paying approximately Rs 150 crore as interest annually on this sum." I commented, probably rubbing salt into their wounds. I went on to probe further, "Why, what happened to this money?"

This time my question was followed by thundering silence. Even the junior one was quiet this time around. May be he had already got the message. As I helped myself to the breakfast I noticed radio silence at the table. Was I at a funeral?

Between mouthfuls, I attempted to be at my persuasive best. Probably my training as a chartered accountant helped me. Unable to bear my repeated questioning, the CFO finally broke down. "Sir, as you are aware we are in infrastructure. That requires tremendous pay-offs to politicians and bureaucrats. We have used approximately 150 subsidiaries, some of which are foreign ones, to route these payments."

I was stunned. My jaw dropped. "Sir, we expected you to know all these practicalities of our business. The turnaround strategy needs to factor these ground realities." Obviously, this time around I was at the receiving end. The breakfast meeting concluded abruptly.

Importantly, I understood that India's outbound investment policy was not a liberalisation pro-

cess, but a facilitation one – one that ensured smooth pay-offs! Importantly in this mess, businessmen, politicians, professionals, bureaucracy, judiciary and even the media are involved. No one can blame the other.

The economics of kickbacks and payoffs

Instantly my thoughts raced to the Nira Radia tapes. Fifteen per cent was the kickbacks payable to the Minister concerned for approving every road contract. Add another fifteen to the bureaucracy and local politicians. Add another five to seven to bankers, lawyers, consultants and agents to procure funds. What we have is a staggering 35-40 per cent additional cost to every infrastructure project.

That implies a road project costing Rs 100 crore would in effect be a Rs 140-150 crores project. Naturally, the toll for the stretch would not be Rs 100 but Rs 150. This has profound implications for the Indian economy. This extra Rs 50 in toll levy for every 100 km has a cumulative effect on the manufacturing cost.

The net result – imports from most of our neighbors of several items [despite cost of transportation and customs duty] are competitive than manufacturing the same in India. Forget competing abroad, Indian manufacturing has become uncompetitive in India!

There is another dimension to this issue. Somewhere down the line these "costs" were funded, mostly by our banks. Corporates altered their top-line as well as bottom-line to keep their banks in good humor. The Banks in turn suspended their sense of disbelief. As chartered accountants we too played ball in creating a mini-Satyam in most of India's corporates.

The impact of gold plating

But this gold platting of balance sheets cannot be done beyond a point. Everything has a breaking point isn't it, especially as the economy tanked?

These developments were brilliantly captured by a Report by the Centre for Monitoring Indian Economy (CMIE) "As the topline growth continued to slow down, the manufacturing sector as well as the non-financial services sector saw profits fall in the March 2013 quarter compared to the year-ago levels. Operating profits of the manufacturing sector excluding the petroleum sector fell by close to four per cent while the net profit fell by a sharp 23.2 per cent."

We have a staggering 35-40% additional cost to every infrastructure project.

The report goes on add "The non-financial services sector managed to improve its sales growth from 3.2 per cent in the March 2012 quarter to 6.5 per cent in the March 2013 quarter on account of sectors like transport services and software. However, at the net level the sector saw a sharp 28.3 per cent decline in profits."

Well, both the manufacturing and services sector are going bust.

Simultaneously the CMIE points out that the "Commissioning of projects dropped sharply to Rs 337 billion during the quarter ended June 2013 from Rs 827 billion in the June 2012 quarter. This was lowest since quarter ended December 2006."

Macro-economic data too corroborates these numbers. From a growth rate of 7.5 per cent in the first quarter of 2011-12 growth rate has witnessed a steady fall in the next seven quarters to less than 4.8 per cent in the fourth quarter of 2012-13.

If data released by the Finance Ministry for the first two months of this fiscal is any indication, manufacturing has recorded a negative – yes negative growth of two percent, mining a negative of 5.7 per cent, capital goods a negative of 2.7 per cent, consumer goods a negative of 4 per cent and consumer durables a negative of 10 per cent. In short, when it comes to manufacturing, forget growth, we are in negative zone.

The net result – twenty per cent of lending by Indian Banks is stressed. Obviously, when banks end up funding pay-offs and kickbacks, this is the end result. And that is a whopping Rs 11 lakh crores – approximately $200 billion – a sum that even the banks in USA cannot afford.

Added to this is the stress on account of our external accounts. The foreign debt has risen to $390 billion. This was a mere $225 billion in 2008. What is galling is that the foreign exchange reserve has remained at a constant $300 billion during this period. Needless to emphasise, the ratio of foreign exchange reserves to foreign debt has deteriorated from 138 per cent then to less than 75 per cent now.

What is adding to the consternation is that in the short term – by March 2014 – we need to pay approximately $172 of our foreign debts. This works out to approxi-

mately 44 per cent of the external debt and a staggering 60 per cent of the total foreign exchange reserves of the country.

The short-term external borrowings are surely the villain of the piece. Remember in 1991 the short-term external debt was a mere 10 percent of the total external debt. Now it is one-fourth.

Another important parameter – India's net international investment position [the net claims of non-residents against external claims of residents] stood at a negative $225 billion as at 30th June 2012. This deteriorated to a negative of $307 billion by March 31, 2013. That implies an addition of $82 billion in a matter of mere nine months.

Simply put, Indian manufacturing by and large is uncompetitive at current exchange rates. And if Rupee is devalued, prices of imports, especially crude oil, would increase leading to an inflationary spiral. Either way, that means increased unemployment. The services sector too as pointed out above is spluttering. And remember agriculture has been historically recording sub-three percent growth in the best of times.

As we witness large-scale unemployment, purchasing power in the hands of the people is rapidly decreasing. That implies demand compression which in turns puts the economy once again on the downward spiral.

Add to this the absolute lack of governance, indecision and Governmental apathy – you would know what it means to do business in India. Whatever be the reason – political or otherwise — bureaucracy in Delhi has simply refused to function. Likewise every assessment with our revenue departments ends up as extortion.

Unfortunately the Government's response has been pathetic. Surely, increasing FDI limits is not reforms. On this the UPA Government is completely off-target. What makes the set of reforms scandalous is that the Government is indirectly bribing foreigners to invest in India. The Jet-Etihad deal is a case in point.

