# Internal affairs

With Bangladesh out of the picture, the government should clarify its post-NRC plans

🛪 xternal Affairs Minister S. Jaishankar's statement ┥ in Dhaka on Tuesday that the soon-to-be-pu-→ blished National Register of Citizens (NRC) in Assam is India's internal matter lets Bangladesh off the hook as far as a possible return of those who don't find their names in the NRC is concerned. The Supreme Court has repeatedly asked the Centre to ascertain from Bangladesh whether it would accept those persons, who might be declared foreigners, after the NRC exercise is completed in Assam. In fact, the Supreme Court has had occasion to say that the Centre had not engaged Bangladesh in a substantive dialogue on the issue. By stating that the NRC is India's internal matter, the External Affairs Minister has conceded to Bangladesh a point that Dhaka has repeatedly made – that the 40 lakh-odd people who don't figure in the draft NRC lists are not its citizens and it is not responsible for them. In fact, Bangladesh has never accepted that any of its citizens ever illegally entered Indian territory. Other than the cryptic remark about the NRC being an internal matter for India, The Daily Star newspaper quoted the Bangladeshi Foreign Minister A.K. Abdul Momen as saying that Mr. Jaishankar had conveyed to him not to worry about the NRC issue. Bangladesh could well be satisfied with New Delhi's position on the NRC, but Indians are none the wiser about what the Centre plans to do with the lakhs of people – Hindus and Muslims – who are likely to find themselves missing from the Register when it is finally published on August 31.

The BJP has long promised that it will deport all illegally resident Bangladeshis from Assam and the rest of India, a view that it has articulated time and again over the years. But this position doesn't tally with what Mr. Jaishankar told his Bangladeshi counterpart. The party has simultaneously promised that all non-Muslims, whose names don't figure in the NRC, will be given citizenship rights by amending the law. Other than this, there is no clarity on what the government plans to do with the lakhs of people likely to be rendered stateless after the NRC exercise is completed. Though these persons would have access to foreigners' tribunals and the courts of the country, the Centre and the Supreme Court should have had a plan in place about how they will deal with the impending humanitarian crisis in Assam. Many of the affected are abjectly poor people, with little or no understanding of how the NRC process works, and entered this country in the hope of a better future for themselves and their children. It is the duty of the Government of India and the Supreme Court to ensure that these individuals are treated with dignity. The government would also do well to treat all communities who don't figure in the NRC in a non-discriminatory manner.

### New norms

SEBI's liberalised norms for FPIs will make Indian markets attractive to foreign investors

Toreign investors who have been fleeing the coun-→ try since the Union budget presented early last month have something to cheer about finally. On Wednesday, the Securities and Exchange Board of India (SEBI), based on the recommendations of the H.R. Khan committee, eased several regulatory restrictions that are likely to make life easier for foreign portfolio investors (FPIs). Among a slew of measures, the financial markets regulator has simplified the registration process for FPIs by doing away with the broad-based eligibility criteria, which required a minimum of at least 20 investors in a foreign fund, and certain documentary requirements. FPIs can now also engage in the off-market sale of their shares with fewer restrictions. Further, SEBI has allowed entities registered at an international financial services centre to be automatically classified as FPIs. This might help foreign investors bypass some of the restrictions. Mutual funds with offshore funds too can invest in India as FPIs to avail certain tax benefits now. Central banks that are not members of the Bank of International Settlements are also allowed to register as FPIs and invest in the country under the new norms. Smart cities, along with other urban development agencies, will now be allowed to issue municipal bonds to raise funds for development. These measures to cut red tape will help lower the regulatory burden on investors, globalise India's financial markets, and aid the growth of the broader economy by increasing access to growth capital.

It is not immediately clear whether SEBI's move on Wednesday was motivated by the recent flow of funds out of India's capital markets. Capital in excess of ₹20,000 crore has left Indian shores in the last few weeks after Finance Minister Nirmala Sitharaman's budget decision to increase taxes on FPIs. Policymakers were clearly under pressure to do something to allay the fears of foreign investors, so the timing of SEBI's move is no surprise. But given the broader trend of capital flowing out of emerging markets across the world, it remains to be seen whether SEBI's present move will yield immediate benefits. Even if it fails to do so, the move will still help Indian markets become more attractive to foreign investors in the long-run. While the steps taken by policymakers to make amends for their previous policy errors are obviously welcome, they should not deflect attention from the larger and persistent issue of overreach by the government against investors. In a world of globalised capital markets, where many nimble emerging markets compete to attract capital from the developed world, India cannot afford to be seen as flip-flopping on its commitments.

