

ANDREW SHENG

Emerging markets must think for themselves

“April is the cruellest month”, said the poet TS Eliot in his 1920s poem, *The Wasteland*. The April Spring meetings of the IMF/World Bank will be held virtually this year, locked down by the pandemic that is raging into its third wave worldwide.

The world is in a cruel situation, because the uneven arrival of vaccines demonstrate that a few rich countries get them first, whereas the health and economic conditions of the many are dire. The latest available OECD Economic Outlook suggested that the recovery in 2021 will be divergent, meaning that certain countries will do better, but others will continue to struggle. That is polite officialese for devastation.

When the pandemic hit, the rich countries spent roughly three times the stimulus package that applied for the last financial crisis in 2008/9. The poorer emerging market economies (EMEs) could not afford to print money to the same extent, but they witnessed considerable capital outflows. According to the Institute of International Finance (IIF), emerging markets attracted \$313 billion in portfolio flows in 2020, \$48 billion less than the previous year. Furthermore, foreign direct investments (FDI) fell 42 per cent from \$1.5 trillion in 2019 to an estimated \$859 billion, as per UNCTAD Investment Trends Monitor.

With lower export incomes as commodity prices tumbled, many developing countries are facing debt distress. In the last decade, the external debt of developing countries doubled from \$4.5 trillion in 2009 to \$10 trillion or 29 per cent of GDP in 2019. In 2020 and 2021, developing countries face repayments on their public external debt amounting to an estimated \$700 billion to \$1.1 trillion for low-income countries and middle-income countries.

Thus, when official forecasts preach recovery on an “average basis”, we should have no illusions that from Mexico to South Africa, the decline in GDP last year was over 7-9 per cent, so the situation for the bottom half of society in many EMEs is deadly serious. The rich do not fear inflation, but when food and energy prices rise once again with massive monetary creation, the poor will be the major victims.

In the 1930s, the English economist John Maynard Keynes identified the liquidity trap where aggregate demand lagged aggregate supply. Put simply, too much savings was stuck in short-term liquid assets, and not enough money put into long-term investments to get jobs going again. Funding is available, but since no one is investing for the long-term and improving productivity, you get “sec-



ular stagnation”, sliding into slow-growth depression.

We have a similar situation today. Since the 2008 global financial crisis, the invention of quantitative easing (QE or increasing central bank balance sheets and reducing interest rates) used painless short-term monetary policy to avoid painful fixing of long-term structural deficiencies. Since Wall Street controls Main Street through money politics, no one was willing to tax the rich to deal with the widening inequalities.

At the end of the World War II, the US emerged as the strongest and richest country, and therefore acted as the world’s banker, lending dollars to those who needed them to recover, including creating multilateral development banks (MDBs) like the World Bank to provide long-term development funds.

Today’s situation has reversed. The US has become the world’s largest borrower, with net foreign liability of \$14 trillion as of September 2020 or over 60 per cent of US GDP.

The rest of the world is in effect funding their banker, who is not investing long-term in its own home market, let alone the rest of the world.

Here’s how the global balance sheet looks like. The EMEs (including China) hold roughly \$10 trillion out of total \$12 trillion of global foreign exchange reserves, of which 60 per cent is in US dollars. At the same time, the emerging markets owe roughly \$10 trillion in foreign debt, mostly in US dollars. And since they pay a 4 per cent margin (2 per cent higher borrowing costs and 2 per cent lower return on short-term investments and deposits), they provide global bankers and asset managers \$400 billion revenue for not lending them money for long-term investments.

Here’s the irony. Since the global rating agencies define credit risks to rich countries as low and emerging risks as high, the EMEs are being starved out of their own money. There is no shortage of short-term money, since the top four reserve currency central bank balance sheets increased

by \$9 trillion in 2020 alone.

The MDBs have total assets of \$1.6 trillion, when the UN Sustainable Development Goals (SDG) investments have a financing gap of \$2.5 trillion annually. The rich countries which have majority control of the MDBs refused to increase their capital to help meet this gap, asking the EMEs to resort to market funding. But the financial markets are only funding the rich. Indeed, stock markets have only 41,000 listed companies, whereas there are millions of small and medium-sized enterprises (SMEs) which cannot access public capital.

The present global financial system is designed for the few and not the many. If the world’s bankers refuse to think for their clients, time for the emerging markets to think for themselves.

The recent US and European support for a \$500 billion increase in Special Drawing Rights (SDR) issue by the IMF is a step in the right direction but does not address the structural liquidity trap of who will lead the

investment in long-term green and inclusive infrastructure for the developing world?

The first thing to address is the massive implementation capacity gap. Too much short-term thinking has depleted almost all governments’ operational capacity to design, execute and operate long-term infrastructure, with the exception of China. Many private-public partnerships (PPPs) have turned out to be opportunities for corruption or weak project designs. The MDBs complain but they lack today the effective advisory and implementation experience that used to exist before the 1980s, when project engineers dominated operations, rather than present-day macro-economists and MBAs who talk more theory than hard project skills.

Democracy is about the many for the many. It is time for the many in EMEs to think and act for themselves.

