The Gujarat Model

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AFGHANISTAN & PAKISTAN

Strategic depth vs strategic breadth

America needs to reframe its strategic approach to the region

VANNI CAPPELLI

IN MID-FEBRUARY, as repeated suicide bombings punctuated open discussions among governments and in the media of the possibility that the international mission in Afghanistan could end in failure -- with all that would mean for the security of India, the United States, and the world—two prominent individuals made remarks that were especially revealing. The comments on the crisis by the former high representative for Bosnia Paddy Ashdown and the American Defence Secretary Robert Gates were emblematic, as they demonstrated that the international community is failing in South-Central Asia as a whole because it does not understand the nature of the conflict it is engaged in.

Writing in the Financial Times after his rejection for the post of United Nations special envoy in Afghanistan by President Hamid Karzai, Mr Ashdown lamented that “With fighting in Afghanistan now entering its seventh year … defeat is now a real possibility.” The consequences of this he foresaw as “global terrorism would have won back its old haven and created a new one over the border in a mortally weakened Pakistan.” Quoting Sun Tzu, the ancient Chinese military strategist, Mr Ashdown affirmed that the problem lies in the fact that the Afghan venture is comprised of a series of tactical moves, with no grand strategy. This he suggested might come in the form of doing a better job of integrating military and civilian efforts in a way that involves the Afghans more, in order to enhance their security, governance, and the rule of law.

That Mr Ashdown states that the fighting in Afghanistan is entering its seventh year when it
There is no greater transformation needed than turning Pakistan into a state that will no longer be a threat to the stability and security of its neighbours and the world.

will in fact complete its thirtieth year in April is typical of the general lack of comprehension of what exactly transpired in South-Central Asia in the decades leading down to September 2001. He essentially views the problem as a current internal affair of Afghanistan, ignoring the regional, historical, and ideological contexts. Had he a better grasp of these, he would realize that Pakistan, which put the Taliban in power in the first place, would hardly view the successful revival of its long-term “strategic depth” project as a mortal weakening of itself. He would also realize that what he is suggesting is just more tactics, not a strategy.

If Mr Ashdown’s views are myopic, those of Mr Gates might be characterised as blind—were it not for the fact that he and the faction of the American establishment he represents have so much to cover up.

“For the United States, September 11th was a galvanising event, one that opened the American public’s eyes to dangers from distant lands,” Mr Gates told a security conference in Munich. Speaking of the world Islamist alliance which perpetrated the atrocity, he affirmed that it was necessary “to fracture and destroy this movement in its infancy.” When challenged as to past U.S. support for fundamentalists, he answered, “If we bear a particular responsibility for the role of the mujahideen and al Qaeda growing up in Afghanistan, it has more to do with our abandonment of the country in 1989 than our assistance of it in 1979.” Expressing what he expected from America’s “key ally” in its “war on terror”, Mr Gates said, “The Pakistan army is an army that essentially has been trained and equipped to potentially fight India. They are now going to have to re-orient themselves and figure out how to do counter-insurgency.”

Again, to characterise an historical force which had its modern ideological origins in Egypt in the 1920s and has wreaked mass destruction and caused heavy loss of life in Bangladesh, Afghanistan, and India for upwards of forty years as being “in its infancy” is either a mark of extreme ignorance or deliberate obfuscation. Considering America’s role in the rise of radical Islam in the region through the carte blanche it gave during the Soviet-Afghan War to the Pakistani military-security services complex based in Rawalpindi to heavily support the most extremist elements while marginalising responsible resistance fighters, one must conclude that it is the latter. Yet if the suggestion is seriously being made that, after sixty years of enduring rivalry with India, Pakistan is going to suddenly re-orient itself to fight its own jihadi assets simply for America’s convenience, a basic inability to think critically must be said to be at work as well.

Although the Bush administration, which in effect abandoned the primary, South-Central Asian theatre of the fight against radical Islam to pursue its catastrophe in Iraq, is certainly incompetent, it is nevertheless striking to see how much of the public discourse on Pakistan in America is also characterised by a failure to grasp even the most basic realities of that country. General Musharraf’s ostensible switching of sides after 9-11 is largely taken as a given, with little scrutiny of whether the Pakistani military has indeed suddenly abandoned its core aggressive Islamic nationalism, which has sought for so long to use extremists to force India out of Kashmir, seek “strategic depth” by dominating Afghanistan, and repress secular progressive forces at home. One hears almost nothing about the Islamic unitarist “Pakistan ideology” that is the military’s formal ethos, or its basic function of repressing democracy, secularism, ethnic autonomy, and women’s rights, while upholding feudalism in the name of an “Islam in danger”. Instead Pakistan is said to have “a modern professional military” – its bloody record in Bangladesh, Afghanistan, and Kashmir notwithstanding.

Amidst the endless talk of “stabilising” Afghanistan and Pakistan—which the Bush administration conceives solely in terms of military force and aid, respectively—sight is lost of the fact that what both countries need is transformation. And there is no greater transformation needed in South-Central Asia than turning Pakistan into a state that will no longer be a threat to the stability and security of its neighbours and the world.

This, unfortunately, will not come about as a result of the Pakistani elections of February 18th. The poor showing of the religious parties yet again demonstrated that the threat of extremism emanating from the country comes not from the mass of the people but from its all-dominating military-security services complex. Yet the electoral exercise in and of itself can do nothing to force Rawalpindi to give up its stranglehold on the levers of national
power, which it has all too often employed in state sponsorship of terror, even under “civilian rule”. The pressure for transformation, at least initially, must come from without.

It was one of the great insights of Chester Bowles, America’s most revered and beloved ambassador to India, that military assistance distorted Pakistan’s political and economic development, leading inevitably to dictatorship and conflict with India and Afghanistan. Half a century later, with the full pathological nature of this distortion there for all to see in the legacy of a brutally stunted civic life in Pakistan, unending war in Afghanistan and Kashmir, and a spreading global terror threat, we are not only in a position to see how right Bowles was, but that the only solution lies in implementing his vision of US–Indian co-operation as the basis for security in Asia as a whole.

My essay Containing Pakistan: Engaging the Raja-Mandala in South-Central Asia, published in the Winter 2007 issue of Orbis, argues that the United States should change course and commit itself to an American-Indian-Afghan alliance aimed at countering the Islamic ideological and terrorist threat Pakistan poses under military rule. This policy would employ such modern tactics as cutting off military and economic aid, placing the country on the list of state sponsors of terror, and reconstructing Afghanistan, including its military capacity. But it would have as its strategic basis the techniques of encirclement, balance of spheres, and exploitation of tensions that underlie the geopolitical vision of the 4th century BCE Indian political philosopher Kautilya, whose Arthashastra first gave systematic method to political theory on the subcontinent. By such a comprehensive policy of containment, the alliance would cause the same internal collapse of a dictatorial power structure that occurred when the Soviet Union’s weak economy was unable to bear the weight of its military superstructure, and give Pakistan’s secular democratic forces their first real chance to transform their troubled land into one that is no longer a threat to the security of its neighbours and the world.

Paddy Ashdown ended his piece in the Financial Times saying, “What we need is a strategy, not a disconnected collection of uncoordinated tactics. What we should not need is a Chinese philosopher from 26 centuries ago to tell us that.”

The foundering international community in Afghanistan is in need of all the expert advice it can get, however old it is. And it can do no better than to combine the prescient sagacity of an American diplomat from half a century ago with the enduring sagacity of an Indian philosopher from 23 centuries ago, countering a criminally intended “strategic depth” with a regionally transforming strategic breadth.

Vanni Cappelli, a freelance journalist, is president of the Afghanistan Foreign Press Association.

