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# **BOOK REVIEW**

HINDU 19.4.11 BOOK REVIEW

## **Coping with natural disasters**

N. GOPAL RAJ

**THE INDIAN OCEAN TSUNAMI** — The Global Response to a Natural Disaster: Edited by Pradyumna P. Karan and Shanmugam P. Subbiah; The University Press of Kentucky, 663, South Limestone Street, Lexington, Kentucky 40508-4008.

Watching Japan struggle to cope with the aftermath of an immensely powerful earthquake and the devastating tsunami it unleashed is a sobering reminder of how helpless humans can be against the awesome forces of nature. No country has been more conscious of the dangers of earthquakes and tsunamis than Japan. Utmost precautions were taken against these twin dangers as the island nation rebuilt from the ashes of its defeat in the Second World War and laid out a path to prosperity.

Without these precautions, the consequences would have been more catastrophic. Nevertheless, even in this well-prepared, wealthy, industrialised nation, it was not easy for people in the worst-hit areas to secure the bare necessities of life — food, drinking water, and shelter. The task of rebuilding communities and livelihoods that lies ahead is a daunting one even for the world's third largest economy.

It puts into perspective another earthquake and another tsunami that happened a few years ago. On December 26, 2004, a 1,200-km stretch of a fault near the Indonesian island of Sumatra suddenly sprang to life,

producing one of the worst quakes to be experienced since the turn of the 20th century. As in Japan, what caused most destruction and deaths was the gigantic tsunami that followed the quakes; it claimed lives as far away as Somalia. It is believed that close to a quarter of a million people lost their lives in nearly a dozen countries and some 1.7 million were left homeless.

### Lack of warning system

Unlike in Japan, a tsunami was far from the consciousness of the people and the governments in countries ringing the Indian Ocean. The lack of a tsunami warning system meant that a great many lives were unnecessarily lost. Aceh at the northern end of Sumatra was perhaps too close for any warning system to be effective. However, the waves reached Thailand only after two hours and it took an hour and a half more for that enormous wall of water to sweep across the Bay of Bengal and strike India and Sri Lanka.

Despite the lack of preparedness, once tragedy struck, the public and governments in the affected countries swiftly rallied together. With many foreign tourists killed while on vacation, the calamity struck a deep chord across the world. The result was a massive global aid effort, with U.N. organisations, military personnel, and voluntary groups pitching in.

In this book, over two dozen scholars from various countries, look at the destruction wrought by the 2004 Indian Ocean tsunami and the changes in the terrain and vegetation that followed. More importantly, it provides an assessment of what went right — and what didn't — with the mammoth aid and reconstruction efforts.

“Political neglect of the Acehnese in Indonesia and the Tamils in Sri Lanka, social marginalisation of coastal fishing communities in the Indian Ocean countries, and the difficulties that powerless individuals face in accessing resources have contributed to their vulnerability to the

tsunami hazards,” says Pradyumna P. Karan, a co-editor of the volume, in the introductory chapter. The sheer scale of the cataclysm, however, helped build bridges between groups — or served to push them further apart. The book narrates how at Velankanni in southern Tamil Nadu, where many perished when the waves struck as pilgrims attended Mass at a well-known church, volunteers from a Hindu mutt 150 km away and a group of Muslim youth from a distant village rushed to help the victims.

### Ceasefire

In Aceh, where an insurgency had led the Indonesian government to declare martial law, the calamity paved the way for a ceasefire and, subsequently, a peace deal. In Sri Lanka, on the other hand, the tragedy fanned the flames of discord between the Liberation Tigers of Tamil Eelam and the government, and contributed to the breakdown of a fragile ceasefire and resumption of fighting.

### NGO's role

Non-governmental organisations (NGOs) played a huge part in the recovery process. Local, national, and international NGOs came together in an unprecedented effort. They brought in expertise as well as resources, helped provide a range of services and reached groups that might otherwise have been left out. But there was also duplication of effort and unsuitable forms of aid being given (such as temporary shelters of metal that became unbearably hot when summer set in). A chapter on Sri Lanka notes that lack of experience and pressure for quick results compromised the efficiency and quality of some NGO programmes. Learning from experience has been fundamental to Japan's success despite being located in a seismic hotspot. India and the other countries affected by the 2004 tsunami must do the same.

## Gautam Adhikari on The Intolerant Indian



<sup>[1]</sup>Renowned journalist and writer Gautam Adhikari's book, *The Intolerant Indian: Why We Must Rediscover a Liberal Space* delineates how extremist ideologies obliterate the concept of Liberal Democracy.

The perspicacious book deciphers the esoteric meaning in India's version of Secularism and how religious fanaticism has time and again, resurrected the deprecating arguments against Pluralism. Here, the author elaborates on the same.

### **Q1-In your opinion, is the Indian version of secularism flawed or is it abstruse?**

A: The Indian version of secularism is a departure from the concept as it's understood in other secular democracies as well as in its historical sense. That's not what was intended by the republic's founders who wrote the Constitution. I deal with it extensively in the book. Secularism varies in implementation from democracy to democracy – the US version, for instance, is different from, say, the French – but at a basic level it separates the sphere of religious activity from that of political life. It is not anti-religious. It is not freedom from religion. It implies freedom of religion for citizens as long as religious interest does not determine public policy-making. In India, secularism is a diluted form of the real thing. That's what the book argues. We see the state giving in to virtually every religious demand. The line separating state and religion

has become blurred almost beyond recognition in the past sixty years. However, even the Indian version implies tolerance of religious diversity, something many of our compatriots don't seem to appreciate.

