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Energy Tariff

The cost of energy is rising by leaps and bounds. It may be rightly so, perhaps due to rise in cost of production and operation. However, the capital investments and overheads are important factors, which affect the tariff. During one of the talk by a senior officer, it was mentioned that there is a surplus capacity of about 1400 MW during off peak hours i.e. from about 10 PM to 6 AM. During this period the entire network is energized, in operation, and is ready for utilization of the surplus power capacity. IIT, Delhi had developed a cost effective short gestation system to convert standard busses using fossil fuel, to battery/electric system. The batteries could be re-charged during off peak hours. This will not only improve the PLF and generate revenue for the distribution company; but also result in reduction of energy cost. This will also reduce pollution and lower the operational cost of the fleet.

I, therefore, suggest that battery/electric buses be allowed in Delhi after due conversion, as a cost effective solution developed by IIT, Delhi.

– H.K. Agarwal, C.Eng. IETE, *Safdarjung Enclave, New Delhi*

Blame game

In what is being repeatedly termed as new found aggressiveness PM manmohan singh blamed opposition for economic mess. It seems that everyone, from Prime Minister Manmohan Singh to sundry Congress leaders, have taken seriously party president Sonia Gandhi and Mr Rahul Gandhi's advice to be 'aggressive', even if there is no logic or reason. One understands their compulsion to do so to save their chairs.

But people understand This is like the famous legal aphorism that, "If you have the facts on your side, pound the facts; if you have law on your side, pound the law, and if you have neither, pound the table". In sheer helplessness, Prime Minister Manmohan Singh appears to be just pounding the table!

– Rajan, *Bangalore*

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Quote-Unquote

I love the way they think. Nothing seems to hold them back. They are dynamic and it seems as if they have charted out their life programme at an extremely young age. It's amazing how sorted out they are.

Amitabh Bachchan

about young India, Actor

Neither history nor international law are on China's side when it asserts historical claims to neighbors' territories.

Brahma Chellaney

Security Expert

If bureaucrats were really public servants, there would have been no 2G or coal mine scam.

Ashok Khemka

IAS Officer

What India needs is a "Reclaim Hindustan" operation by Saam, dhaam, bheda, & dand.

Subramanian Swamy

Senior BJP Leader

EDITORIAL

Profits over policyholders

Impact of FDI in Insurance on common people of India

Congress led UPA government has decided to allow 49% FDI in pension fund and raise the limit of FDI in insurance from present 26 percent to 49 percent. Bills to make that possible are pending in the Parliament. UPA that demolished the economy of the nation brick by brick during ten years of its mis rule is desperately looking for dollars no matter at what cost they come. Insurance is projected to attract USD in sufficient numbers. Such is the level of anxiety that the government is not even ready to look into the adverse impact of such a vital decision. It was During NDA regime, that 26% FDI in insurance sector was allowed. Since then market share of private insurance companies has increased to 30% in aggregate life insurance premium. Foreign companies set up joint ventures within 26% FDI limit. These joint ventures have been expanding their business gradually. However, limit of 26%, restricted MNC, companies to have any big say in the decision making of insurance companies. Now with proposed raising the cap to 49 percent, dominance of foreign players in insurance business will increase. Government argues that allowing FDI in this sector will help present insurance companies to raise more funds, lead to launching of new types of insurance plans resulting in widening of choice for customers, reduction in premiums and its spread to rural areas. When scrutinized, none of these arguments pass the reality test. Data provided by successive Annual Reports of Insurance Regulatory and Development Authority (IRDA) shows that, even 10 years after the liberalisation of the sector, the spread of the public sector in the rural areas is much higher than that of the private players. IRDA says that the total insurance penetration, which is the ratio of insurance premium as a percentage of GDP has increased from 2.32 in 2000-01 to 5.10 in 2010-11. The life insurance penetration has decreased from 4.60 in 2009-10 to 4.40 in 2010-11, whereas the non-life insurance penetration has increased from 0.60 in 2009-10 to 0.71 in 2010-11.

The report of IRDA 2009-10 also states that more than 60 per cent of the policies issued by private life insurance companies have either lapsed or been forfeited in just one year. For public sector player LIC, this ratio was hardly 4 percent in 2009-10, 4.9 percent in 2010-11 and 5.0 percent in 2011-12. Statistics reveal that the ratio of lapsed or forfeited policies was 81 per cent, 46.5 per cent and 41.9 percent in 2009-10, 2010-11 and 2011-12 respectively in the case of ICICI Prudential, the largest private sector life insurance company. Exactly opposite has happened in case of premium rates. Rates of premium on cars have gone up by around 40 per cent on average. Meanwhile, a category like third party insurance for two-wheelers, for which the premium rates used to be quite low, has seen an increase of nearly three times. Some companies even plan not to provide insurance for this category at all. Not only that penetration of private insurance into rural segment is expected to be very little, farmers may also not benefit from private companies. Global experience shows that claims settlement with regard to crop insurance is subject to usage of seeds, fertilizers and crop practices, and such conditions, not generally satisfied by farmers in India. Achievements with regard to crop insurance would get a setback. The settlement of claims is an important marker of the reliability of an insurance company. On this count too, the public sector stands out. It is significant to note that the percentage of claims repudiated by the private sector (8.9 per cent) is much higher than the percentage for the public sector (1 per cent). These private players in insurance are not shying to say that their mission is "to earn a return for our shareholders." Unfortunately, that dedication to shareholders comes at the expense of policyholders. They adopt a confrontational attitude towards its own policyholders to boost Company's bottom line by focusing on reducing the amount of money they are supposed to pay in claims, whether or not they were valid. And work hard to find ways to deny, delay, defend-do anything- to avoid paying claims.

A decade of economic destruction

How did the UPA manage to mess up the prosperous economy it had inherited in 2004?

The economic destruction of India took place between 2005-6 to 2010-11 when things could have been reviewed and controlled. Things tended to become uncontrollable by 2011-12, delineates **S. Gurumurthy**

After watching the relentless fall of the Indian rupee for 18 months with saintly restraint, Finance Minister P Chidambaram declared on August 12 that he would cut the Current Account Deficit (CAD) — the excess outgo over receipts of foreign exchange — and stabilise the rupee. In January 2012, Indians could buy one US dollar by paying Rs 45. But, by August 12, they needed to pay more, Rs 61 for a dollar, the dollar rising by over 35 percent since January 2012, mirroring an equal fall in the rupee value.

This is the direct outcome of the burgeoning CAD since 2004-2005. On August 12, Chidambaram announced "measures" to reduce the CAD and arrest the rupee slide. But, within 36 hours, on August 14, the rupee fell further, to `61.50 per dollar.

This forced the Reserve Bank to restrict investments and remittances abroad to reduce the dollar's flow out of India. Even that did not work. It is Rs 62 to a dollar now. Even as the rupee was crashing, in January, The Economist magazine [2.1.2013] reported that the real value of the rupee, namely its purchasing power, equated a dollar to just Rs 19.75 - a third of the market value of the dollar today.

The Economist said the rupee is the most undervalued currency in the world market. Why does the already-undervalued, high real-value rupee keep losing value? Who is responsible for it? Chidambaram himself had acknowledged that the NDA had left behind a healthy economy.

In his budget speech (July 2004) Chidambaram said: "The economic fundamentals appear strong" and "the balance of payments robust". From "robust" balance of payments, the nation is today in a balance of payments crisis reminding the country of the dark days of 1991.

Galloping CAD

A quick look at some simple facts will bring out the drastic change for the worse after the UPA came to power in 2004, which turned disastrous for the country after the UPA was voted back in 2009. Take the recent history of the CAD. The country incurred a CAD of $35 billion in 10 years from 1991 to 2001. But, under the NDA regime, it posted a substantial current account surplus - yes, surplus - of $22 billion for the first time since 1978. After the current account surplus of the NDA days, nine of years of the UPA regime saw unprecedented CADs of $339 billion, when Chidambaram [5 1/2 years] and Pranab Mukherjee [3 1/2 years] stewarded the national economy. See the transition from surplus into deficits under their economic leadership. While the NDA handed to the UPA a current account surplus of $13.5 billion in 2003-2004, the UPA quickly turned it into a CAD of $2.7 billion (2004-5) and trebled it to $10 billion each in the second and third years and thereafter multiplied it to $16 billion (4th year) $28 billion [5th] $38 billion (6th) $48 billion (7th), $78 billion (8th) and $89 billion (9th). The government repeatedly said oil prices and high gold imports are the culprits for the relentless CAD. Is the story of oil and gold as culprits true? Or the complete truth?

Reckless Imports Destroy Production

A closer look at the import data reveals a shockingly different picture. Unnoticed (or suppressed?) in popular discourse, capital goods import skyrocketed under the UPA rule. The capital goods import during the NDA period averaged about $10 billion a year. But in 2004-2005, the very first year of the UPA, it leaped to $25.5 billion and then relentlessly rose year after thus: to $38 billion in the second year, $47 billion (3rd), $70

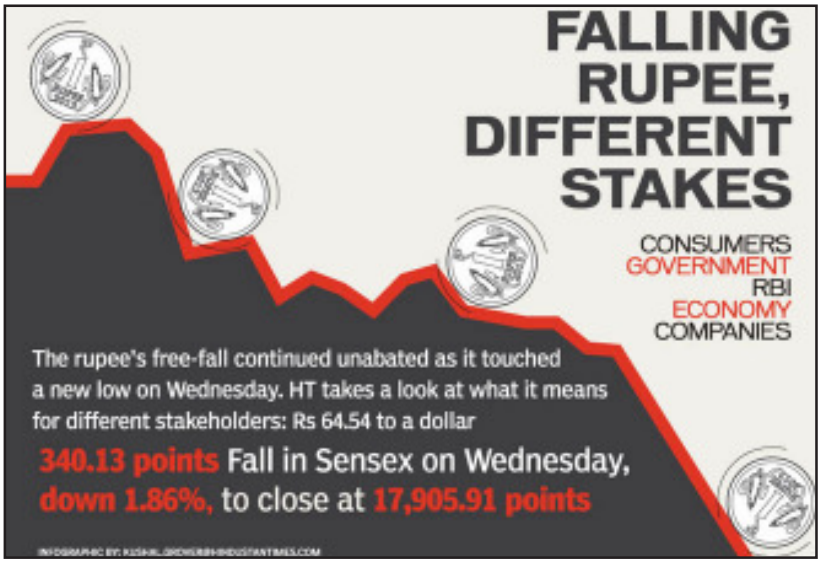
billion (4 th), $72 billion (5th), $66 billion (6th), $79 billion (7th), $99 billion (8th) and $91.5 billion (9th), aggregating to $587 billion in nine years.

Import of capital goods is a sign of vibrant economy. And in theory it generates higher national production. But, see what happens. The Index of Industrial Production (IIP) annually averaged 11.5 percent during the first four years of UPA rule. But in the next five years the annual average IIP came down to less than 5 percent — finally to a peanut of 2.9 percent for 2012-2013. Far from rising with the import of capital goods, the IIP growth has fallen from 11.5 percent in the first four years to 5 percent in the latter five years, a fall of over 56 percent. In contrast, it was in the latter five-year period the capital goods import was $407 billion (79 percent) out of the $587 billion for the UPA's entire nine years, the average in the first four years being $45 billion and the later five years was $80 billion.

A Rise of 78 Per Cent

Is it not shocking that when the capital goods import rises by 79 percent, the national production falls by 56 percent. The 2008 meltdown cannot be cited as an alibi for the decline in the IIP. Because the GDP has risen from 6.7 percent in 2008-2009 to 8.6 percent in 2009-2010 and to 9.3 percent in 2010-2011. Also, an economic slowdown affects investment first and production later.

Production falls after investment contracts. But here investment (read capital goods import) has risen by two thirds but production has fallen by half. Why this conundrum? The reason for the fall in national production in the latter five



years itself is the rise in imports. The domestic capital goods industry slowed down and later declined because of the import of capital goods. Even as the GDP rose to 8.6 percent in 2009-2010, the IIP rise of 5.3 percent did not keep pace with it. Later the index of domestic capital goods production fell — yes actually fell — by 4 percent in 2011-2012 and 5.7 percent in 2012-2013. More, in the last three years to 2012-2013, the production of intermediate goods hardly grew. If capital goods import under the UPA hit the capital goods industry like a tsunami, foreign-manufactured goods flooded the Indian market.

The average annual import of manufactured goods during 2001-2004 (the NDA period) was just $600 million. But from 2004-2005 to 2012-2013, the average soared to $5.5 billion, by 8 times. The nominal national GDP grew by 3.2 times in this period, by just a third of the growth of manufactured goods imports. The 9-year UPA regime saw manufactured goods imports of $50 billion against just $2.3 billion during the NDA regime. Obviously, the capital goods import did not add to, but actually destroyed, national production, ably aided by import of manufactured goods.

CAD Kills GDP Growth

It is basic economics that trade surplus adds to national wealth (GDP) and trade deficit cuts into it. So, the CAD, which is the trade deficit, brings down the nominal GDP by a like amount. Calculations show that the CADs have brought down the real GDP by 0.8 percent in 2007-2008, by 1.5 percent (2008-2009) by 2.1 percent (2009-2010) by 1.4 percent(2010-2011) by 2.6 percent (2011-12) and by 3.9 percent (2012-13). If the CADs were removed, theoretically, the real GDP of India would have been 10.8 percent (not 9.3 percent) in 2007-2008, 8.2 percent (not 6.7 percent) in 2008-2009, 10.7 percent (not 8.6 percent) in 2001-2011, 8.8 percent (not 6.2 percent) in 2011-2012, and 8.9 percent (not 5 percent) in 2012-2013. True, oil and gold too have eaten into the forex holdings. But there is a fundamental difference between them and capital goods. Indians buy a quarter to a third of the global supply of gold, which

Economy on verge of internal, external bankruptcy

is not produced in India. Domestic oil production is just a quarter of national needs, necessitating the import of the balance three-fourths. But most imported capital goods, which are actually produced in India, has displaced domestic production of capital goods and brought down the GDP.

