

On the back foot

How long will the BCCI brazenly avoid accountability?

The Board of Control for Cricket in India, or BCCI, continues to provide a dark, tragicomic vision into how impunity works in India. In a sad reflection of how the existing regulatory system and organisational structures have failed to deal with the increased challenges that have come with the rise of the Indian sport in many disciplines, the greater prosperity and success of Indian cricket have exposed the inability of its Board to keep up with the times. True, the Working Committee of the

BCCI postponed the meeting that was expected to reinstate N Srinivasan, the promoter of Chennai-based India Cements, as the Board's head. However, it is not the case that the Board has accepted the strictures levied by the Bombay High Court on its internal "probe" of possible wrongdoing by Mr Srinivasan. That probe, conducted by a panel of two retired judges from Mr Srinivasan's home state of Tamil Nadu, gave him a "clean chit", as the euphemism goes, and paved the way for his resuming office as if nothing had

happened. The High Court held that the BCCI's probe into the spot-fixing betting allegations that had widened to include Mr Srinivasan's son-in-law was "illegal and unconstitutional"; the BCCI has decided, reportedly, to challenge this in the Supreme Court.

According to the BCCI, once that decision was made, Mr Srinivasan "rejoined the meeting" and asked Jagmohan Dalmiya to continue to carry out the duties of the president of the BCCI for the moment. This is in itself problematic in terms of optics; few Indians would imagine Mr Dalmiya to be exactly the ideal person to preside over an organisation that is trying to clean up its act. Frankly, the way the BCCI is trying to brazen its way out of these allegations is distasteful.

The Mumbai police continue to investigate the spot-fixing ring, and there is little doubt that Mr Srinivasan, even if he has been "exonerated" by the BCCI's internal probe, should not return to office. In fact, he should have stepped down rather than "stepping aside", in order to let the police investigation complete itself.

While the BCCI may have insulated itself against accusations of ignoring the Bombay High Court's order by keeping Mr Srinivasan's presidency in limbo while an appeal to the Supreme Court goes forward, it is increasingly clear that the position that the Board enjoys independent of all external regulation is becoming untenable. The Indian cricket team plays as national representatives; its matches have been declared events of nation-

al importance by the courts in the past, enabling their telecast on the national television network, Doordarshan. It should be amply clear, therefore, that treating the BCCI as a purely private body can no longer go forward. It has not shown the sort of dedication to probity and transparency that would have allowed it, in the public eye, to retain its relatively free status. The government, and the Union sports ministry in particular, cannot afford to continue to ignore the shenanigans in the BCCI. A public debate on how independent accountability can be imposed on what is, after all, a quasi-public body, is overdue. If the BCCI's satraps are upset, well, then they have only themselves to blame by placing themselves beyond internal accountability and then trying to brazen it out.

How India needs better advocacy to mobilise more FDI

Besides policy implementation at home, embassies abroad must push India as an investment destination

KISHAN S RANA

In the current cascade of gloomy news on the Indian economy, declining foreign investment inflow has gained visibility as a priority objective. Sadly, apart from tokenism and crowding over what are really small steps, Indian official circles do not address the real issue: marketing the India destination.

For any country, FDI inflows hinge on two actions. First, at home we need to put in place and implement regulations that will induce investments. The Indian civil servant loves discretionary authority. The 'case-by-case' formula has, in the memorable words of N Vaghul, often meant 'suitcase by suitcase'. Many of us want the home environment to be improved, but this has simply not happened, despite many promises. Fortunately, the size of the Indian market, and many intrinsic positives help prop up our attractiveness, almost despite our policy failures. And fortunately for us, other destinations suffer from their own infirmities, so that our situation is perhaps not as dismal as World Bank and other indices show it to be.

Second, there is on-ground marketing of the India destination. Nabobs in New Delhi may not realise this, but foreign companies do not pay much attention to North Block's rosy prognostications. For those engaged in India destination marketing, the home conditions are a given. Embassies can give feedback to the home authorities on what foreign investors think, and offer their suggestions on what ought to be done. But beyond that, they have to get on with the marketing task, and work for the best outcomes. That is the task that the New Delhi establishment usually fails to understand, given its *dirigisme* mindset of dispensing permissions and discretionary power.

In a perfect world, marketing investment destinations would be unnecessary. Since information would flow optimally and immediately to foreign corporate decision-makers, they would comprehend in real time the balance card for different overseas locations, besides things like future prospects for different world markets. Alas, such a perfect state of affairs, a la Adam Smith, is far from reality.