Put pithily, we are witnessing a repeat of the 1991 crisis. This time around, it is threatening to make the previous one look like a walk in the park. Well what makes the crisis different this time around? Contrary to the popular belief this is not an economic crisis, this is a crisis of national character. Forget fiscal, revenue and current account deficits – let us first talk about morality deficits. ❑❑

Globalised dollar, dollarised world

Asian societies with non-Western lifestyle need to stop and see where the highly leveraged US living on debts funded by others' savings is headed, and plan to de-risk themselves, suggests **S. Gurumurthy**

The rupee has been on free fall for 18 months now. From Rs 45 to a dollar in January 2012 to over Rs 60 now — 33 per cent fall. The cause is India's current account deficits for a decade. Economic theory says that borrowing abroad to fund current account deficit and servicing the debt depreciates currencies, causing capital flight.

The theory evidently works on the rupee. But, shockingly, it works on the dollar the other way round. Recall the debate in US in 2005 on the issue of current account deficit and dollar value.

US ran current account deficits of $4.5 trillion from 1977 to 2004 — and $740 billion (6.5 per cent of its GDP) in 2005 alone. Yet, conventional economic predictions of fall of the dollar and flight of capital did not come true.

Two Harvard economists Ricardo Hausmann and Federico Sturzenegger, therefore, theorised that the predictions failed because of an unseen dark matter operating in the US economy. The dark matter, they said, was that as the US was a secure, hi-tech and high-skilled nation, it attracted world's huge surplus savings at cheap interest and re-invested it for higher returns. Therefore, the dollar value did not fall.

The US current account deficit soon doubled to $9.2 trillion by 2012 — equalling two-thirds of the GDP it had added for 35 years (1977-2012). Yet, trade-weighted index value of the dollar did not fall; but, yes, rose by three times between 1971 and now.

Why does the universally valid economics work perfectly to depreciate the rupee, but act the other way round on the dollar despite pervasive US current account deficits? Because of the dark matter? The too simplistic dark matter logic conveniently, so completely, sidesteps the darker phenomenon of dollars in trillions globalised by US geo-political design. The sidestepped fact explains the paradox better.

Territorialised currencies circulate within their political boundaries as most national currencies are. And convertible national currencies that circulate outside their borders are deterritorialised, but none of them globalised on such colossal scale as dollar. Here is the story of the globalisation of the dollar — in brief. It happened in four stages.

The Dollar Story

The first stage was under the Breton Woods multilateral contract. On the US promise to give one ounce of gold in exchange for $35, the world accepted dollar as

By making Dollars compulsory for Oil import, the US ensured that global demand for dollars increased.

common tender.

This created two types of demand for the dollar outside US. One, as necessary medium of exchange for world trade — for all. And next, as gold-rated investment option — for some. Result: By 1960, some 40 per cent of the dollars minted by the US had deterritorialised into stocks outside. In 1971, the US killed the Breton Woods contract in one shot by refusing to exchange gold for dollar.

The helpless dollar holders could not divest their huge stocks. Because, as well-known economic historian Barry Eichengreen put it, that its effect would have been the same as "a queue of depositors forming outside a bank" — and bankrupted both the US and dollar holders. But, soon, the US devised a geo-political strategy to manage the crisis. It ensured that dollar holders keep their stocks. Even ask for more!

Petrodollars in Plenty

The US cut a political deal with Saudi Arabia — the biggest oil exporter — that the latter sell oil only against the dollar and invest the surplus oil sale dollars back in America and, in return, the US protect Saudi oil fields.

Other oil exporting nations followed Saudis. By making dollars compulsory for oil import, the US ensured that global demand for dollars increased. Oil buyers kept up the demand for dollars. And oil sellers deposited their surplus dollars back in the US.

This has recycled trillions of petrodollars back in the US as private and official investments. The contractually-managed petrodollars multiplied deterritorialisation of dollar stocks in stage two. In stage three, the US opened its market to the likes of China in return for their agreeing to invest their export surplus back in the US — a modified version of petrodollars recycling — which massively globalised the dollar.

In stage four, having already built titanic stock of dollars outside, the US created tsunami of phony dollars in trillions that has virtually colonised the world of finance (*Business Line,* June 13). This designed and gigantic globalisation of dollars has left in the rest of the world's balance-sheet a stake of $38.5 trillion in the US economy — in cash, forex reserves, investment into the US and by the US outside and in derivates of over 15 times that amount.

Cash Dollar

The first stake is cash dollar. A study (2007) by Bank of International Settlements (BIS), supported by the US Fed's earlier work (1996), shows that, from 1980 onwards, two-thirds of the dollars issued by the US was circulating outside.

In 28 years to 2012, the US physically shipped dollar notes for $455 billion outside. Now, out of $1.19 trillion minted dollar stock, about $770 billion roam outside the US, transacting multiple trillions of (obviously unrecorded) business.

Forex Reserves

The second stake is forex reserves of central banks of all countries, which vaulted from $3 trillion in 2001 to over $11 trillion in June 2013. Over 60 per cent of reserves (other than China's and Saudis') is known to be in dollars.

According to Brussels Institute of Contemporary China Studies (March 29, 2013), over 60 per cent of China's forex too is in dollar assets. And with most of Saudi forex stock ($629 billion) believed to be secretly in US assets, the dollar's share of world's forex reserves is over $6.6 trillion. The third is private foreign investments into the US economy — in equities, bonds and loans — of over $15 trillion. On the three accounts, the US owes the rest of world $22 trillion-plus. The fourth is US investment of $16.5 trillion outside, which others owe to the US. So, by payables ($22 trillions) or receivables ($16.5 trillion), the world has stake of $38.5 trillion in the US economy.

Without reckoning euro dollar holdings ($2.1 trillion) and others' dollar holdings (not known) both outside the US, $38.5 trillion

is two-and-a-half times America's GDP. And more than half of the world's. Further, the Word Trade Organisation reports (May 2012) that some 86 per cent of $700 trillion world's financial derivatives — $600 trillion — are in dollar terms.

This mother of all tallies, ten times global market-cap and GDP, exposes the near total dollarisation of global finances. These sums, disconnected from the real economy, will rise by 50 per cent by 2020, say studies. QED: All talk of de-leveraging is gas.

It needs no seer to say that dollar has globalised so massively because the US contracted — not attracted as the Harvard scholars would believe — the trillions it had sent out, back to the US.

The dark matter of contractual dollarisation of the world is energised by the huge credit-card enabled shopping by the US households which live beyond means. US faithfully implements Walt Rostow's philosophy of five stages of growth from "traditional societies" to "the age of mass consumption". According to US anthropologist Marshall Shallins, Rostow meant "shopping as the culmination of human evolution".

Shopping, even as it torpedoed US current account and household finances year after year, alone drives three-fourths of US GDP. If the US stops shopping, it will start sliding. The US lured developing nations to sell goods to the US homes on perennially postdated cheques.