Oil and Gold as Alibis

And see how the oil and gold story is not true or is true only partly. The gross value of gold, silver and precious stones import of $402 billion during the UPA's nine years looks huge. But if the export of jewellery and precious stones of $251 billion is set off, the net deficit is $161 billion in nine years. Likewise, the petroleum imports of $804 billion in nine years look gargantuan. But, if the export of petroleum products ($279 billion) is set off, the net import is down to $515 billion. It is less than the capital goods import of $587 billion. In the last five years, the net petroleum import is worth $360 billion, but the capital goods import is worth $407 billion. Does it need a seer to say that the real culprit is the reckless capital goods import and that it has killed the rupee through the CAD and hit domestic production and GDP? Just see one fallout of rupee depreciation. A calculation shows that for every additional rupee paid to buy dollars for oil imports, the additional oil bill for India is '9,500 crore. In today's rupee value, the extra annual petrol bill will be '1,60,000 crore. But the CAD is only part one of the story of destruction. Await further testimony on the decade-long destruction.

Undoubtedly the reckless current account deficit of $339 billion in the nine years of the UPA rule has directly hit the Rupee unconscious. The CAD is the proximate cause of the Rupee's disgrace, but not the only cause. Fiscal deficit is as much a culprit. Fiscal deficit is the excess outgo of government over its revenues. The deadly combination of huge current account deficits and high fiscal deficits have put the Rupee on the ventilator. See the fiscal deficits record of the UPA Government. In its nine-year rule, the UPA Government has incurred a fiscal deficit of over Rs 27 lakh crore — of which it incurred Rs 22.66 lakh crore in the last five years at an average of Rs 4.5 lakh per year against the average of Rs 1.35 lakh a year in the earlier four years. The government's alibi for the huge deficit of almost Rs 23 lakh crore in the last five years is the stimulus it gave to the economy by cuts in excise and customs tariff because of the global meltdown in 2008.

Because of the tax cuts, the revenue deficit shot up to Rs 16 lakh crore in five years averaging over Rs 3 lakh a year against the average of Rs 0.75 lakh in the first four years. The stimulus given in 2008 is still on, partially. See how this has robbed the nation, imposed high fiscal and huge current account deficits, eroded the Rupee's value and benefited only the corporates.

Rs 30 Lakh crore revenue foregone

The Statements Revenue Foregone, annexed to each annual budget, details the tax waivers given by the government since 2006-7. In the nine-year UPA rule the tax waivers have accumulated to Rs 30 lakh crore! In the two years before the stimulus in 2008, the waiver averaged Rs 2.6 lakh crore a year.

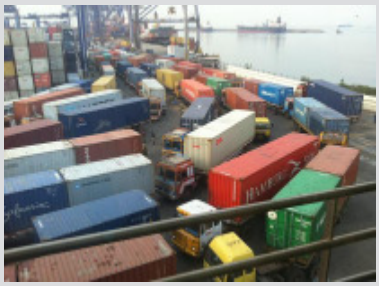
But thanks to the stimulus, it almost doubled Rs 5 lakh crore each year for the last five years. Against the budget revenue deficit of some Rs 16lakh crore during the UPA's nine years, the tax foregone is Rs 25lakh crore! The rationale for the stimulus was that the economy, under recessionary stress, needed support. But surprisingly the corporate profits were more in the stimulus period than before. The corporate profits were 11pc of the GDP in 2005-6, before the 2008 meltdown, when the GDP growth was also one of the highest – 9.5pc. Against this base year numbers, the corporate profits to GDP ratio rose up year after year thus: 12.94pc [2006-7], 14.26pc [2007-8] 11.86pc [2008-9] and 12.71pc [2009-10] and 12.15pc [2010-11]. The excess over the base year's gains of the corporates during the five years was Rs 4.8 lakh crore. This meant that the corporates had swallowed the substantial stimulus meant for the economy. Significantly, before the stimulus [2008-9] the average GDP was 9pc, in 2008-9 it was 6.7, after the stimulus it averaged 9pc till 2010-11. Only later it declined. Obviously the stimulus was a kneejerk reaction, not entirely based on merits, given the good performance of the corporates and GDP during the six years from 2006-7 to 2010-

11. The UPA's latest Economic Survey [2012-13] too laments about the huge tax foregone [p66-68] and counsels "there is merit in limiting" the tax waivers.

As far back as in 2005, both Manmohan Singh and Chidambaram swore that they would withdraw tax cuts but didn't. Not doing so then and not fully cutting the stimulus in 2009 amounted to a criminal mismanagement of the economy. The weak performance of the economy from 2011-12 itself was partly because of the huge fiscal deficit of Rs 12lakh crore occasioned by the stimulus tax cuts. On top of it now is the proposed expenditure for attempting an UPA victory in the 2014 elections at public cost like the Food Security Bill, which threatens to escalate the fiscal deficit by Rs 2 lakh crore more each year. This creates the market perception that the UPA is recklessly keen for power even at the cost of national bankruptcy. Why will the Rupee not collapse? Move on.

Tax cuts invite high CAD

The stimulus conceals a much greater evil than just loss of revenue. The stimulus cut in customs tariff in 2008 — already down to one half in the last decade — made imports cheap. Result, the capital goods import surged in the next five years [2008-9 to 2012-13] to $407 billion. In the previous four years it totalled only $180 billion. Obviously, the customs rate cut has to do with enlarging the flood gate of capital goods import. The customs collection, which was Rs 1 lakh crore in 2007-8, came down to 0.83 lakh in 2009-10 — that is less by over 17pc - even as imports rose from Rs 8.4 lakh crore [2007-8] to Rs 13.74 lakh crore [2009-10] by over 56pc. Obviously, the surge in the import of the capital goods was stimulated by the customs and excise stimulus in 2008. As demonstrated yesterday (Monday), surging capital goods imports decimated the domestic capital goods industry and forced the GDP down. Thus the stimulus tax cuts have hit the economy in every way – increased the fiscal deficits sky-high, imposed huge current account deficit and sent the Rupee to the ICU. But that is not the end of the mischief.



The stimulus cut in customs tariff in 2008 – already down to one half in the last decade – made imports cheap.

CAD causes huge debts

Even as the post-2008 budget deficits added '21.6 lakh crore to the public debt, the current account deficits necessitated huge external borrowing. This is despite the fact that during the UPA rule, the investment flow into India was unprecedented. FDI inflow into India during the nine years was $205 billion. Deducting the investment outflow of $102 billion from India, the net inflow of FDI was $103 billion. The net FII inflow into stock markets was $124 billion. The two added $227 billion to the forex kitty, but that was short of the current account hole of $339 billion. Huge external borrowing became inevitable. Including the risky short-term debts, which rose by 17 times from $4billion to over $70 billion, the external debts leaped by $288 billion during the UPA regime to $396 billion. The huge rise in investments and debts caused a four-fold rise in the net outgo of the income on investments and debts from $4 billion to $16.5 billion. With the current account deficit of $339 billion eating away most of the investment inflow [$227 billion] and additional debt [$288 billion], the forex reserves grew only by $180 billion to $292 billion. With the Himalayan current account and fiscal deficits continuing, escalating debts, increasing servicing spend on debts and investments and disproportionate short-term debts, the statistical forex reserve of $292 billion barely conceals the semi-external bankruptcy that has put the Rupee in ICU.

Culture saves India

But what has ultimately saved India from internal and external bankruptcy is not fully evident in the public discourse. How were the fiscal deficits financed? Simply by the government issuing bonds to the commercial banks and the Reserve Bank and borrowing. The government could borrow within India because the traditional Indian families 'safely' bank their savings. They deposit close to Rs 10 lakh crore a year in the banks, which saves India from internal bankruptcy. But how is the bankrupting CAD really met? The truth,

UPA policies weakening India and enriching China

an untold story, may shock. It is the 'remittances from the Indian workers for family expenses' and 'local withdrawals' from the non-resident Indian accounts that has saved India from external insolvency. The forex contributed by Indian families totalled $335 billion during the nine-year UPA regime, almost equal to the CAD. Not a single dollar of this remittance is returnable. It bears no interest. This huge lifeline remittance is not the product of economics laws or the government policies. It is the traditional, cultural gift to the Indian economy. Had the traditional Indian families, struggling against modern individualism, not held together, would there have been such remittance?

Never. More. If the Indian workers did not remit for the maintenance of their kith and kin, besides the loss of the $335 billion lifeline for India, the state will have to fend for them. Has the Indian establishment discourse ever noticed this culturally devised protection to the economy? The relation-based nature of the Indian society makes this remittance culturally mandatory. This would not happen in contract- based societies like those in the West. Yet the government is making laws and the public discourse is striving hard to atomise the Indian family and society and turn it into a contract-based one. The establishment takes this lifeline for granted, perhaps not even conscious of it. But it tom-toms the investment inflows and debts.

The final part of the story will show how naive or criminally negligent the UPA Government has been in allowing a large part of the huge current account deficit to run contrary to India's strategic interests.

The import of capital goods for $587 billions, most of which India could make in its own backyard, drained out a third of India's GDP under nose of the UPA regime. The UPA government also eased customs and excise tariff to facilitate their entry into India with the least fiscal resistance and consciously ran current account deficits of $339 billions. That means what? To that extent India has lost its wealth to the other nations. Who gained from India loss? Not America, nor England, Germany, France, Japan, or Russia – countries friendly to India. It is China. Year after year from 2006-7, it has been the single biggest beneficiary of India's import orders. India's imports from China was 13pc of the country's total imports in 2006-7. It rose to 17pc by 2011-12. Result, India's trade deficit with China topped $175 billions in the last six years to 2012-13. The UPA was the architect of the huge deficit syndrome with China. India ran a trade deficit of $1 billion with China in 2001-2. By the third year of the UPA rule, it rose to $9 billion. Later it galloped to $16 billion [in the 4 year] $23 billion [in the 5] $19 billion [in the 6] $28 billion [in the 7] $ 39 billion [in the 8] and $41 billion [in the 9] aggregating to $175 billion or 54pc of India's total current account deficit of $325 billion in the last seven years. The capital goods imported from China alone amounted to $150 billion plus. India imported from China three times more than it exported to it.

The UPA was the architect of the huge deficit syndrome with China.

Not in India's strategic interest

China has never been a great friend of India. India's Cold war with China continues. China breaths hot on Arunachal Pradesh. Builds dams on Bramhmputra. Not just that. It is a friend of Pakistan, the depth of whose nationalism is measured by its hatred for India. Not just a friend. China is Pakistan's strategic partner giving economic military and technological support. It has built up, and is still building up, nuclear arsenal and missiles for Pakistan. Economic consideration apart, it is certainly not in India's strategic interest to benefit China so hugely, at India's cost. The trade deficit of $175 billion with China [Rs 10 lakh crores] equals India's defence spending for the last six years! Based on the US Department

of Defence estimates of $63 billion as China's annual defence budget, the $175 billion Indian trade account bounty funds the defense budget of China for some three years! More. The trade deficit with China weakens the Indian Rupee and Indian economy and strengthens the Chinese economy – which again does not serve the geo-political interests of India. How and why did the UPA government commit this geo-political and economic blunder? No answer. Apart from failing to resist the Chinese dumping, by cutting India's import and excise taxes, the UPA has positively helped China, already a cheap producer, to penetrate and dominate the Indian market. More. Its huge liquidity enabled China to lure the Indian importers of China's capital goods with billions of dollars of suppliers' credit virtually at throwaway interest rates. Had the UPA government been more alert, could it have prevented or mitigated this disaster? Yes.

The dumping of goods by China has been an open affair.

India not alert to China's dumping

China entered the Word Trade Organisation [WTO] in 2001. It was preceded by huge tariff cuts effected by India under the WTO regime. India's import-weighted tariff of 50pc in 1990 came down to 20pc by the end of 1990s. From the 1980s, China has been a huge dumper of goods world over. Dumping means selling goods at less than their cost. Anti-dumping provisions are integral to the WTO regime. The previous Indian governments have been extremely alert in dealing with Chinese dumping. India used to be so offensive on dumping into India that, between 1995 and 2001, India launched as many as 248 anti-dumping cases – which was next only to the US [255 cases]. A fifth of India's anti-dumping moves were against China. The accelerated dumping of goods by China under the UPA regime coincided with the declining import tariffs of India.

The trade-weighted tariff rates of India declined from 50pc in 1990, to 20pc in 1998, 14pc, in 2006 12pc in 2007 and 8pc in 2008. Yet shockingly, the anti-dumping efforts by India – instead of intensifying – slackened from 2008. In about 2002 [when NDA was in power and the trade-weighted tariff was still high, 20pc] India accounted for a quarter of all global anti-dumping cases. The cases dipped later but grew in 2007 to 27pc, but slacked and halved to 15pc in 2009 when the Indian tariff had hit the bottom, 8pc – precisely when the anti-dumping efforts should have been more rigorous.