**Q. 2 The minority appeasement gimmicks to secure vote banks constricts the plausible thinking of even tolerant liberals. Do you think 'Politics of Hate' has left the citizens confounded?**

A: I don't think minority appeasement is the appropriate term. The Indian state appeases all religious communities, whether by implementing a cow-slaughter ban or by changing the law to bypass a court decision upholding the right of a divorced Muslim woman's claim to proper alimony. It wasn't always so in our republic. In the early years there was considerable debate over the nature of secularism and over how far the state should go to implement uniform laws for all citizens regardless of religious demands put forward by leaders of different communities. It was inevitable that repeated compromise would lead to strengthening of group identities along religious or caste lines. Before long, political parties began to exploit the weakness of the state and started to play with the fire of religious intolerance.

**Q. 3 In its review of the book, *The South Asian Idea Weblog* mentions "The book starts off on the wrong foot right from the Preface by choosing an 'Us' versus 'Them' frame, For 'Us' substitute the enlightened, the reasonable, the few, the ones above the pettiness of narrow identity; for 'Them' substitute the unenlightened, the unreasonable, the many, those still clinging to anachronistic primordial loyalties". Do you think use of such connotations is inevitable?**

A: I saw the review. It is, so far, the only negative assessment of the book that I have seen. Other reviewers have reacted far more positively to my core argument while expressing interesting reservations in a few cases. This particular anonymous reviewer sounds intriguingly hostile

without, it seems to me, having read the book carefully beyond that preface you mention. The ‘Us’ versus ‘Them’ argument is a bogus one. Whenever you write a book, or any opinion essay of this sort, you do so with the full intention of taking a stand, along with those who might agree with you, and against those who might not. That is the very nature of opinion writing. ‘Us’ for me would be those secularist liberals who see more or less eye to eye with the arguments I have made. ‘Them’ happens to be those I describe as intolerant Indians. It is a clear position taken, yes, from the very outset of the book. I have not tried to be even-handed. I am a liberal democrat and a secular humanist as I state clearly. You can argue against the book’s thesis from a number of positions, including an anti-secularism corner to which a few serious intellectuals, like Ashis Nandy, belong or from the point of view of religious or parochial ideologues. I summarize their views as accurately as possible and proceed to answer them. Much of the text is taken up by such arguments. This reviewer seems to have missed it all.

**Q4- Communal disharmony would keep the country vivisected. Can implementation of a Uniform Civil Code put an end to this?**

A: A uniform civil code should have been implemented right from the start. Today, politics has taken such a turn that it may be near-impossible for any government to implement a uniform code. But even if a charismatic leader turns up to grab the bull by its horns, the mere existence of a uniform civil code will not kill the virus of communal politics. The problem is vastly complicated now. And, anyone who reads the book will see that I have not dwelt solely on religious divisions amongst us. Ethnic, cultural and regional identity politics plays a strong role in fanning intolerance in India.

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# **CORRUPTION**

## **Beyond corruption**

Jug Suraiya

Will there be a national life after Anna? The Gandhian's satyagraha against rampant corruption has evoked a countrywide response unmatched by anything in the history of independent India, not even perhaps by Jayaprakash Narayan's 1974 movement against the increasing authoritarianism of Indira Gandhi's government.

JP's 'swarajist' campaign - initially spearheaded by students in Bihar but later spreading to include citizens from all walks of life, across the nation - caused the biggest political earthquake the country has ever witnessed when Indira Gandhi, backed into a corner, declared her infamous Emergency and overnight turned democratic India into a totalitarian dictatorship.

But though shrouded, the torch of freedom was not extinguished. And it burned brighter and fiercer than ever when in the general elections following the lifting of the Emergency, the collective wrath of the people voted Indira Gandhi out of office and brought in the Janata government.

The new dispensation, which got into internal wrangles almost from day one, was to pose its own challenges of cohesion. But the 'spirit of '77' made one thing clear: no one would again dare to try and stifle India's irrepressible democracy. The powers-that-be today will attempt to derail Anna's runaway movement at their own peril. Some critics have tried to put a verbal spoke in the wheels of the anti-corruption juggernaut by suggesting, among other things, that such extra-parliamentary forms of legislative activity would eventually derail democracy by encouraging

irresponsible copycat movements which could be wilfully subversive of the rule of law.

Such sceptics, however, have been swiftly silenced by the overwhelming support that Anna's cause has generated, targeting as it does what is universally seen to be the nation's single most baneful affliction. Public disgust with all-pervasive graft has reached a pitch where corruption is perceived to be the root cause of all our myriad social, political and economic ills. The groundswell of opinion seems to be that if we can somehow exorcise the demon of corruption we will be freed of all the other evils that daily bedevil us.