Those countries have no option but to lend money to the US because they suffer from "savings glut", theorised Alan Greenspan, shockingly. On such spurious logic, from the 1990s, the US co-opted the world into its fold through US households shopping on credit, current account deficits and recycling dollars — enabling the dollars globalise in trillions, and as its mirror effect, pervasively dollarise the world.

The US CAD in trillions globalised US dollar in Trillions.

Shop or Slide

What started off as crisis management by the US in 1970s to 'contract' to recycle petrodollars has now turned into invasive currency internationalism on its own motion. But why then could the euro, for example, not attempt it? Simple.

The US current account deficits in trillions globalised US dollars in trillions. With Europe's current account in surplus, the euro cannot replicate the dollar. QED: Only a nation that runs massive current account deficits can pervasively globalise its currency.

Regardless of the monetary chaos that the invasive dollarisation has exposed the world to (a topic by itself), even a seer cannot predict where this galloping cancer of phony finance disconnected from the real economy will lead or end.

The continuing game of globalised dollar and dollarised world is a time-bomb ticking. Yet, the US and the world are lost in the bliss of honeybees fallen into a honey pot. Neither of them can get out of it nor can either survive being in it longer. The 2008 crisis did shake and wake up the world to the risk. Yet, the US, hallucinating recovery by pumping phony money into banks which is like giving "yet another drink to the already drunk", still believes in dollar's TINA (There Is No Alternative) status.

Asian societies with non-Western lifestyle need to stop and see where the highly leveraged US living on debts funded by others' savings is headed, and plan to de-risk themselves. If they casually accept the *status quo*, they may eventually have to commit Sati with the US. But the US may still survive, doing down others like it did in 1971. ❑❑

(The author is a commentator on political and economic affairs, and a corporate advisor.)

Sinking Rupee

It is imperative for the government to impose effective restrictions on imports, especially of consumer goods, telecom, power plants and other project goods. a provision of lock-in period on FIIs could also help. The thoughtless policy of encouraging FDI and FII may prove to be disastrous in the long-run, cautions **Dr. Ashwani Mahajan**

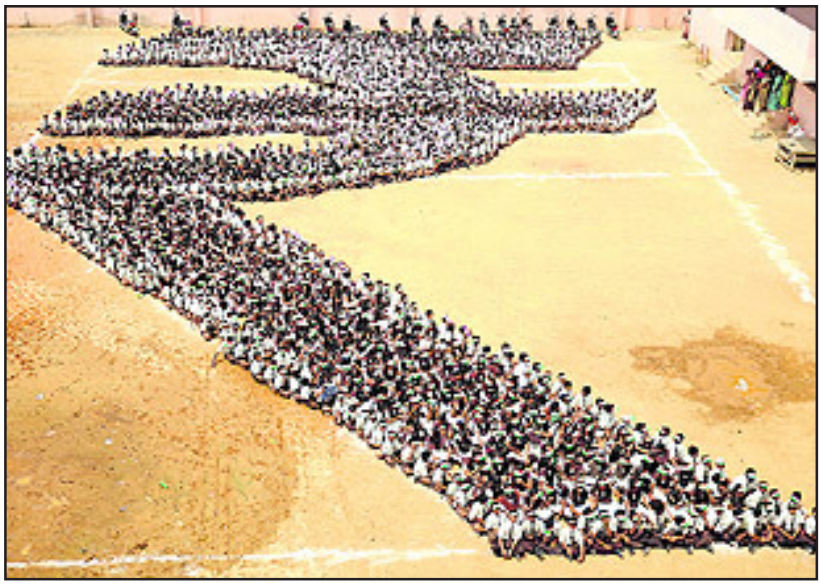
The Indian currency has declined by Rs 6 per dollar in 50 days, and from Rs 54, its exchange value against the dollar is now nearly Rs 60. The Finance minister claims there is no reason to panic as the government is taking steps to push growth. The Chief Economic Advisor, Raghuram Rajan, says that the slide is not unique to India; the dollar is getting stronger vis-a-vis Asian currencies. Though some currencies are getting weaker, the decline of the rupee cannot be attributed to the strength of the dollar.

There is little doubt that the situation is very grim; the rupee has depreciated by at least 12 per cent in a short span of time. Over the past five years, its value has declined from nearly Rs 40 per dollar to Rs 60. This has made life difficult for the common people and has deepened the payment crisis. The depreciation of the rupee erodes the country's credibility internationally.

Such a drastic depreciation cannot be justified on the ground that it may help our exports to grow or it may benefit the exporters. This is the standard argument in favour of currency depreciation. India's balance of payment position was the best when the rupee was strong. For instance between 2001-02 and 2007-08, when rupee was robust, the country had a surplus in balance of payment in the first three years. In the next three years, the deficit in the balance of payment remained less than 2 per cent of GDP.

A weak currency can unnerve the people as it reflects a stuttering economy. The revision of petrol prices twice within a fortnight sends a negative signal. The weakening of the rupee is still more unfortunate as it coincides with "weak sentiments" in terms of industrial growth rate and the general GDP growth rate.

Why is the rupee sinking? The major factors are the fast increasing Current Account Deficit (CAD) in the balance of payment and the resultant foreign exchange crisis. CAD is rising because of the huge and constantly rising Balance of Trade (BOT), which in turn can be attributed to a rapidly rising import bill and lagging exports. For several years, the government has been a mute witness to rising imports. Though petroleum products have traditionally been the major item of our import bill, comprising nearly one-third of our imports, precious metals like gold and silver have never been accorded much importance. However, in recent years the import bill of gold and silver has increased from $22.8 billion in 2007-08 to $61.3 billion in 2011-12. The recent spurt in the import of these items has been the major reason for the in-



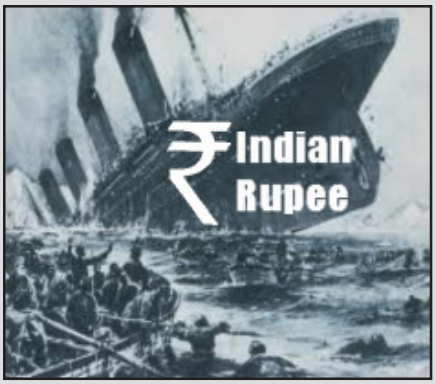
crease in our import bill. In the last three years, our trade balance in relation to China has gone up to $40 billion in 2011-12, from nearly $27 billion in 2007-08.

It would be pertinent to recall that on 31 March 2008, the exchange rate of the rupee was Rs. 40 per dollar. This increased to Rs 51.2 per dollar by March 2012 and in June 2013 it was Rs 60 per dollar.