China grabs Indian market

Result, China's share of imports into India is now more than a quarter of the capital goods, half of textile yarn and made ups, three-fourths of cotton yarn/fabric, nine-tenths of silk yarn and raw silk, half of manmade filament yarn/fabric, one-third of readymade garments, two-thirds of synthetic fibres, one-third of chemicals, medical and pharma items, two-thirds fertilizer manufactures, one-sixth of machine tools, one-third of computer software, a quarter of steel, two-thirds electronic goods, one-tenth of cement, one-third of metal manufactures, two-thirds non-metallic manufactures. This list, just illustrative, shows the Chinese domination of the Indian market. The dumping of goods by China has been an open affair. The media had extensively highlighted it.

The Statesman [18.5.2009] had warned that Chinese dumping was irreparably damaging "the Indian domestic market and producers." and "if the current situation continued Indian industry would cease to exist." But it is after such public warning that the trade deficit with China shot up by $127 billions – three fourths of the total trade deficit of $175 billions with China since 2006-7. Yet, India did not even use the market access it provided to China as leverage for geo-political gain to settle the border and other disputes with China and negotiate its support for India's entry into UN Security Council. This demonstrated the lack of strategic element in India's China policy – pointing to utter failure of diplomacy and national leadership.

Ostentation & mismanagement

Undoubtedly, the UPA has messed up, grossly mismanaged a rising global economic power-

India's economic growth slumps to 4.4 percent

India's economic growth slumped to 4.4 percent during the quarter ended June 30, due to poor showing of manufacturing, mining and agriculture sectors, government data showed .The manufacturing sector contracted by 1.2 percent while mining sector contracted by 2.8 percent.The growth of agriculture sector fell to 2.7 percent.

The services sector registered a healthy 9.4 percent growth in the April-June quarter of the current financial year, data released by the Central Statistics Office (CSO) here said.

Growth was at the slowest pace since the 2008 financial crisis, with all but one of the eight sectors registering a lower rate of expansion or contraction. The country's gross domestic product (GDP) had expanded by 5.4 percent in the April-June quarter of the last fiscal. On a sequential basis, the growth rate declined from 4.8 percent in the January-March period of 2012-13.

The biggest drag on growth came from mining and quarrying, which contracted by 2.8 percent in the April-June quarter against a 0.4 percent growth in the same period of the last fiscal, according to data released today by the Central Statistical Organisation (CSO). Contraction in the manufacturing sector widened to 1.2 percent from 1 per cent a year earlier.Other sectors, including construction, power generation, hotels and transport, showed a marked deceleration in growth.

Farm sector output expanded by 2.7 percent compared with 2.9 percent in the corresponding period of the last fiscal. The growth rate in the services sector, including financing, insurance and real estate, stood at 8.9 percent against 9.3 percent in same quarter of 2012-13.

Growth in electricity, gas and water supply was 3.7 percent compared with 6.2 percent. The construction sector expanded 2.8 percent as against 7 percent in the year-ago period. The trade, hotels, transport and communications segment grew at 3.9 percent against 6.1 percent. Only the community social and personal services sector registered a higher growth of 9.4 percent compared with 8.9 percent. ❑

house by internal and external ostentation. When the UPA leaders saw the GDP growth rates surpassing 9.5pc in 2005-6 and 2006-7, the fiscal deficit coming down and the forex flows heavy because of phoney credit monies wandering all over the world, they became euphoric and lost all sense of proportion and moderation. In the euphoria generated by hot-money flows, the UPA opened the floodgate of imports and foreign investments by Indians.

A mature leadership would have used the opportunity for fiscal and external consolidation. That was the right time to withdraw the tax waivers and build more reliable forex reserves. In the days ahead of 2005 budget Manmohan Singh and Chidambaram did threaten to cut tax waivers but kept silent about it in the budget. With the result the extravagant tax giveaways of over Rs 2.5 lakh a year continued. UPA government behaved as if India had already become a global power, not just one in the making. And when the 2008 crisis hit, the government went overboard and doubled the tax giveaways to Rs 5 lakhs crore which hit the revenues, also made it possible for China and others to invade the Indian market with cheap equipments and products. The economic destruction of India took place between 2005-6 to 2010-11 when things could have been reviewed and controlled. Things tended to become uncontrollable by 2011-12.

The way out

Now, what is the way out? Not begging for inflow of hot money or external borrowing like the UPA government is doing. It is like applying ointment on cancer. How about these two big things? First, an announcement that the food security bill, that adds additional Rs 2 lakh crore fiscal deficit a year, will be deferred till after the looming crisis is over. This will instantly shock the market to think that the government is serious, to begin regaining confidence. Next, announce complete tax immunity, bring out the un-ornamented hidden gold, estimated at 3000-6000 tons, into interest-bearing government gold bonds, securitise gold, which has the potential to turn $200 billion investment into the economy and add equal amount of stable forex reserves. This can transform the internal and external economy dramatically. Pranab Mukherjee was keen to do it in the 2012 budget, but he was scared of being bracketed with black-money holders by the anti-corruption road show heroes fashionable then. Will the government have the political will to do it? If not, later, it will do something like this or more drastic, helplessly. It is time that the government worked with the opposition to build consensus, like they did in 1991, to tackle this serious situation which has the potential to develop into a financial emergency. ❑❑

Killing of co-operatives

Indian cooperatives mixed ideas of democracy and welfare principles in their business model of prosperity and allowed to be used as breeding grounds for politicians for their political gains, says **Anil Javalekar**

Indian cooperatives are being praised by every great political personality almost on every visible platform and still efforts are being made to kill them without showing mercy to its members or the rural weak sectors that survive on these cooperatives. The policies of liberalisation in the name of globalisation and opening of Indian micro financial sector to corporate and or NGOs and such other financial entities have initiated the process of marginalisation of co-operatives. And Indian government's determination to universalise and globalise every socio-economic sector in the name of integration of Indian economy with that of world economy has almost pushed the cooperatives in the corner to die in harness.

All the propagated market based profit models are convoying and helping each other to exploit the human and natural resources belonging to poor people from agriculture and rural sector and finishing cooperatives that helped survive the rural sector and the poor. The NGO led SHGs movement, the corporate led microfinance efforts and government sponsored financial inclusion methods apart from government assisted welfare programmes are being considered as ultimate solution to Indian poverty and rural prosperity. These however, are failing strategies for they concentrate on exploiting every potential rural source and meagre assets of poor for profit and not intended to give any permanent source of livelihood to rural poor. Instead, these takes those towards the illusory opportunities of prosperities that mostly lead to indebtedness and make them survive on grants and aids. Cooperatives have since long helped poor and rural economy to prosper by way of its sharing philosophy and participative practices in regard to their membership, organisation, products, processing and profits or surplus. Such cooperatives are still the best hope for poor and weak rural sectors as against market led profit models. The killing of cooperatives will only endanger the poor and survival of rural weak sectors.

Cooperatives played positive role

Historically, Cooperatives are not new to Human societies. Ancient Indians, in the process of evolving the Socio-Economic base for society, gave shape to cooperation in the forms of Kula (kinsmen, friends, relatives), Grama,(village level Gram Sabha) and Sreni (Guild of merchants, artisans, Bankers) and modern Indians took the cooperation to the vast areas of economic activities, including the areas where only big corporate and intensive capital normally dom-

inate. These cooperatives, in the travel, have shown that the resources can be mobilised and used for the advantage of its members and welfare of society at large. Indian modern cooperatives have completed 108 years of its existence and achieved its diversified growth spreading to most areas of Indian economy. The number of all types of cooperatives increased from 1.81 lakh in 1950-51 to 5.95 lakh in 2007-08 covering almost all Indian villages and 75% of households. The total membership of cooperative societies increased from 1.55 crore to nearly 25 crore during the same period.

Cooperatives have contributed to Indian economy in agricultural credit, Fertiliser Production and Distribution, Sugar Production, Wheat Procurement, Animal Feed Production/Supply, Retail Fair Price Shops, Milk Procurement, Ice Cream Manufacture, Oil Marketing, Handloom weavers, Fisheries, Rubber Procurement and Marketing, Arecanut processing and marketing and Salt Manufacturing etc, apart from generation of direct and indirect employment and creating opportunities for self employment. Indian cooperatives have a measurable success in some of the areas like agricultural credit, marketing of agricultural products, dairy, sugar, and irrigation. The urban cooperative banking also successfully helped small man in towns to build their socio-economic activities and share prosperity.

All sectors survived on Government support and not cooperatives alone

It is true that Indian cooperatives could expand its role and activities because of government support- financial or otherwise. But this is also true in regard to all other participants of Indian economy, including the big corporate and MNCs. No MNC or corporate would have survived without government support in one way or other. And though government is increasingly supporting and showing favours to every other sector including corporate and companies, sometimes even with unaffordable damage to the environment and rural economy, cooperatives are being allowed to die because of their non profitability and non viability. All types of cooperatives, credit and non credit, are the victims of liberalisation policies. When cooperatives in the financial sector have lost due to financial reforms, the cooperatives in non credit areas have suffered due to liberalisation policies in the name of opening of Indian economy.

Liberalisation changed the face of economy

Co-operation occupies an important place in the Indian economy. Perhaps, there may not be any other country where the co-operative movement is as large and as diverse as it is in India. It can safely be said that there is almost no sector left untouched by the co-operative movement in India. The successive Five-year plans looked upon the co-operation movement as the balancing sector between public sector and the private sector. After Independence cooperatives assumed a great significance in poverty removal and faster socio-economic growth and after introduction of planning process, cooperatives became an integral part of the Five Year Plans. It was specifically stated In the First Five Year Plan itself that the success of the Plan would be judged, among other things, by the extent it was implemented through cooperative organisations. However, the liberalisation and globalisation changed the face of Indian economy and corporatisation and privatisation became the tools. The marginalisation and killing process of cooperatives thus initiated.

What is killing the cooperatives?

1. Withdrawal of Government

The All India Rural Credit Survey Committee (1951) recommended for partnership of the government with cooperatives by way of share capital contribution, its nominees on boards and supportive policies. It was acknowledged that the Indian agriculture and rural sector were dependent mainly on nature Monsoon and need was for a stabilisation system in cooperatives. Agriculture credit stabilisation fund was created in every cooperative credit institution and government's contribution to the fund was considered essential. The statutory provisions for contributions to reserves and other funds before appropriation of surplus were the major step to build funds. The intention was to create a system within the cooperative sector which can operate and help cooperatives in the period of crisis. However, this well established arrangement was given up and government stopped supporting this arrangement. New system asked cooperatives to adopt so called prudent policies for lending and recovery and provide for each and every presumed bad asset. Proposed business model insisted for profitability and viability as applicable to commercial and corporate sectors for which cooperatives were not groomed. Cooperatives

were thus left with no option but to seek government bailouts or die down. Government's withdrawal from partnership killed the strong position of cooperatives vis-à-vis other sectors. It is not true that cooperatives wanted to be free from government clutches. The cooperatives were against the high handedness and interference of RCS and not of government support and its partnership.

2. Idea of uniformity

All the recent efforts to help cooperatives were mainly concentrated on making cooperatives uniform. One Act and one model bye laws; voting rights to all members irrespective of their participation and contribution; one type of management and one type of accounting system; one type of operating system; one type of lending policy; one type of prudential norms and so on. Insistence of this uniformity is killing cooperatives as they have to depend on outside agencies and outside expertise for the purpose. This gives no space for cooperatives to function as per their aims and objectives and is not allowing them to define their management structure and limit the voting rights as per level of participation and contribution. Cooperatives are wasting their energy and money just to comply with many norms. Each Cooperative is unique and that makes it successful. The focus on uniformity is killing cooperatives.

3. Idea of Liberalisation

The ideas of liberalisation, opening of economy and reforms in financial and other sectors are asking every sector and every unit, including cooperatives to perform to fit in to the competition and profit models of business. All this started with the idea of globalisation and liberalisation of policies. Pioneer was the Narsimham committee (1991).The committee, inter alia, recommended for restructuring of banking and financial sector with element of privatisation and profitability and asked Government to introduce prudential and capital adequacy norms. This also expected government to restrict priority sector lending system including the system of concessional finance and allow banks and financial sector to define their own operational policies etc. This changed the face of financial sector in India. The applicability of many norms like prudential and capital adequacy to cooperatives changed the base of cooperatives. Their age old practices of stabilisation and accounting were thrown out and universal thinking brought in the name of making them viable and profitable. This made them more vulnerable.

4. Politicisation and Inactive membership

Indian cooperatives are full of inactive members, manytimes simply enrolled for election purpose. The attitude towards the denial of material aspect of life made good people remaining outside the management of a cooperative society because they prefer to remain advisers. This led to politicisation of cooperatives and breeding grounds for politicians for their political consolidation for electoral politics. This made cooperatives subservient to the interests of politicians.

5. Failure to recognize the dangers

It is true that the Indian cooperatives failed to recognize the development of surrounding socio-economic life. New and innovative technology of communication and transport, change in the level of competitiveness due to liberalization and globalization, withdrawal of government support, insistence of RBI and NABARD for their viability and sustainability etc affected their operations and functioning. It is also true that the cooperatives operating in economic activities failed to understand that their basic objective is to achieve prosperity and sharing it and not to involve in welfare activities. Indian cooperatives mixed ideas of democracy and welfare principles in their business model of prosperity and allowed to be used as breeding grounds for politicians for their political gains.