The writer, a former Central banker, worked in the World Bank in the 1990s on development finance. The views expressed are personal.

100 YEARS AGO

OCCASIONAL NOTE

Some further light has been thrown on the scientific measurement of human emotion by a lecture and demonstration given at the Royal Institution by Dr. A.D. Waller, the Director of the Physiological Laboratory of the University of London. It is a matter of common knowledge that emotions lead to physical manifestations, or, to put it in terms of science, all emotions are expressed as neural outbursts from the central nervous system through efferent nerves to muscles and glands. The most familiar manifestations of emotion take the form of intensified physiological activity at the terminations of the nerves, - the shedding of tears, which is just excessive activity on the part of the apparatus for the lubrication of the eyeball. In 1909 Veraguth of Zurich made the observation that emotional conditions are accompanied by a psychogalvanic index which is capable of being accurately measured by means of the galvanometer connected with the palm of the hand. Observations have been made, yielding results which might have been anticipated. It has been found, for example, that the intensity of emotion varies to a large extent not only in different people but in the same people under different conditions. Responses are found to be most active at mid-day, when physiological activity seems to be at its maximum - in England. In some people the threat of a pin-prick produces a more marked response than the pin-prick itself.

NEWS ITEMS

CHARGE AGAINST EX-POLICE SERGEANT

The hearing of the case in which E.S. Aratoon, an ex-sergeant of the Calcutta Police, was charged with causing the death of Mr. Spalding by throwing sulphuric acid on him, was concluded yesterday before the Police Magistrate of Sealdah. The charge was altered to one of culpable homicide not amounting to murder and, in the alternative, of causing hurt, and of aiding and abetting the offences. The Magistrate in committing the accused to the Sessions observed that the evidence against him was more circumstantial than direct. There was no reliable direct evidence that he threw the sulphuric acid on the deceased man. With regard to some black spots found on the left forearm of the accused, the Magistrate observed that the evidence was not clear that they were caused by acid. Aratoon was remanded in custody.

ADMINISTRATION OF SIKH SHRINES

The text of the Gurdwara Bill, which will be introduced and discussed in the Punjab Legislative Council on April 5, is published. The Bill is to make emergent provision for the administration and management of certain Sikh Gurdwaras and shrines in the Punjab, and, with a view to the future legislation relating thereto, to provide for an inquiry into these and other matters. The statement of objects and reasons says that recent events have brought into prominence the fact that the management of the Sikh Gurdwaras and shrines leave much to be desired. The Commissioners, who will be appointed under the Bill, besides inquiring and reporting, are, in order to prevent further tension, empowered to take possession of the Gurdwaras and shrines.

PROHIBITION DEBATE IN BIHAR COUNCIL

As the wording of the latter part of the message regarding the proposed amendment of the Hon. Minister in charge of Excise during the recent debate on prohibition is likely to fail to explain exactly the attitude of the Government towards the question, it seems necessary to state that the proposed committee of the Minister was to report with a view to ultimate prohibition as early as possible. But for the merest technical objection, namely opposition to amendments of which notice had not been given, the committee as requested by non-officials would have been formed. It would have been left to the committee to decide as to the period within which prohibition could be effected.

SPECIAL CENSUS OF BEGGARS

The Census officer for Bombay city with the help of the police, is arranging for a special census of the beggars of Bombay, with a view to secure more statistics in connection with public health. This special census is expected to throw additional light on the lives of the beggars seen in the Bombay streets, their whereabouts, and the part they play in disseminating disease. It is a well known fact that some of the beggars who ply their calling in the streets of Bombay, which have long been a beggars’ paradise, earn more money during the day than even the best paid labourers in mills and factories, or at the docks, yet nobody knows where they pass the night or keep their hoarded wealth.

Perils of unsustainable rice production

ABHIROOP CHOWDHURY, ALIYA NAZ AND ARMIN ROSENCRANZ

Subsidized cheap energy and irrigation water are expanding the commercial growth of rice in northern Indian states. The country is losing its precious ground water, and this is giving rise to stubble burning and disastrous air pollution.

Northern states of India are traditionally known for their wheat cultivation. The annual rainfall range of 80-100 cm is suitable for its cultivation in the states of Punjab, Haryana, Himachal Pradesh, Uttarakhand, Uttar Pradesh and Madhya Pradesh. Rice is a water-intensive crop that was traditionally grown in the Ganges delta and the eastern coastal plain of India. It requires a rainfall of above 100 cm. Otherwise, irrigation is required.

The green revolution started in India in 1966. Its goals were to modernize the agricultural sector by introducing high-yielding crop varieties, irrigation systems and technological advancements in the states of Punjab, Haryana and Uttar Pradesh. With technological interventions and wider use of chemical fertilizers, the produce from these states increased dramatically over the years. Abundant



irrigation waters were supplied by damming the Ganges watershed.

At the start of the 21st century, the negative impacts of this fertilizer- and irrigation-intensive agricultural model became apparent. One of the greatest impacts is on the water security of the nation due to unplanned and unsustainable crop choices. Rice is being cultivated as a commercial crop. Punjab led the list of rice growing states in 2017-18 by producing 4,366 kg per hectare. In the same year, the average production of rice in India

was only 2,576 kg per hectare.