## DEFENCE ECONOMICS

### No anomaly in the shortage

**Why India needs to move towards more capital-intensive armed forces**

NITIN PAI & SUSHANT K SINGH

WHAT DOES the Indian Army have in common with National Association of Software and Service Companies, the Confederation of Indian Industry and the National Manufacturing Competitiveness Council? Well, they are all complaining of a shortage of employable graduates.

The Army is short of over 11,000 officers. In 2005, a NASSCOM-McKinsey report projected that the IT industry would face a potential shortage of 500,000 people by the year 2010.

The Army may be looking for young people with “officer like qualities” while the private sector is looking for people of “management calibre”, but they are essentially fishing in the same pond. India produces three million graduates each year. But as Satyam’s B Ramalinga Raju noted, “most of these are uncut diamonds that have to go through polishing factories, as the trade requires only polished stones.”

It is more than a coincidence that the armed forces were unable to fill available seats at the In-
dian Military Academy since the early 1990s—just after the P V Narasimha Rao government’s reforms dismantled the license raj. Steady economic growth over the last two decades and the emergence of globally competitive IT, financial and manufacturing industries has increased the opportunity costs of joining the armed forces. Furthermore, productivity growth in these sectors is increasing wages: a young Indian will have to give up even more to join the armed forces, which offer relatively lower take-home salaries.

It is tempting to believe that merely raising military pay will address the issue of officer ‘shortages’. To do so would be to ignore the fundamental changes to the relative abundance of capital and labour in India’s growing economy. As labour—especially managerial talent—becomes relatively less abundant, industries, including the armed forces, must become more capital intensive. This is already happening in the automobile manufacturing sector. Indeed, should the long awaited labour reforms come about and mass manufacturing take off, the Army is likely to develop a shortage in the lower ranks too.

Manpower shortages are not an anomaly—they are part and parcel of India’s transition into a middle income country. The armed forces would do well to prepare for the changed circumstances by implementing structural reforms.

First, in the near term, the armed forces—and especially the Army—should invest more in modern equipment and weapon systems while cutting down the headcount. Today the Army spends most of its money on salaries and operational expenses. About 26 percent of the Army’s budget is capital expenditure. Only 10 percent of it goes into modernisation. This ratio must improve to enable the Army to take advantage of 21st century technology.

Now, it is true that India needs a large army to hold territory and to carry out counter-insurgency warfare. It is also true the vision of a high-tech army has taken a beating due to the failings of Donald Rumsfeld’s Pentagon. But India is spending way too little, compared to China (leave alone rich Western countries), on military modernisation. If the Army’s capabilities are to match India’s growing economic strength in the coming decades, it is imperative that it adopt a more sophisticated technological posture.

A more capital intensive army does not necessarily mean one that imports big ticket items. Rather, it is one that invests in technology to improve force projection at all levels: from better body armour and munitions for the soldier to highly-networked formations and integrated command & control. Beyond merely improving the “teeth-to-tail” ratio: the armed forces must fundamentally re-examine what it is that constitutes teeth.

There have been a slew of defence procurement scandals in the wake of the Bofors controversy. But the real scandal—and an insidious one at that—is in the defence procurement policy. It has become so byzantine that the armed forces routinely spend less than their allocation: sometimes surrendering as much as 10 percent of defence budget.

Second, India’s own experience in the Kargil war laid bare the need for the armed forces to operate in an integrated manner. Furthermore, In-
dia’s nuclear doctrine calls for a force based on a triad—with land, sea and air components that need to be part of the composite strategic deterrent. Yet there has been little progress into moving beyond mere operational “jointness” to integrated military commands that comprise of land, sea and air components. Indeed, beyond tradition, there is little reason to have vertically separate military organisations based on the vehicles they use to get to the battlefield.

Current and future operational imperatives suggest that India can no longer afford the luxury of sticking to that tradition. Economic realities—combining resources to optimise the overall teeth-to-tail ratios—only reinforce this point. Undoubtedly, such a radical restructuring will be the most ambitious exercise ever. But if India is to meet the security challenges of this century, there is no choice.

Will all this succeed in the armed forces attracting sufficient number of young people to a military career? Not unless the manner in which the forces identify, train and manage human resources is overhauled. The armed forces no longer have access to low hanging fruit, as good graduates are sought after globally. That suggests that the armed forces will have to emulate the IT majors and set-up their own training academies—take the relatively rougher diamonds and polish them in-house. In other words, instead of trying to look for people with “officer like qualities”, the armed forces will need to create them.

Among the shocking features of the defence human resource management policy is the presence of an exit barrier—officers cannot simply resign from services after giving due notice. Their request for termination has to be approved by the government. While this policy has long been justified on ostensible national security grounds, it ignores the fact that an exit barrier also an entry barrier. At the margin, potential recruits are likely to shy away from signing up because of the risk of being trapped in an unhappy job. This exit barrier has to go: a reasonably long notice period should substitute “the pleasure of the president”.

The roots of these shortages can ultimately be traced down to India’s dysfunctional education system. Raghuram Rajan and Arvind Subramanian of the International Monetary Fund have pointed out that the solution to the ‘Bangalore Bug’—India’s equivalent of the Dutch disease that emasculates skilled labour supply in the wider economy—is to “redress the past neglect of primary and secondary education”. They advise the government to release education from its clutches.

Nitin Pai is editor of Pragati and blogs at The Acorn (acorn.nationalinterest.in). Sushant K Singh is a resident commentator.

SPACE

Securing space on the table

Responding to a new strategic arms race

ADITYANJEE

RUSSIA AND China circulated a draft proposal for a Prevention of Arms Race in Outer Space (PAROS) treaty at the 65-member UN Disarmament Conference in Geneva in January this year. It aims to fill gaps in existing international law, create conditions for further exploration and use of space, and strengthen general security and arms control.

A draft treaty on the prevention of placement of weapons in outer space (PPW) provides for a ban on placing any arms in space and a ban on the use of force or a threat of force against space objects. The United States rejected signing of PAROS claiming that an arms race in outer space does not yet exist. In reality, we are witnessing a new arms race in the outer space with China and the United States firing the initial salvos. It is another matter that the actors involved in the weaponisation of outer space refuse to acknowledge it.

In 2001, the United States, under President George W Bush, unilaterally pulled out of the 1972 Anti-Ballistic Missile (ABM) treaty. This cleared the way for it to develop and install a missile defence shield. The ballistic missile defence (BMD)
system is capable of destroying both ballistic missiles and satellites. The downstream consequences of that single decision catalysed a new race for weaponisation of the outer space. In January 2007, China tested an anti-satellite (ASAT) weapon against one of its own ageing weather satellites orbiting at 500 miles above the earth. The anti-satellite weapon was a non-explosive “kinetic kill vehicle” that destroyed its target by colliding with it. China succeeded in the fourth attempt in the series of tests. (Following the successful interception, there was initially a total silence from the Chinese political leadership. China alluded to a communication gap between the central government and the armed forces. But it is impossible for the People’s Liberation Army (PLA) to conduct an ASAT test without the Beijing’s knowledge. The Chinese Communist Party’s doctrine is that “the party controls the gun”.) China has also developed navigation satellite jammers that are equipped to disrupt the Global Positioning System (GPS). And recently, Chinese secretly fired powerful laser weapons to disable US spy satellites by “blinding” their sensitive surveillance devices and preventing spy photography when they pass over China. In addition to forcing the United States to enter negotiations concerning the weaponisation of space, China also considers the ASAT test as a form of ‘deterrence’ against the US.

The United States responded by knocking down one of its own satellites. A failed 5,000-pound spy satellite about 150 miles above the earth was destroyed with a single missile defence interceptor fired from a US Navy warship in the northern Pacific Ocean. The United States claims that the missile strike was meant to prevent the toxic 1000-pound hydrazine tank from scattering debris and putting populated areas at risk. But the timing curiously followed renewed Chinese and Russian attempts at Geneva to bolster an international effort to ban weapons in space.