Such a single-point agenda would be dangerously short-sighted. Corruption, in all its many manifestations, is without any question one of the most harmful of the toxins poisoning our body politic. But it is by no means the only one. Anna himself has already identified electoral reform as the next banner around which to rally his growing legions of followers. The criminalisation of politics, and the open use of muscle- and money-power to capture votes has made such reform a vital necessity which has been far too long delayed. Some of the electoral changes debated have been the right of recall and the voter's right to cancel their ballots in case they find all the candidates unsuitable in a particular constituency.

Such much-needed political reform, however, presupposes that the voter is free to make a truly informed choice. Illiteracy and the deep-rooted patriarchal system by which women voters are no more than rubber-stamp extensions of the male head of the household are only two of the major obstacles in the path to making the electoral process more truly representative.

Indeed not a few would say that to the extent - and it is a very large extent - that gender discrimination in effect disenfranchises the female half of the population India is at best a shambolic democracy. The

progressive disempowerment of women is revealed by studies of sex-selective abortions which indicate that in 20 years' time India will have 20% more men than women. A clear case not of genocide, perhaps, but certainly of gendercide. And perpetrated, largely, by the urban middle class which is the most visible in championing Anna's cause.

Let's get rid of corruption by all means. But let's not forget the other - and far worse - monsters which lurk within us.

## **Whose bill is it anyway**

Sandeep Dikshit

The Lokpal bill episode has been one of the more exciting events in recent years. While there is an opinion that this is akin to an episodic change in India's polity, with parallels with the JP movement, there are many who argue that too much is being read into this affair. Within these points of view, the two central questions are whether this is really a movement that shall significantly change the way we look at, indulge in and sustain corrupt practices in our polity, economy and even society, or whether it is just a collective manifestation of people's disaffection with general corruption that seems to come together every now and then. And, a more serious question, whether the proposed Lokpal/ Jan Lokpal Bill is actually what it is made out to be — a way to establish an incorruptible, independent organisation that will reduce corruption by 90 per cent, by eliminating all known systems and agencies which have been created both by our Constitution and by years of administrative experience.

A serious look at the provisions of this Lokpal bill — as well as an appraisal of the institutions, system and existing laws, which may have weakened today but still have the mandate and constitutional validity to be able to do just what this bill also proposes — raises many genuine questions on its intent and content. There are genuine concerns being voiced by people who have perhaps fought against dishonesty and wrongdoings for more years and with more commitment than many of the protagonists of this version of the bill. They oppose in large measure or in part many of the provisions of this bill: lack of well-thought-out systems for accountability within the Lokpal system, the clearly evident

creation of an absolute power structure, and the many, many parts in which this bill contravenes the Constitution, subverting many existing laws and further weakening our existing institutions which perform anti-corruption functions.

The premise appears to be that since everyone is corrupt, every institution is compromised, every law is defunct, every politician is evil, every bureaucrat (except those who have retired) is out to sell the nation, every judge (again except those who have no stake left in the system) is selling justice, we build a new “Animal Farm”, find such people that the government could never find from amongst its ranks, empower them in ways that our Constitution forbade for any other person in any capacity in public life, and then we shall usher in a new dawn.

This raises many questions, doubts and concerns since the bill attempts to significantly alter our way of governance, replacing the process of democracy with meritocracy. It challenges our principles of checks and balances, commitment to the balance of power and responsibilities as enshrined in our Constitution, adherence to the principles of natural justice, and open and equal accountability of every person. And it does not really provide a workable, impeccable alternative, as is being stated.

For anyone interested and concerned about India, expressing his or her opinion on this bill is important. In fact, the committee constituted to draft the bill will be able to come out with a better, more effective, more just and actually workable piece of legislation if all these concerns are taken on board and resolved. The very reason why this committee was formed was because it was argued that we need more opinions and contributions to this bill than those existing within government to really draft an effective bill.

Having accepted this once, can the protagonists then state that every opinion, every doubt, every contribution, every suggestion, every warning, every fear expressed by those outside this group is an

attempt to sabotage this bill? That an attempt is being made with a hidden agenda to promote corruption and protect the corrupt?

Over the past few weeks, especially in the last four-five days, we have seen an increasing intolerance for alternative opinions, for alternative voices. And from whom? Those who themselves claim to have been part of the alternative voice!

This week, Anna Hazare wrote to Sonia Gandhi to rein in Digvijaya Singh and Kapil Sibal for what he claimed to be their anti-Lokpal bill activities. Why is there such intolerance for those who speak otherwise? For a man of his stature and moral bearings, for a man known to stand for his beliefs, why is there such opposition to anyone else who voices his thoughts? Why is there a need to appeal to Sonia Gandhi? I find it intriguing that a movement that prima facie eliminates the politician from any role appeals to a politician to play a role.

Part of the greatness of our democracy (and I believe in it) is the opportunity it gives to each one of us to say what we want, to try and be heard, to give us a chance to pose alternative voices and opinions. Whoever we might be, however right and morally upright we may be, however powerful we may be, the day any of us can believe that only one voice has legitimate space in our world, we enter dangerous territory.

The bill is too important with too many consequences — not least of all the possibility of landing us in a quagmire — for it to be insulated from opposing voices and opinions. To try and suppress those who have different opinions or who question things is a sign of weak defence.

