



The single-most exciting thing you encounter in government is competence, because it's so rare. —Daniel P Moynihan



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Our integrity deficit

An unthinkable level of corruption is becoming the new normal in India. Instead of the opposition demanding a Joint Parliamentary Committee (JPC) probe into the 2G spectrum scandal, parliament should hire the sharpest corporate gumshoes in the world to track the money trail. How can a ministry give away public assets at below-market value without politicians getting kickbacks?

There is a poor record of JPCs. There was a JPC on Harshad Mehta, another on Bofors. Not much happened. Getting the world's best corporate detectives to crack open the telecoms case would make the guilty sweat bullets. What's stopping the Parliament from hiring, say, a Jules Kroll?

Kroll, founder of the US corporate detective agency that bears his name, built his reputation in the 1980s by tracking down millions of dollars that former Philippine president Ferdinand Marcos and wife Imelda stole from their country and hid around the world, including in Manhattan real estate. Kuwait used

Kroll to track down Saddam Hussein's assets. With India and China currently the hot engines of global growth, the world is closely watching the investigation into the scandal as it offers a test of how aggressively India will pursue anti-corruption initiatives. Foreign investors blanch at India's laid-back tolerance for palm-greasing.

"It is a scandal a day," quipped Rafiq K Dossani, director of the Center for South Asia, at Stanford University. Prior to joining Stanford, Dossani was the CEO of investment bank Jardine Fleming India. Dossani, who has chronicled India's endemic corruption in his book *India Arriving: How this Economic Powerhouse is Redefining Global Business*, says that a government official once demanded a bribe threatening to turn off the electricity. Rather than pay a bribe, one of his bosses, a former British soldier, "calmly went up to the official and punched him in the stomach". The official never returned.

Of course, not all foreign CEOs box government sleazebags. In India and China, where bribe-taking has long been baked into business transactions, US companies sometimes resort to hiring "local talent" — a junior partner who will get the licences and make grease payments. It is one way for US companies to avoid direct involvement in corruption and legal liability. "Businessmen are very pragmatic," says Dossani. "It's sort of a de facto acquiescence."

America's Foreign Corrupt Practices Act (FCPA) gives US companies "wiggle room" by allowing token "facilitation" payments to officials to, say, hurry along the permit process. But US firms live in terror of the FCPA which guns for companies suspected of bribing foreign officials.

India must also develop a zero-tolerance culture towards corruption. The telecoms scandal can be a watershed moment. It could halt India's slide down a slippery slope.

MAN OF THE MOMENT

On Wednesday, Nitish Kumar created history by giving his political opponents the biggest thrashing of their lives. The Lalus, Paswans, Sonias and Rahuls had to eat humble pie as this unassuming Bihar chief minister knocked the stuffing out of them by winning over 80% of the assembly seats along with partner BJP. The fly in the ointment: Nitish won with just under 40% of the popular vote. This means if his opponents had combined, he would have been in trouble. But victory is victory. No ifs and buts.



FREEZE FRAME

LETTERS to the editor

Indian voter has matured

Landslide victory of good governance and development over caste combinations, nepotism and law and order problems, which had kept Bihar in the league of the most backward states, indicates a maturing Indian voter. Rampant corruption, and the scams that came to light recently, also had a major impact on the voters' psyche. Unfortunately, the unprecedented price rise and the CWG scam are not likely to fade from public memory for some time. Even more damaging is the way this loot has been allowed unhindered, with tainted faces continuing at the helm in spite of public outcry and media hype. Hopefully, the Bihar elections will indicate what the public wants.

—Raghubir Singh, Pune

This is with reference to 'Bihar yells 'yes' for growth, rejects Lalu's caste politics' (DNA, November 25). The National Democratic Alliance's thumping victory in the just concluded Bihar assembly elections sends out a clear signal that the *aam aadmi* of this scam-ridden nation is mature enough to select the leadership of his/her choice. The people of the



state have dealt a major blow to both the RJD-LJP combine and Congress by keeping them out. They have rejected the minority card the latter have been harping on. Meanwhile, the credit for this triumph should go only to Nitish Kumar, who has now proved his mettle by giving a befitting reply to his opponents.

—Bilal Shaikh, via email

Biased labour laws

This is with reference to 'If you can't fire anyone, no one will hire' (DNA, November 25). The prime minister seems inclined to change the labour policy. Our labour laws are heavily loaded against the 'hire and fire' policy, which does not allow managements to prune their strength at will. This has resulted in down-sizing and led the employers to hire casual labour to avoid long-term commitments. Labour unions have thrived on the idea of job security but are conspicuously silent on minimum productivity levels. By not allowing unproductive employees to be replaced with an efficient force is inimical to the business environment. The prime minister must evolve a consensus and bring about changes to the existing labour laws, replete with safeguards and corrections, to generate more employment in both the organised and unorganised sectors.

