



The Bhutan vote

As the country prepares for the second round of elections, change is certain

The results of Bhutan’s general election will have significant repercussions for South Asia. The first round held in September has already delivered a surprise verdict, with the ousting of the incumbent People’s Democratic Party. The two parties left in the fray represent opposites in terms of their experience. The Druk Nyamrup Tshogpa, that won the maximum number of votes in the first round this year, is a political neophyte. The Druk Phuensum Tshogpa, on the other hand, won the first Bhutanese elections in 2008, and the first round of the election in 2013 before losing to the PDP. It maintains a strong traditional base. The first round of the results also threw up some glaring trends. While the ordinary voter who queued up to vote at the polling booths favoured the PDP, ultimately the postal ballots, used by government officials and their families as well as military personnel, swung the vote in the other direction. Another outcome, which may be disquieting for whichever party comes to power, is that votes in the first round of elections were polarised between more prosperous Western Bhutan and less developed Eastern Bhutan. The DPT, for example, won all but one constituency in the east, while winning only two in the west; the DNT and PDP won seats only in the western half. The vertical split doesn’t just denote a development divide, it points to a feeling of discontent in a country generally known as a whole for its Gross National Happiness quotient.

Regardless of which party wins on Thursday, India-Bhutan ties are expected to be accorded their customary priority by New Delhi and Thimphu, given that Bhutan’s monarch, Jigme Khesar Namgyel Wangchuck, retains a considerable influence over the nation’s foreign policy. Along with his father, and predecessor as king, he has consistently stressed his commitment to the bilateral relationship. However, India must note that while the DNT has made “narrowing the gap” its motto, the DPT, which lost elections in 2013 after India suddenly pulled fuel subsidies for Bhutan, has campaigned on the slogan of “sovereignty and self-sufficiency”. The ‘China factor’ will be closely watched for its impact, a year after the India-China standoff on the Bhutanese Doklam plateau. This year marks the 50th anniversary of formal relations between India and Bhutan, built on cultural ties, mutual strategic interests, and India’s role in building roads and assisting in hydropower projects that became the mainstay of the Bhutanese economy. It is expected that Prime Minister Narendra Modi will lose no time in visiting Bhutan to consolidate the relationship once the new Prime Minister is in the saddle.

Not just liquidity

Policymakers must address the structural problems behind the NBFCs crisis

The default of Infrastructure Leasing & Financial Services (IL&FS) on several of its debt obligations over the last couple of months has raised serious questions about how regulators missed the growing debt pile of a systemically important financial institution. But apart from the obvious failure of regulators to do their jobs, the IL&FS saga has also exposed the underlying weaknesses in the non-banking financial company (NBFC) sector as a whole which has depended heavily on low-cost, short-term debt financing to sustain its shaky business model. As both international and domestic interest rates continue to rise, the stocks of NBFCs have been punished as investors expect the profit margins of these companies to come under pressure as their borrowing costs rise. Then there is the further, and more serious, risk of NBFCs being unable to roll over their short-term debt in case of a severe credit crunch in the aftermath of the IL&FS saga. Both these factors have combined to put an end to the dream run of NBFCs, which have enjoyed high valuations amidst rapidly growing profits over the last few years. The precipitous crash of shares of Dewan Housing Finance Ltd. has been the defining moment of the present crisis. It is worth noting that the rise of NBFCs was fuelled primarily by the demise of traditional banks which have been unable to lend as they were bogged down by non-performing loans. Meanwhile, NBFCs with strong pricing power, which can somehow successfully achieve the transfer of higher borrowing rates to their own borrowers, may still survive rising interest rates.

The response of policymakers to the ongoing crisis, which seems warranted if its purpose is to prevent a wider systemic crisis, is fraught with other risks. The Reserve Bank of India, the National Housing Bank and the State Bank of India last week decided to increase the supply of liquidity in the market to keep interest rates under control. The RBI has also urged NBFCs to make use of equity rather than debt to finance their operations. This is apart from the government’s decision to replace IL&FS’s management and commitment to providing the company with sufficient liquidity. While offering easy money may be a welcome measure in the midst of the ongoing liquidity crisis, the prolonged supply of low-cost funds to the NBFC sector also creates the risk of building an unsustainable bubble in various sectors of the economy. Defaults associated with any such bubbles will eventually only affect the loan books of lenders. State bailouts could also fuel the problem of moral hazard as other financial institutions may expect a similar lifeline in the future. Policymakers should thus try to focus on taking steps to address structural problems that contributed to the crisis. This includes steps necessary to widen the borrower base of NBFCs which have been banned from accepting deposits. This would allow NBFCs to tap into more reliable sources of funding and avoid similar liquidity crises in the future.