Cooperatives need favorable treatment

It is necessary that the Government continue its partnership with cooperatives. Government's favorable treatment will give cooperatives a fare chance to compete. Cooperatives need to be encouraged to enter in various economic activities by its supportive policies. RBI and NABARD should not think only of financial viability of cooperatives as social benefits are also important. It should be remembered that India is a diversified country and no profit model sponsored by western countries and their experts, including corporate, can help survival of Indian agriculture and rural sector. The best option is 'cooperatives' as has been acknowledged by most Indian experts and committees. The global financial crisis and consequent loss of trust in the investor-driven business model has given hope and opportunity for the cooperative sector and all concerned should keep this in mind while dealing with cooperatives. ❑❑

Expansionist China :

Threat to India

Do we know?

- In1962 China invaded India & forcefully occupied 38,000 square kilometers of our land.
- In 1963, our adversary Pakistan illegally handed over 5183 square kilometers of Indian occupied by Pakistan in Jammu & Kashmir to China. So 43,183 sq.km of total Indian territory is under the illegitimate occupation of China.
- Even today China lays its claim over 90,000 Sq. Km Indian Territory including Arunachal Pradesh and constantly infiltrates into our country, establishes military posts and disrupts developmental activity in border areas.
- Chinese maps don't show Jammu Kashmir as a part of India. Similarly Arunachal Pradesh is also excluded from Indian map and citizens of these areas are invited to China without passport and visa.
- A mere statement by our Prime Minister terming Arunachal Pradesh "Our Land of the Rising Sun." irritates China to the extent that our ambassador to China a lady is summoned in mid of the night at 2 AM to lodge a strong opposition and issue stern warning.
- Simply to hurt us China opposed the resolution moved in UNO by India to declare Massod Azhar the founder of terrorist organizations like Lashkar-e-Toiba and Jaish-e-Mohammad.
- China is blocking and diverting waters of Brahmputra river, the life line of the people of north east for millennia of years, emanating from Tibet.
- China has setup atomic missiles on our border and their effective range covers entire India.
- China is encircling India from almost all the sides. China has accelerated its army activities in Pakistan (Gawadar port) ,Bangladesh (Chittagong port), Nepal and Sri Lanka.
- China is increasing its presence in our country also by quoting cheap rates to pocket construction contracts of projects in or around most strategically sensitive places.
- China is dumping in our market cheep and useless products of consumer items and in this way our small and medium enterprises are on the verge of closure. It is proving to be a big threat for our employment opportunities. India's imports from China is around 4 lakh crore annually.
- Chinese defence budget is 200 billion dollars, whereas our defence budget in only 36 billion dollars.
- In spite of recurring infiltration and violation of border pact by China Home Minister refuses to handover the responsibility of border defense to Army, which since 1986, is seeking permission to do so. Obstinate Adamancy of the Home Minister and the government is a matter concern.
- Recently in the night of April 14, 40 Chinese army personnel infiltrated up19 kms deep into our territory in Daulat Beg area of Leh without resistance and erected tents. Government of India instead of dealing with these infiltrators strongly allowed itself to be blackmailed and accepted to withdraw its position 38 KMs behind it , demolished its own structures to persuade invaders to withdraw.

What are the Results?

- Because of these lackadaisical policies on the border, there is a threat on Arunachal Pradesh, Lada-Kh and other border areas.
- All our neighbouring countries are becoming inimical to us and influence of China in these countries is threat for us.

What can we do?

- Starting awareness campaign and putting pressure on our Union Government.
- Not to use Chinese products and allow not Chinese economy getting empowered by us.
- Writing letters to PM and President in this regard.
- China has occupied Tibet, Hingkong and Taiwan. So, if we don't rise up today our future will be like these countries. ❑❑

China on Rise

Sh. Kashmiri Lal addressing a program on 'Chinese Threat and Solution', on 24th August in the Hall of Adarsh Vidyarthi Mandir, Nagpur.

In future China will employ millions of American workers and dominate thousands of small communities all over the United States. Chinese acquisition of U.S. businesses set a new all-time record last year, and it is on pace to shatter that record this year.

The Smithfield Foods acquisition is an example. Smithfield Foods is the largest pork producer and processor in the world. It has facilities in 26 U.S. states and it employs tens of thousands of Americans. It directly owns 460 farms and has contracts with approximately 2,100 others. But now a Chinese company has bought it for $ 4.7 billion, and that means that the Chinese will now be the most important employer in dozens of rural communities all over America.

It is important to keep in mind that there is often not much of a difference between "the Chinese government" and "Chinese corporations". In 2011, 43 percent of all profits in China were produced by companies where the Chinese government had a controlling interest in.

China seems particularly interested in acquiring energy resources in the United States. For example, China is actually mining for coal in the mountains of Tennessee. Guizhou Gouchuang Energy Holdings Group spent 616 million dollars to acquire Triple H Coal Co. in Jacksboro, Tennessee. At the time, that acquisition really didn't make much news, but now a group of conservatives in Tennessee is trying to stop the Chinese from blowing up their mountains and taking their coal.

And pretty soon China may want to build entire cities in the United States just like they have been doing in other countries. Right now China is actually building a city larger than Manhattan just outside Minsk, the capital of Belarus.

Are you starting to get the picture? China is on the rise. If you doubt this, just read the following:

- When you total up all imports and exports, China is now the number one trading nation on the entire planet.
- Overall, the U.S. has run a trade deficit with China over the past decade that comes to more than 2.3 trillion dollars.
- China has more foreign currency reserves than anyone else on the planet.
- China now has the largest new car market in the entire world.
- China now produces more than twice as many automobiles as the United States does. After bein g bailed out by U.S. taxpayers, GM is involved in 11 joint ventures with Chinese companies.
- China is the number one gold producer in the world.
- The uniforms for the U.S. Olympic team were made in China.
- 85% of all artificial Christmas trees the world over are made in China.
- The new World Trade Center tower in New York is going to include glass imported from China.
- China now consumes more energy than the United States does.
- China is now in aggregate the leading manufacturer of goods in the entire world.
- China uses more cement than the rest of the world combined.
- China is now the number one producer of wind and solar power on the entire globe.
- China produces 3 times as much coal and 11 times as much steel as the United States does.
- China produces more than 90 percent of the global supply of rare earth elements.
- China is now the number one supplier of components that are critical to the operation of any national defense system.
- In published scientific research articles China is expected to become number one in the world very shortly.

And what we have seen so far may just be the tip of the iceberg.

(Exerps from a write up 'A little known reality' by Michael Synder) (Courtesy: State times)

Don't encourage competitive backwardness

The services sector is not much affected by the Special Status because it does not pay excise duty. In consequence, the Special Status is not likely to deliver in manufacturing and not relevant for services, says **Dr Bharat Jhunjhunwala**

Nitish Kumar is emerging as a candidate for the post of Prime Minister. He will have to give direction to the entire country from that position. From this perspective let us examine whether he has been able to give proper direction to Bihar.

The picture of Bihar is surely undergoing change. Roads have become good. Teachers have been appointed to schools. Corruption has been contained somewhat. Government money was being leaked out of the state previously. Now it is circulating within leading to increase in purchasing power of the people. Ordinary folks are encouraged to open a small shop to profit from this boom. Some analysts allege that the claim of 13 percent growth rate has been cooked in the files. Indeed there may be some overstatement but that does not cancel the change that is seen on the ground.

Question is where do we go from here? Nitish Kumar wants the state to be granted 'Special Status' which is presently given to Kashmir, HP, Uttarakhand, Sikkim and seven Northeastern States. Special Status entitles newly established factories to avail of Income Tax and Central Excise exemptions. Also, 90 percent of the plan support received from the Central Government is in the form of grants in comparison to 30 percent grant otherwise. Kumar believes that Special Status will enable the state to attract industries as has happened at Baddi in HP and Rudrapur in Uttarakhand. It is necessary to take a comprehensive view of the development potential of Bihar in order to assess the benefits of Special Status.

Four sources of economic growth are agriculture, manufacturing, government services and market-based services. Share of agriculture in the State income is 35 percent in comparison to 9 percent share of manufacturing. The two service sectors together contribute 56 percent to the income. A substantial part of this is government services. Assuming one-half of the services sector contribution to come from government provision, the share of market-based services would be about 28 percent. Clearly, at 35 percent, agriculture occupies the most important place in Bihar's economy. The State is blessed with many rivers that replenish the groundwater regularly. There are two problems though. First problem is that the irrigation potential is languishing. Knowledgeable sources tell that 21 lac hectares of land was irrigated in the State in 1990. This fell to 12 lac hectares in 2005 mainly because

the canal systems were not maintained. This has gone up marginally to about 13 lac hectares in that last six years of Nitish rule. I suspect not much increase may be possible beyond the earlier achievement. There is a long way to go to even reclaim the earlier level. A more important problem is that of declining incomes in the agriculture sector. The share of agriculture in GDP is seen to decline with growth. In the United States this is down to a meager one percent. The share of agriculture in India's GDP was about 50 percent at the time of Independence. It is down to 18 percent now. This happens because only limited amounts of capital can be deployed on a hectare of land. Consequently the productivity cannot exceed a certain level and also the incomes. Thus trying to develop on the back of agriculture is like trying to cross a raging river on a sinking boat.

The second sector is that of manufacturing. Bihar appears to have limited potential here because it does not have the raw materials. Main industries are sugar, tannery and breweries which build on agricultural inputs. There are limits to agriculture-based industries. Minerals have gone to Jharkhand. Bihar also does not have electricity to support manufacturing. The installed capacity is mere 1900 MW against 23,100 MW of Gujarat. Even the 1900 MW is not in operation. Only 550 MW is available. It will be difficult to supply electricity to industries even if the entire installed capacity is made operational because 82 percent of the people are without power today and they will have the first claim on the generation.

Nitish Kumar signed many MOUs for new plants but it appears these are with companies of doubtful credentials. Nothing has moved on the ground. Third problem is the mindset of bureaucracy is socialist. The businessman is seen as a thief rather than an honoured person. Fourth problem is of critical mass.

'Developed' states already have good supply of skilled labour, roads, spare parts, etc. It is difficult for a new player to enter the competitive arena. Fifth problem is availability of land. It is difficult for the State Government to acquire land in a densely populated state without inviting backlash such as that of Singur. I do not think the tax exemptions from Special Status would compensate for these handicaps enough to actually jumpstart the state's industrialization. Consequently the Special Status may prove as a failed experiment.

The third source of economic growth is government services. This is limited by availability of revenue. The fourth source is market-oriented services such as transport, tourism and software. This sector appears to hold much potential for Bihar. A large workforce of educated Biharis is spread throughout the country. Many would happily come back to their home state if opportunities are available. The requirement of land and electricity in these sectors is about one-tenth of manufacturing. Nitish Kumar may establish software parks near the main cities of the state and invite IT companies. Bihar will be in a string position to exploit this potential if it improves the quality of education. Friends indicate that Nitish has appointed a large number of teachers on contract and they are actually coming to the school. However, the quality has deteriorated. The national experience is that government locks the poor children into poverty by providing them with sub-standard education.

The Special Status may prove as a failed experiment.

Need is to provide vouchers to the students. Back of the envelope calculation indicates that the State Government is spending about Rs 400 per month for the education of each student. This amount may be given to the students in form of a voucher with which they may purchase education from a school of their choice. Private schools have mushroomed. They provide better education. Such a move will improve the education at the grass roots and position the state to benefit from the impending growth in the services sector. Notably, the services sector is not much affected by the Special Status because it does not pay excise duty. In consequence, the Special Status is not likely to deliver in manufacturing and not relevant for services.

Therefore, Nitish Kumar should focus on improvement in quality of education and development of services sectors instead of running after Special Status. Moreover, we should not start a new race for competitive backwardness as we have done for the castes. In order to strengthen his claim to the post of Prime Minister Nitish Kumar will have to demonstrate his capacity to understand these issues and lead the nation through them. ❑❑

10 no-nonsense ways to revive the Indian economy

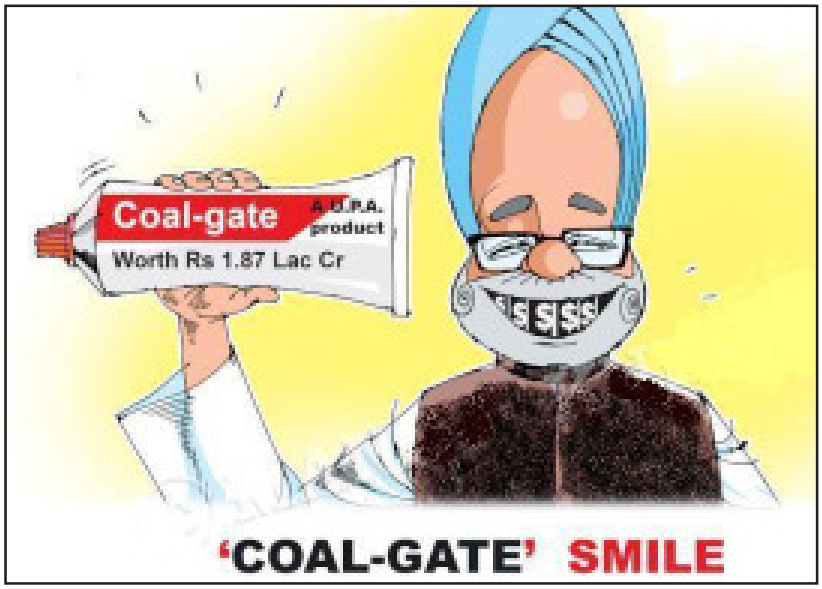
*The Indian economy seems to be caught in an unending downward spiral. All three sectors — **Agriculture, industry and services** — of the economy are facing significant headwinds, discloses* **M.R. Venkatesh**

Given this paradigm let us explore ten steps in retrieving the Indian economy.