# Increasing investment to stimulate growth

Attention needs to be paid to both cyclical and structural dimensions of India's present economic slowdown



ndia's current economic slowdown is due to a combination of **⊥**two underlying trends. First, there is the short-run cyclical slowdown exhibited by a number of high-frequency indicators, reflecting a significant fall in demand, especially for sectors such as automobiles, consumer durables and

Second, there is the more serious long-term fall in investment and savings rates. Raising growth requires that attention be paid to both cyclical and structural dimensions of the problem.

### Fixed capital formation

When it comes to the Gross Fixed Capital Formation (GFCF) relative to GDP at current prices, a steady fall has been visible since 2011-12, when it was 34.3%. By 2017-18, it had fallen by 5.7% points, to a level

Assuming an Incremental Capital Output Ratio (ICOR) of 4, this meant a fall of nearly 1.4% points in the potential growth rate. The fall consisted of sectoral decreases in the household, private corporate and public sectors (as indicated in the table).

It is noticeable that the fall in the household sector's investment rate got arrested by 2015-16. However, by then, the rate had already fallen by 6.3% points. From 2016-17, the sector's investment rate even showed some recovery.

In contrast to the household sector rate, the private corporate sector investment rate did not

### **All-round** fall in outlays

While the household sector's investment rate fell sharply between 2011-12 and 2015-16 before increasing slightly, the rates for corporate and public sectors showed a constancy in the period and a marginal fall in the subsequent years

Source: National Income



Sector-wise dross rixed capital Formation (as 70 of GDF) at current prices (2011-12 base series)							
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total	34.3	33.4	31.3	30.1	28.7	28.2	28.6
Public	7.3	7	7.1	7	7.5	6.8	7.2
Private corporate	11.2	11.8	11.7	11	11.9	11	11.2
Households	15.7	14.6	12.5	12.1	9.4	10.4	10.3

show any fall up to 2015-16 when, at 11.9%, it was in fact higher than the corresponding rate for 2011-12 (11.2%). It fell in the subsequent years, but only by 0.7% points. This near-constancy runs counter to what industry leaders have been saying and what other data sources such as CMIE indicate, casting some doubts on the veracity of the figures.

In the case of the public sector, the rate fell by 0.3% points between 2015-16 and 2017-18.

Thus, the period from 2011-12 to 2017-18 can be seen as consisting of two parts: 2011-12 to 2015-16, when the household sector investment rate fell sharply; and 2015-16 to 2017-18 when the investment rates of the private corporate and public sectors fell marginally.

Fall in household savings rate The Gross Domestic Savings Rate also fell between 2011-12 and 2017-18 by 4.1% points, from 34.6% of GDP to 30.5%. However, this fall was entirely due to the household sector, with the private corporate and public sectors showing increases in their savings rates by

margins of 2.2% points and 0.2% points, respectively. This differentiated sectoral pattern of investment and savings rates had significant implications for the financing of investment. Private corporate and public sectors were the deficit sectors, financing their deficits from the surplus savings of the household sector. In addition, net inflow of foreign capital added to the flow of investible resources.

Throughout the period from 2011-12, the savings rate of the private corporate sector increased, reducing its dependence on the surplus savings of the household sector. While the excess of private corporate sector's investment over its own savings rate was 3.8% points of GDP in 2011-12, the gap fell to 0.5% points by 2017-18.

Given this pattern, at present, all the surplus savings of the household sector is available for the public sector. With private corporate sector's investment demand being largely met by its own savings, public sector's borrowing requirements can be fully financed using the surplus from the household sector, supplemented by net inflow of foreign capital without any fear of crowding out.

In 2018-19, the real GDP growth rate was 6.8%. Two critical policy challenges need to be addressed. First, a countercyclical policy should increase growth rate to its current potential of 7%-7.5% and then structural reforms should raise the potential growth itself to above 8.5% if India is to attain a size of \$5 trillion by 2024-25.

#### More capital expenditure

From the monetary side, reducing the repo rate by a cumulated margin of 110 basis points in 2019 has not as yet induced a noticeable growth response. Complementary fiscal stimulus, in the form of additional public sector investment, may prove to be more effective.

However, given the fiscal deficit constraint, there is limited flexibility for increasing centre's capital expenditure directly. In the 2019-20 budget, this is estimated to be 1.6% of GDP. There may be some expansion, if additional dividends from the Reserve Bank of India (RBI) flow to the government. Further, there may be some possible additional disinvestment. However, care should be taken to deploy all of these additional funds

for capital expenditure. Normally, the prescription to meet slowing demand is to increase government expenditure. In the current situation, there can be an increase in government expenditure but it has to be directed towards an increase in investment

expenditure. A similar effort may be made by State governments and non-government public sector enterprises to increase capital expenditures. All these measures may also crowd in private investment. Thus, this fiscal push, together with the already-initiated monetary stimulus, may help raise the growth rate.