Clearly there are rising tensions between the United States, Russia and China over the militarisation and weaponisation of space. It is likely that countries like Japan, Iran, North Korea and Pakistan may build their own ‘anti-satellite kinetic kill’ capabilities. Although no country has so far shot down another country’s satellites, the possibility of this cannot be excluded, especially in the context of asymmetric warfare.

An immediate implication is that India’s satellites and future space assets face the risk of being destroyed, incapacitated or jammed. For instance, ASAT capability allows states that possess it to threaten India’s Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) architecture. Also, India is in the process of establishing an independent navigation satellite network with medium- and low-earth orbit satellites. Such a network will be susceptible to jamming and ASAT weapons.

The signature lesson for India comes from the historical experience of negotiating the nuclear non-proliferation treaty (NPT) and its subsequent extension “in perpetuity”. That treaty cast in stone the ‘legitimacy’ of the five nuclear weapons states, and effectively released them from their nuclear disarmament obligation. If India had conducted a nuclear test in 1968 instead of 1974, it would well have been grandfathered into the NPT as a nuclear weapons state. Because it didn’t, India found itself being either forced to give up its nuclear weapons programme or sit it out outside the international nuclear mainstream.

In order to achieve a strategic parity with the United States, China is likely to continue to advance its cyberwar and space war capabilities. Moreover, Chinese pledges not to proliferate these technologies are believable to the ex-
India must to look at the military uses of space technologies and be prepared with its own ASAT capabilities in case of future need.

tent they are in its interests. Given the historical experience—from nuclear weapons, to ballistic missiles to fighter aircraft—it is imprudent to dismiss the possibility that China will transfer space weapons technology to Pakistan. India must to look at the military uses of space technologies and be prepared with its own ASAT capabilities in case of future need.

It is in India’s interests to become an active party to the outer space disarmament agenda and to propose its own draft of PAROS. It is important for India to influence the future treaty negotiations as an insider rather than become an outsider.

In the run-up to negotiations and the eventual signing of such a treaty, the United States, Russia

and China will continue to enhance their capabilities for the military use in the outer space without formally acknowledging the intent. There is still time for India to acquire, test, and demonstrate ASAT capability. But the window of opportunity will not last very long in case the United States decides—now that it has conducted a test of its own—to agree on signing of internationally verifiable PAROS and PPW treaties. PAROS and PPW can perhaps preserve the peaceful paradise of the outer space by preventing, or at least postponing, an arms race in space. It is imperative at this stage that India demonstrate its own ASAT capabilities before multilateral negotiations over PAROS take off.

Adityanjee is president of the Council of Strategic Affairs, New Delhi.
On Kosovo
IT IS difficult to shake off the feeling that the birth of Kosovo is really the culmination of a series of old and unhealthy trends in global politics. Major powers of Europe seem to relish the fact that for the first time in a small Muslim majority state has been carved out in Europe, thus testifying to Europe’s progress. But the truth is that the birth of Kosovo is also a profound testament of the failure of the nation state form in Europe to accommodate ethnic diversity. As Michael Mann, in an important article on the “Dark Side of Democracy” had noted, modern European history has built in an irrevocable drive towards ethnic homogenisation within the nation state.

In the 19th century, there was a memorable debate between John Stuart Mill and Lord Acton. John Stuart Mill had argued, in a text that was to become the bible for separatists all over, including Jinnah and Savarkar, that democracy functions best in a mono-ethnic societies. Lord Acton had replied that a consequence of this belief would be bloodletting and migration on an unprecedented scale; it was more important to secure liberal protections than link ethnicity to democracy. It was this link that Woodrow Wilson elevated to a simple-minded defence of self-determination. The result, as Mann demonstrated with great empirical rigour, was that European nation states, 150 years later, were far more ethnically homogenous than they were in the 19th century; most EU countries were more than 85 per cent mono-ethnic.

Most of this homogeneity was produced by horrendous violence, of which Milosevic’s marauding henchmen were only the latest incarnation. This homogeneity was complicated somewhat by migration from some former colonies. But very few nations in Europe remained zones where indigenous multi-ethnicity could be accommodated. It is not an accident that states in Europe that still face the challenge of accommodating territorially concentrated multi-ethnicity are most worried about the Kosovo precedent. The EU is an extraordinary experiment in creating a new form of governance; but Europe’s ‘failures with multi-ethnicity may yet be a harbinger of things to come. Kosovo acts as a profound reminder of the failure of the nation state in Europe.

- Pratap Bhanu Mehta, As easy as Kosovo, Indian Express, 27 Feb 2008

Four stages of a jihadi
MR SAGEMAN is a leading advocate of what is called the “buddy” theory of terrorism. He has spent much time asking why well-educated young men, from middle-class backgrounds, often with a secular education and wives and children, become suicide bombers. He suggests that radicalisation is a collective rather than an individual process in which friendship and kinship are key components.

The process has four stages. The initial trigger is a sense of moral outrage, usually over some incident of Muslim suffering in Iraq, Palestine, Chechnya or elsewhere. This acquires a broader context, becoming part of what Mr Sageman calls a “morality play” in which Islam and the West are seen to be at war. In stage three, the global and the local are fused, as geopolitical grievance resonates with personal experience of discrimination or joblessness. And finally the individual joins a terrorist cell, which becomes a surrogate family, nurturing the jihadist worldview and preparing the initiate for martyrdom. Many Muslims pass through the first three phases; only a few take the final step.

In his new book Mr Sageman’s sample of militants has grown from 172 to 500. He gives more prominence to Europe, where, after the London and Madrid bombings and other thwarted attempts, a new front-line has opened up. He devotes a chapter to the internet. Crucially, he argues that most of today’s suicide bombers have little or no link with the original al-Qaeda (dubbed “al-Qaeda central”) but are part of a broader, more amorphous phenomenon which he calls the “al-Qaeda social movement”. Mr Sageman is sceptical of the view, which gathered weight last year, that “al-Qaeda central” is resurgent. Rather, it is the mutual attraction of freelance jihadists, outraged by the Iraq war and increasingly mobilised online, which should worry us most.

- How jihad went freelance, The Economist, 31 Jan 2008

Maoists strike in Bhutan
THE ORCHESTRATED bomb blasts that detonated on Monday in the capital of Thimphu and three other locations across Bhutan are a powerful reminder of the simmering refugee problem that has long plagued the Bhutanese government. [...the explosions] were suspected to be linked to one of three militant organisations based in Nepal—the Bhutan Tiger Force, the Bhutan Maoists Party and the Communist Party of Bhutan.

- Mohan Balaji, Bombs in Bhutan stir refugee crisis, Asia Times Online, 23 Jan 2008
THE BUDGET Session of Parliament is scheduled to begin on February 25th and end on May 9th. The Lok Sabha and Rajya Sabha are scheduled to be in session for 35 sittings with a 3 week recess between March 21st and April 14th.

The standing committees meet during the recess to examine the demands for grants (the expenditure budget) of each ministry. The discussion on the budgetary proposals and voting will take place in the second part of the budget session.

Though the main focus of the session will be on the financial matters, other Bills are also introduced and considered.

The Cabinet has recommended that the Maternity Benefit (Amendment) Bill be taken up for consideration and passing. This Bill raises the maternity benefit from Rs 250 to Rs 1000, and permits the central government to periodically revise this up to a maximum of Rs 20,000.