The Indian economy seems to be caught in an unending downward spiral. If agriculture was hampered by drought and summer in the first three months of financial year 2013-14, the second quarter seems to be literally getting "**washed out**" because of floods.

Thanks to the myopic policies of the UPA, manufacturing in India has virtually collapsed. Forget exports, we have reached a stage where Indian manufacturing is no longer competitive even within India. That in effect means we are import dependent on every ordinary goods. Frankly one is appalled with the confession of the Commerce Minister in the Parliament on the first day of the current session that India runs trade deficit with eighty countries! This is turn is adding to the pressure on the Rupee.

Now the downturn seems to be extending to the service sector too. According to a survey conducted by a leading multinational bank, the services sector — that accounts for approximately 60 per cent of the national GDP — suffered a fall-off in activity for the first time in nearly two years in July 2013. Accordingly, the HSBC Markit Services Purchasing Managers' Index [PMI] fell to 47.9 in July from 51.7 in the previous month.



The latest PMI is the first time since October 2011 the headline index has fallen below the 50 mark, which divides growth from contraction, and the lowest since April 2009 which in turn was recorded in the immediate aftermath of the global economic crisis.

In short, all three sectors — **Agriculture, industry and services** — of the economy are facing significant headwinds.

Given this paradigm let us explore ten steps in retrieving the Indian economy:

1. UPA should go: Being the cause of the mess, the UPA Government led by Manmohan Singh must resign forthwith.That alone will restore the confidence of the people of this country. What is worse is that the UPA Government seems clueless to tackle the extant crisis. The reason is not far to seek. Where is the question of an appropriate prescription when the managers of the economy are unable to even complete the diagnosis? Indeed a frightening scenario!

Nothing illustrates the confusion in the mind of the PM when for the past 12 to 18 months the PM has been repeatedly announcing a spate of 'reforms' while in

effect opening more and more sectors to FDI.

Any student of economics, more so the PM, would know that opening the economy to FDI is not equivalent to reforms. What makes matters worse is that less than 3 — yes 3 — per cent of the aggregate Indian investment is funded by foreign capital. That implies 97 per cent of our investment is funded by domestic savings. Needless to emphasise this misplaced priority in favour of foreign capital distorts the collective national psyche. If foreign capital, technology and initiative is the route to our development, where is the role for Indians?

There is another dimension to this debate. Assuming that the PM is successful in attracting foreign capital, he can at best double the share of foreign share in domestic investment from 3 per cent to say 5-6 per cent. Even in this best case scenario, our investment would be dependent predominantly [95 per cent] on domestic savings! Put pithily, India can be built only by Indian capital and Indian initiative — a fact lost on our PM. And this should be the economic rationale for the next Government.

2. Raise interest rates: Consequent to a falling Rupee, domestic savers are finding it extremely rewarding to invest in gold. Moreover, thanks to the fixation with the stock market interest rates in India are negative — i.e. lower than the inflation rates. This mispricing of interest rates has caused huge distortions within the economy and needs to be remedied forthwith.

As deposit rates rise, domestic savers will find it lucrative to save and save in simple financial sector products. This will in turn ease the pressure of gold imports, trade and current account deficits. As a net consequence, the pressure on the Rupee will ease significantly. Crucially, if interest rate regime is reset, we will be able to finance domestic investment requirement through domestic savings.

Our investment would be dependent predominantly on domestic savings!

3. Raise import duties on select products and countries: Ideally the pathetic economic situation within the country calls for a steep devaluation of the Rupee by 15-20 per cent from the current levels. That implies Rs 75 to a dollar. Remember that we run trade deficits with 80 countries. While some experts have been suggesting a sharp devaluation to revive our manufacturing sector, let us not forget that this idea cuts both ways.

While devaluation could make our exports competitive and imports costlier and to that extent offer succour to our manufacturing sector, the fact remains that India being overwhelmingly dependent on crude imports [we import 80 per cent of our total requirements], this idea could backfire. And that could fuel inflation beyond the control of our Government.

One way out is to increase customs duties on select products from specific countries to the levels that are permitted by the extant WTO rules. Further if need be, we need to invoke the provisions of the anti-dumping laws and safeguard measures contained in the WTO agreements to combat this surge in our current deficits.

In the alternative the Government must explore the possibility of devaluing the Rupee to Rs 70 or even 75 to the Dollar.

4. Need to cut Government expenditure: We have a Ministry for surface transport. And on top of it we have separate Ministries for shipping, railways and civil aviation — each one working at cross purposes on the issue of transportation. Likewise we have Ministries for commerce & industry as well as Ministries for textiles, steel, chemicals and fertilisers. Over and above all this is the Ministry for micro, small and medium en-

terprises — each one torpedoing the efforts of the other.

Whatever be the reason for creating the same, ideally it is time we cut our Government expenditure significantly. To do this we need to have a single nodal Ministry — Transport or Industry; not one for each mode of transport or type of industry.

The new Government has to roll back government — and believe me this is not merely an economic imperative but the ideal governance model. We need to ring fence our own people from the evil machinations of our Government. And for this we need to shut department after department. This will alone will ensure revenue surplus and dramatically bring down fiscal deficit. A lower fiscal deficit will in turn ensure more money for private investments.

5. Privatise MGNREGA: The national rural employment guarantee program has run its course. It is time it is privatised.

One of the fallouts of this program is that farm labourers have vanished from the farms. This has pushed labour costs up and made farming unviable across India. While it is not my case to have a subsidised labour for the farm sector, the fact remains that MNREGA has implicitly made farming uneconomical. Crucially, letting loose a sum of Rs 40,000 crores annually without concomitant production we run the risk of inflation.

To undo this damage, MNREGA should be extended ONLY to the farm sector. Accordingly, labour used by the farm sector must be subsidised by the Government through the MNREGA program. This will possibly revive the ailing farm sector.

6. Tackle food inflation: The Government of India currently has a buffer stock of food grains in excess of 80 MT. This implies that the Government, and not private grain traders, is the biggest hoarder of food grains. By purchasing such huge quantities of food grains and refusing to distribute them [a significant portion of this stock would be unfair for even cattle consumption], the procurement policies of the Government is a significant cause for domestic food inflation. To remedy the extant situation, the Government must forthwith release 25-40 MT of food grains in the open market for distribution. This would at once bring down food inflation.

The procurement policies of the Government is a significant cause for domestic food inflation.

Over and above this, studies conducted by eminent economists suggest that the futures market in commodity is a cause for food inflation. We need to close these gambling dens forthwith to tackle the menace of inflation.

7. Tax Laws: If not all, most of our revenue officers enforcing our tax laws are simply in the business of extortion. Transfer pricing provisions within the Income-Tax Act is a case in point. The situation is fast deteriorating into a farce where every addition to the income sought by the I-T Department seems to be a flight of fancy. If this is how we treat foreign investors who have invested into India? This in turn dampens the overall international business confidence on India.

Nevertheless, all these make the Government the greatest litigant when it comes to administering its own tax laws. In the interest of retrieving the situation, the government must set up a committee of retired officers from the respective revenue departments who can advice whether to pursue litigation in certain high profile cases and where the department is alleged to have carried out high pitches assessments. In such cases, the suggestion of the committee to drop the cases must be binding on the Government.

8. Remove Labour laws: The Small and Medium sector is the backbone of India's economy. Not only does it provides jobs to the millions it also contributes signficantly to India's domestic production and even exports. It is this sector that has been bearing the brunt in recent tmes. As a fillip to this sector, the government must declare that NO labour laws are applicable to any manufacturing unit employing 200 or less than 200 employees.

Once we ring fence this sector from the corrosive intervention of the state, this sector is eminently capable to dealing with foreign

competition. It may not be out of place to mention that annecdotal reference suggests that interference by labour law authorities increases cost of production in these units by 10-15%. Obviously, such a step would restore competitiveness to these units, allow them to employ more people and add to the national growth.

9. Restore confidence of the administration on the system: Strange as it may sound, Indian bureaucracy seems to have been battered and lost its confidence in the system. Given the overarching fear of an investigation by the CBI, our administration has come to a complete standstill. Used, as it were, to a cash and carry model of functioning, thanks to a vigilant media, enlightened citizenry and active judiciary, in recent times bureaucracy seems to be chary of taking any decision at all. The pendulum seems to have swung to the other extreme.

This too is unacceptable. We need to restore the faith of our bureaucracy in the system. We need to find the correct balance by distinguishing between a malafide decision and a decision taken in good faith that has gone bad. And unless we do this forthwith, bureaucracy will continue to be a drag on our growth potential.

10. Relax NPA Norms: The international norms of identifying Non-performing Asset by Banks is currently unworkable in India. This has in effect converted every entrepreneur in India into a financial engineer without getting at buccaneers who continue to proliferate. Ideally, wherever a borrower is not a willful defaulter [and has given collateral] the Government must come out with a clear cut plan to restructure such loans. Ideally part of the collateral could be liquidated.

Indian bureaucracy seems to have lost its confidence in the system.

Such a bold step will allow entrepreneurs to concentrate on their business without any fear of undue interference from banks. Needless to emphasise such restructures loans must be out of the purview of any vigilance probe. Let us not forget that part of such borrowings has been routed as pay-offs. And to that extent it is a systemic problem such and needs to be tackled pragmatically if not sympathetically. ❑❑

Companies Bill

Generous to foreigners

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**

If foreign companies purchase shares from FIIs, most of the Indian companies may go into foreign hands.

The Companies Bill, approved by Parliament last week, was in works for the last two decades. After passage of the Bill on August 8 by Rajya Sabha, the path to the new Companies Act, 2013 is now clear. It is said that the new law was framed in view of the requirements arising out of expansion and development of Indian economy. After a Parliamentary Standing Committee submitted its report in August 2010, the government withdrew the earlier bill and a new Companies Bill was drafted incorporating suggestions from various stakeholders. This new Companies Bill 2011 was presented in Parliament during the winter session of 2011. It is notable that according to changed circumstances, Companies Act 1956 was amended number of times. However, for the first time, altogether a new Companies Bill was passed in Parliament.

Apart from other things, there are several new provisions in the newly approved bill, which includes provisions with regard to corporate social responsibility, mandatory rotation of auditors, independent directors, one-man company etc. Of course, when a new law is enacted, it is expected that it will help solve the problems with respect to the existing law. In Indian context, obvious expectation from the new law would be that it would facilitate future development of the country and would also end the worries of the commoners exploited and cheated by the corporate world.

If we take cognizance of the problems of the public from the existing laws, we find that several new companies were created, publishing balance sheets and other books of accounts in a fraudulent manner.

These companies siphoned off more than Rs 16,000 crore from the public and vanished. But Department of Company Affairs, Government of India could not dare take any action against promoters of such companies. However, though there are sufficient provisions against fraudulent balance sheets and books of accounts, such promoters and managers have never been subject to any major conviction except small penalties. Satyam's Ramalinga Raju is also out on bail after a short spell of 2 years in jail despite a fraud of more than Rs 8,000 crores. Some employees of the auditing company were sent behind the bars.

Generally, we come across the cases of insider trading. Insider trading means trading (buying and selling) of shares by promoters and directors of the company. Insider trading is illegal and causes heavy loss to general investors. Though many cases have been brought to light by enlightened experts, hardly have we found any major conviction in such cases except imposition of fines, that too after a prolonged struggle. Rarely we find suo motu action by the government, its agencies or regulators.

Lack of will power

In addition to these, many cases of violation of Company Law have been brought to light from time to time. It is not that the existing Indian Company Law lacked provision to deal with these problems. The problem is not in the law as there are enough provisions within the framework of law. The problem is actually that the government lacks the will power to enforce the law.

Though the new law fails to provide any solution for most of the problems of investors, introduction of exit provision seems to be good for small investors. As per this provision, if promoters holding majority shares in the company decide to go for merger with or acquisition of other companies and the minority shareholders are not satisfied with this decision, they will have the right to exit from the company. Such minority shareholders would be compensated and their shares purchased by the promoters at a price as per the formula devised for this purpose. For the first time in independent India's history, investors will not only have a right to object to a proposal of majority but can also exit the company.

Still, there is a problem in this provision. As per the prevailing law, a promoter cannot hold more than 75 per cent of shares and in case of small investors deciding to exercise exit provision, the holding of a promoter may exceed 75 per cent, which will be in circumvention of the law.

A new provision has been added with regard to acquisition of the companies. As per the existing laws, a foreign company can purchase majority stake in an Indian company but it cannot merge the same with itself. However, this provision is now being amended. A company constituted under a foreign law can acquire an Indian company and merge the same with itself. Similarly, an Indian company can acquire a foreign company and merge the same with itself.

How many Indian companies would be able to acquire foreign companies, only time will tell. However, this provision will definitely clear the roadblocks in the way of acquisition of Indian companies by foreign companies. It is no secret that presently Foreign Institutional Investors (FIIs) own a significant proportion of shares of Indian companies. If foreign companies purchase these shares from FIIs, most of the Indian companies may go into foreign hands. It is in this context that new law seems to be over-generous towards foreign investors. Though the bill says that rules would be framed to regulate such overseas acquisitions, it is expected that in order to protect national interests, this provision should be done away with. ❑❑

Companies Bill receives President's assent

The new Companies Bill has received President's assent that will make it into a law replacing the nearly six-decade old regulations that govern corporates in the country.