On 1 January 2019, the nation had 25.8 million tonnes of rice reserve in the granaries. The national requirement is only 7.7 million tonnes.

Northern India is now reeling from an acute water crisis. A 2018 scientific investigation revealed that 42 per cent of India’s land area is facing drought. Ground water depletion due to rice production is adding to this water burden. WaterAid India reports that 1 kg of rice production requires approximately 2,800 litres of water.

Most of this demand is supplied by groundwater.

In 2014-15, the nation exported 3 million tonnes of basmati rice which required 10 trillion litres of water. If water consumption is correlated to the yearly rice export, India is exporting about 12 per cent of its ground water to foreign countries. According to WaterAid, this makes India the world’s third-largest exporter of ground water. This is alarming as about 1 billion Indians live under the constant shadow of water scarcity.

Some reports suggest that this rice cultivation trend coupled with ground water depletion can turn the green revolution states of Punjab and Haryana into a desert in the next 25 years. In traditional rice growing states of eastern India, there is no subsidy for irrigation or power. Hence, farmers tend to be rational in using both of these precious resources. But in western states, this perspective is reversed owing to subsidies. Availability of cheap energy for farming equipment, water supply and the government’s assured purchase of the produce has induced a ‘chain reaction’ for unplanned cultivation of paddy in these states.

‘Punjab Preservation of Subsoil Water Act’ and the ‘Haryana Preser-

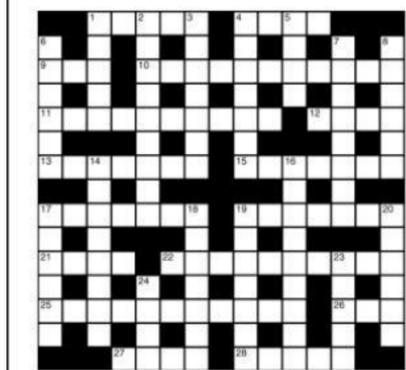
vation of Subsoil Water Act’ were enacted in 2009. These acts compelled farmers to delay their rice sowing to reduce the burden on ground water. This resulted in another environmental catastrophe that is engulfing northern India. Delayed sowing of crop means delayed harvesting and the farmers have only a small time until they can start sowing the next crop. This policy failure introduced the problem of stubble burning to get rid of the remnants of the previous year’s rice crop. This coincides with the time when the air movement across northern India is halted and pollutants get trapped in the stable, non-moving air. This deteriorates the capital city Delhi’s air quality, impacting the health of millions.

Unplanned policies and unsustainable development are the key reasons for environmental degradation across the globe. Scientists and policy makers introducing technologies that maximize yield, are oblivious to their long-term outcomes and social implications. This development model is plunging the nation into an impending water crisis. Without adhering to traditional and environmentally sustainable agricultural practices, India may fail to avert this crisis in time.

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CROSSWORD

NO 28870



YESTERDAY’S SOLUTION



ACROSS

- 1/4 A must for 1/4, proof all infantry’s heading for review? (5,4)
- 9 Miss con, starting from the end (3)
- 10 Sprinter jinks round dog in dangerous races (3,8)
- 11 Town’s football team dropping deep, all but one of them amateur (10)
- 12 A 1A’s husband’s kid (4)
- 13 Might pretentious hosts cut sandwiches and cake at 4pm? (7)
- 15 Linear C surprisingly needing no decryption (2,5)
- 17 Leaves children behind at home filling baths (7)
- 19 Two classes make up a forme (7)
- 21 Princess seen on camera clearing lightspeed (4)
- 22 Spendthrift set get 23 24 with 50% off (10)

- 25 Stimulating bar in a pub is where march goes (11)
- 26 Clear where to write solutions, except the first (3)
- 27 Swallow that flies off when gun is fired (4)
- 28 Many 18, maybe the bit of Conroy that lives on? (5)

DOWN

- 1 Chopper’s fallen on toe of Hammer film director (5)
- 2 Romantic country sport played in tiara (9)
- 3 Old bit of dry grass cut by writer before noon (7)
- 4 Highly desirable to get on down etc (7)
- 5 Firm runs through claim in court (4)
- 6 Say, gallantry medal mounted in holder by soldiers? (6)
- 7 People long to be muddled; alternative answers accommodate that (8)
- 8 Book that woman’s carrying is in French (6)
- 14 Couple out of love cheerful after one relatively dark period (8)
- 16 Prank company welcomes 23 1, showing fourfold increase at the end of the month (9)
- 17 Woody Allen’s heart breaks seconds before turning blue (6)
- 18 Silver darling? Maybe bride expected this to be gold (7)
- 19 Match up bony bits of 18 Indian meals (7)
- 20 Temperature rising in sweaty journalist’s wool clothing (6)
- 23/24 Pair tucks into French garlic dessert, a possibility for 1/4 (5,4)

NOTE: Figures in parentheses denote the number of letters in the words required. (By arrangement with The Independent, London)