The National Commission for Enterprises in the Unorganised Sector (NCEUS) recommended two Bills—one each for agricultural and non-agricultural sectors—to provide specific benefits to workers. Following this, the government introduced The Unorganised Sector Worker’s Social Security Bill, 2007. However, this Bill differs significantly from those drafted by the NCEUS. Unlike the NCEUS recommendations, this Bill does not specify benefits. Instead, it provides a framework for formulating welfare schemes specifically for the unorganised sector. It introduces a portable smart card to be issued for targeted delivery of benefits and establishes state and national level Social Security Advisory Boards.

Currently, the investigation regarding improper judicial conduct by judges of the higher judiciary is governed by the Judges (Inquiry) Act, 1968. The Act is now proposed to be replaced by the Judges (Inquiry) Bill, 2006. The Bill establishes a National Judicial Council (NJC) to conduct inquiries into allegations of misbehaviour or incapacity by judges. The NJC consists of the Chief Justice of India, two Supreme Court judges, and two High Court Chief Justices. This Bill enables any citizen to complain against improper conduct by a judge. The NJC may recommend removal of the judge or minor punitive measures. A judge may appeal a decision by the NJC in the Supreme Court.

Over 25 million cases are pending in the district and the subordinate courts. The government introduced the Gram Nyayalyas Bill, 2007 with the objective of improving access to justice. The Bill establishes gram nyayalyas at the level of the intermediate panchayat (roughly corresponding to taluk/block), which will be the lowest judicial court and shall be headed by a nyayadhipathi with minimum qualification of what is required for a first class magistrate. These courts shall have exclusive and original jurisdiction over certain civil and criminal disputes (in which the maximum punishment is imprisonment of one year).

The Micro Financial Sector (Development and Regulation) Bill, 2007 seeks to promote the sector and regulate micro financial organisations (MFO). An MFO is any organisation that provides micro finance services, and would include societies, trusts, and co-operative societies. The Bill sets the maximum amount of financial assistance an MFO can provide to clients at Rs 50,000 per person for consumption/livelihood purposes, and Rs 150,000 for housing. The National Bank for Agriculture and Rural Development (NABARD) is responsible for regulating the micro financial sector. The Bill also requires NABARD to create a Micro Finance Development and Equity Fund and use funds collected to provide financial assistance to an MFO. (See Pragati, No 6 | Sep 2007 for detailed analysis)

The Information Technology (Amendment) Bill, 2006, amends the Information Technology Act, 2000. The Act provides legal recognition to electronic commerce transactions, allows electronic filing of documents, and penalises computer related crimes. In 2005, the government constituted an expert committee to review the IT Act. The Information Technology (Amendment) Bill, 2006 incorporates some of its recommendations. It replaces the phrase “digital” with “electronic” in order to make the authentication of electronic record technology neutral. It also provides for the protection of sensitive personal data, limits the liability of intermediaries, and establishes an examiner of electronic evidence.

The Bill also specifies penalties for the transmitting offensive or pornographic material electronically. In addition, the Bill includes identity theft and recording or transmitting nude images of a person without his permission as punishable offences.

The Forward Contracts (Regulation) Amendment Bill, 2006 amends the Forward Contracts (Regulation) Act, 1952. Contracts in which the delivery of goods and payment of price takes place after more than 11 days are called forward contracts. This is now being changed to 30 days. The Act established the Forward Markets Commission (FMC) to regulate the forward markets in commodities and to prohibit trading in options. The Amendment Bill changes the role of the Forward Markets Commission (FMC) from a government department to an independent regulator.

The Bill also enables trading in commodity derivatives (including options). Citing the growing market and need to upgrade the legal and regulatory system in the commodity futures market, the government recently promulgated the Forward Contracts (Regulation) Amendment Ordinance, 2008. (See related article on page 17 of this issue)

The Limited Liability Partnership Bill, 2006 creates a new type of partnership in India. Unlike a partnership firm, the liability of its partners will be restricted to the amount they have invested in the firm (similar to a limited liability company).

The Foreign Contributions (Regulation) Bill, 2006 regulates the acceptance and utilisation of all foreign funds through donations, gifts, or grants. The Bill replaces the earlier Foreign Contribution (Regulation) Act, 1976. The Act prohibits certain organisations and individuals from accepting foreign contributions. In addition, this Bill also forbids organisations of a political nature and electronic media organisations from accepting foreign contributions. The Bill requires every such entity to renew its registration every five years. It also introduces operational requirements, such as a cap on administrative expenses.

Among the 71 bills still pending in Parliament, some of these may be taken up during the session for consideration and passing.

Compiled by Sarita Vanka, analyst, PRS Legislative Research (prsindia.org)
Minimum government, maximum governance

The Gujarat model of governance holds lessons for the rest of India

MUKUL G ASHER

GUJARAT’S SOCIO-ECONOMIC development over the last several years has been favourably assessed by nearly all objective researchers, domestic and international. The Reserve Bank of India, the Planning Commission, the Rajiv Gandhi Institute for Contemporary Studies and Deutsche Bank are among those that have ranked it among the top states in socio-economic and infrastructure performance.

The state achieved an average annual growth rate of 10.7 percent between 2002 and 2007, well above the national average. The Planning Commission has set a target of 11.2 percent growth per annum during the Eleventh Plan (2007-2012).

There is widespread consensus that India is experiencing a governance crisis—reflected in the poor quality, low accessibility and economic inefficiencies associated with goods and services provided by the public sector. It is also reflected in the inattention to the internal security. It is well known that anti-social elements, regardless of the community they come from, primarily victimise members of their own community. All communities therefore appreciate effective provision of internal security. The importance of this factor should not be minimised economically, socially or politically.

In 2005, India Today, ranked Gujarat as the safest state, even after considering the 2002 riots which resulted in considerable human suffering and sig-
Gujarat has consciously embarked on being an exception by achieving a better balance between private goods on one hand and government services, on the other.

significantly tarnished its reputation. Ahmedabad, the seventh largest city in India, has the lowest crime rate in tier-one and tier-two cities according to the National Crime Records Bureau (NCRB). There is however still much scope for improving the feeling of safety among citizens. Greater professionalism of lower level officials in the government in general, and in security apparatus in particular, needs to be developed through training and stricter enforcement.

A major consequence of the governance crisis has been that the average Indian household’s budget outlays are not being translated into commensurate welfare gains, while adversely impacting the State’s legitimacy.

Gujarat has consciously embarked on being an exception by achieving a better balance between private goods on one hand and government services, including internal security, on the other. As a result, for comparable incomes, welfare levels of households in Gujarat can be expected to be higher than the all-India average; which has increased the legitimacy of the State. Yet there is lack of curiosity on part of the media, think-tanks, self-styled experts and policy makers across the country to analyse Gujarat’s socio-economic policies, its governance characteristics, and to draw possible lessons. There is much in the Gujarat model of governance that can be applied across India, albeit to suit the particular context and conditions.

The essence of the Gujarat model

The essence of the Gujarat model of governance comprises of three Cs—Competence, Corruption-aversion, and Consistency, and two Ps—Performance-orientation and Public-private partnership management skills.

Competence. The governance challenges facing modern societies are complex. Competition for allocation of economic activities and for utilising the knowledge and talent of individuals is intense. Competence must be a key requirement in selecting ministers, party candidates, bureaucrats, and managers of public agencies and enterprises. Mere loyalty to a personality or a party should not be a substitute for competence.

The Gujarat government appears to have recognised the need for competence. It has made some progress but this needs to be sustained, broadened, and institutionalised. For instance, competent governance has led to its public and private sector companies contributing to nearly 25 percent of India’s Certified Emission Reduction (CER) under the Clean Development Mechanism (CDM). This non-conventional revenue source has a positive impact on the state’s business climate as it reduces reliance on conventional taxes and fees.

It is not a coincidence that those who deride Gujarat’s impressive developmental record show little enthusiasm for giving high priority to professional competence in public service. The Second Administrative Reform Commission (ARC) should suggest concrete measures to address this issue nationally.