The Companies Bill 2013 received assent from the President Pranab Mukherjee on August 29, a government official said. The new bill, providing for sweeping changes in the way companies operate and are regulated in the country, received parliamentary approval earlier this month. It would replace the Companies Act 1956. The corporate affairs ministry is in the process of making the rules for the new legislation. The draft rules, expected to be ready in two weeks, would be put out on the Ministry's website. After this, stakeholders and general public, among others, would have up to 60 days to provide their comments. The new bill requires companies to spend on social welfare activities, empowers investors against any frauds committed by promoters, encourages companies to have women directors, and seeks to bring in greater transparency in corporate governance matters.

It also provides about three dozen new definitions, including for terms such as frauds, promoters, turnover, small companies, associate companies and employee stock options. Glance at various provisions of the new legislation makes it clear that the days of the auditing firms are numbered and soon the auditors will be an extinct breed.

Clause 140 confers the right to the proposed National Company Law Tribunal to order a change of auditors in case it finds the auditors have acted fraudulently or abetted or colluded in any fraud by the company or in relation to the company. Additionally, the clause specifies the responsible audit firm will be banned from fresh appointment as auditors for any company for a period of five years from the date of order given by the tribunal.

Clause 245 introduces the concept of class action that gives the right to members and depositors of a company to claim damages or compensation from the company, its directors, auditors & experts.❑

In a vortex of high deficit, will govt. be able to pay salary?

Less production and minimal use of energy points to the grim reality that industry and manufacturing sectors are virtually at non-functional level. All industrial indices are decelerating. Government has increased its expenses by over 20 per cent, thus increasing the country's woes, finds **Shivaji Sarkar**

The latest Reserve Bank of India (RBI) assessment of the economy is scaring not because it shows every aspect of the economy touching new lows. The biggest concern is alarming fiscal deficit and falling rupee.

It is gradually leading to a situation where the government may not find it easy to meet normal commitments. If it further aggravates even paying salaries to the government employees may not be easy. If to pay that the government resorts to larger borrowings, it would further affect liquidity and make credit more expensive. That means further slow down and galloping inflation.

At such a time announcement of a new state of Telangana, for limited electoral gains, would further erode government finances. Small states, except one or two, have not come as boon to the people. It has also been observed that smaller the state, be it Jharkhand or Uttarakhand, higher is the corruption. Nexus develops easily and that siphons of government funds.

There is another imprudent decision to allow Air India to secure $ 500 million loan from Deutsche Bank and British Invstec Bank. Air India is not in a position to repay but it is given the loan on the assurance of government –guaranteed bond. It means the government would have to repay that. Suffering from high current account deficit, how would it do that?

The food security ordinance is an admission that 67 per cent of the people in this country are part of the process of increasing disparity, as has been pointed out by the latest National Sample Survey Organisation study on consumption spending.

The food bill would add to further fiscal deficit. It may be necessary but it is also an admission that the governance has failed and people do not have purchasing power. The bill would further cause immense harm to the rural economy. So the country would be in a vortex of indecision. Inflation has become all pervading. The latest rural inflation is becoming the electoral issue.

The gross fiscal deficit of the Central government stands at 48.4 per cent – Rs 2.63 lakh crore or almost half of the gross budget estimates of Rs 5.42 lakh crore at the end of June 2013 as compared to 37.1 per cent in the corresponding period of the previous year. It means by October, the budgetary estimates of deficit would be crossed. By March, by

simple arithmetic borrowings could cross Rs 10 lakh croreThe primary deficit significantly increased to 117.2 per cent as compared to 67 per cent the previous year.This simply means tax accruals are reaching critical levels. This is not unlikely given the fall in revenue receipts.

The total receipts during April-June were at Rs 1.19 lakh crore or just 10.6 per cent of the budget estimate for 2013-14, while expenditures were at Rs 3.82 lakh crore or 23 per cent of the estimates, data collated by the Controller General of Accounts show. The current account deficit (CAD) has already been a concern. All these ailments are reflected in the fall of rupee to Rs 61 to a dollar level.

The finance minister P. Chidambaram has once again come out with his hackneyed prescription of opening up more avenues for foreign direct investment (FDI) and bonds for the NRIs. In reality, these are disguised borrowings that would burden the future generation. The government is suffering on two counts – inflation and lack of vision. It has not been able to think out of the box. Had it had the vision, it would have made drastic administrative and policy moves to control inflation. It was ignored as some bureaucrats suggested that inflation helped the producers (which one?) get better prices and some even suggested not bother about it as "growth" would take care of it.

None happened. Growth has become a misnomer. All industrial indices are decelerating. The core infrastructure grows to 0.1 per cent in June as compared to 2.3 per cent in May 2013. The decline in the growth rate in June was mainly on account of negative growth witnessed in the production of coal, crude oil, natural gas and electricity. This is critical. Less production and minimal use of energy points to the grim reality that industry and manufacturing sectors are virtually at non-functional level.

So who would pay the taxes? Large tax payers have now reduced capacity to pay it. Only individual salaried people are being extorted. The taxman is even taking a pick at their bank deposits – something they have saved after paying hefty taxes. It has a cascading effect. Inflation has reduced the capacity of the individual to have purchasing power and erosion in savings is impoverishing them. If the individuals do not go to the market how the market would prosper or the country would have growth?

Large tax payers have now reduced capacity to pay it.

More than that it has increased government expenses by over 20 per cent not only in terms of project costs but in terms of daily expenditure. The salary bill is increasing by over 15 per cent a year. Despite assertion of finance minister Chidambaram that he would manage to contain deficit to the budgeted projection of 4.9 per cent, it is difficult. There is only one possibility as RBI has pointed out. It says 566 central projects are delayed for lack of funding. It could be delayed further. Though that would have cost overrun, it would window dress the budgetary figures. The country's woes would increase with it. There would be less development, less jobs and but large government "savings".

This is what recently the industry leaders told the prime minister. The government has to decide whether it would save or spend. The industry wants the government to take a lead in creating an atmosphere for investment and growth.

This means a lot. It has to pay attention to agriculture. The government has to counter cheap imports from China by creating a strong but inexpensive manufacturing base. It also has to take steps at stopping exports of minerals and other raw materials. Even within WTO, the government has powers to do that. It needs the will to do it and not buckle under machinations at Tibetan borders. The fight for resuscitating the rupee has to come from strengthening the domestic sector. Much can be done with pragmatic decisions. Japan and China has maintained their currencies at high level not for external reasons but for their strong domestic strength. ❑❑

How UPA killed engines of economic growth

Instead of concentrating on imported economists, Government must encourage small enterprise

We need to understand our reality without the lens of Harvard and Wharton and primarily focus on the development of partnership and proprietorship firms in the MSME sector economy by appropriate credit and lesser strangulating regulations, pleads **Prof. R Vaidyanathan**

The growth rate of our economy has declined from around 8 per cent in the mid part of decade to nearly 5.5 per cent and expected to be less than 5 per cent in this fiscal year. The Government and economists 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 some extent.

The share of service sector in GDP is around 65 per cent. 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. 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 labour intensive construction and major single house construction by smaller contractors, we have included it in service sector.

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

Table-1

Activities Constituting the Services Sector

1 Construction
2 Trade
3 Hotels and Restaurants
4 Transport, including tourist assistance activities as well as activities of travel agencies and tour operators
5 Storage and communication
6 Banking and insurance
7 Real estate and ownership of dwellings
8 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 & defense
10 Other services including education, medical and health, religious and other community services, legal services, recreation and entertainment services
11 Personal services and activities of extra-territorial organizations 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.*

Table- 2: GDP shares & Growth Rates—2004-05 to 2011-12

Sector	*Sector Share 2004-05*	*Sector Share 2011-12*	*Growth Rate[CAGR] 2004-05 to 2011-12*
Agriculture	19	17.5	14.6
Industry	20.3	18.2	14.5
Services	60.7	64.3	16.8
Total	100	100	15.9

Source: *Statement 10- NAS- CSO 2013*

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. The share of what is called as 'unorganised' sectors in these activities is nearly 80 per cent in non-railway transport in 2010-11 and 77 per cent in trade hotels and restaurant. Real estate and business services also have share of more than 65 per cent and it has declined from around 74 per cent in 2004-05. (See table-3)

Unorganised sector is essentially part of Small- and Medium-enterprises in manufacturing and services. We find that there is a significant decline in the growth rate [CAGR] of unorganised manufacturing from 10 per cent during 04/05 to 07/08 to 4 per cent in 07/08 to 11/12.

Similar is the case of construction from 11 per cent to 7 per cent trade from 10 per cent to 8 per cent and restaurants from 15 per cent to two per cent. Non-Railway transport fell from 9 to 7 per cent and therefore, the total NDP growth rate fell from 9.4 per cent to 7.4 pre cent respectively. (See table-4)

Actually, the UPA-II has shown substantial deceleration compared to first part which benefitted due to earlier strong growth.

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 & 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*

The UPA-II is a decline and deceleration part as far as economic activities go

RBI categorises Data on Bank credit of the 'unorganised' sector under household sector. It consists of partnership, proprietorship concerns, joint families, associations, clubs, societies, trusts, groups and individuals for all accounts. Their share of bank credit which was nearly 48 per cent during 2004 when this Government came into power and touched 33 per cent in 2010 showing a consistent decline and a little increase in 2011. However, the share of corporate sector has gone up from around 30 per cent to 49 per cent and the Government from 10 per cent to 20 per cent. [see table-5]

UPA has failed to revive economy

It is interesting that the corporate sector, which has less than 15 per cent of our National Income gobbles up nearly half of the bank credit. Even though the unorganised or non-corporate sector is fastest growing its credit needs are not met by the organised banking sector but by private money lenders etc and the cost of borrowing us as high as 5 to 6 per cent per month-namely around 70

Table-3

Share of Unorganised Sector in Service activities

Note: *Share in respective GDP in current prices*

Category	2004-05	2010-11
Construction	63.4	58.6
Trade hotels and 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

Source: *Statement 76.1 NAS ;CSO New Delhi*

Table-5 : Distribution of Outstanding Bank Credit by Categories

[Percentagewise]

Category	March 2004	March 2008	March 2009	March 2010	March 2011
Household sector (1)	47.6	36.6	32.8	32.8	36.3
Private Corporate sector (2)	38.0	46.7	48.2	48.6	44.0
Public sector (3)	14.3	16.7	19.0	18.6	19.7
Total	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.*

Source: Extracted from table –1.15;Outstanding Credit of Scheduled Commercial Banks according to Organisations; Basic statistical returns; various years; RBI

per cent 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 observe from Table-6 that the share of small borrowers has drastically declined. For instance, up to Rs.10 lakhs category, this amount outstanding to total SCB outstanding has come low on from 32 per cent to 20 per cent — actually from 2000 to 2005, it has shown increase and then shown drastic decline. Same is the case for up to Rs. 1 crore borrowers – from 45 per cent to 32 per cent. We find that there is something which is really problematic in our banking sector, particularly in providing credit to the sections, which not only require them the most, but are also those which are the fastest growing sectors. The performance of UPA-1 and UPA-2 in providing credit through organised banking sector is rather dismal and this has resulted in distortions in our credit markets and slowdown of economic activities where Small- and Medium-enterprises –SMEs are most productive and active.

We estimate that more than 70 per cent of retail trade needs are met by money lenders /chits 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.

An image 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 per cent of our investment needs. 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.

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 the real engines of our economic growth. But they are not in the schme of things of our dream team which is imported from phoren countries. 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. Bribes to Government and lack of credit are two major problems faced by our SME sector. 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 need to 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 the State Governments. RBI hands are full, therefore, 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 MSME sector 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? ❑❑

Table 6 : Outstanding Credit of SCBs –Size of loan up to 1 crore

Credit Limit Range	*Mar 00*	*Mar 05*	*Mar 10*	*Mar 11*
Up to 10 lakhsAmount Outstanding [%]	31.7	33	23.4	20.1
Up to 50 LakhsAmount Outstanding [%]	39.9	41.6	32.6	29.0
Up to 1 croreAmount Outstanding [%]	44.6	44.7	35.4	31.7

Source: *Extracted from table 1.12"Scheduled commercial banks in India from various issues of RBI*

(The author is Professor of Finance, Indian Institute of Management, Bangalore. The views are personal & do not reflect that of the organisation.)

Ban MNC acquisition of Indian pharmaceutical companies: Parliament Committee

Report by Gopa Kumar

The Parliamentary Standing Committee on Commerce has recommended a blanket ban on the acquisition of Indian pharmaceutical companies by pharmaceutical multinational corporations (MNCs). This recommendation is contained in the Committee's 110th Report on FDI in Pharmaceutical SectorThe report was tabled in both houses of the parliament on 13August 2013.

The investigation of the Committee was prompted by a series of MNC acquisition of Indian pharmaceutical companies since 2006. During the last seven years many large and medium sized Indian pharmaceutical companies were acquired by MNCs. Some of the high profile acquisitions include the acquisition of Ranbaxy, Shantha biotech and Nicholas Piramal by Daiichi Sankyo, Sanofi-Aventis and Abbott respectively.

These acquisitions have raised concerns with regard to the future availability of affordable medicines as well as the effective use of the WTO TRIPS flexibilities including pre-grant opposition and compulsory license. The Ministry of Health and Family Welfare and Ministry of Commerce and Industry have publicly aired their concerns. Civil society organizations also demanded concrete response from the government to check MNC acquisition of Indian pharmaceutical companies, which they say compromises access to affordable medicines.