Decoding the Rafale controversy

The opacity in the Rafale deal only raises doubts, with its fallout on national security and the ‘Make in India’ programme



RAKESH SOOD

The controversy over Prime Minister Narendra Modi’s decision to go in for an outright purchase of 36 Rafale fighter jet aircraft, after scrapping the old negotiations, is unlikely to die down. The Congress party has yet to find a smoking gun and hopes that a joint parliamentary committee probe might reveal it. The government has meanwhile tied itself up in knots by making opaque, and often, contradictory statements, in turn raising more doubts and questions.

From 126 to 36

There are three questions that the government needs to address to neutralise the snowballing controversy. The first is the rationale for the announcement made by Mr. Modi, during his official visit to France, in April 2015, that India would buy 36 Rafale aircraft in a government-to-government deal, thereby scrapping ongoing negotiations with Dassault Aviation for 126 aircraft.

The process for acquisition of 126 aircraft to replace a part of the ageing fleet in the Indian Air Force (IAF) had begun in 2000. After prolonged deliberations, a Request for Information was issued and based on the responses, technical specifications drawn up and a global tender issued in 2007 for 126 aircraft, with 18 to be delivered in flyaway condition and 108 to be assembled by Hindustan Aeronautics Limited (HAL) with gradually increasing domestic content. Six bids were received and technical evaluations over four years led to the short-listing of two – the Eurofighter Typhoon and

the Rafale. Evaluation of financial bids in 2011 led to the Rafale’s selection and negotiations commenced with Dassault in 2012.

The Indian Air Force strength had reduced to around 32 squadrons against its authorised level of 42. Instead of fast tracking the negotiations, former Union Defence Minister A.K. Antony was indecisive, thereby prolonging the process. Negotiations were carried forward by the Modi government and in the run-up to Mr. Modi’s visit, official statements indicated that negotiations were in final stages. Inexplicably, these were jettisoned. Then Defence Minister Manohar Parrikar acknowledged that he was unaware of the decision. The decision for 36 aircraft was only formalised by the Defence Acquisition Council and the Cabinet Committee on Security after the visit and the formal cancellation of the negotiations for 126 aircraft announced in the middle of 2015, generating speculation about the Paris announcement. Last week, a bench of the Supreme Court, headed by the Chief Justice of India, Ranjan Gogoi, sought details of the ‘decision making process’ before the next hearing on October 31.

The aircraft are to be delivered between 2019 and 2022. Meanwhile, the government invited Expressions of Interest in April 2018 for 110 fighter aircraft, 17 in flyaway condition and the balance to be assembled in India, but assembly was not restricted to HAL. It has since received responses from the same six manufacturers. This makes it clear that the shortfall will not be made up by the indigenous Tejas aircraft which is suffering from delays and cost over-runs (HAL has raised the cost of Tejas Mark I from ₹135 crore in 2006 to ₹268 crore and Tejas Mark 1A, in design stage, is quoted at ₹463 crore).

The second question relates to



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pricing. Since the earlier negotiations for 126 aircraft were never concluded, a straightforward comparison is not feasible. Earlier negotiations did not cover weapon systems or the performance guarantees and spares. However, since the Modi government boasted that it had negotiated a better deal and promised to provide details, it has now been hoisted with its own petard. It proudly announced that it had obtained a 50% offset undertaking which would give a boost (nearly ₹30,000 crore) to the ‘Make in India’ programme in the defence sector. Perhaps, it failed to realise that the higher offset would be factored into the aircraft price, driving it higher.

Number crunching

From the sketchy details provided, it would appear that the total outlay is ₹7.87 billion (₹59,000 crore at 1 euro to ₹73.88). This includes cost of weaponry (€710 million) and a performance guarantee of 75% (current performance level of the Sukhoi-30 fighter assembled by HAL is 50%) with spares (€2.16 billion). This brings the cost of the 36 aircraft, with the India-specific enhancements to €5 billion (₹36,900 crore or ₹1,025 crore per aircraft). However, Union Minister of State for Defence, Subhash Bhamre has put the cost at ₹670 crore per aircraft. Of course, the Congress claims that it was negotiating on the basis of a price per aircraft of ₹526 crore but omits to mention what this related to or the

Castles in the air

Economic ideas such as ‘Charter Cities’ need to be challenged for their implausible premise and iniquitous framework



MATHEW IDICULLA

The Nobel Memorial Prize in Economic Sciences awarded jointly to William D. Nordhaus and Paul M. Romer for their respective contributions in integrating climate change and technological innovation into macroeconomic analysis is interesting. Both laureates designed methods for addressing questions related to creating conditions for “long-term sustained and sustainable economic growth”. While Mr. Nordhaus is credited for creating a quantitative assessment model that analyses the relationship between economy and climate, in Mr. Romer’s case, it is for his pioneering work on “endogenous growth theory” that highlights how knowledge and ideas drive economic growth.