Corruption-Aversion. This characteristic has been most effectively summed up by Chief Minister Narendra Modi’s apt and highly credible phase “khato nathi, khava deto nathi”.

It is difficult to convey the emotional strength of this Gujarati phrase in English, but it connotes strong aversion to being involved in corrupt practices, nor being surrounded by those who are corrupt. Corruption is usually defined as using position of public trust for private monetary and other gains.

During its campaign for the December 2007 elections, the Congress party promised to withdraw criminal cases against nearly 160,000 farmers in Gujarat for the theft of electric power. A party with such cavalier attitude to power theft would find it difficult to safeguard the integrity of fiscal institutions, and be effective in translating budgetary outlays into outcomes.

In contrast, the Modi government has been effective in sharply reducing power theft (200,000 illegal power connections have been cut), and punishing those who are guilty. It has also been relatively successful in introducing economically sensible cost recovery and user charges such as for water, electricity and healthcare.

The state electricity corporation has been turned around in three years from a deficit of Rs 40 billion to a surplus of Rs 600 million. Its measures, involving reasonable payment, but high degree of reliability deserve encouragement from the wider society as this will bring about greater accountability and transparency to the political system as a whole. It also preserves individual dignity, self respect and independence.
Public sector goods and services provided at uniform zero (or near-zero) price have proven to be expensive, unreliable for individuals and inefficient and inequitable for the economy. Such pricing results in wastage of scarce resources (for example, irrigated water, electricity, and fertilisers); prevents quantitative and qualitative expansion of services; and creates distributional coalitions leading to perverse political dynamics.

There are two check-posts on either side of the Gujarat-Maharashtra border, with the same number of trucks passing through both check-posts. Gujarat’s collection of taxes from its side is Rs 2 billion higher than that of Maharashtra. Clearly, corruption aversion—and competence—shows palpable benefits.

Consistency. This characteristic requires that policy decisions, administrative actions and political pronouncements be consistent with each other. Lofty pronouncements, without any effort to implement them in a result-oriented manner, are no substitute for credible achievements.

At a national level, one of the many examples of inconsistency (and incompetence) is provided by the Rs 120 billion National Rural Employment Guarantee Scheme (NREGS). The Controller and Auditor General of India (CAG) has found that barely 3.2 percent of the registered households could avail the promised 100 days of employment, between February 2006 and March 2007; with the average employment period being 18 days. It also cites many instances of misspending and wastage. Yet, the central government has decided to implement the NREGS on a nation-wide basis from April 2008.

The social returns of the NREGS are low, but its opportunity costs are high. This suggests that the same resources could provide more desirable results if spent in an alternative way or on other schemes which create employable human skills and productive physical capital. Failure to recognize opportunity costs of the NREGS demonstrates profound economic illiteracy and inflexibility among the policymakers. The cost of such behaviour is in large part borne by the common man in whose name this and other similar schemes are presumably being implemented.

In sharp contrast, Gujarat’s Jyotirgram Power Scheme ensures 24-hour, three-phase domestic power supply to all 18,000 Gujarat villages; empowering them to pursue diverse livelihoods. It has provided Narmada river water to traditionally water starved Kutch (though currently only for drinking); and brought about reduction in backlog of legal cases through devices such as night courts.

Its Beti Bachao Aandolan (save the girl child) has helped increase the female child to male child sex ratio from 802 in 2001 to 870 in 2007. The Nirogi Balak (disease free child) scheme to be launched in March 2008, will further improve social indicators.

Performance. Gujarat’s socio-economic, infrastructure, and internal security achievements would not have come about without insistence on performance at all levels. But this first requires an enabling environment, including investments in technological and organisational capabilities. Gujarat has been building such capabilities—for instance, by installing video conferencing facilities with district collectors and retraining three thousand officials to use India’s first integrated financial management solutions system.

Accountability for performance is also needed, not just by government organisation, but also by the corporate sector, the civil society groups and the general public. There is scope for further progress in Gujarat in this area.

Public-private-partnership management skills. These are important for two reasons. First, both markets and governments are social institutions, and therefore have strengths and limitations. Instead of endlessly debating the merits of each on
ideological grounds, there should be awareness that both are needed in performing a given task. The key is therefore to find an appropriate balance in a given situation.

Second, partnership implies that each side brings something of value to the activity of enterprise. Modern partnerships may involve a mixture of domestic and international players. This requires that the public sector must bring something of real and sustainable economic value and should make efforts to continuously enhance its capabilities.

The experience of Gujarat during the last decade suggests recognition of both these aspects. The government has, for example, been involved in such partnerships in ports and other infrastructure, and in health care (resulting in reduced maternal mortality). It is promoting knowledge-oriented agricultural practices, a sustainable way to long-term food security.

Gujarat is finalising a complex and innovative public-private partnership with two firms which will involve leveraging of its access to coal for power. Gujarat Mineral Development Corporation (GMDC), will take an equity stake and provide coal to secure exclusive rights to two-thirds of the 1750 megawatts to be generated in Chattisgarh.

Gujarat International Finance Tec-City (GIFT), a 500 acre Special Economic Zone near Ahmedabad, will include an international market zone, educational zone, and integrated townships. The vision is for the SEZ to be recognised as an International Financial Service Centre (ISFC). GIFT is targeting direct and indirect employment of about 1 million; and exports of US$ 3 billion by 2020. It is a joint venture between the public sector Gujarat Urban Development Company (GUDC), and private Infrastructure Lease and Financial Services (IL&FS).

It will be in the national interest for the states such as Maharashtra to demonstrate greater sense of urgency in constructively competing with Gujarat by taking concrete steps to implement development of Mumbai as an International Financial Centre.

Mass access to skills development, as being practised in Gujarat is essential to achieve these results. The examples include promotion of English as language to improve employability; requiring agricultural scientists from State universities to transfer knowledge to farmers in the field; and plans for providing broadband access to all the villages in Gujarat.

Gujarat’s focus on development, empowerment of individuals, and internal security benefits all communities and income groups, and therefore is inclusive in the correct meaning of the term.

Bimal Jalan has argued that the current model of governance in India is based on ‘ruling’ rather than ‘governing’ mindset. Such a mindset does not respect the everyday needs of the ordinary citizens, nor does it seek to empower them through skills and freedom to pursue their livelihoods. It is also not sufficiently forward-looking in its vision of India’s role in the global community.

The Gujarat model is based on “minimum government, maximum governance”, while the prevailing model is based on the reverse. Gujarat however, will also need to continue to become more proficient in pursuing its own model and broaden the support-base for its model of governance.

In his recent book, “Billions of Entrepreneurs: How China and India Are Reshaping Their Futures and Yours”, Tarun Khanna argues that transition of India and China to developed country status will require entrepreneurship, by both private sector and public enterprises; and state bureaucrats and politicians. The Gujarat model is consistent with this requirement, but existing practices are not.

The Gujarat model has a strong claim to be more relevant for the twenty-first century India. Its focus on development, empowerment of individuals, and internal security benefits all communities and income groups, and therefore is inclusive in the correct meaning of the term.

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Pinnacle of cynicism

Back to the bad old days of the 70s and 80s

VANANTHA NAGESWARAN

FINANCE MINISTER Palaniappan Chidambaram was proud of the fact that he was able to present his fifth successive budget, matching Dr Manmohan Singh’s record set in the 1990s. The similarity, however, ends there. As P V Narasimha Rao’s finance minister, Dr Singh—either out of conviction or out of compulsion—tried to take India to a new era. This budget takes India back to the days of Janardhan Poojary—finance minister in Rajiv Gandhi’s cabinet in the 1980s.