The major reason for the spurt in imports from China is the increase in telecom and power plant equipment, project items and electronic and electrical goods. The trade balance with the rest of the world is also rising fast. Amidst this scenario of the sinking rupee, the government seems to be totally helpless. Both the government and the Reserve Bank of India fear that any intervention to stem the fall in the value of the rupee might deplete the foreign exchange reserves.

According to the RBI Bulletin of June 10, our trade balance has crossed $191 billion and CAD is also expected to be near $100 billion. It is notable that in this era of globalization, our imports have been rising at a record pace and the import bill has increased considerably - from $ 24 billion in 1990-91 to $492 billion in 2012-13. In terms of percentage of GDP, imports were barely 8.1 per cent, which went up to 28.3 per cent in 2012-13. Exports also increased during this period, but only to 17.3 per cent from 6.1 per cent of GDP. As a result our trade balance increased from merely 2 per cent to 11 per cent during 1990-91 and 2012-13.

Between 2001-02 and 2003-04, our balance of payment deficit turned into surplus, and continuously so for three years. However, after 2004, our CAD did not stop rising and by 2012-13, it crossed all limits. Between 1990-91 and 2000-01, our average CAD was only $4.4 billion annually. However, in a span of nine years, between 2004-05 and 2012-13, CAD has reached $37.4 billion (which is 8.5 times of the average CAD in 1990s). Whereas the total balance of trade deficit in ten years between 1990-91 and 2000-01 was $103.56 billion, between 2004-05 and 2012-13, it was $ 988 billion. Huge remittances from NRIs and earnings from software exports, even during the most difficult years of the global economic crisis, proved to be insufficient to compensate for this deficit.



The depreciation of the Rupee erodes the country's credibility internationally.

The government appears to be disillusioned. At present, the only remedy being suggested and applied is encouragement to foreign investment, both FDI and portfolio. The government hopes that foreign investment will solve the problem of payment crisis in a short period of time. However, this does not seem to be practical. Therefore, the only option is to raise commercial loans. But even this remedy would be worse than the disease itself. The increase in external debt again involves repayment of interest and principal. The compulsion to raise external commercial borrowings might reduce our credit rating further still. The total outgo on repayment of interest and principal in 2011-12 was $31.5 billion. Remittances abroad in the form of interest, dividend, royalty, salaries etc. totalled $26 billion in 2011-12. Studies reveal that a much larger amount of foreign exchange is remitted abroad illegally by foreign companies by way of transfer pricing and circumvention of the law. Under these circumstances, the country seems to be moving towards a foreign exchange crisis. Efforts to increase exports have not been successful. Imports are increasing.

It is imperative for the government to impose effective restrictions on imports, especially of consumer goods, telecom, power plants and other project goods. Effective curbs on the import of gold and silver and a provision of lock-in period on FIIs could also help. The thoughtless policy of encouraging FDI and FII may prove to be disastrous in the long-run. Curbs need to be imposed on foreign companies from stashing away foreign exchange illegally, by way of transfer pricing and/or circumventing the law of the land. Failure to take effective and timely steps may lead to a severe payment crisis. ❑❑

The writer is Associate Professor, PGDAV College, University of Delhi

CAD: Government aggravates the disease

Encouraging domestic production, facilitating domestic entrepreneurs, promoting exports and discouraging unnecessary imports is the correct path to control widening CAD. Those who talk of FDI as a solution have either ulterior motives or are pushing hidden agenda, says **Mahesh D. Bakhai**

Current account deficit

Current account deficit is (CAD) deteriorating and it is reflecting in depreciation of value of rupee against dollar. Weak rupee will add to inflation through higher cost of imports. Costlier crude oil, edible oil and pulses will hit consumers directly and hard. At 5.1% of GDP, it is considered single biggest risk to our economy.

What is central government's reaction? Shift the blame on gold imports though a part of it is exported back as gem and jewellery exports. Do you hear them talk about reducing consumption of petroleum products? Do you hear them talk about reducing imports of unnecessary or luxury items? No. On the contrary, they are bending over backward to invite single brand retail chain stores who mostly peddle fashion items and cosmetics, which only super rich can buy. They want to welcome foreign multi brand retailers who will import most of what they ssell. Both kinds of retailers will be guzzler of foreign exchange. Government is not worried that these foreign retailers will import most of what they sale and will have a devastating effect on the current account deficit.

FDI to cure CAD?

Government's major initiative to bridge foreign exchange deficit is to bring in more FDI. One of the ways is to increase sector specific caps. As far as current account deficit is concerned, FDI can never be the solution. In fact, it is part of the problem. More FDI will only aggravate the situation. Let us see how. The foreign exchange brought by the investor as foreign direct investment is used up in less than two years and subsequently in almost all cases, the company becomes net spender of foreign exchange.

Foreign companies' net forex outflow is eight times their capital

A recent study of listed foreign companies (Shekhar Swamy, The Hindu Business Line, 11 and 12 April 2013 shows that on an average they send out more than two times their capital as dividend, royalty and other charges. Their net forex outflow – imports and other payments less exports – are 14% of sales. Their net forex outflow is eight times their capital. Not all capital may have come in foreign exchange. There could be domestic component. It may include retained earnings.

Year after year

Remember the investment in foreign exchange is brought once but the outflows are annual. Thus, on an average for a billion dollar brought in once as investment, every year the country has to provide them around 8 billion dollar of extra foreign exchange to meet their imports and payment of dividend and royalty. These are net outflows after taking in account inflow from exports if any of these companies. Every dollar brought in as investment creates future liability of many times the original investment and that too for year after year.

How will government problems of foreign exchange deficit by inviting FDI? The government is either ignorant or dishonest in its argument. With so many economists around and when headed by an economist, the conclusion is obvious. The government cannot be ignorant and hence dishonest.

Indian corporate as a whole has become net spender of foreign exchange

Not only the foreign companies but also all Indian residence companies as a group (foreign and Indian owned) have become net spender of foreign exchange. A recent study by Business Standard (BS 14th June 2013) of 559 non-finance, non-oil companies reveal that share of imports in their total operating expenses has risen to

[Conitnued on page no. 31]

Reject unwarranted US pressure on India's economic policy

Forum Against FTAs, a network of India's civil society organizations, Trade Unions and Peoples' Movements that work together to highlight people's concerns on Free Trade Agreements and undertake, research, campaign and advocacy activities to promote public interests in India's trade policy, has written a detailed letter to Prime Minister Dr. Manmohan Singh asking him to reject undue pressure from US administration and business groups on India's economic policy. The letter is reproduced here.