We need to encourage all voices, of dissent, of alternative opinions and suggestions, wherever they may come from. The issues that have been raised concern each one of us, and thus each one of us has the right to speak and be heard. The fight against corruption is not a proprietary concern, it's a partnership that must involve each citizen. Let the rules of this fight also be configured as a true partnership.

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### **Jan Lokpal: an alternative view**

K.N. Panikkar

*Given the scale of corruption in India, the constitution of a Jan Lokpal will be a welcome initiative. But the proposed Lokpal has the makings of a super-monster.*

After 42 years of hesitation and uncertainty, an institutional mechanism to deal with the all-pervasive incidence of corruption in India is in sight. What apparently moved the state machinery was the agitation spearheaded by Anna Hazare, which drew spontaneous support primarily in the metropolitan cities. Within five days of Anna Hazare starting a 'fast unto death' at Jantar Mantar in New Delhi, the Government of India conceded his demand to constitute a committee to draft a bill to establish the institution of a Lokpal at the Centre.

This was quite different from the past practices of the Indian state. Remember Potti Sriramulu, who at the end of a prolonged fast sacrificed his life for the formation of Andhra Pradesh. And Irom Sharmila has been on a hunger strike for more than 10 years, demanding the repeal of the Armed Forces (Special Powers) Act.

Nevertheless, the developments leading to the constitution of the committee to draft a Lokpal bill, and the provisions of the draft bill, raise fundamental questions about the working of Indian democracy. Some of these questions demand urgent attention before a bill is piloted in Parliament.

In the matter of deciding the composition and the terms of reference of the committee, Anna Hazare appears to have exercised decisive

influence. He chose the “representatives of civil society” and the government accepted his suggestions. The committee consists of five “representatives of civil society,” and five Union Ministers representing the government. Welcoming the initiative, the Prime Minister has said that the “coming together of the government and civil society is a step that augurs well for democracy.” But it should be apparent that no democratic principle was followed in the constitution of the committee. The civil society representatives were handpicked by Anna, and the government nominees do not reflect the diverse political opinion that is represented in Parliament.

A Magsaysay award winner, Anna Hazare brought to the movement against corruption his considerable reputation and the moral strength derived from his social work in a village in Maharashtra, Ralegan Siddhi. But the methods he has adopted to press his demand have raised eyebrows. Many people believe that the hunger strike he undertook and the ultimatum he served were coercive in nature and have no place in a democracy. The attempt made by some of his followers to equate him with Gandhiji need not be taken seriously, as neither his ideas nor his methods justify such a claim. Nevertheless, his Gandhian credentials have earned him recognition from the state and civil society. Although he claims to be apolitical, he entertains a deep distrust of politics and politicians.

Paradoxically, he has sought the help of the political system to deal with the malaise of corruption. If he had chosen the moral path, he would have addressed the social conditions that made corruption possible. Yet, supported by a few civil society activists and projected by a section of the English media as a saviour of the nation, Anna acquired a larger-than-life stature that appeared to have punctured the government's self-assurance.

His agitation has been lionised by some people as a second freedom struggle. But it appears to have escaped general notice that “the assertion

of a few to represent the majority” without any representative character is essentially anti-democratic. The emotional, even unthinking, support that Anna Hazare commanded is understandable, given the widespread corruption indulged in by the political elite and the bureaucracy.

However, it is the timing of the agitation rather than the moral content of the campaign that accounts for the popular response. The neo-liberal policies pursued by the ruling elite had opened up the possibility of corruption in the massive transfer of public assets and the promotion of corporate interests through political patronage. Both the National Democratic Alliance led by the Bharatiya Janata Party and the United Progressive Alliance under the leadership of the Congress were bedfellows in promoting privatisation and inviting foreign capital to modernise India. The unprecedented levels of corruption in recent times are a concomitant of the economic conditions created by liberalisation.

Corruption is a complex issue that is embedded in bureaucratic rigidity and issues of economic access and political power. In this sense, the state is the main promoter of corruption. It cannot be reduced to a question of morality alone, nor can a solution be found by punishing individuals as a deterrent. Such a solution, however, will be most welcome to the state and its functionaries, and even to the liberal intelligentsia. It appears that corruption is a great unifier. For Anna Hazare's anti-corruption platform attracted the former police officer Kiran Bedi and Arya Samaj leader Swami Agnivesh, along with communalists like Ram Madhav and religious entrepreneurs such as Baba Ramdev and Sri Ravi Shankar on the same platform. Not only were communalists and rightwing elements part of his entourage, but Anna extended his 'blessings' to the likes of Narendra Modi by praising the Gujarat model of development, ignoring in the process the moral problem that is so dear to his heart.

It is tragic that a person who believes that morality is neutral is being celebrated as the 'saviour' of the nation in some quarters, including the

government. But the state's favorable demeanour towards Anna is not surprising. So long as Anna Hazare, or for that matter anybody else, does not raise systemic and institutional issues, and only champions reformist measures, the state will have no problem in promoting them. In fact, the state's attempt will be to 'instrumentalise' them.