Consider what others do by way of self-promotion as business and investment destinations. Three models come to mind. First, a ministry-diplomatic model: UK Trade & Investment representatives are nested within embassies, handling the country's economic diplomacy, including investments into the UK. The Foreign and Commonwealth Office and the Department for Business, Innovation and Skills (successor to the Board of Trade) jointly run and staff the system. Second, Ireland, Mauritius, Singapore, and others use dedicated agencies for investment promotion, working closely with embassies. Singapore's Economic Development Board is one of the world's best — read Chan Chin Bock's *Heart Work: Stories of How EDB Steered the Singapore Economy from 1961 to the 21st Century* (Singapore EDB, 2002). A third method is a loose framework, where economic ministries and embassies handle promotion; in China the provinces take the lead, sending delegations around the world to beat the drum.

The India Investment Centre, run by the finance ministry, handled FDI promotion, until it was wound up in the early 1990s. They ran some overseas offices, but failed to work closely with Indian embassies, and restricted their focus mostly to NRIs.

Some home truths on FDI: First, even the finest of investment destinations, be they Singapore, Hong Kong or Germany, have to market themselves. This has to be continuous, supervised from home, and delivered by those with feet on the ground in the target foreign country. The embassy is the best agent, because



The exterior of the Kolkata outlet of Metro Cash & Carry. The German retailer came to India after it was urged to do so by the author.

it has the needed contacts, and holistic information. They also have the capacity for sustained pursuit of targets. Second, as World Bank comparative studies on country methods have shown, a mix of generic presentation and 'rifle shot' pursuit of targeted international companies is required. With respect to the latter, as the 2002 Singapore study shows, one must work on the entire decision chain in the targeted company. Third, there exists a body of practice-based craft skill on how potential investors should be tackled; this includes "success story" narratives by foreign investors, business-to-business dialogue. Walking the line between under-sell and over-sell is important. Diplomatic services have accumulated this knowledge, but this has to be harvested and put to use. Fourth, sub-state actors and business associations play a key role. In India we handle this in lackadaisical fashion, unlike say China or Germany. In the 1980s and 1990s, the contribution of the Confederation of Indian Industry (CII), under Tarun Das was exemplary, with their CEO missions that engaged in generic "India marketing", not promotion of the business of individual enterprises.

In *Inside Diplomacy* (2000) I narrated personal experiences of reaching out to foreign enterprises, US and German, to persuade them for FDI; a better collection is presented in *Economic Diplomacy: India's Experience* (2011). In essence, ambassadors can reach out to top management, and it is surprising how effective that can be. The Daimler Benz research unit in Bangalore, small but highly important in the cutting-edge work it does, became reality in 1994, barely 12 months after my first discussion on this with the company's board member in charge of R&D; when in 1994 I first urged the CEO of Metro to focus on India, he said they were happy to buy out of India low-cost bicycles and small B&W TV sets for

CCTV use, but he was intrigued by the size of the Indian middle-class market — and the rest is history. At other companies it was the Embassy team and Consul General Alok Prasad in Frankfurt that did the hard-sell and sustained marketing.

Another activity we used to pursue, but seems to have fallen off radar screens, is identifying the conversion rate of FDI, the proportion approved by FIPB that actually comes in as investments. Embassies can work with FIPB to reach out to approved foreign companies, and help with their concerns. There is no guarantee that this will produce 100 per cent conversion — probably an unattainable goal — but the flows can surely be improved. All this takes is an organised pursuit of 'targets'.

Currently, do our embassies do enough? Ask business associations, and individual companies, Indian and foreign. Canada uses a random computer-selected questionnaire, to receive feedback. We have probably never used a customer feedback method in India's business promotion. Many missions work assiduously, but a few have tended to sit back. Ten years back when India became a top investment destination, some felt that "we do not have to run after foreign companies, they now come to us". CII contacts say that some embassies only invite NRIs to receptions held for visiting Indian business delegations, reflecting either paucity of contacts or an urge to stay in the comfort zone. Purposeful MEA supervision of embassies has been a long-standing lacuna.

Policy implementation at home and 'get real' on-ground marketing abroad are the two legs on which FDI policy must walk.