In the backdrop of the US- India Business Council (USIBC) Leadership Summit held in Washington on July 11, 2013, the Forum Against Free Trade Agreements (FTAs) in India, a coalition of over 75 organisations, farmers groups, trade unions and other development activists, call upon the Government of India, to review its forthcoming economic engagements with the USA, and, reject pressure from the US government and business lobby groups and compromise its economic policies in key sectors, which are crucial for India's economic and social development. India's future economic growth and its potential to create sustainable livelihoods should not be sacrificed for US economic interests, the Forum urges.

Ahead of John Kerry, US Secretary of State's visit to India and the US - India Strategic dialogue, in June 2013 the US law makers and business groups had urged the US government to apply trade tools and diplomatic pressure on the Indian Government for strict adherence to 'market based path to development'. Letters from the US senators also issued veiled threats that India should toe the line to support US business interests in India, in order to continue to be the beneficiary of US programme of Generalised System of Preferences (GSP), which requires reauthorisation soon.

It is rather unfortunate that US law makers and business chose the most inopportune time when India is staring at economic uncertainty in the form of increasing trade deficit and current account deficit. One could fairly assume that, the US business wants to gain at the India's moment of crisis. Some of India's key policy decisions to fulfill its developmental priorities and employment generation; such as compulsory licensing for life saving drugs, preferential market access for domestically produced electronics goods and solar energy equipments, licenses for foreign banks are being opposed by the US business groups. This pressure comes notwithstanding the fact the current economic scenario demands such kind of policy response from the government.

Patents and Life Saving Medicines

US business' attempts to force India to change its policies on intellectual property rights (IPR) are a threat to the availabil-

ity of affordable high-quality medicines for poor patients in India and other developing and least developed countries. This is even more surprising given the US administration itself has proposed steps to limit so-called 'evergreening'– abusive practices used to extend intellectual property monopolies and keeping prices high for as long as possible. Under India's World Trade Organisation (WTO) TRIPS' commitment India has the right to use legal tools available in TRIPS flexibilities.

Compulsory licenses (CLs) are such legally recognised means to overcome barriers in accessing affordable medicines under international trade rules. According to *Medicines Sans Frontieres* (MSF), through CLs India could allow generic production of medicine 'sorafenib tosylate' to treat kidney and liver cancer patients at the cost of INR 8,800 per month (approximately US$175), while the same patented medicine produced by German company Bayer at the cost of INR 280,000 per month (approximately US$5,500).

India is also well within its legal rights to set a higher patentability threshold to limit the practice of 'evergreening'. Recently, the Supreme Court of India upheld the decision to reject patent application of Novartis. India is completely within its obligation under the TRIPS Agreement to curb the multiple patenting of known substance. The current US stance tramples upon the privilege of the Indian government, judiciary and legislature.

Preferential Market Access (PMA) Initiative

The pressure from US business group Information Technology Industry Council (ITI) to provide further market access for US business in India's ICT sector, if conceded, will deeply affect employment generation & India's effort to manage escalating trade deficit.

India's PMA policy initiative of local content requirements in procurement of electronics goods by the government and private entities comes with multiple objectives; to create domestic manufacturing base and create innovative product design and development capability to manage trade deficit, generate employment, sustainable economic growth and also strengthen strategic national security. These objectives and policy initiatives are in conformity with policies of other developing countries like Brazil, and even with US government procurement practices. However, coming under the pressure from the US. the government has announced the review of its preferential market access for domestic electronics products policy.

It is also important to note that as a signatory to the WTO plurilateral Information Technology Agreement (ITA), India faced huge imports of electronics and telecom products and lost the opportunity to build domestic manufacturing in information and communication technology sector. Recognising this fact, India has decided not to participate in the ongoing WTO negotiations in the expansion of ITA, known as ITA – II. But this stance is meaningless if India suspends its PMA initiative in the ICT sector.

Further, the revelations of snooping by the US government, made by Edward Snowden, former US National Investigating Agency (NIA) employee confirm India's strategic and security concerns.

India's National Solar Mission Plan

The Government of India Jawaharlal Nehru National Solar Mission (JNNSM) aims to created 20000 MW power by 2023 and expected to provide significant boost in transformation of India's rural economy and to attain the movement for decentralised and disbursed industrialisation. Given a much needed objective of boosting local industry, Phase I of the NSM required that for projects using modules with crystalline silicon technology all modules be sourced from India and developers need to use domestic equipments. Now when the Phase II of JNNSM is about to begin the, US government pressure India to allow US companies to supply for procurements under JNNSM and has raised a dispute on domestic content requirements rule against India in the WTO. Now Japan and Australia have also joined the US in seeking consultations in this regard.

It is important to mention that the JNNSM is a government programme and purchases made by the government are designed to promote domestic manufacturing and employment. While it is important for the government to address some of the critical issues emerging from domestic content requirements in terms quality and innovation of products, the government of India should not deviate from its stated objective. By conceding to international pressure India will lose a significant opportunity to create manufacturing employment and build domestic capacity in producing green energy.

Agriculture, Food Sovereignty and Biosafety

The USIBC has a specific Executive Committee on Food & Agriculture, with the US TNCs Cargill as its Chair and Monsanto as its Vice Chair. This Committee undertakes lobbying and advocacy in both India and USA for its business interests, including on law and policies. These include legislation on seed and biotechnology, which favour the use and marketing of genetically modified organisms in agriculture. Yet USA has since 1992 held off being a party to the global Convention on Biological Diversity, also refusing to bring itself and its corporations under the global regime on liability and redress. This can come at a huge cost to India's ecological security and food sovereignty. Given that a national Food Security Ordinance has also been promulgated by the President of India, there should be every effort by the GoI to refrain from taking steps that might limit government to deliver safe, nutritious and healthy food to the over billion people it is aimed at. The people's Forum on FTAs is also critical of USIBC's key advocacy priorities to promote the opening of India's multi-brand retail sector. As part of its Business Advocacy Agenda (2012-13), USIBC's Committee also pushes for the reduction of tariff and non-tariff barriers on fruits, vegetables, dairy, processed foods, etc.

The Minister of State for Commerce and Industry Ms. D Purandeswari had only recently in a written reply to the Lok Sabha herself pointed out that as per their latest notifications to the WTO in 2010, the US provided about $4 billion of support to their agricultural producers "under the category of Current Total Aggregate Measurement of Support (i.e. support considered under WTO classification as trade-distorting)". And any appeal from the Indian side to USA to put an end to such agricultural subsidies have not been heeded.