—Ashok Goswami, Mumbai

The editor welcomes your views and feedback: inbox@dnaindia.net

Govt vs mafia: Who offers a better deal?

The rise of the mafia and slumlords is inversely proportional to how well the state protects and delivers justice



PROTECTION RACKET

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What is the difference between a government and a mafia? When looked at closely, there are more similarities than differences. Both collect protection money, though a 'government' prefers to call such collections 'taxes'. Both are ready with threats of dire consequences if you don't pay up.

But look closer, and there is one basic difference. The collections by a government have the 'imprimatur' of a legal system, of a codified law, or a statute. The mafia has its own laws. And there is honour among thieves as well. But such laws are usually 'diktats' handed down by the mafia boss. There is no need to explain why these diktats have been issued, though some may try to justify them.

The dividing line between a government and a mafia begin to get blurred when a government, which collects protection money, fails to protect. It is at such a time that the mafia begins to look more lawful than the government. That explains to a great extent why a slum-dweller, who is usually not a very powerful, rich or privileged person, often

turns not to the police, but to the local slumlord for protection. If his daughter is in danger of molestation, he runs, once again, to the slumlord for redressal and safety.

The slumlord does protect him and his family. He is a representative of what governments often call 'organised crime'. Strangely, 'organised crime' the world over often makes its money from real estate, gambling, prostitution and protection. But it does not ever molest, extort, or trouble the common folk who are under its protection. It is this approach that makes common folk repose so much of faith and trust in the representatives of organised crime. So dependent are they on this slumlord for dispute redressal, that, were he to stand for election, his community will vote for him, never mind the number of cases the government may have slapped against him. He represents safety, not the police. Obviously, he will get elected, if his community is large enough to form the majority in the constituency where the voting is to take place.

Inevitably, the slumlord's rise

to power is never easy. He knows that when he protects a commoner's daughter, he may be rubbing some other powerful person the wrong way. He also knows that the powerful person may be protected by the police and the

The dividing line between a government and a mafia begins to get blurred when a government, which collects protection money, fails to protect

establishment, and therefore uses the only method he can summon — the threat of retaliation. Expectedly, the powerful man hits back by complaining to the police. That is how cases get piled up against the slumlord. He knows that the greater the number of common people he protects, the larger will be the number of cases he will be slapped with. Finally, he knows that the only way he can change the equation is by increasing the size of his community, and becoming an elected rep-

resentative. That leads to patronage of more slums, more violence and *dadagiri*.

It is in this manner that the criminal arrives on the political scene and becomes a representative of the people.

But why couldn't the slumlord approach the courts? Because he knows that the courts will not hear the matter for years, and the girl who fears molestation will be dishonoured several times over during the intervening period. When courts fail to move quickly, the police too support only the powerful. To counter this, one has to muster people against the system, even the police. The leader of such a group again becomes a slumlord. And he eventually becomes the 'elected' representative.

The more the delay in cases, the more such slumlords will arise, and the more will be the clash between government and mafia. Who is legitimate depends on which side you are on. If you are the father of the girl who was threatened with molestation, and had sought protection from the slumlord, the latter is legitimate and relevant. The government then becomes the usurper.



How China 'punishes' those who receive Dalai Lama

When jailed Chinese political dissident Liu Xiaobo was awarded this year's Nobel Peace Prize, China responded angrily. It warned Norway, where the Nobel Peace Committee is based, that bilateral relations would be harmed; furthermore, it is now campaigning for third countries to boycott the award ceremony — or face Chinese retribution. It's a threat that cannot be taken lightly, in the light of a recent research study that illustrates how China leverages its trade clout for political gain and "punishes" countries that antagonise it. Andreas Fuchs and Nils-Hendrik Klann, research scholars at the University of Goettingen, note that countries that receive the Tibetan spiritual leader Dalai Lama — against China's wishes — see their exports to China contract in the two years following such meetings. In an interview to DNA's Venkatesan Vembu, Klann explains the 'Dalai Lama effect' on trade with China and the implications for China's trading partners. Edited excerpts

What precisely is the 'Dalai Lama effect'? It's the negative effect on exports to China that a country experiences if its political leaders receive the Dalai Lama in the current or the previous year. These countries experience a contraction of exports to China because China punishes countries that receive the Dalai Lama at a political level. The extent of this export contraction varies between 8.1% and 16.9%. The effect depends on the level of importance of the foreign dignitary who meets the Dalai Lama: if the dignitary is important, the effect is more pronounced. Exports of machinery and transport