Mr. Romer, who was till recently the chief economist of the World Bank, has gone beyond the realm of theory and become a man of action in attempting to implement some of his economic ideas on the ground. Building on his theoretic work on economic growth, he has been championing the creation of “Charter Cities” – new cities with distinct rules that foster innova-

tion and economic growth. These are characterised as “start-up cities” that experiment with reforms by breaking out of the existing state system. Since the nation-state is too big a unit to try out new rules, Mr. Romer proposes built-from-scratch cities as the ideal site at which new rules and institutions are introduced to attract investors and residents.

Colonialism 2.0?

The idea of “Charter Cities” should be of interest to developing countries such as India grappling with strategies for rapid urbanisation. Mr. Romer has been proselytising leaders from developing nations to create “Charter Cities” by setting apart tracts of uninhabited land for this civic experiment. The host country is required to enact a founding legislation or a charter that lays down the framework of rules that will operate in the new city. A developing country can host the “Charter City” in its territory by “delegating” some of the responsibilities of administration to a developed country.

Predictably, Mr. Romer has come under immense criticism for promoting what seems to be a thinly disguised version of neo-colonialism. Poorer countries are urged to make a Faustian bargain: relinquish sovereignty over certain territories ostensibly in exchange for economic growth. But he justifies his grand plan by arguing that unlike colonialism, which

was coercive, “Charter Cities” offer choice: people have the freedom to decide to move into it. Based on their preferences, individuals can “vote with their feet”. However, they do not have the right to vote to decide how the city is run. Hence, “Charter Cities” go against the basic principles of democracy and citizenship.

The presence of foreign governments in administering “Charter Cities” is not just incidental but intrinsic to this grand scheme. In a TED talk, in 2009, Mr. Romer remarked that British colonial rule in Hong Kong “did more to reduce world poverty than all the aid programs that we’ve undertaken in the last century”. Hong Kong is relevant also because it was Deng Xiaoping’s inspiration for creating a set of special economic zones in China in the 1980s. However, Mr. Romer has been less successful in evangelising world leaders to adopt his idea. His first attempt to introduce “Charter Cities” in Madagascar in 2008 collapsed when the President who favoured the idea was greeted by violent protests and finally removed in a coup. The next attempt, in the Honduras, also failed as the Supreme Court there, in 2012, declared the creation of “Charter Cities” to be unconstitutional.

Indian experiments

Given its neo-colonial trappings and poor track record, “Charter Cities”, as an idea, should have



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been fundamentally unattractive for a country such as India. Nevertheless, an editorial in a leading Indian business daily urged the Narendra Modi government to take the idea seriously and drew parallels with the Presidency Towns of British India. Commentators have also suggested that emerging economies (India and China) can create and govern new cities on their own. The model of a built-from-scratch city often cited in this regard is the Songdo International Business District in South Korea. However, this eco-friendly “smart city” with the best of hi-tech amenities is threatening to be an underpopulated, lifeless ghost town.

India’s experience in creating new cities with parallel rules and governance systems has also been fraught with conflicts. Lavasa, a city near Pune which was developed by a private company, has been caught up in environmental disputes for many years. The Dholera Special Investment Region and Gujarat International Finance Tec-City, which were initiated by Mr.

This has permitted the government to feign ignorance about DRAL’s offset share.

The agreement for 36 aircraft was signed by the two Defence Ministers on September 23, 2016. DRAL was registered on October 3 while FDI in defence had been liberalised to permit 49% through the automatic route in June of the same year. In October 2017, the foundation stone of the DRAL facility was laid in Nagpur in the presence of Maharashtra Chief Minister Devendra Fadnis and Union Minister Nitin Gadkari. Conflicting statements have been made about whether DRAL would produce components for the Rafale or for Dassault’s business jets.