Mr Chidambaram declared that his government had continued with the economic reforms initiated by the Congress government in the 1990s, conspicuously failing to acknowledge the fact that the NDA government pursued some bold reforms, at least since 2002. Indeed, a few days before Mr Chidambaram’s budget speech, the Central Bureau of Investigation (CBI) found no wrongdoing on the privatisation of the Centaur Hotels in Mumbai. It was against stiff resistance from within and without that Arun Shourie had pursued privatisation (and not disinvestment). The Indian Express ran a series of articles in December 2007 on how well the privatised companies were doing; almost all had become healthier in many respects and in varying degrees. But the UPA government has resolutely set its face against privatisation—it is barely mentioned in public discourse these days. As ostensible reformers, both the Prime Minister Singh and Finance Minister Chidambaram have failed to even keep this issue alive in the public domain.

The problem in analysing the 2008-09 budget is that it lacks any sense of philosophical underpinning or cogency. It is just a long list of give-aways prepared with the elections in mind. There is no particular method in the madness except that it has been prepared with the elections in mind. One has to go a long way back—to the seventies and the eighties to find parallels. The budget itself brings back memories of Charan Singh’s disastrous budget of 1979 and the loan waiver is reminiscent of Mr Poojary’s loan melas. This one is a veritable waiver mela.

Serious commentators cannot evaluate the budget exercise against that objective because the objective is flawed to begin with. An analogy would expose the folly of this logic. If a family has entrusted its finances to a manager and the manager uses the income skilfully to build a mansion for himself, should the family praise him because he has built a good mansion? Similarly, a country’s income and expenditure are not meant to be slaves to the ruling party’s electoral ambitions. So how does one evaluate this budget?

The coming weeks will see several analyses of specific measures such as the Rs 600 billion farm loan waiver. In principle, it is hard for anyone to disagree with the argument that poor, distressed farmers should be helped. The question is how and by how much, and whether the costs of doing so exceed the putative benefits. It is anybody’s guess if the loan waiver would pass this test.

The real question is if the underlying income generating capacity of the farmer is not enhanced, what happens to his future loan burden? It may not be the failure of the finance minister but what has his government done in that critical area? Has agriculture even got a whiff of even the incomplete freedom that large sections of the organised industry now enjoy in India? Could this money have been put to use for doing any of that?

Asked how the loan waiver would be financed, Mr Chidambaram shut out criticism by asking the
The seeds have been laid for some bad fiscal tidings in the coming years, especially if we get hodgepodge coalition governments that last one or two years.

public to trust his intelligence that he would come up with a suitable financing mechanism. Without even questioning his intelligence or personal integrity, basic accounting tells us that if banks are asked to waive loans by the government and the government is the large shareholder in the banking system, it has to provide the backstop. Further, as a shareholder, it must be concerned at the precedent it sets not only for farmers but also for other borrowers from the banking system in future.

What then hits the eye is the setting up of a non-profit corporation for skills development. The allocation for this is a not insignificant Rs 150 million. Of course, not all of this would come from the central government. Yet, the mind boggles at the sheer wastefulness and needlessness of this. All that India needs is a sound education system and adequate number of institutions to impart various skills the economy needs. The private sector is ready to do that. But the government is not only been unwilling to let go but has set itself on a damaging course. The effects of this will be felt for decades.

But beyond specific issues, the psychological dynamics behind the budget and the precedent it sets for the future governments are more disturbing.

A decade ago, the same Mr Chidambaram published a white paper on subsidies. It divided subsidies into merit and non-merit categories. The initiative went nowhere. It is doubtful if there was ever a worthwhile discussion by political parties on that white paper.

Soon after that he came up with his ‘dream budget’ the impact of which was muted, nay killed, by Sitaram Kesari, the then Congress party president. But Mr Chidambaram has since then morphed into a politician sold on the merits of financial inclusion. Again, nothing wrong with the idea but it is the execution that is important.

In this recent innings, he has made sure that revenue gathering was cranked up in many ways—some good, some extortionist and some truly bizarre. Bibek Debroy aptly commented that not a single budget of the UPA government moved the reform agenda forward and that there was no legacy to speak of. That’s not entirely true. Mr Chidambaram’s contribution in this innings has been his revenue gathering zeal. Future finance ministers might—unfortunately—find it rather useful.

The seeds have been laid for some bad fiscal tidings in the coming years, especially if we get hodgepodge coalition governments that last one or two years. For if Dr Singh and Mr Chidambaram could abdicate fiscal responsibility so readily, lesser mortals would find it even easier to do so. The BJP reaction said it all. It called the package for farmers too little too late. The brazenness of it has shocked the party into totally forgetting responsibility in fiscal policy. Once it recovers from the shock, it too would seek to emulate and outdo.

An unstable coalition would always have an eye on elections. Hence, upcoming budgets in the near-term could be election year budgets in a row. In a recent note to clients, Goldman Sachs’ Tushar Poddar, referring to India’s fiscal policy, wrote that it was all downhill from here. He may well have gotten it dead right.

Intelligent men with good intentions either stay that way or they morph into shameless self-interest seekers, impacted by what others do. Or, they morph into cynics because whatever they tried did not work. In the case of Mr Chidambaram it is the latter.

This budget is the pinnacle of that cynicism. But future finance ministers could make this appear as an exercise in fiscal prudence.

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AGRICULTURAL MARKETS

Futures for farmers

Good futures markets are essential for farmers’ welfare

KARTHIK SHASHIDHAR

THE STEEP rise in global food prices is worrying politicians and policymakers. The absence of significant improvements in the area under cultivation and technological breakthroughs has put a strain on the available land. Moreover, skewed incentives and regulations in the United States and Europe have led to the diversion of large tracts of cultivable land to producing bio-fuels.

In this context, it is important that India’s resources are used optimally without wastage. However, in recent times, prices of commodities such as vegetables have indicated unplanned cultivation. On a number of occasions, high prices for a certain commodity during one growing season has led to a glut in the market in the next season. To counter the consequential fall in prices, there have been several cases of farmer associations dumping their produce in an attempt to halt the decline. This would have been preventable if sowing decisions were better planned.

It is a well-known (but also unfortunately much ignored) fact that providing cultivators with timely information on price trends, longer-term weather forecasts and market conditions is important. But as a mechanism for decentralised planning of agricultural commodities, the role of futures trading has received much less attention.

Futures trading in India

The modern history of futures trading in India began in the year 1875 with the formation of the Bombay Trade Association Limited. The rival Bombay Cotton Exchange Limited was formed in 1893. In the first part of the twentieth century, futures trading quickly spread to commodities such as wheat, jute and sugar and was flourishing at the time of Independence.

In 1952, the Forward Contracts (Regulation) Act (FCRA) was passed which led to the formation of the Forward Markets Commission (FMC), which remains the regulator. Options trading was deemed to be speculative and banned. Also the central government got powers to ban or suspend futures trading in certain commodities. By the 1970s, futures trading in most commodities had become inactive—either suspended or prohibited.

In 1980, the Khusro Committee recommended reinstatement of futures trading in a number of commodities. Then, in the 1990s, following liberalisation, futures trading was introduced in nine commodities—including silver and onions—and a few existing markets were upgraded. Following a notification by the government in 2003, futures trading was permitted in all commodities.

Last year, however, speculative trading in the futures markets was blamed for inflation, and the government banned trading in rice, wheat, tur and urad futures. A committee headed by Abhijit Sen, a member of the Planning Commission, was tasked with examining whether futures trading causes prices to rise. It found no conclusive evidence of futures markets causing inflation.

Meanwhile, the government recently passed an ordinance amending the FCRA. This amendment, among other things, gives full regulatory powers to the FMC, enhances provision for penalties and permits trading in options. It is likely to be ratified in the current session of Parliament.