Another area that needs immediate attention is the financial system, which must be activated to lend more.

On the structural reforms that are needed to push the economy onto a sustained high growth path, much can be said. We will confine ourselves to only one suggestion, on the fiscal account. We need a re-look at the Fiscal Responsibility and Budget Management Act (FRBM) Act. The government should actually move towards reducing the revenue deficit to zero. This can happen if the Centre focusses more on items on the Union list. Once this is achieved, the Central Government can be given full freedom over fiscal deficit, as the entire deficit will be directed towards meeting capital expenditures. This was described as the 'golden rule' in U.K.

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# Taking a 'Far East' turn to deepen a friendship

During Modi's visit to Vladivostok, India should signal more willingness to invest in a less-developed part of Russia



HARSH V. PANT & RAJ KUMAR SHARMA

ome 48 years ago, when the U.S. and British Navies tried Uto threaten Indian security during the India-Pakistan war in 1971, the Soviet Union dispatched nuclear-armed flotilla from its Pacific Fleet based at Vladivostok in support of India. Ever since then, the city of Vladivostok, located in Russia's Far East, has had a special place in the hearts of Indians. When Prime Minister Narendra Modi visits the city as the guest of honour at Eastern Economic Forum (EEF) in September, he would be announcing India's plans to invest in Russia's Far East, thus, paying back the long-held Indian debt to Vladivostok.

The Far East lies in the Asian part of Russia and is less developed than the country's European areas. As part of his 'Pivot to Asia' strategy, President Vladimir Putin is inviting foreign countries to invest in this region. The country's outreach to Asian nations has especially gained momentum after the 2014 Crimea crisis spoiled its relations with the West.

At the same time, the idea of an 'Indo-Pacific region', which sig-

nals India's willingness to work with the U.S. mainly to counter China's assertive maritime rise, has also left Russia concerned. Moscow is apprehensive that the U.S. would exert pressure on India's foreign policy choices and that it could lose a friendly country and one of the biggest buyers of Russian military hardware.

### For a multipolar Indo-Pacific

on its part, has mair tained that Indo-Pacific is not targeted against any country and stands for inclusiveness and stability. Mr. Modi made this clear to Mr. Putin during their Sochi informal summit in 2018. Later, at the Shangri-La dialogue, he again emphasised that for India, Indo-Pacific is not a club of limited members and that New Delhi wants to have inclusive engagement with all the relevant stakeholders.

This constant engagement has borne fruit and the two countries are now working for a multipolar Indo-Pacific. India has also been able to convince Russia that its engagement with the U.S. is not going

to come against Russian interests. On its part, Russia also wants to make sure that China does not become a hegemon in the Eurasian region and is hence deepening cooperation with countries like India, Vietnam and Indonesia. Here, the Far East has the potential to become an anchor in deepening India-Russia cooperation; more so



considering that New Delhi has expanded the scope of its 'Act East policy' to also include Moscow.

At least 17 countries have already invested in the Far East which, with its investment-friendly approach and vast reserves of natural resources, has the potential to strengthen India-Russia economic partnership in areas like energy, tourism, agriculture, diamond mining and alternative energy.

Mr. Modi's visit to Vladivostok would not be an event in isolation as New Delhi and Moscow have been drawing up the plan to cooperate in the region in the last few years. A bilateral business dialogue was included in the business programme of EEF in 2017 and, in 2018, India was one of the 18 countries for which Russia simplified electronic visas to encourage tourism in the Far East. New Delhi will also provide an annual grant of \$10,000 to fund the study of Indology at the Centre of Regional and International Studies at Far Eastern Federal University. Also, a Memorandum of Understanding has been signed between Amity University and Far Eastern Federal University to intensify cultural and academic exchanges in the areas of research and education.

A lack of manpower is one of the main problems faced by the come a regular feature. Far East and Indian professionals like doctors, engineers and teachers can help in the region's development. Presence of Indian manpower will also help in balancing Russian concerns over Chinese migration into the region. Further, India, one of the largest importers of timber, can find ample resources in the region. Japan and South Korea have also been investing and New Delhi may explore areas of joint collaboration.