Further, while total offsets amount to ₹30,000 crore, this is shared between: Dassault which provides the airframe and is the systems integrator; Safran, which provides the engine and the landing gear, and Thales, which delivers the radars and the avionics. Since Reliance subsidiaries were awarded a clutch of defence licences during 2016-17, it is unclear as to how many of these are engaged with the Rafale offsets. Mr. Hollande’s statement, which is coupled with the set of seemingly fortuitous coincidences, only adds to the controversy.

The casualty is national security because the IAF’s squadron strength will drop to 23 in 2032, unless there is fresh acquisition beyond the 36 Rafale and 123 Tejas fighter aircraft. The second casualty is the much-touted ‘Make in India’ defence programme. Sadly, this could have been prevented if only the government had chosen to address the three questions with candour and transparency.

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Modi when he was Gujarat Chief Minister, have not really taken off. The various investment regions housed within the Delhi-Mumbai Industrial Corridor have also made slow progress. The initial idea of creating 100 new cities as “smart cities” has been reformulated as a programme for redeveloping merely a small portion of existing cities.

Initiatives such as “Charter Cities” seek to supersede the politico-economic institutions in the global south by building cities on a *tabula rasa* – a clean slate. The guiding logic is that creating built-from-scratch cities with parallel rules and institutions can drive economic growth. What is most alarming about such thinking is the assumption that it is possible to create sanitised technocratic cities uncontaminated by politics. It ignores the pre-existence of multiple social and political claims over space in these supposed clean slates. Despite the failure of many such new cities and private governance regimes, the allure of creating grand castles in the air refuses to die down. Such initiatives need to be challenged for both their ignorant and implausible premise as well as their iniquitous normative framework.

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LETTERS TO THE EDITOR

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The #MeToo whistle

It may not be incorrect to say that Union Minister M.J. Akbar’s brazenness in rejecting the string of charges made against him by his former women colleagues and also his refusal to step down could not have been without signals being sent from above. Regrettably, in doing so, the government has not only betrayed an element of arrogance but also its own lack of sensibilities to the cry for justice by women against powerful predators. For the junior minister to impute political motives to the series of such allegations by more than a dozen journalists with no known political affiliations, is simply outrageous. One must understand the

obvious reasons that could have possibly inhibited these women from seeking justice earlier. The least the Prime Minister can do, for the sake of political morality, is to ask the minister to step down till his name is cleared. The nation can ill-afford a minister accused of moral turpitude to continue in office (Editorial – “Untenable”, and Editorial page – “Journalism after #MeToo”, both October 15). S.K. CHOUDHURY, Bengaluru

■ In India, the powerful can get away with anything. As long as Mr. Akbar continues to be a minister it is not going to be easy for any person to fight him legally. His defence, citing elections and a political angle, is

flimsy. Had he resigned and gone to court he would have had some respect. It is sad to see the Prime Minister’s silence especially after talking about women’s safety in India. K.R.A. NARASIAH, Chennai

■ It is interesting that in the #MeToo movement, social media has shown itself to be not just a platform to kill time but, instead, become a more serious medium of communication. That women have felt more comfortable in sharing their horrifying stories through this medium than going to so-called internal complaints committees in organisations, the police, courts, mainstream media or even speaking up, says many things. This only goes to

show that organisations have a long way to go in listening to the grievances of women staff and the wide trust deficit between people and institutions. In a way, the Internet is the most equalising, impartial and democratic medium we have and is now playing a crucial role in the battle between those wronged and their more powerful oppressors. SAGAR SHIMPI, Valsad, Gujarat

■ What is the message the government is trying to convey by not acting against Mr. Akbar? The government often talks about women’s empowerment, and its foundation lies in enabling safe workplaces. The silence by top leaders in the government only sets a bad

precedent. The #MeToo movement has only shown how rampant sexual harassment is in the workplace. ASIF ALI, New Delhi

Women farmers

One wonders how emerging women farmers are able to handle the complexities of the globalised market. In many instances, due to only their basic education, women farmers are most vulnerable to exploitation. Local level training is also inadequate for women farmers to handle post-harvesting activities such as market complexities. Therefore, it is important that well-educated women also participate in the feminisation of agriculture (Editorial page, “Helping the

invisible hands of agriculture”, October 15). DEEPAK JORWAL, Karauli, Rajasthan

■ With a burgeoning economy and more jobs in the services sector, most men in villages are now in cities and towns, leaving behind women to look after agriculture. Though the feminisation of agriculture provides a huge earning opportunity to women, there are inadequacies in training for women, which is minimal. Women do well in the plantation industry, but due to a lack of storage facilities and transportation are prone to exploitation by middle men. GAGAN PRATAP SINGH, Noida, Uttar Pradesh

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