As a result, Anna Hazare and his committee may end up as apologists for the state-run machinery of corruption. For it is not the absence of law that prevents action against the guilty, but the absence of a political will to do so. For a crisis-ridden government, the periodic appearance of the likes of Anna Hazare, and their reformist agendas, are safety valves. The government functionaries who are sharing the table with Anna now may help create another fortress around the beleaguered state.

The committee that was quickly constituted on the basis of mutual consent between Anna and the government has started its deliberations. More than one draft bill was presented at its first meeting, and therefore it is premature to discuss the provisions. Yet, there are some visible directions. Anna Hazare's authoritarian approach to social problems, as is evident in the social ambience created in Ralegan Siddhi, and the principle of centralisation of authority that the state follows (in the matter of the National Council for Higher Education and Research Bill, for instance) find a common resonance in the drafts. They envision the Lokpal functioning in a social vacuum as a super-judicial authority, undermining the existing judicial system — which, all said and done, has withstood the pressures and preserved the rights of citizens. There is nothing in the draft to suggest that the Lokpal will bring to bear a greater sense of transparency and accountability of the system than what the existing institutions have so far achieved.

The aim of the bill is not to prevent corruption but to punish the corrupt. In this respect, the draft does not provide an approach that is qualitatively different from that of the existing institutions of the state. Only when a transparent system is put in place will the prevention of

corruption become possible. Social audit does not necessarily create such transparency. The process of decision-making has to be fundamentally altered in order to ensure transparency. The targets should be the conditions that make corruption possible; that requires a complete overhauling of the existing mode of government management.

Given the scale and influence of corruption in India, the constitution of a Jan Lokpal will be a welcome initiative. But the proposed Lokpal has the makings of a super-monster. By absorbing all existing anti-corruption agencies, the Lokpal will have complete powers of independent investigation and prosecution. It will be an institution with overriding powers — but without any accountability. As such, it goes against all norms of democratic functioning. If the Jan Lokpal is to live up to its jan character, its authoritarian and centralised structure should be dispensed with and it should be turned into an instrument of people's empowerment. A beginning towards this end should be made at the formative stage itself by sending the draft bill to every panchayat for discussion, so that nation's conscience is truly aroused.

*(Dr. K.N. Panikkar, a former Professor of the Jawaharlal Nehru University, is at knpanikkar @gmail.com)*

# **ECONOMIC DEVELOPMENT**

## **A bad times to lose control**

Ila Patnaik

The debate on the effectiveness of capital controls has come alive after an IMF staff proposal supporting the use of controls by emerging economies facing large volatile inflows. The impact of controls on the magnitude and composition of capital flows, the cost of transaction and monetary policy has been a subject of enormous debate. There is, however, little consensus on the issue. Experience about the effectiveness of capital controls varies according to the specifics of the country. To the extent that there are country-specific characteristics that make capital controls effective, understanding individual experiences with capital controls gains significance.

There has been considerable interest in India's experience for two reasons. One is that India has long had an extensive system of administrative controls. While capital controls may have limited effectiveness in a country that has removed controls completely and then attempts to reintroduce them in a limited way, India has a long-standing legal and administrative structure in place that can support the imposition or tightening of a comprehensive array of controls. On the well-known Chinn-Ito measure of de jure restrictions, India stood at -1.13 in 2008, implying that it is much less open than most other major emerging markets like Brazil, South Korea and Russia, and about as closed as China. Also, in contrast to market-based controls which are often seen to be effective in the short run, the experience of countries such as

India and China which have administrative controls has not been studied in the literature.

The second reason is that India fared relatively well during the global crisis. As the global economy slowed, so did the Indian economy, with seasonally adjusted GDP growth dropping from a peak of annualised growth of 11.7 per cent (quarter ended December 2005) to 4 per cent (quarter ended December 2008), a decline of 7.7 percentage points. While this was a very large drop by any standard, growth remained positive in the downturn, and no large financial firm went bankrupt.

The juxtaposition of extensive controls and favourable economic performance has suggested to some that the two were causally linked. It has been argued, for example, that controls made India more resilient, by isolating it from shocks that occurred elsewhere and preventing a build-up of foreign debt.

However, did the system of controls actually work as a tool for macroeconomic policy?

While the structure of controls remained in place, there was a continuous, albeit slow, movement towards reducing controls and opening up of the capital account for a decade starting in 1991. In the period after the Asian crisis, especially in the years 2001-2004, the Indian economy started attracting larger capital inflows. The policy of maintaining a low volatility of the exchange rate of the rupee was implemented through central bank intervention in the foreign exchange market. The Reserve Bank sterilised its intervention. International experience suggests that sterilised intervention increases capital inflows, especially short-term capital. India too saw a sharp growth in capital inflows as expectations of rupee appreciation added to the higher interest rate differential and enhanced the attractiveness of the rupee as an asset. After 2004, when the RBI ran out of its stock of government bonds,

which it had been using to sterilise its intervention, and starting using the newly created Market Stabilisation Scheme bonds that were meant only for sterilising its intervention, that sterilisation became partial, expectations of appreciation sharply increased, and India witnessed a surge of capital flows. It was then that restrictions on the capital account were increased.