During financial year 2006-07, the total volume of futures traded in India was Rs 36 trillion, a significant increase from Rs 1.29 trillion in 2003-04. This figure is expected to touch Rs 74 trillion in 2010. The FMC, the Reserve Bank of India and the Securities and Exchange Bureau of India are discussing a proposal to allow banks and mutual funds to participate in commodity exchanges.
Apart from increasing volumes, these players will add much-needed liquidity into the system.

Currently, about half of all futures trading in India is concentrated on bullion (gold and silver). About 20 percent of the trades are in other metals and oil, with the rest being in agricultural commodities.

**Futures as a tool for decentralised planning**

How do futures help farmers? There are two basic concepts which are at play—price as an indicator, and futures as instruments to hedge and lock in prices.

What typically happens today is that the farmer looks at current (“spot”) prices in order to make sowing decisions. Now, given the vagaries and cycles in the agriculture business, spot prices may not necessarily be a good indicator of the prices that are going to prevail at the time of harvest.

Recently, corporate initiatives by companies like ITC and the DCM group have provided farmers with valuable information regarding costs and current market prices. However, the key input the farmer needs is the expected price of the crop at the time of harvest. If this information were to be available, it would be possible to choose the crop that would yield the highest profits at that time. Moreover, the mechanism of futures markets can be used to lock in future revenues, and thus protect the individual farmer from price variations.

Suppose a farmer wants to grow tomatoes to be harvested in November. He looks at the November futures prices for tomatoes, and checks if it’s good enough for him to make a reasonable profit. Then, to lock in the revenues for these tomatoes, he goes to the futures markets and sells the expected number of kilograms of future tomatoes.

Apart from fixing his selling price, he sends out an implicit signal to the other farmers that he is going to produce that many tomatoes. Once a number of farmers have signalled similarly, the price of tomato futures for November is likely to decline, and other farmers, sensing that they are unlikely to make much out of tomatoes, could choose to grow chillies instead. This way, futures trading acts as an early signalling mechanism and farmers end up using their land efficiently.

**Barriers & restraints**

But a number of intersecting government policies prevent the farmer from benefiting from futures markets. First, in a large number of states in India, there are government-mandated monopolies in procurement due to the archaic Agricultural Produce Marketing Commission (APMC) Act. In 2003, the central government issued a draft amendment of this act in order to open up the supply chain to competition. However, a number of states are yet to implement this. Due to the monopoly, farmers are prevented from selling their produce to anyone other than the designated buyer, and hence cannot participate in futures markets. Moreover, prices may not reflect the actual demand and supply situation.

Second, futures trading for agricultural commodities is restricted to “durable” commodities—such as cereals, pulses, oils, onion and potatoes. The lack of good cold chain infrastructure has been a major stumbling block to introduction of derivatives trading in perishables, as reliable delivery is a problem. The challenge is in developing a good system of cold storage and cold transportation.

Third, for most commodities, large lot sizes prevent individual farmers from participating directly. The government has prescribed—ostensibly to protect small investors—that the minimum value of a derivative contract in India should be Rs 200,000. In order to get around this barrier, the FMC recommends farmers to form associations and co-operatives, and participate in the derivatives markets through them.

Finally, currently India is not one single market. Various states have octroi and entry taxes, preventing free movement of goods. There is also the draconian Essential Commodities Act which allows the government to place large-scale curbs on the movement of goods. Indeed, the unfortunate—and long neglected truth—is that there is no free trade within India.

Agricultural land is an extremely scarce resource, and it is critical that it is used most efficiently and in a planned manner. Central planning failed. But its shadow continues to haunt the countryside. It is now time to take planning to the lowest levels—to that of the individual farmer—in order to maximise efficiency. All hurdles, infrastructural and otherwise, need to be cleared in order to enable this.

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LAL KRISHNA Advani, the leader of the opposition in the Lok Sabha, addressed the 80th Annual General Meeting of the Federation of the Indian Chambers of Commerce and Industry (FICCI) in New Delhi on 15 February 2008. His speech can be interpreted as an important speech laying out the contours of the Bharatiya Janata Party (BJP) policy agenda.

He argued that the BJP has had a consistent pro-enterprise economic philosophy:

I can, in all humility, claim that ours is one party that has consistently followed a policy of supporting private enterprise and voicing our opposition to the license-quota-control regime even in those years when there was hardly any debate on economic reforms. It has always been our belief that the **dharma** (duty) of the raja—or the democratically elected government in our times—is to govern, whereas the **dharma** of the community engaged in business, commerce, industry and agriculture is to create wealth, generate gainful employment and fulfill the material needs of society. A proverb in Hindi says, ‘Raja Bane Vyapari, Praja Bane Bhikari’ (People become paupers when the rulers handle business.)

It is heartening to note that Mr Advani holds that the government should not be in business and businesses should not be in the business of governance. The disregard of this basic principle by powerful people in the government was wilful and motivated by the simple lust for power. They knew that it would impoverish the nation but that was not their primary concern. Perhaps they did not deliberately seek to impoverish the nation; they just had to accept the resultant poverty as an unintended consequence of their own self-interest.

Mr Advani goes on:

To be sure, the special situation after India gained independence, and the preceding centuries of de-industrialisation under foreign rule, necessitated the state to establish big industries and run all the utilities. Even today, it is necessary for the state to stay engaged in select strategic industries, and ensure the provision of social and economic infrastructure.

As he correctly points out, it is important to remember that the British systematically de-industrialised India.

But what does “the state to stay engaged in select strategic industries” mean? Does it mean that the state has to regulate them? Yes, because there are externalities that need to be compensated for and which can only be done through regulation. Does it mean that the state may have to create the conditions that would encourage competition in those sectors? Yes, because under certain conditions, monopolies can grow to the detriment of social welfare. Does it mean that the state should lend a helping hand when the industries face conditions that are recognised sources of market failures—such as very high fixed costs, credit constraints or incomplete insurance markets? Yes, there is justification for the state to intervene to correct for those market failures and then let the market grind out the solution.

What cannot be supported is for the state to get into the actual business of providing goods and services. The state should not be in the business of running utilities, or railways, or airlines, or bakeries.

But what we saw from the 1960s onwards is that state control became dogma, red-tapism set in, entrepreneurship was frowned upon, with this came the culture of political and bureaucratic corruption, and the Indian economy suffered badly.

Our roads remained narrow. Our ports remained small. Our airports, even in big cities, remained archaic. We did not expand or modernise our railway network adequately. We did not take steps to remove power and water scarcity to meet the needs of our growing population, as also the growing needs of our agricul-
ture and industry. Hundreds of our irrigation projects suffered from cost and time overruns. We did not improve our colleges and universities to widen the access to quality higher education and to create opportunities for well-educated Indians within India. Our system of primary education and primary healthcare suffered badly; as a result of which, India, even today, is stuck with a very unfavourable ranking in the UN Human Development Index.

The negative effect of all this was not only in the economic sphere. It was also psychological in nature. Tens of thousands of young, ambitious and talented Indians started to believe that they could realise their dreams only by going abroad. There was also a subconscious belief that anything of quality, anything state-of-the-art, has to be of foreign origin. Hence the craze for imported goods and a tendency to associate inferiority with Indian goods.

Well, it is not a psychological affliction to judge inferior goods as inferior. Most goods produced by the socialist license quota permit quota control raj were, in fact, inferior.

We must develop a long-range vision for India’s development

...It is the duty of India’s political, economic and intellectual elite to look several decades ahead. In a world that is rapidly changing, we need to gain a good understanding of India’s needs, challenges and opportunities from a future, strategic perspective. The tendency, especially in the political and governing class, to only think of the near-term in office or of the next election, can do no good to India.

I urge the business community also to develop a long-term perspective for themselves and the nation.