The writer is a former diplomat, teacher and author. kishanrana@gmail.com

What Ben Bernanke didn't say

ALOK SHEEL

On July 10, 2013, Ben Bernanke, chairman of the US Federal Reserve, gave his Cambridge, Massachusetts, audience a brilliant *tour de force* of the evolution of US monetary policy over the past century, including his own views. His intimate knowledge and understanding of the Great Depression and creative use of monetary policy probably explains why this tour de force ended with the "Great Recession" rather than with a second Great Depression. He also indicated that the Fed may be moving away from using the federal funds rate as the single signalling instrument to communicate the objectives and forecasts of its inflation and unemployment targets, thus giving it the constrained discretion to use different instruments at different times. His name will surely go down in history alongside, and arguably above, that of Milton Friedman in the shaping of US monetary policy.

The speech was nevertheless remarkable as much for the range of issues discussed as for what remained unsaid.

First, Mr Bernanke would be the first to admit that he was neither the first to suggest, nor to use, unconventional monetary policies. However, his successful use of the quantitative easing sledgehammer to counter the collapse of the money multiplier proved that his earlier criticism of the Bank of Japan's use of QE in the 1990s as being too timid to beat deflation was spot-on. Indeed, he had started addressing the deflationary threat through aggressive serial rate cuts even as other central banks were still battling inflation. This was a notable policy success during the Great Recession and a notable failure during the Great Depression. Yet QE could not prevent the Great Recession. The correlation between QE and GDP growth remains weak. Mr Bernanke did not discuss the limitations of monetary policy in countering the liquidity trap caused by deleveraging. Advanced economies have had to fall back on long discredited fiscal policy, with even the Fed battling for it to do more of the heavy lifting.

Second, he did not explain why he never felt compelled to use the helicopter drop that he had famously advocated for just such circumstances. A money-financed tax cut would surely not have had the destabilising impact of a bond-financed tax cut, as public debt would not have arisen alarmingly. Or has he already made the drop without us ever noticing? Supposing the Federal Reserve were to hold its treasury bond purchases to maturity, with all payments from the treasury transferred back as profits through book entries, QE would in retrospect be a helicopter drop of money. Any excessive liquidity would then be impounded through recalibration of reserve requirements rather than a roll-back of the balance sheet.

Third, Mr Bernanke underscored the US Fed's adherence to the Bagehot rule: of lending freely in a crisis at a penal interest rate. However, he did not explain whether the rate at which liquidity was made freely available had effectively large penalties or not. The same banks that had endangered the financial system and were bailed out by taxpayers are now making outsized profits despite continuing economic slack. Surely

a penal rate would have ensured that some of these profits accrued to taxpayers who are, instead, being penalised in their capacity as savers.

Fourth, just as the Fed (before the Volcker era) was tolerant of high inflation because of the output gap during the Great Inflation, it was tolerant of above-trend output because of low consumer price inflation during the Great Moderation. In either case it was deluded into keeping monetary policy too loose, unleashing stagflation and asset bubbles respectively. Mr Bernanke has however indicated that the Taylor Rule, with its equal focus on inflation and output, will continue to guide US Fed policy despite evidence of the flattening of the Phillips curve on account of deflationary pressures on consumer prices.

Fifth, while drawing attention to financial stability as the original mandate of the Fed, Ben Bernanke was silent on how monetary policy should deal with asset prices. This is particularly relevant for two reasons. First, because excessive liquidity during the Great Moderation was reflected not in consumer but asset-price inflation; and second, because his own easy monetary policy is contributing to new asset bubbles. He has of course indicated that this is work in progress. However, he could have clarified whether he still subscribes to the Alan Greenspan doctrine that central banks cannot, and should not, call asset bubbles, and only clean up afterwards. Or whether he is now more open to taking a page out of emerging-market central banks that target financial stability more explicitly through new instruments?

Sixth, Mr Bernanke was silent on the global spillovers of US monetary policy thanks to greater financial integration and the growing dominance of the dollar as the international reserve currency. While monetary policy all over the world responds to the domestic business cycle, the case of the US Fed is singular in that its policies shape cross-border capital flows, thereby influencing the monetary stance of other countries in ways that may be inappropriate for their own business cycles.

In 2007-08, when the Fed turned on the liquidity tap, emerging market economies that recovered relatively quickly from the crisis hesitated to tighten monetary policy for fear of attracting more capital inflows. India's currency appreciated despite a widening current account deficit. Now, when growth is collapsing, EMEs hesitate to loosen monetary policy because, whatever the Fed's real intention, the resultant monetary tightening is drawing capital out of EMEs. The build-up of reserves in EMEs is as much a defensive response to US monetary policy as the pursuit of mercantilist policies by some EMEs.