A recent NIPFP working paper focuses on these increased restrictions within the existing elaborate system of capital controls, which were imposed in a period of a surge in capital flows. These restrictions included tightening cost and end-use controls on foreign currency borrowing, tax and administrative changes to the regime for venture capital, registration provisions for non-resident Indians who were foreign portfolio investors and bans on offshore derivative products.

In India, the structure of capital controls has not been dismantled despite the easing of restrictions in the capital account on various fronts. The purpose is to be able to control the composition of flows as well as use this framework so that when there is a surge of capital, this structure can be used to achieve policy objectives. It is thus relevant to ask whether in the period when there was a surge of capital, the *raison d'être* of the capital controls regime, did it achieve its objectives or not? Here is the evidence.

**Magnitude and composition of inflows:** The capital controls reduced particular types of inflows (such as long-term foreign currency borrowing), but could not ensure that the overall magnitude of capital inflows was small. Indeed, by 2007 overall flows had reached 9 per cent of GDP — large not only by historical Indian standards, but also by comparison with other major emerging markets, most of which had more liberal *de jure* regimes.

Monetary policy regime: Despite a series of reinforcing measures, the controls were not tight enough to preserve the monetary policy regime. The de facto exchange rate peg gave way, in two steps, to a more flexible exchange rate regime. On May 23, 2003, there was a structural break in the exchange rate regime, and for the next four years, rupee-dollar volatility doubled to 3.9 per cent annualised. This arrangement worked till March 23, 2007, when there was another structural break and for the next four years, flexibility doubled once again to 9 per cent annualised.

Financial stability: The attempt to uphold the exchange rate regime with capital controls actually eroded financial stability. Since the controls proved porous and sterilisation was only partial, the large-scale purchase of dollars spilled over into loose monetary policy. The largest ever credit boom in India's history came about, with credit to the private sector growing by around 30 per cent year-on-year for three consecutive years.

India also experienced an asset price boom on the stock market which was more extreme than that seen with most emerging markets, some of which had open capital accounts.

In sum, the evidence suggests that India's capital control system did not work. Even an unusually extensive set of controls proved unable to sustain India's macroeconomic and financial framework at a time when the economy was integrating rapidly with the rest of the world.

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## **Bihar babu who put his dept back on track gets PM award**

Vandita Mishra

Almost all the congratulatory SMSes invoke ‘Bihari pride’. So when Pratyaya Amrit, Secretary, Bihar’s Road Construction Department, steps up to receive the ‘PM’s excellence award in the field of public administration’ on the occasion of Civil Services Day on Thursday, he will be acutely aware that the moment and the event in Vigyan Bhawan will get seamlessly woven into a larger narrative back home. They will be claimed by the still-unfolding ‘Bihar Turnaround’ story.

No wonder, then, that though he is the only winner in the individual achievement category this year, Pratyaya is quick to say, “It (the award) is a recognition for the work that is happening in Bihar today, and it will send a positive message to many people, especially to those investors who are interested but are still not too sure about the state...” He adds: “It is about the 500 employees of the Bihar Pul Raj Nirman Nigam (BRPNN) coming together and working to make it a success, cutting across caste lines.”

The PM’s award acknowledges the work done in reviving the BRPNN, once a decrepit PSU, now a profit-making corporation poised to extend its footprint outside Bihar to other states. When Pratyaya took over in 2006, the Nigam was not only loss-making, it was also under liquidation. The previous government had decided to wind it up.

The BRPNN's turnaround is irrefutable: In June 2009, the corporation posted a net profit of Rs 60 crore; and the turnover had climbed from Rs 40 crore to 758 crore. "Today, it has crossed 1,000 crore," Pratyaya says.

From 1975 to 2005, the BRPNN had made only 319 bridges, but between 2006 and 2010, the number vaulted to 634. The award for the BRPNN turnaround, says Pratyaya, could well mean a push for critical infrastructure projects currently on the Bihar government's agenda.

## **Still in the danger zone**

Mohamed A El-Erian

Three years after the global financial crisis, the global economy remains a confusing place—and for good reasons.

Should we draw comfort from gradual healing in advanced countries and solid growth in emerging economies? Or should we seek refuge against high oil prices, geopolitical shocks in the Middle East, and continued nuclear uncertainties in Japan, the world's third largest economy?

Many are opting for the first, more reassuring view of the world. Having overcome the worst of the global financial crisis, including a high risk of a worldwide depression, they are heartened by a widely shared sense that composure, if not confidence, has been restored.

This global view is based on multispeed growth dynamics, with the healing and healthy segments of the global economy gradually pulling up the laggards. It is composed of highly profitable multinational companies, now investing and hiring workers; advanced economies' rescued banks paying off their emergency bailout loans; the growing middle and upper classes in emerging economies buying more goods and services; a healthier private sector paying more taxes, thereby alleviating pressure on government budgets; and Germany, Europe's economic power, reaping the fruit of years of economic restructuring.

Much, though not all, of the recent data support this global view. Indeed, the world has embarked on a path of gradual economic recovery, albeit uneven and far less vibrant than history would have suggested. If this

path is maintained, the recovery will build momentum and broaden in both scope and impact.