It should not be for the government or anyone else to tell businesses what they should do. It normally pays businesses to take the long-term view. Those that do, succeed in the marketplace; those that don’t, get weeded out. Telling them that the future matters for them is needless and vacuous moralising. It is bad enough if this stops at the rhetorical level, but there is a danger that left unchallenged, such moralising can find its way into government policy.

Later Advani goes on about the growing inequality:

How can we tolerate this reality? No, we cannot. We must not. The BJP and the NDA certainly will not. We shall take bold and innovative measures to ensure that wealth is distributed across regions and across social classes. Indeed, I urge the business community itself—and also the media—to ponder over how we can make the current growth story more equitable and sustainable. I seek your suggestions in this regard.

An attitude that seeks answers to how a problem might be solved instead of declaring the solution must be appreciated. Now, staggering economic inequality is a moral disgrace. It should not be tolerated. But what are the reasons for the inequality and what does one propose to do about it? One way is redistribution—and to do so by taking away from the rich and giving it to the poor.

But isn’t it interesting that people who propose redistribution of wealth as a means of eradicating inequality do not generally set the example by redistributing their own wealth. They are always proposing to redistribute other people’s wealth. Charity, it appears, does not begin at home for them.

Moving on, Mr Advani defines what a future National Democratic Alliance (NDA) government would concentrate on: Good governance, Development, and Protection—or GDP. It is the usual rhetoric about moving from swaraj (self-governance) to su-raj (good governance). He claims that the NDA had followed that principle during its six-year tenure and Narendra Modi’s performance in Gujarat has only strengthened the BJP’s conviction that that is the way forward.

Mr Advani’s speech is definitely more palatable than Prime Minister Manmohan Singh’s speech to the Confederation of Indian Industry (CII) on corporate social responsibility was a few months ago. This time around, the NDA may have a more promising public policy agenda considering that Mr Modi will have a greater influence in framing it.

As many had predicted, the UPA’s fifth and final budget leaves behind an unhappy legacy. Because it will attempt to appeal to the UPA. The budget was short-sighted and damaging to the prospects of long-term development. It failed to notice that Indians are moving ahead despite the best efforts of the rulers to keep them dependent on the government and in poverty.

The challenge for the next government has been all the more difficult by the UPA’s (hopefully) final act of cynicism and irresponsibility. There is much in Mr Advani’s speech that gives reason for hope that the NDA is on the right track. It would serve the nation well if Mr Advani can insist upon these policies whether or not the NDA is elected to power.

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BOOK REVIEW

The confessions of a retailer

RAVIKIRAN RAO

ONE READS the autobiography of one of India’s most intriguing businessmen not for its literary quality, but for the insight into the mind of the writer. Kishore Biyani’s 268 page middle-of-career memoir *It happened in India* (co-written with Dipayan Baishya) makes up in the insight department what it lacks in the literary quality department. The first 180 pages, the bulk of the book, have a raw, “straight from the gut” quality about them. They deal with the rise of his retail chain. The last 120 pages deal with his ongoing project to turn his company into a conglomerate—the “Future group” that encompasses such diverse businesses as consumer finance and branding. These seem to have been essentially copied from marketing brochures. This contrast is illuminating.

It is important to avoid the cliché “rags-to-riches” while writing about Mr Biyani’s rise. While he did indeed rise to riches from relatively modest origins, being born to a conservative textile-trading South Mumbai Marwari family would have given him a better start than all but a minuscule proportion of India’s population. The section dealing with Mr Biyani’s rise gives the picture of a man impatient with his family’s conservatism—both in business and in the social sphere.

The reader would be justified in being surprised to learn of this impatience with tradition, considering that Mr Biyani has built his entire empire on the proposition that he is more in tune with India’s mind than his competitors. One way

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to resolve the confusion is to realise that impatience with tradition does not mean revolting against it. It means introducing the *Disco-Dandiya*, a variant of the traditional *dandiya*, as Mr Biyani apparently did to his locality. It also means that while he was impatient with his family’s conservative business practices, they ultimately went along with him. His family members are now in key positions in his company.

Mr Biyani’s first successes—Pantaloon and Big Bazaar—were a matter of using his character traits as strengths, and also of right timing. He saw, before others did, that "India two" was hungry for the high-quality goods that hitherto only "India one" had access to, at reasonable prices. His impatience meant that he did not waste too much time in striking the real estate business deals that were crucial in ensuring that his stores were in the right place to attract the rapidly expanding ranks of the middle class in the late 1990s. Mr Biyani describes with a fair amount of pride how he never haggled when closing a deal. He gave one chance to the seller or potential landlord to quote his price. If he liked it, he accepted immediately. If he did not, he walked away. Presumably, with this reputation, those unwilling to risk losing a business partner as valuable as Mr Biyani would rush to quote his best price to him.

Mr Biyani also famously achieved success with the "bazaar model" in Big Bazaar. Most retail players assumed that customers would be looking for the antiseptic environment that they would find in Western malls. Mr Biyani realised that the "India two" shopper had never been abroad, and that her referent would be chaotic street bazaars. He strove to replicate this model, with crooked lanes instead of long aisles, unpacked vegetables which the customer could touch and feel before buying and a constant din of announcements of great deals going on somewhere in the shop. This model worked very well for him—the book begins to scenes of chaos as customers crowd at various Big Bazaar outlets all over the country to take advantage of the Republic Day sale.
Quite clearly, Mr Biyani understands India—or at least “India Two”, the one that he grew up with. He also has the business acumen to take advantage of the opportunity that the rise of this class has presented. The challenge is to institutionalise this knowledge so that it is not confined to his head, but spread within the company. The challenge is also to put in place the management structure and strategic vision that will enable him to run the conglomerate that he is creating. How is he doing on those counts?

On the face of it, very well. His retail chain now encompasses Pantaloon, Big Bazaar, Central (mega malls designed to be the central attraction of a city) Ezone, the electronics shops and Home Town, for home furnishing. They are all expanding at a breathtaking pace and soon every urban Indian would have shopped at one of Mr Biyani’s stores at least once. He has also set up Future Money to provide finance to buyers, and his umbrella Future Group is expected to go public any time soon. Most intriguingly, he has also mentored Idiom, a design shop that seeks to create a new “Indian idiom”, which he is now using for all his branding and advertising needs.

But still, there are troubling signs that his impatience and his insistence that he is breaking a new path may cause problems for him. The book describes one bad decision. The store manager had stocked up on white shirts, assuming that they would sell briskly. After all, everyone has a white shirt. Unfortunately, it turned out that the target buyers used Mumbai’s crowded local trains, and they did not wear too many white shirts as they would get soiled quickly. Ultimately, they had to liquidate the stock at a loss.

Mr Biyani uses this as an example of how important it is to make mistakes and learn from them, claiming that ”No management book, consultant or B-School would have given us this insight”. Really? Wouldn’t standard-issue research into the buying habits of his target segment have told him this? He also tells us that letting the store manager make the decision to sell at a loss was an extraordinarily empowering action for the latter. But unless one lets lower level managers make tactical decisions, how does one run a company as large as Future Group?

Mr Biyani is aware that as his role changes, a new management style is expected of him. But his impatience with existing management thinking leads him on a search for new paradigms, and he dwells for some time on ”Design based management”. It is not clear why the existing tried and tested practices are inadequate, or where this new paradigm is superior.

Mr Biyani is a pioneer in applying insights from Indian buying habits to retail. But others have understood the mind of the Indian consumer before him. Hindustan Unilever has extraordinary insights into Indian buying habits, including rural customers. Pepsi and Coca Cola, after initial hiccups, have done quite well in that regard. The tension between hands-on management and strategic direction is not unique to India, but a problem faced by growing companies everywhere. Mr Biyani would stand to benefit if he picked up another Indian trait, that of learning from others.
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