In 2001 India allowed100% foreign equity in pharmaceutical sector except in sectors involving the use of recombinant DNA technology and specific cell/tissue targeted formulations, without any difference between greenfield FDI and brownfield FDI. This loophole has been used by MNCs to acquire many domestic pharmaceutical companies. To address this concernthe Government of India changed the FDI policy in the pharmaceutical sector in 2011. The new policy allows 100% FDI through an automatic route for greenfield investments and stipulatesthe government's prior permission for brownfield investment. However, 100% brownfield investment is allowed in the pharmaceutical sector.

[*Greenfield FDI refers to the investment to set up a new business. Brownfield refers to the acquisition of an existing business.*]

The Committee is unanimous in its opinion on brownfield FDI. According to the Committee "the Government must impose a blanket ban on any FDI in brownfield pharma projects. It strongly recommends that the department take all measures to stop any furthertakeover/acquisition of domestic pharma units."

The Committee stated that, "FDI in brownfield pharmaceutical sector has encroached upon our generics base and adversely affected our pharma industry".

The Committee was of the opinion that that the current policy framework for brownfield FDI in the pharmaceutical sector, which allows brownfield FDI subject to the prior approval of the foreign Investment Promotion Board (FIPB), is "a feeble attempt which would not be able to measure upto the challenges posed by this route".

The Committee stressed the importance of access to affordable medicine and stated that "we should not lose sight of the fact that access and affordability of medicines is integral to the fundamental right to life enshrined in our constitution. Any policy that contradicts the basic fundamental rights of our citizens must be discarded".

The Report of the Committee assumes importance in the light of efforts by the Ministry of Finance to change the brownfield FDI policy in its effort to attract more FDI to finance the country's current account deficit.

The Department of Industrial Policy and Promotion (DIPP) and the Department of Health and Family Welfare oppose this move.

In order to sort out the difference a meeting chaired by the Prime Minister of India was convened on 16August 2013. According to news reports, this meeting failed to come out with concrete policy recommendations in this regard. However, the meeting asked DIPP to start inter-ministe-

rial consultations on the issue. DIPP is also to prepare a cabinet note on the proposed changes.

The Committee made its recommendations after examining the risk of MNC acquisition on the availability of affordable medicines, the role of brownfield FDI in research and development, technology transfer and employment.

Concerns on acquisition

The Committee's recommendations acknowledge concerns on the adverse implications of MNC acquisitions on future availability of affordable medicines in India and in other developing countries.

Concerns were also expressed that MNC acquisition may neutralize the use of TRIPS flexibilities by India if the big Indian pharmaceutical companies with technological capabilities come under MNC control. The Committee recommended that, "the government optimally use the flexibilities and safeguards under the TRIPS and the Indian Patents Act and ensure that none of the flexibilities and safeguards entailed in our Act is watered down in any case for any country".

The Committee noted that the market share of foreigncompanies among the top ten companies have increased from 10.5% in 2004-05 to nearly 19% in 2010-11. DIPP informed the Committee that 52% of FDI inflow in the pharmaceutical sector from April 2000 to February 2012 was used 2for acquiring stakes in domestic companies (brownfield).

According to the Committee "the real concern is about the technological and financial capability of Indian companies to bring new generic medicines including the generic version of patented medicines. All acquisitions, with an exception of Mylan, have been carried out by MNCs having business interest in originator drugs, and they have been using patents as a main strategy to curb competition".

MNC acquisition of Indian companies would prevent the introduction of generic versions of patented medicines

Further, the Committee also shared the concerns expressed during its hearings that MNC acquisition of Indian companies would prevent the introduction of generic versions of patented medicines by utilizingthe flexibilitiescontained in the Indian Patents Act such as compulsory license or pre-grant opposition. The Committee noted that "Initial evidence is available in the case of Ranbaxy where Daiichi-Sankyo, immediately after acquisition of Ranbaxy, withdrew all its patent challenges on Pfizer's blockbuster medicine Lipitor filed in more than eight countries".

Further the Committee noted that "the shift of ownership of generic companies to the hands of MNCs … result in the change of the business model and the marketing strategy. In the case of acquisition, the acquired entity's business model is synchronised with the business model of the parent company whereby the acquired entity is not allowed to use flexibilities such as patent opposition or compulsory license to introduce new generic medicines".

The Committee while noting the growth of the Indian generic industry and its potential to challenge MNCs, stated that the acquisition as "the old hackneyed route for monopolists to buy out competition in order to prevent the emergence of low price market is in full play …The Committee is unhappy over these developments since the real danger of the 100 per cent FDI and the selling/takeover of Indian companies is the decimation of competition as well as capabilities".

According to the Committee, the increasing dominance of the foreign companies will hit domestic companies in two ways. "Firstly, the market dominance (time secured in the doctors' chambers for detailing their products) will lead to more prescriptions for the foreign companies, driving away the domestic players from the Pharmaceutical Sector. The domestic companies took three decades to secure a position of eminence in the doctors' chambers. This will be lost soon, if the foreign companies were to have unbridled freedom of acquisition.

"Secondly, the originator companies having entered the generic space and obtained product registrations held by the domestic companies in third countries will use their dominant position to throttle other domestic companies in the global market, impacting the export performance of domestic companies."

Further, "the Committee shares the concern that serial acquisitions of the Indian generic companies by the MNCs will have significant impact on the competition, price level and availability. It could incapacitate the domestic industry and slow down new investments

and employment generation by the domestic companies. All these in turn could adversely impact the availability and access to medicines at affordable prices. A few more takeovers of this kind may destroy the benefits arising out of India's generics revolution".

According to the Committee such acquisition is a "strategy for the 'innovators' to 'silence' the generics frontrunners, thereby, retaining their innovation foundations while acquiring huge generic potential".

The Committee rejected the view of the Department of Economic Affairs that foreign companies prefer the acquisition route rather than greenfield FDI due to costs involved in approvals, land acquisition, labour, environmental clearance etc. The Committee termed this view as simplistic and stated that if the domestic companies could "start from scratch and become lucrative then there is no reason as to why a foreign pharma company cannot come and similarly do business".

The Committee also took note of the huge amounts paid for the acquisition of Indian pharmaceutical companies. Hence it wondered, "as to how MNCs are going to recover such huge costs. One possible way of doing so is to either concentrate more on manufacture and marketing of costly branded products or increase the prices of generic brands or it may resort to both the alternatives. In doing so, the pharma MNCs are likely to use the marketing and distribution network of Indian generic companies to push their costly patented/branded medicines and displace popular generic brands of the acquired company from the market". ❑

(to be continued in next issue)

Turmeric farmers association demands CBI enquiry in NCDEX working

A delegation of Turmeric farmers association and Swadeshi Jagaran Manch met with the Prime Minster **Dr. Manmohan Singh** at his Office at Parliament House to bring his notice and necessary action to protect the Interest of the Turmeric Farmer the Delegation comprised of Shri. Nama Nageshwer Rao, (MP TDP), Shri. Ramesh Rathod (MP TDP), Shri. Ganesh Murti (MP MDMK), Shri. PK Deivagamani, President all India Turmeric Farmers Association, Shr. K Narsimham Naidu President AP Turmeric Farmer Association. Dr. Ashwani Mahajan, Swadeshi Jagaran Manch all India Spokesperson.

Prime Minister, according to a press release, Listen Patiently and assured to talk with the concerned Minsters and soon take action in favor of the farmers Delegation brought to the notice of PM problems faced by the farmers like fluctuations in selling price, increasing cost of cultivation/ production fraudlent working of National Commodity and Derivatives Exchange (NCDEX). The NCDEX is trading without stock and quoting lower price than the actual product price. This is affecting farmers, who incurring losses due to this type of mal practice activity done by NCDEX often.

To avoid this type of malpractices, a separate Turmeric development board can be constituted to benefit of the farmers, like coffee board, tea board, etc. The delegation asked the Prime minister to order a proper CBI enquiry for the Scams undergoing in the NCDEX.

Memorandum submitted to the PM said, "Turmeric is one of the critical crops in the country and India accounts for 90% of the total Turmeric output in the world. The major Turmeric producing states are Andhra Pradesh, Tamilnaadu, Maharashtra, Karnataka, Odessa and Madhya Pradesh. Turmeric production is about 30 - 40 lack tones.

The cost of cultivation/ production is Rs 1, 73,605 per acre. Average yield of Turmeric is 20 quintals per acre. The cost of production per quintal is Rs 8700/- in fact prices had recently touched low of 3000 when the govt. came with a market intervention price of Rs. 4000, per quintal which is very low when compared to the cultivation cost. ❑

Govt may cut Plan expenditure

The government is likely to look at cutting plan expenditure in the current fiscal to stick to the 4.8% fiscal deficit target.Asked whether there is an proposal to cut plan spending, Planning Commission deputy chairman Montek Singh Ahluwalia said, " No formal proposal has been moved but we will cooperate if asked to do so." He said discussion on such issues usually starts around November.

Chidambaram slashed plan spending by nearly Rs 92,000 crore to stick to the revised fiscal deficit target of 5.2% during 2012-13. The deficit was finally narrowed to 4.9% of gross domestic product (GDP). The economic slowdown prompted the finance minister to reduce the projection for tax collections by almost Rs 64,000 crore in the revised estimates for the current fiscal.

Plan spending is perceived to be more productive as it translates to asset creation through expenditure on construction of schools and hospitals. Non-plan expenditure consists of spending on running schools, hospitals and other departments and meeting the salary and operation costs. It also includes so-called "unproductive spending" such as interest payment and subsidies. The Plan expenditure for 2013-14 is estimated to be Rs 5.55 lakh crore. ❑

India's forex reserves down $1.08 billion

India's foreign exchange (forex) reserves decreased by $1.08 billion to $277.72 billion for the week ended Aug 23, according to data released by the Reserve Bank of India (RBI).The reserves had increased by $205.8 million to $278.80 billion for the week ended Aug 16. The foreign currency assets (FCA) - the biggest component of the forex reserves - fell by $1.07 billion to $250.48 billion, the weekly statistical supplement of the central bank showed.

The FCA had grown by $211.7 million at $251.56 billion in the previous week. The central bank said FCA in US dollar terms included the effect of appreciation or depreciation of non-US currencies held in reserve, such as the pound sterling, euro and yen. Gold reserves remained stagnant at $20.74 billion. The special drawing rights (SDRs) declined by $4.5 million to $4.38 billion during the week ended Aug 23, while reserves with the International Monetary Fund (IMF) went down by $2.2 million to $2.10 billion.

Imports come to a halt

A pall of gloom has descended across Mumbai's import hubs with the rupee hitting record lows of Rs 67-68 to a dollar. Fresh imports of diamonds, steel and electronic components, among other goods, have come to a halt for a fortnight. Panic was palpable among importers as the value of the rupee hit a record low of Rs 68 on Wednesday.Over 90% of rough diamonds in India are imported from Africa, Russia, Belgium and Dubai. Small importers typically keep the option of open payment, they do not book dollars at a fixed rate. The mood began to fall as the exchange rate fell below Rs 55 to a dollar, but at Rs 68, business has come to a grinding halt." Across industry, the buzz of conspiracy has become a talking point. "Those who have currency stashed away in foreign banks benefit the most by the rupee's free fall. One lakh dollars could fetch you Rs 50 lakh just a few days ago. It now converts to Rs 70 lakh straightaway; ideal for politicians seeking funds ahead of a crucial general election," said one trader.

No plan to convert temple gold

The Reserve Bank has said it is not contemplating any proposal to buy idle gold and convert it into bullion."The RBI clarifies that no such proposal is under its consideration at this juncture," the apex bank said in a statement. There have been media reports that the RBI is considering various options of converting idle gold, including that available with temple trusts, into bullion.

BJP leader SubramaniamSwamy said the BJP will oppose the government's reported move to take into possession the gold belonging to some temples in a bid to mitigate the crisis caused by the yellow metal. Bullion usually stands for gold in form of bars before coining. Import of gold went up by a huge 87% from 205 tonnes in April-July 2012 to 383 tonnes during the corresponding period this year. In value terms, the increase was 68% from Rs 56,488 crore to Rs 95,092 crore.

CAG has all 'Missing' coalgate files

While the Government is "clueless" about the

Import Iran oil to save $8.5bn

M. Veerappa Moily the oil minister has suggested India may save nearly $8.5 billion (around Rs 57,000 crore) by importing cheaper crude from Iran which faces UN sanctions in the wake of its nuclear programme. In a note to Prime Minister Manmohan Singh and finance minister P Chidambaram, Moily has said that so far this year, India has imported 2 million tonnes of crude from Iran and an additional 11 million tonnes would pare the forex outgo by almost $8.5 billion, assuming oil price at $105.

Last year, India had imported a little over 13 million tonnes from Iran and Moily has suggested that state-run oil companies should be asked to maintain their overall crude imports at last year's level.

The Iran gambit is central to Moily's attempt to reduce India's oil bill by $20 billion but will need a reversal of India's recent attempts to reduce business with the regime in Tehran. But the need to control an expanding deficit — fueled by a weak rupee — is becoming urgent, and India may have to repair ties with Iran that have hit an air pocket over the Iranian security forces detaining an Indian ship transporting Iraqi crude. India will need to display some creative diplomacy to tip toe around international sanctions and US sensibilities. ❑

missing Coalgate files, officials of CAG confirmed that they were in possession of photocopies of all the "crucial and critical files on coal block allocations."