But “if” is where the second, less rosy view of the world comes in—a view that worries about both lower growth and higher inflation. While the obstacles are not yet sufficiently serious to derail the ongoing recovery, only a fool would gloss over them. I can think of four major issues—ranked by immediacy and relevance to the well being of the global economy—that are looming larger in importance and becoming more threatening in character.

First, and foremost, the world as a whole has yet to deal fully with the economic consequences of unrest in the Middle East and the tragedies in Japan. While ongoing for weeks or months, these events have not yet produced their full disruptive impact on the global economy. It is not often that the world finds itself facing the stagflationary risk of lower demand and lower supply at the same time. And it is even more unusual to have two distinct developments leading to such an outcome. Yet such is the case today.

The Middle Eastern uprisings have pushed oil prices higher, eating up consumer purchasing power while raising input prices for many producers. At the same time, Japan’s trifecta of calamities—the massive earthquake, devastating tsunami, and paralysing nuclear disaster—have gutted consumer confidence and disrupted cross-border production chains (especially in technology and car factories).

The second big global risk comes from Europe, where Germany’s strong performance is coinciding with a debt crisis on the European Union’s periphery. Last week, Portugal joined Greece and Ireland in seeking an official bailout to avoid a default that would undermine Europe’s banking system. In exchange for emergency loans, all three countries have embarked on massive austerity. Yet, despite the tremendous social pain, this approach will make no dent in their large and rising debt overhang.

Meanwhile, housing in the US is weakening again—the third large global risk. Even though home prices have already fallen sharply, there has been no meaningful rebound. Indeed, in some areas, prices are again under downward pressure, which could worsen if mortgage finance becomes less readily available and more expensive, as is possible.

With housing being such a critical driver of consumer behaviour, any further substantial fall in home prices will sap confidence and lower spending. It will also make relocating even more difficult for Americans in certain parts of the country, aggravating the long-term-unemployment problem.

Finally, there is the increasingly visible fiscal predicament in the US, the world's largest economy—and the one that provides the “global public goods” that are so critical to the healthy functioning of the world economy. Having used fiscal spending aggressively to avoid a depression, the US must now commit to a credible medium-term path of fiscal consolidation. This will involve difficult choices, delicate execution, and uncertain outcomes for both the federal government and the US Federal Reserve.

The longer the US postpones the day of reckoning, the greater the risk to the dollar's global standing as the world's main reserve currency, and to the attractiveness of US government bonds as the true “risk-free” financial benchmark.

The world has changed its supplier of global public goods in the past.

The last time it happened, after World War II, an energised US replaced a devastated Britain. By contrast, there is no country today that is able and willing to step in should the US fail to get its act together.

These four risks are material and consequential, and each is growing in importance. Fortunately, none of them is yet transformational for the global economy, and together they do not yet constitute a disruptive

critical mass. But this is not to say that the global economy is in a safe zone. On the contrary, it is caught in a duel between healing and disruptive influences, in which it can ill afford any further intensification of the latter.

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# **INTERNATIONAL RELATION**

## **Nepal's fragmented politics and India**

Prashant Jha

*Internal political divisions and the existential crisis within the Maoists have stalled Nepal's political process. India's approach has not helped either.*

When External Affairs Minister S.M. Krishna arrives in Kathmandu on Wednesday (April 20), he will come across an extremely complex and fragmented political landscape. At a time when only a broad based consensus can lead to the successful conclusion of the peace and constitutional process, deep inter and intra party divisions mar the Nepali polity. Mr. Krishna's challenge will be to encourage all forces to work together as the May 28 constitutional deadline approaches, and rebuild the political trust between India and sections of the political class, especially the Maoists.

The government's troubles

The 'left government,' led by Communist Party of Nepal (Unified Marxist Leninist) chairman Jhalanath Khanal and supported by the Maoists, is barely functional. Two months after being elected, the Prime Minister has not been able to give full shape to the cabinet. There is no foreign minister, and the Maoists have sent only four leaders to government, out of their allotted quota of 11 ministries.

At the root of the Prime Minister's problems are the internal divisions within his party, the UML, and the Maoists. The Prime Minister signed a seven point deal with the Maoist chairman, Pushpa Kamal Dahal 'Prachanda', in the run-up to his election. Key provisions included

distributing home and defence portfolios sensitively (the unwritten deal was giving home to the Maoists), a rotational system where Maoists would lead the government next, and creation of a separate or mixed force of Maoist combatants.

The deal immediately provoked a backlash within the UML, with leaders accusing the Prime Minister of toeing the Maoist agenda. The party accepted the agreement, but with the caveat that Maoists will not be given the home ministry till there was progress in the peace process — the argument being that the former rebels could not have a security related portfolio till they had a 'private armed force.'

In turn, the Maoists accused the UML of 'betrayal' and insisted on the implementation of the seven point agreement. The party is in the middle of a deep existential crisis, with three distinct groups led by chairman Prachanda, senior vice-chairman Mohan Vaidya 'Kiran' and vice-chairman Dr. Baburam Bhattarai engaged in battles over the ideological line, organisational functioning, and political space. The dogmatic Mr. Kiran has pushed for creating deeper polarisation, and a 'people's revolt'; Dr. Bhattarai has argued for continued collaboration with older parliamentary parties and India to institutionalise a federal democratic republic; and Mr. Prachanda has adopted an ambiguous position of striving for peace and constitution, but simultaneously preparing for a popular revolt.