As described above some of the recent decisions by the Government of India were in line with the domestic development priorities and many such bold initiatives need to be taken to improve India's economic situation, manage trade and current account deficit and improve the lives of its people. The undue pressure on India from US business, US policy makers and US government pose serious threat to effective policy space to generate employment and fulfill development objectives. Such corporate demands and mounting pressure of the US administration against domestic procurements in National Solar Mission and of electronics goods, compulsory licenses for life saving medicines, and forcing India to join WTO plurilateral agreements namely Information Technology Agreement (ITA), International Trade in Services Agreement (TISA), conflict directly with India's developmental priorities and therefore needs to be strongly resisted.

We demand that:

1) The Government of India should withdraw its announcement to review its PMA policy, resist undue pressure from US administration that compromises its policy space and give primacy to India's developmental priorities;
2) The Government of India should not jeopardise its capacity to generate employment through domestic manufacturing, provide affordable medicines to millions and revive the rural economy.
3) The US policy makers and the government should not side with US business interests while ignoring interests of the Indian people, 847 million of whom live under US$ 2 per day. ❑❑

[Conitnued from page no. 28]

CAD: Government aggravates the disease .....

30% in 2011-12. Their forex expenses on profit and loss account including direct imports, royalty payments etc. grew at a compounded annual rate of 26% between 2002-03 and 2011-12 while forex earning rose at 20.4 per cent.

So what is the solution to the current account deficit? Inviting more foreign capital and opening our doors for more imports through free trade agreements or adopting the principle of self-reliance – Swadeshi? Encouraging domestic production, facilitating domestic entrepreneurs, promoting exports and discouraging unnecessary imports is the correct path. Those who talk of FDI as a solution have either ulterior motives or are pushing hidden unfinished agenda. ❑❑

(The author is Co-convener, Vichar Mandal, Swadeshi Jagran Manch, Mumbai and can be reached at (maheshbakhai@gmail.com)

RBI not in favour of sovereign bond

The current account deficit has been above sustainable levels for the last three years. The rupee should have depreciated because of high CAD. In other words, depreciation was programmed into the rupee, said RBI governor D Subbarao. Addressing his 20th monetary policy review which marked the end of his five-year term, Reserve Bank of India governor D Subbarao left foreign exchange markets in a tizzy by stating that he did not favour a sovereign bond issue and that RBI will not stand in the way of a falling rupee except to curb volatility. Despite perceived benefits of boosting reserves, lowering interest costs and broadening its investor base, there are costs to a sovereign issue. It will compromise our financial stability. There is a lot of value to government's borrowing in domestic market. Also, will we really get a lower interest rate on a sovereign bond especially if investors factor in the exchange rate variation. In RBI's view, the cost of a sovereign bond issue outweighs the benefits. We should do a sovereign bond from a position of strength when we are much less vulnerable. I don't believe that we are in a situation where we will have to go to the International Monetary Fund. We are fairly resilient. ❑

India ready for investment treaty talks

India is ready to begin talks with the United States on a bilateral investment treaty as part of its effort to reinvigorate ties with a valued trade partner, the country's commerce and industry minister said. "We have said that yes, we are ready for it. We are in favour," Anand Sharma told reporters after meetings with US Trade Representative Michael Froman and other US officials. Sharma said there was no date for the first round of talks on the pact, which would set terms and condition for US and Indian investment in each other's country.

The United States and China agreed this week to restart talks on a bilateral investment treaty, a move welcomed by the US business community as a sign of new Chinese President Xi Jinping's commitment to economic reform. US business groups have been anxious for a similar commitment from India and were disappointed when a date for talks was not announced after Secretary of State John Kerry visited the country in late June. Although the United States runs a far larger trade deficit with China than with India, India has in some ways replaced China this year as the No. 1 target of complaints from the US business community and members of Congress.

In recent months, there has been a stream of letters from business groups and lawmakers complaining about Indian policies they say discriminate against American firms or undermine US intellectual property rights, especially for pharmaceuticals.

BCCI probe panel is illegal

The Bombay high court has declared as "illegal and unconstitutional" the setting up of a two-member panel by the Board of Control for Cricket in India (BCCI) to investigate the allegations of betting and spot-fixing in IPL season six.

The court's order puts a big question mark over the panel's report, which gave a clean chit to Board president N Srinivasan's Chennai Super Kings, his son-in-law Gurunath Meiyappan, Rajasthan Royals and its co-owner Raj Kundra. Rejecting BCCI's contention that it could not be taken to court on an IPL-related issue, the HC bench said the issue was within the court's jurisdiction and in the "larger public interest" and that the cricket board was "answerable". It also refused to grant the BCCI a stay on its order.

The BCCI had said on May 28 that its five-member disciplinary committee had picked a probe panel comprising two retired high court judges, T Jayaram Chouta and R Balasubramanian. It was set up before Srinivasan "stepped aside" as board president on June 2. Its task was to probe betting and spot-fixing charges following Meiyappan's arrest by Mumbai police for placing bets on IPL matches.

Government dilutes FDI retail norms

Definition of investment in backend infrastructure and 30 per cent sourcing clause has been changed. Yielding to pressure from multinational retail giants and worried at not a single proposal having come through in the past nine months, the Manmohan Singh-led government has to "diluted" various conditions, including effecting a change in the definition of investment in backend infrastructure and the 30 per cent sourcing clause, brushing aside opposition from the Micro, Small and Medium Enterprises (MSME) Ministry.

Furthermore, with the Commerce and Industry Ministry at the spearhead, the government proposes to increase the number of cities to be covered under

Tribals say no to mining in Niyamgiri hills

The outcome of the 6th Gram Sabha convened at Batudi village, a remote village on Niyamgiri hills falling under Rayagda district of Odisha announced a verdict against the protagonists of Vedanta Alumina Limited. Primitive tribe Dongaria Kondh repeated the collective resolve of five Gram Sabha that had earlier rejected letting hills be mined for bauxite ore to feed Vedanta Alumina Refinery Limited at Lanjigarh in Kalahandi district.

All the tribals living in the six villages emphatically told the High Court appointed observer that they would not allow Vedanta Company to start its mining operation in the area, and pledged to protect the Niyamgiri hills as it provides livelihood to the people living there. The tribal villagers also flayed the government for trying to usurp their traditional livelihood by undertaking such massive project in the area. Six Gram Sabhas have been conducted so far with three of them held in Kalahandi district. The remaining Gram Sabhas are being conducted under Rayagada district. It means the other six Gram Sabhas are also going to be held under Rayagada district. The Supreme Court delivered a landmark judgement on 18 April this year ordering that Gram Sabha should be held in presence of judicial officers to take the view of the tribals before going for mining operation at Niyamgiri hills. ❑

the policy for 49 per cent FDI in multi-brand retail trade. This will be done by amending the clause to permit cities or States with less than 10 lakh population to allow opening frontend stores. According to a Cabinet note, proposed to be put up before the Cabinet Committee on Economic Affairs, the clause requiring 30 per cent sourcing from small-scale industries will be scrapped. Under a new policy, medium-scale industries, with a total investment not exceeding $2 million will be made eligible for sourcing of manufactured/processed products.

Rajnath calls for new SRC

A day after the UPA and the Congress Working Committee cleared the formation of Telangana, BJP president Rajnath Singh said a new States Reorganisation Commission (SRC) should be set up to look into the demands for carving out new States.

Accusing the UPA government of delaying the formation of Telangana, Mr. Singh said he felt saddened by the sacrifices made by youth in the cause of a separate State as they could not see its formation. "This happened as the decision was not taken in time," he told journalists. Asked about demands for creation of new States, Mr. Singh said a new SRC should be set up to give a comprehensive report on the socio-economic situation. "The Centre should then take a decision after taking all political parties in confidence."

The SRC was constituted by the Centre in 1953 to recommend reorganisation of State boundaries.

India close to losing trillion mark-cap tag

India is on the brink of losing the elite tag of a trillion-dollar stock market. as the Indian rupee traded near its all-time low of 61.20 and the sensex was down over 150 points, BSE's market capitalization was almost close to breaking below the $1-trillion mark. At close, however, as the rupee recovered sharply and the sensex too rebounded from its intra-day low to close at 19,346, down just 3 points, the country's market value ended the session at $1.03 trillion – just managing to keep its membership of the trillion-dollar market cap club intact.

One of the main reasons for this slide is the sharp depreciation of the rupee in recent months. From about 54.5 to a dollar at the start of the year, the Indian currency has depreciated about 12.7% to its current level. And since the stock market has remained almost stagnant during this period, India's market value in dollar terms has eroded substantially, market analysts said.

Indian footwear industry loses foothold

$35 billion dollar Indian footwear industry is losing its foothold in the international market, according to an Assocham study. The report also says India is increasingly importing produce from China, in all categories of footwear. The recently-concluded study on the 'Indian Footwear Industry' published by Assocham says China accounts for 63% of India's footwear imports; a figure that has, in the past five years, gone up by 132.67%. According to the study while the unorganised sector represent 70% of the footwear industry and provides 18 lakh direct jobs, only 30% accounts for the organised sector and creates employment for 8 lakh people. Indirectly, this industry employs more than 20 lakh people. To increase Indian exports, Assocham has suggested that the footwear industry should improve cost competitiveness through value chain efficiency. ❑❑

India, China help bust potash cartel

India and China played a key part in bringing down a giant Russia-Belarus potash cartel, and will reap the fruits of the coming crash in prices for the key crop nutrient, media reports said. The Belarusian Potash Company (BPC) venture, owned by Russia's Uralkali and Belaruskali, collapsed after the Russian partner walked out of the marketing venture.

The downfall of the cartel, which accounted for 40 per cent of global potash sales, was triggered by a decree signed by Belarusian President Alexander Lukashenka in December that cancelled BPC's exclusive right to export Belarusian potash. According to Russian media, it was Indian and Chinese potash importers that prevailed upon the Belarus leader to sign the fateful degree. Potash exports in Belarus contribute 6-10 per cent to budget revenues, and Mr. Lukashenka jumped at the chance to increase the share at a time when the Belarus languishes in deep crisis. Along with Canada's Canpotex, BPC controlled 70 per cent of global potash trade, and the duopoly was able to keep prices high by cutting supplies when demand weakened. ❑

Glaxo's China bribes

Chinese police has accused British drugmaker Glaxo Smith Kline of channelling bribes to Chinese officials and doctors through travel agencies to boost sales illegally and raise the price of its medicines in the country.

The charges make the GSK case the highest profile corporate investigation in China since four executives from mining giantRio Tinto Plc were jailed in March 2010 for taking bribes and stealing commercial secrets.

Gao Feng, head of the economic crimes investigation unit at China's ministry of public security, said since 2007, GSK had transferred as much as 3 billion yuan ($489 million) to more than 700 travel agencies and consultancies over six years.

Four senior Chinese executives from GlaxoSmithKline had been detained, Gao said at a news conference. The ministry of public security had said last week that GSK executives in China had confessed to bribery and tax violations.

GSK said it was deeply concerned by the developments and had stopped using the travel agencies identified by the investigation. It said it was reviewing all third party agencies and all historic transactions related to the travel agencies.

Fear of 'surplus terrorism' rise

India and Pakistan fear that any instability in the war-torn Afghanistan following the withdrawal of US troops could result in "surplus terrorism" in both the countries, a top US official has said. over 100 Taliban militants, using decorated vehicles, carried out the surprise assault on sleepy guards at Pakistan's third largest jail in the restive northwest region to walk away with 250 prisoners, including top commanders of the outlawed outfit.

"They came like a 'barat' (marriage procession), using decorated vehicles and nobody could judge whether they are going to bring a bride from the city or launch attack," said local police official Muhammad Nawaz Khan.

The midnight attack at central jail in Dera Ismail Khan in Khyber-Pakhtunkhwa province killed 14 people and injured 17 others, he said. Khan said the guards were easily overwhelmed by the attackers who were surprised and outnumbered by the militants.

China manufacturing sector PMI up

China's purchasing managers' index (PMI) for the manufacturing sector rose slightly to 50.3 per cent in July from 50.1 per cent in June raising hopes of recovery. The manufacturing PMI has stayed above the boom-bust line of 50 per cent for 10 months in a row, according to data from the China Federation of Logistics and Purchasing (CFLP).

Indians top foreign investors in Dubai

Indians are top foreign investors in Dubai's real estate market, with transactions of over Rs 132.6 billion made by them during the first half of 2013, according to an official report.

Dubai's Land Department announced the statistics based on its semi-annual report that revealed a significant increase in funds invested in the market, reaching Rs 877.5 billion.

In the first six months of 2013, Indians bought properties worth over Rs 132 billion, compared to Rs 149 billion they invested in the entire 2012, the report said.

Total investment of UAE nationals in the realty sector was Rs 199 billion, which equalled the entire

Afghanistan Iran deal to boost trade

Afghanistan hopes an agreement with Iran to use one of its ports will help boost exports to Europe and India and reduce its dependence on neighbouring Pakistan's ports for trade. Iran will allow land-locked Afghanistan to use the port to export goods like fruit and carpets to India and other countries, according to the spokesman for Afghanistan's Ministry of Commerce and Industries.

"We want to export to central Asia and Europe, India wants to use the port to send goods to Afghanistan," Wahidullah Ghazikhel told Media.