According to highly-placed sources in the CAG office, the files are with the Commercial audit and PSUs audit wings, which are looking into irregularities in coal block allocations. "We can't say we have all the missing files, but our audit wings have taken photocopies of all crucial and critical files related to coal block allocation from the Coal Ministry and Coal Indian Limited," sources said according to a published report.

Though the CAG audit is focused on allocations from 2004 onward, the auditor also has the files of the previous allocation, sources said, adding, "this was done to understand the entire process." The CAG officials also pointed out that CIL being a nodal agency in allotment of coal blocks, also must have the copies of the files related to allocation.

Radiation rules thrown to the Wind

Thousands of x-ray machines at diagnostic centres and nursing homes across the country — except in Mizoram and Kerala, which have set up a Directorate of Radiation Safety (DRS) for regulation — are operating illegally.

This is despite the Supreme Court order issued 11 years ago, directing States to set up the DRS for issuing certificate of safe x-ray and radiation to radiological facilities from the Atomic Energy Regulation Board (AERB). Non-compliance with regulatory requirements may result in closure of x-ray installations, according to the Atomic Energy (Radiation Protection) Rules, 2004, which seeks compulsory registration of all radiation-generating units.

The Government recently admitted in Parliament that thousands of such units have not applied for a certificate of safety. So far, the nuclear watchdog has signed an agreement with 10 States — Kerala, Mizoram, Madhya Pradesh, Tamil Nadu, Punjab, Chhattisgarh, Himachal Pradesh, Gujarat, Maharashtra and Odisha. However, except Mizoram and Kerala, none have taken the initiative for usage of medical equipment such as radiograph, fluoroscopy units, CT scanners, interventional radiology x-ray units, mammography units, dental x-ray units or bone scanners. Laxity on the part of the Centre and States is, no doubt, a matter of concern, given the unabated mushrooming of diagnostic x-ray facilities.

Factory activity shrinks in August for first time in 4 years

Indian factory activity shrank for the first time in more than four years last month, adding to the country's deepening economic malaise even as the central bank struggles to defend the battered rupee currency, a survey showed.

The bleak Purchasing Managers' Index (PMI) comes hard on the heels of data that showed Asia's third-largest economy grew at it slowest quarterly rate in the three months to June since the global financial crisis, suggesting more pain ahead. The HSBC Manufacturing PMI, compiled by Markit, sank to 48.5 in August from 50.1 in July, the lowest reading since March 2009. Economists polled by Reuters had expected a far shallower fall to 49.9. ❑❑

US plan for SOLO strike on Syria!

Despite the British Parliament's rejection of military action against Syria and the demands at home for Congressional approval, President Barack Obama is weighing the option of proceeding with a limited unilateral strike, the White House has indicated. The President will be guided by "America's best interests" as he makes a decision on this issue, officials said after the British rejection that was seen by analysts as a setback to Obama, coming as it did after the failure to get a UN Security Council authorisation for the Syrian push." He (Obama) believes that there are core interests at stake for the United States and that countries who violate international norms regarding chemical weapons need to be held accountable," National Security Council spokesperson Caitlin Hayden said. In pursuance of this line, the White House announced morning that it would be releasing a declassified version of the US intelligence report on last week's alleged attack with chemical weapons which it has blamed on the Bashar al-Assad regime. ❑

BRICS may agree on $100bn fund

BRICS countries may reach consensus at next month's G20 summit on creating a $100 billion currency reserve fund to help ease short-term liquidity pressure and safeguard financial stability of major emerging economies, a senior Chinese central bank official said. Yi Gang, deputy governor of the People's Bank of China, said leaders of the BRICS group, Brazil, Russia, India, China and South Africa, have agreed on the ratio of contributions, operation mechanisms, governance structure and loan-to-value ratio of a Contingent Reserve Arrangement (CRA).

There will be more consensus on the arrangement by BRICS leaders when they meet on the sidelines of the G20 summit to be held in St Petersburg, Russia, on September 5 and 6, Yi said. "We will see the launch of the fund in the foreseeable future," Yi was quoted as saying by the state-run Global Times.

Files seized from Miranda pose threat

The High Court London on August 30 granted the UK police extended permission to examine the data seized from David Miranda, the partner of Guardian columnist Glenn Greenwald who was detained and interrogated for nine hours under the Terrorism Act on August 18 at Heathrow airport, and data storage devices confiscated. The court had on August 21 given Mr Miranda a limited injunction that allowed the police to examine the material only for national security purposes. The latest order comes after the UK authorities told the Court that the seized material reveals the names of UK intelligence offices and could pose a threat to public security. A security officer for the Cabinet office, Oliver Robbins, said that one file contained 58,000 "highly classified" documents which identified British intelligence officers, and which could have had a direct impact on the UK's intelligence operations. According to him, Mr. Miranda had carelessly carried the password to de-encrypt one file of the data on a piece of paper.

Pakistan bans mobile phone packages

Pakistan's telecom regulator has directed all companies to discontinue voice and text chat packages to stop youth from indulging in activities "contrary to the moral values of society". The Pakistan Telecommunication Authority (PTA) acted after the federal Government received complaints from lawmakers and hardline groups about mobile phone packages that allow users to make cheap calls late at night. In a communication, PTA told cellular companies that the packages should be stopped forthwith as they are "contrary to the moral values of our society".

Rise of rickshaws on Paris streets

The humble tuk-tuk , a fixture in Asian cities from Bangkok to Bangalore, is rapidly becoming a common sight in the touristy parts of Paris — and the bane of traffic police. The three-wheeled auto rickshaws, as well as human-powered pedicabs, first appeared in the French capital in 2011, and their numbers have since risen to around 50, lining up at landmarks such as Eiffel Tower, the Louvre, or the Place de la Concorde.

Like their Asian cousins, many are brightly painted, while others sport the iconic yellow with black-and-white trim of the New York cab. The growth in numbers has been fuelled in part by the recent downturnin the French economy and the need to find work. The price for a tuk-tuk — imported from Thailand — can be as much as 9,000 ($12,000), but buyers hope to make good their investment.

Gunmen kill worshippers in Baghdad

Iraqi authorities say that gunmen have stormed

Life expectancy gap growing

Life expectancy for women at 50 has improved, but the gap between poor and rich countries is growing and could worsen without better detection and treatment of cardiovascular disease and cancers, the World Health Organization (WHO) said. A WHO study, one of the first to analyse the causes of death of older women, found that in wealthier countries deaths from noncommunicable diseases has fallen dramatically in recent decades, especially from cancers of the stomach, colon, breast and cervix. Women over 50 in low and middle-income countries are also living longer, but chronic ailments, including diabetes, kill them at an earlier age than their counterparts, it said.

"The gap in life expectancy between such women in rich & poor countries is growing," said the WHO study, part of an issue of the WHO's monthly bulletin devoted to women's health. There is a similar growing gap between the life expectancy of men over 50 in rich & lower income countries and in some parts of the world, this gap is wider, WHO officials said.

"More women can expect to live longer and not just survive child birth and childhood. But what we found is that improvement is much stronger in the rich world than in the poor world. The disparity between the two is increasing," Dr. John Beard, director of WHO's department of ageing and life course, said in an interview at WHO headquarters. ❑

a Sunni mosque in Baghdad, killing five people.Police officials said the attackers entered the building in Baghdad's southeasternneighborhood of New Baghdad and shot at Sunni worshippers who were performing dawn prayers.Police said the gunmen used weapons fitted with silencers. They said two other worshippers were wounded.Medics in a nearby hospital confirmed the casualty figures. All officials spoke on condition of anonymity because they were not authorized to talk to the media.

Most attacks on civilians in recent years have been the work of Sunni extremist groups such as al-Qaida.But attacks on Sunni mosques have been on the rise in recent months, raising fears that Shiite armed groups are starting to retaliate.

Radicals try to infiltrate intelligence

Al-Qaida and other hostile groups have repeatedly sought to infiltrate US intelligence agencies, which are investigating thousands of their employees to counter the threat, The Washington Post reported. The CIA found that about a fifth of job applicants with suspect backgrounds had "significant terrorist and/or hostile intelligence connections," the Post cited a classified budget document as saying.

The document was provided to the paper by former National Security Agency contractor Edward Snowden, now a fugitive in Russia under temporary asylum. Although the file did not describe the nature of the jobseekers' extremist or hostile ties, it cited Hamas, Hezbollah and Al-Qaeda and its affiliates most often. The fear of infiltration is such that the NSA planned last year to investigate at least 4,000 staff who obtained security clearances.

China official under probe

The man who till yesterday controlled several Fortune 500 companies and firms engaged in sensitive nuclear and petroleum sectors is under the combined pressure of anti-graft investigators. Chinese authorities have launched a probe into the activities of Jiang Jiemin, head of the government body that controls 117 companies.

China's supervision ministry said Jiang was suspected of a 'serious violation of discipline'. The term 'violation of discipline' is used every time the Communist Party of China initiates action against a senior party official. The country's president Xi Jinping has vowed to put an end to corrupt practices and has initiated a range of actions against several officials.

Doctor who helped trace Osama

The 33-year jail term given to Shakeel Afridi, the Pakistani doctor who helped the CIA track Osama Bin Laden, was overturned by an official who ordered a fresh trial. Frontier Crimes Regulation Commissioner Sahibzada Mohammad Anees ruled that a judge in the tribal belt had exceeded his authority when he handed down the sentence last year and ordered a fresh trial.

Anees also handed over Afridi's case to the political agent of Khyber Agency. He said Afridi could be released only on the orders of the agency. Afridi, in his forties, was sentenced to 33 years in jail on May 24, 2012 on a charge of aiding the banned Lashkar-e-Islam militant group. The verdict was issued by the assistant political agent, who has judicial powers. He was also accused of conducting a fake vaccination campaign on behalf of the CIA in Abbottabad as part of efforts to trace bin Laden. ❑❑

India, US complete consultations

India and the US have completed consultations under WTO on American charges of discrimination against its products by New Delhi's national solar mission. "Both the sides have completed the consultations. Now the ball is in the court of the US," a senior official in the Commerce Ministry told PTI.

The consultations followed after the US filed a complaint in the WTO in February alleging discrimination by India's national solar mission against American products. The US Trade Representative (USTR) had alleged that India's programme appears to discriminate against US solar equipment by requiring solar energy producers to use locally manufactured cells and by offering subsidies to those developers who use domestic equipment. But it is not ready to look into its protectionist measures.

Regional Deals Threaten Doha Trade Talks

Incoming director-general of WTO has said nations pursuing regional and bilateral trade accords threaten to hamper efforts to revive global trade talks.

Roberto Azevedo, the Brazilian diplomat who takes over the helm of the WTO next month, said policy makers will be hard pressed to devote their attention to negotiations among the WTO's 159 member-nations amid simultaneous regional-level and bilateral talks.

One of the "biggest problems" posed by such pacts, Azevedo said, is that "once negotiations are going at full steam, it'll steal the attention a little from the multilateral system."

"There's not enough time to work on everything," Azevedo said at an event in Rio de Janeiro.

Azevedo, who served as Brazil's ambassador to the WTO since 2008, was selected in May to become the WTO's first director-general from Latin America.

Multilateralism is still the key

The outgoing secretary general of the WTO, Pascal Lamy, remarked in an interview in Lujiazui magazine that multilateral trade will continue to dominate world trade, and China needs to keep opening up.

Lamy believes that the Doha Round will be successful, despite voices that believe it is dead. The slow and bumpy process, though, sometimes leaves him depressed. He said that it is necessary to listen to what experts say but it is the politicians who have the final say. The Doha Round is a series of trade negotiations among WTO members that aims to achieve reform in the international trade system through the introduction of lower trade barriers and revised trade rules.

All the WTO members have indicated that they want to conclude the Doha Round. Even if they know it takes time, they hope to realize it as soon as possible.

Pakistan's new condition for MFN to India

The government of Pakistan says it would grant the 'Most Favoured Nation' (MFN) trade status, the fancy term for non-discriminatory status, to India only after we remove non-tariff barriers on Pak export and a consensus was had among all stakeholders in that country.

In contrast, the government of India granted them the MFN status in 1996. Under WTO norms, member-countries are mandated to give this status to each other on a reciprocal basis. The two governments had decided to normalise bilateral trading relations in 2011.

"For the grant of MFN status, there are certain issues to be addressed by both countries, such as creating a consensus among stakeholders within Pakistan, and persuading the Indian government to remove non-tariff barriers," stated a communiqué by the Pak high commission here, quoting their foreign ministry spokesperson, Aizaz Ahmad Chaudhary.

He also said all these issues would be discussed elaborately "as soon as the dialogue resumes" in an effort to "move towards a normal trading relationship between the two countries".

India hopes outcome at Bali meet

Under the TFA, a proposal of developed countries, WTO members are negotiating ways to facilitate trade, simplify and harmonise customs rules and reduce transactions cost. India has expressed hope that negotiations on a global trade deal under the WTO's Doha Round of talks will move forward at the forthcoming ministerial meet at Bali in December.

However, it said that if talks on the G-33 proposal of the developing countries like India, which deals with food security issues, did not move forward at the meeting, the Trade Facilitation Agreement (TFA) may also not see any progress.

Under the TFA, a proposal of developed countries, WTO members are negotiating ways to facilitate trade, simplify and harmonise customs rules and reduce transactions cost. ❑❑