The three groups divided the ministerial portfolios allotted to the Maoists among themselves, with Mr. Prachanda agreeing to give the home ministry to Dev Gurung, a senior leader of the Kiran camp. With the UML refusing to give them the home ministry, the Maoist dogmatists are now threatening to pull out of government. For his part, Dr. Bhattarai opposed the alliance and has argued that only Maoist collaboration with NC can push the process forward.

These details reveal the limited manoeuvring space available to the ruling coalition. The pressure by the PM's rivals like Madhav Nepal and

K.P. Oli within the UML has restricted Prime Minister Jhala Nath Khanal's ability to deliver what he has promised to the Maoists. And the challenge posed by both Mr. Kiran and Dr. Bhattarai, who are pulling the party in opposite political directions, drastically limits Mr. Prachanda's ability to compromise. Add to this the opposition from outside — where the NC has been critical of the failure in governance, and the parties comprising the United Democratic Madhesi Front (UDMF) have threatened a movement in the plains if 'Madhesi concerns' are not addressed.

### Peace and constitution front

The silver lining in the past two months, however, has been an emerging agreement on the modality of the integration of Maoist combatants. The Nepal Army has proposed the creation of a mixed force under an NA directorate, led by a major general. This force, comprising 10-12,000 soldiers, would include Maoist fighters, and personnel from the Nepal Police, Armed Police Force and NA — it could be used for purposes of border security, disaster management, or industrial and forest security. The Maoists and NC have reacted positively to the proposal. The numbers to be integrated, rank harmonisation, recruitment norms, and timeline are yet to be thrashed out. But there is now a concrete proposal on the table on which all sides can build a common ground.

On constitution writing, a sub-committee of the Constitutional Committee led by Mr. Prachanda resolved many key issues, especially regarding the judiciary and legislature. But the form of government and nature of federalism remain major contentious issues. Once again, the internal contradictions of the Maoists have held the process hostage — where dogmatists like Mr. Kiran have put pressure on Mr. Prachanda to quit from the subcommittee, raising serious questions about the commitment of a section of the Maoist party to constitution drafting. Given the range of differences, missed deadlines, and existing political

impasse, it is clear that a full constitution will not be written by May 28, when the Constituent Assembly's term expires.

What happens to the Assembly then? There are voices in the NC and UML raising questions about the utility of the Assembly if it can't draft the statute. Anti-Maoist forces, in Nepal and outside, have also pushed for dissolution of the Assembly since that would deprive the Maoists of a source of legitimate strength. But an extension with a time-bound plan on the peace and constitutional process is the best option since the other scenarios — active presidential intervention backed by the army, a constitutional vacuum, or an outright confrontation with Maoists on the streets — are far more dangerous and will lead to the collapse of the existing framework.

### India's role

Given the internal fragmentation, India will be hard pressed to help build a consensus even if wants to help. But what is crucial is that it does not play a counter-productive role.

There is a perception that New Delhi is uncomfortable with the 'left alliance.' With rising violence in the Tarai, Kathmandu is rife with rumours that sections of the Indian establishment have once again turned a blind eye to the activities of armed groups operating from Bihar and Uttar Pradesh in order to discredit the present government — this trend had drastically declined during the previous Madhav Nepal government with which India had a close working relationship. New Delhi has also encouraged Madhesi parties to stay out of government and instead be a strong opposition along with the NC.

All of this is only fuelling resentment against India among a sizeable section of the left forces in Nepal, who constitute a large chunk of the Constituent Assembly and electorate and feeding into the designs of those Maoists who want to deepen the polarisation.

Mr. Krishna would do India-Nepal relations a lot of good if he could, at the highest levels and in public, deliver a political commitment that New Delhi does not have preferences in Nepali domestic politics and any legitimate government will have its full co-operation. This must be followed by instructions to its own arms not to play a destabilising role.

### The larger picture

India should keep its eyes on the big picture and encourage all parties to build up the momentum on integration and rehabilitation of Maoist combatants, which is at the core of the peace process, and constitution writing. There is suspicion in Kathmandu that India would not like the Constituent Assembly extended — something Madhesi leaders publicly said after a recent visit to India. Those in New Delhi who think on those lines and are arguing that Nepal should go in for fresh polls instead are either being ignorant or mischievous — in the absence of a full statute, and the continued presence of Maoist fighters, there will no framework or political consensus to hold polls and the country will be stuck in a protracted impasse. There is no alternative to the present process and Mr. Krishna should make an unequivocal commitment that India would like to see a constitution drafted by the Constituent Assembly and will not in any way intervene to influence the politics around its extension.

The roots of the present political crisis in Nepal are internal, and can be attributed to the deepening divisions within all parties, especially Maoists. If Mr. Krishna returns with a more nuanced understanding of the situation, and revises Delhi's simplistic black and white position where its suspicion of the Maoists is the over-riding principle of its Nepal policy, it will be in both Nepal and India's long-term interests.