Afghanistan currently relies on the port of Karachi in Pakistan for the bulk of its sea exports.

But that leaves traders vulnerable to political disputes between the United States and Pakistan, which has closed its border with Afghanistan at least twice over recent years, cutting US military supplies to Afghanistan, as well as routine trade.

"If the Pakistani government's relationship with the United States goes bad, this impacts our traders," Ghazikhel said. In the most recent disruption on the Afghan-Pakistani border, private transport companies were banned from moving Afghan goods to Karachi, delaying containers for about three months. ❑

amount they spent last year.

A break-down in investments shows that Arab investors contributed to approximately Rs 82.7 billion- a 111 per cent increase in spending, Gulf nationals to over Rs 264.8 billion - a 57 per cent increase in spending, and other foreign investors registering a 73 per cent increase.

DRDO's explosive detector in US

Defense Research and Development Organization (DRDO) launching of an explosive detection kit (EDK) in the United States.

The EDK is not exactly rocket science for which DRDO is better-known for through with its work on Agni and other nuclear-capable missiles. But it is a nifty bit of technology that could only have been devised in such a scaled down version by a country ravaged by terrorist attacks. It attracted a fair bit attention from a range of international terrorism experts and law-enforcement agencies, for both its price and its features, particularly after it won several awards, and served as an import substitution for more expensive technologies India was importing from the west.

The kit can be used to instantly identify explosives that are typically used in bomb blasts. At the simplest level, samples from the crime scene are tested against chemicals in the kit, which then determines whether the explosive used is RDX, TNT, PETN or any other chemical. DRDO has also made a pocket-sized, use-and-discard version of the kit, which can be used by local law-enforcement agencies to determine quick results in cases such as the Boston marathon bombing and New York City's Times Square episode.

According to DRDO, the kit can detect and identify explosives based on any combination of nitroesters, nitramines, trinitrotoluene (TNT), dynamite or black powder.

'Biased' UK visa bond

The controversial cash bonds for Indians could soon end up in the European Court of Human Rights with a top London lawyer Sarosh Zaiwalla saying the visa bonds "amount to discrimination against Indians" which would be unlawful under the European Convention of Human Rights (ECHR) law.

Zaiwalla is the first Asian to set up an Indian law firm in London. According to him, immigration can be controlled by having in place a strict policy like the one which Margaret Thatcher government had which was "if you are good for the country you are welcome to come to UK but not if you are not good for the country".

According to Zaiwalla, the bonds might alienate small Indian businesses from working with UK as these businesses will require to put up security for travel of their staff members to UK which in turn will affect their cash flow. Many of the staff members travel to UK on visitor's visa where the security will now be required.

Zaiwalla who recently won a landmark ruling to end British sanctions on Iran's biggest private bank Mellat said, "This is a bad policy as it would alienate India with UK. India is no longer a backward economy and at a time when the western countries are looking eastwards for support for their economic recovery it would not be in UK's interest to alienate India. Why has India been treated different from China in this respect?" ❑❑

ITA II to be rolled out in Bali

WTO Leaders are scheduled to announce the second stage of the Information Technology Products (ITA) declaration this December, which would further boost Thailand's growing IT export industry.

Somkiat Triratpan, deputy director-general to the Trade Negotiations Department, said WTO member states would propose that their leaders sign phase two (ITA II) of the Ministerial Declaration on Trade in Information Technology Products, during the WTO Ministerial Conference in Bali, Indonesia, this December. "The agreement, which will bring into effect a zero tariff on an agreed list of additional IT products for export, will increase trade opportunities for Thailand - enabling us to more easily penetrate the markets of other WTO countries," he explained.

The Ministerial Declaration on Trade in Information Technology Products was concluded at the WTO's first Ministerial Conference in Singapore in December 1996. Original participants in the ITA declaration eliminated tariffs as of January 1, 2000, on a wide range of IT products. ITA II would see that list of products increased.

EU hits Russia WTO dispute

The European Union launched the first formal trade dispute with Russia at WTO, less than a year after Moscow joined the trading club. The EU has told the WTO it held that Russia was illegally protecting its carmakers with a recycling fee levied on imported cars, and had given up waiting for Moscow to change the law. The dispute follows repeated warnings from Brussels about what it sees as Russia's non-compliance and loud dissent within Moscow about the merits of being in the WTO at all.

Russia's critics say it has never made good on its obligations, and the car levy, introduced nine days after Russia became a member, is one of a slew of non-compliant policies on goods ranging from alcoholic drinks to combine harvesters. Importing a car to Russia involves paying a fee to cover the future cost of recycling it, a form of green tax. Japan also has filed a trade complaint against Russia over car levy .

Hope for a breakthrough at Bali

Agricultural liberalisation talks have a high chance of success, a senior Indonesian official said last week, in reference to the 9th WTO Ministerial Conference in Bali, from 3-6 December..

WTO conference will be of crucial importance to Indonesia and the 158 other members of the multilateral trading system, said Iman Pambagyo, director of international trade co-operation at Indonesia's Ministry of Trade. He was optimistic that the conference would be able to get talks on the multilateral trading system back on track - a step closer to the eventual conclusion of the long-delayed Doha Development Agenda (DAA). The conference will also provide an opportunity for developing countries to address issues concerning agriculture, trade facilitation and development, Pambagyo said in Jakarta, while addressing a visiting group of civil society and media representatives from East Asian countries. He spoke in Jakarta at a debate on "Current and Future Challenges for the Multilateral Trading System - Perspectives from Asia".

EU, US trade domination shifting

Any way you look at it, the United States and European Union will remain dominant players in world trade over the next two decades. The real question, says the WTO in a new report, is how much ground they cede to rising economies like China.

The WTO's annual trade report says that under good economic conditions, China could increase its export share of manufactured goods to almost a quarter of global trade by 2035 while India's could more than double, to 5 percent. The report says that under tougher conditions the EU and U.S. market shares would rise — but they would still lose in absolute terms because of a weaker economy. In that case, it said, China and developing countries would lose market share.

WTO refuses Indian request

India has failed to persuade WTO to dismiss a trade complaint brought by the United States, according to a preliminary ruling published on the WTO's website. The United States launched the legal challenge at the world trade body in March 2012, contesting Indian restrictions on imports of poultry, pigs and related products.

India says its checks on U.S. imports are justified by concerns about bird flu. India tried to have the U.S. complaint dismissed on technical objections, including that the allegation was not precise enough and did not spell out the legal argument. But according to the preliminary ruling published, the WTO's adjudicators dismissed India's technical arguments, saying "there can be no uncertainty on India's part". This leaves the original U.S. complaint intact, with a ruling likely later this year. ❑❑