These are no doubt all difficult and cutting edge issues in the current global debate on monetary policy, with no ready answers. Central bankers are also reticent creatures. But Ben Bernanke is much more than a creative practitioner of his craft. He is one of the foremost academic authorities on unconventional monetary policy in general, and on the Great Depression in particular. His *tour de force* would have been fascinating had he given us some more insights into his current thinking on these burning issues.

The writer is a civil servant. These views are his own

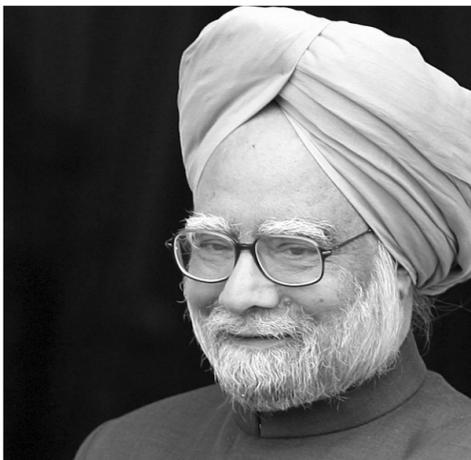
▶ OTHER VIEWS

PM emphasises the need for political consensus on reforms

The pity of it is that that the UPA itself is focused on electoral politics

Dr Manmohan Singh has emphasised the need for a political consensus on reforms. "Reforms", he says, "don't happen just because there is a professional consensus. They happen when the political leadership of the time decides to back these initiatives". If the economy has faltered and growth has plunged in the past two years despite a team of competent economists being at the helm, political opposition to reforms is partly to blame. The UPA itself is divided on what needs to be done. Its concerns for electoral politics prevail over measures needed to put the economy back on track. Though foreign investors' fears about sudden tax changes were allayed, high inflation did not let the RBI bring down interest rates. As the US economic recovery picked up momentum, the Federal Reserve talked of withdrawing the stimulus, which drove foreign capital from the emerging markets back to the US. As a result, the rupee and other currencies depreciated. The trend has not reversed despite some RBI and government initiatives.

When things go wrong, politicians normally should think of the larger national interest and sink their differences to work out an economic rescue plan. Instead, they play the blame game, stall Parliament, delay crucial legislation and reforms



like the goods and services tax (GST). The Congress and the BJP have almost similar economic policies. Yet petty politics divides them even as the growth rate plunges, jobs shrink and the plight of the poor worsens.

The Tribune, August 2

A flawed victory

Will Mamata now improve governance?

A week may be a long time in politics, but electoral graphs take much longer to change dramatically. So the emphatic win of Mamata Banerjee's Trinamool Congress in the panchayat polls in West Bengal does not really come as a surprise. Several things in the run-up to the polls and during the polling, however, make it a rather flawed win for her party. The state government's tussles with the State Election Commission and the Calcutta High Court's repeated interventions cast a shadow over the polls. About 11 per cent of the total seats in the rural bodies were won uncontested by the ruling party. The candidates for another five per cent were forced out of the

campaign even after filing their nominations.

However, it may be unwise to see the verdict in the rural polls as a precursor to next year's Lok Sabha elections. The contexts of the two elections are vastly different. It is difficult to predict if urban areas of Bengal would vote in the same manner as the villages did. There have been many signs of the growing disenchantment among the urban middle classes with the way Ms Banerjee has ruled the state for the past two years. The crucial issue, though, is whether the rural mandate will prompt her to initiate the change she had once promised.

The Telegraph, August 2

A levy for the Chevy

Comprehensive auto recall policy needed

Last week's recall by General Motors of 1.14 lakh Tavera vehicles sold by it in India between 2005 and 2013 flags off two important issues for the fast-growing automobile industry. First, the need for a mandatory vehicle-recall policy in the country and secondly, strengthening of vehicle testing and certification procedures. The automobile industry has grown tremendously in the last decade — 2.7 million cars, 13.8 million two-wheelers and about 8 lakh trucks and buses were sold in 2012-13, making India one of the world's biggest automobile markets. And as is always the case, regulation has failed to keep pace with the explosive growth. The Tavera case is only the latest in a spate of recalls by well-known manufacturers

such as Honda, Maruti, Toyota, Ford and Renault in recent times.

It is, therefore, time for the government to frame a comprehensive policy for vehicle recall. As part of such a policy, it should create an online database of vehicle recalls in the country that sets out the reason, the defect and the solution for the benefit of consumers. The policy should also prescribe strict penalties for recalls that arise from negligence or a deliberate attempt to cut corners due to competitive pressures, as was the case with Tavera. Even as the government investigates GM, it is clear that we need a comprehensive review of testing and certification norms.

The Hindu, August 2