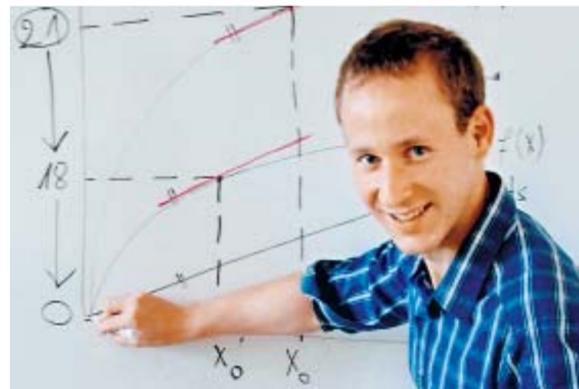
equipment to China are typically impacted. The Dalai Lama effect wears off after about two years

What levers of bilateral trade does China employ to advance its political interests? China communicates its displeasure with countries that receive the Dalai Lama in many ways. For one, it scales back the number of trade delegations. For example, around 2008, France, which was experiencing some bilateral conflicts with China, was excluded from two trade missions that went from China to Europe. That happened because the French president met the Dalai Lama the previous year, and there had been protests against the Beijing Olympic torch relay in Paris. In 2009, after France signalled it respected Chinese sovereignty over Tibet, France received a trading delegation.

Which countries are most significantly affected by the Dalai Lama effect? Our model plots the effect over 159 countries, and we give the average effect for them. Looking at individual countries drastically reduces the amount of data and the model becomes less reliable.

How does India fare, given that the Dalai Lama spends most of his year in India? The effect seems to hold with India, but it would be difficult to estimate the precise extent. India is a statistical outlier because the Dalai Lama lives there. To test the robustness of our model, if we exclude India — and France, which also has many Tibet support groups — the findings don't change. But it appears that the Dalai Lama

INTERVIEW: Nils-Hendrik Klann



Venkatesan Vembu DNA

The extent of export contraction varies between 8.1% and 16.9%, depending on the level of importance of the foreign dignitary who meets the leader

is received less in the Asian region; we speculate that countries that are geographically close to China avoid receiving the Dalai Lama. But it could also be that there is less interest in the Dalai Lama's

ideas or his talks in the region.

Are China's trade partners buckling to pressure and not meeting the Dalai Lama? We see anecdotal evidence of this. For example, the Dalai Lama is popular in South America, but around 2006, we noticed he was no longer received by a politician. At the same time, a lot of trade agreements were signed between China and these countries. It appears that politicians avoided meeting the Dalai Lama so as not to jeopardise trade agreements. The same was the case with Germany. We surmise

that countries are wary of antagonising China, but they also don't want to be seen to be doing what China dictates.

Does China too lose anything from such punishment mechanisms? If so, why do Chinese administrators persist with it?

When China imports less from Europe, of course European countries suffer, but China too suffers: it would have a hard time substituting these imports. But the Chinese administration gains politically at home, and that's the trade-off it makes. But these political games wear off at some point: the loss from trade outweighs the political gains achieved, and at that point, the administration rolls it back.

Is China alone in leveraging its economic and trade clout for political gain?

Our study shows that trade relations between established industrialised countries and rising emerging economies work in a different way from trade between industrialised countries. In the former, bilateral relations are more important and these emerging economies place a larger weight on other countries respecting their political preferences. We believe the same findings might apply, for example, to Russia. But China is unique for two reasons: its economic size and the fact that the administration has a stronger leverage over its economy. Over time, China has become less covert about exerting its influence and warning its trade partners.

Since China plays one country off against another, how can China's trading partners protect their interests?

At a theoretical level, countries could move towards coordinated receptions and joint meetings with the Dalai Lama. Of course, it could work the other way as well: if I know my neighbour is planning to receive the Dalai Lama, I may decide not to receive him in the expectation of being 'rewarded' by China.

But we don't want to give countries' leaders the message that they should not receive the Dalai Lama because it's bad for trade. In fact, meeting the Dalai Lama lends credibility to these leaders' message that they care about human rights and democracy — because it's a 'costly message': it hurts them a little and for that reason is more credible.

Are fears that China might cut back exports of rare earth minerals as a strategic lever valid?

We believe that it's possible that China could leverage its position as one of the largest suppliers of rare earth minerals. But it should be careful not to overplay its hand: other countries will probably anticipate such a move and look for alternatives and be less dependent on China than in the past. China might appear to be a trading partner they might not be able to rely on. And there are other big markets — like India — which too are growing fast. Many German companies now look at India the way they saw China. So, there's a certain potential for China to use its trade policies to leverage its political interest, but there's also a certain efficiency of using it. It's like a trump card: you can't use it too often.

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