### **State-to-province ties**

Mr. Modi has also given due importance to 'paradiplomacy' where Indian States are being encouraged to develop relations with foreign countries. States like Uttar Pradesh, Gujarat, Maharashtra, Haryana and Goa would be collaborating with Russian Provinces to increase trade and investments. Earlier this month, Commerce and Industry Minister Piyush Goyal led a delegation to Vladivostok that included Chief Ministers of these States and representatives from

about 140 companies. For India, there is immense potential for mid-sized and small businesses \_\_\_\_ who should be assisted to overcome language and cultural barriers so that they successfully adopt local business practices. A meeting between the heads of the regions of Russia and various Chief Ministers from Indian States may soon take place and this should be-

The two countries are: ing at the feasibility of Chennai-Vladivostok sea route that would allow India access to Russia's Far East in 24 days, compared to the 40 days taken by the current route via Suez Canal and Europe. This route would potentially add the required balance to peace and prosperity in South China Sea and could open new vistas for India, like the India-Russia-Vietnam trilateral cooperation.

Great power rivalry is back in international politics, making it more unpredictable. In times when U.S. President Trump is interested in 'deglobalisation' and China is promoting 'globalisation 2.0 with Chinese characteristics', it makes sense for India and Russia to increase their areas of cooperation and trade in order to hedge against disruptive forces and make their ties sustainable.

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## LETTERS TO THE EDITOR Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Late-night arrest It won't be an overstatement to say that political vendetta is writ large on the exertions made to frame and fix P. Chidambaram and humiliate him and hound him out of the political realm (Front page, "Chidambaram arrested in INX Media case after high drama," August 22). What stands exposed is that the law does not take its own course but a course the government of the day wishes. Fighting corruption

selectively and episodically

has become a weapon to

political opponents. The

denial of pre-arrest bail by

diverging from the norm,

pin down and 'punish'

the Delhi High Court,

and the refusal of the

Supreme Court to give a

hearing on Mr. Chidambaram's plea for no good reason have inevitably made the citizens feel that the Indian judiciary is not keen on ensuring that its citizens don't have to suffer a loss of liberty. G. DAVID MILTON,

■ The relentless efforts taken by the counsel for Mr. Chidambaram to bring up the appeal against the rejection of his anticipatory bail application by the Delhi High Court brought to my mind a case in the Madras High Court decades ago when V. Rajagoplachari, a leading lawyer, barged into the Court of Justice Srinivasan, in the midst of a hearing, without even a bail application at about 11.30 a.m. and sought bail for a

former Judge of the High Court who had been arrested and was about to be taken outside the jurisdiction of the Madras High Court to Aligarh by the train departing at 12 noon. The Judge looked at the clock and, seeing that the request for bail may become infructuous, called the Registrar of the High Court and, with the remarkable presence of mind, directed "stop the train wherever it is," while granting bail. This enabled the former Judge to get his freedom and it is learnt that he was acquitted subsequently. N.G.R. PRASAD.

**Dealing with Trump** Despite India having made it clear to the Americans that

third-party mediation is not

Chennai

resolving the Kashmir issue, it is odd that President Donald Trump has again offered assistance. Mr. Trump, who claims to be a skilful negotiator and dealmaker because of his business experience, seems to mistakenly believe that the same skills can be put to use while solving intractable issues between sovereign countries (Front page, "Trump: Kashmir situation complicated by religion," August 22). His negotiations with North Korean leader Kim Jong-un have gone nowhere in yielding a result. For an American President. Mr. Trump betrays a rather simple world view and limited historical perspective. This is evidenced by his viewing of India-Pakistan tensions

welcome when it comes to

Visionary monk Swami Vivekananda did play

sadly mistaken.

M.P. MURALIDHARAN,

a major role in helping Indians cultivate our own version of secularism. However, while talking of his contributions, a mention should also be made of the indelible mark he made in other areas like education and foreign affairs. He can be credited with developing one of the most popular weapons of today's India – cultural diplomacy. While the author

solely through the prism of

religion. With the kind of

understanding Mr. Trump

has of Kashmir and India-

Pakistan relations in general,

Imran Khan believes that the

former can be of help, he is

if Pakistani Prime Minister

has attempted to portray the present government's policies as being at variance with Vivekananda's teachings, he has overlooked the fact that schemes like Make In India and Sansad Adarsh Gram Yojana have their roots in Swamiji's philosophy. In fact, it is many of the yesteryear leaders who grossly undermined the importance of Vivekananda in giving modern India its pluralistic and multicultural character (Op-Ed page, "The monk who shaped Indian secularism," August 21). Finally, the 19th century reformer is getting the recognition he deserves in the 21st century. SATISH REDDY KANAGANTI Nalgonda, Telangana MORE LETTERS ONLINE: