

The New York Times

As Corruption Abates, Hope Amid a Slowdown

Gardiner Harris

September 9, 2013

HOSPET, India — After a decade of rapid economic growth, India is in the midst of a sudden swoon. The stock market has fallen, the value of the rupee has plunged, and India's longtime hope of catching up to China appears increasingly distant.

But some prominent Indian economists believe the recent slowdown may actually be a good thing for the country. They argue that much of India's recent boom was fueled by a toxic mix of political corruption and crony capitalism that some feared would spiral out of control.

As in Russia, Indian oligarchs with political connections have made vast fortunes while hundreds of millions remained desperately poor. India has 55 billionaires, second-most in Asia, even though more than half of its citizens have no access to toilets. India's democracy seemed to be offering many of its people little help or hope.

"For years, I have been terrified that India was being captured by the oligarchs," said Ajay Shah, a professor at the National Institute of Public Finance and Policy in New Delhi. "I am excited about the past few weeks because I think this period shows the resilience of Indian democracy."

Mr. Shah called the last 10 years of rapid economic growth a "corruption bubble," and he and others said the price of India's present political and economic correction would be enormous, with growth in the next five years likely to be much less than in the last 10 years.

Yet, even those who have benefited from the recent corruption-fueled boom and are now suffering with its collapse are glad to see a crackdown.

Three years ago, Hospet, a midsize mining town in the heart of what in medieval times was the Vijayanagara Empire, was thriving thanks to an illegal mining bonanza. A local kingmaker had used political connections and bribes to avoid cumbersome and expensive permit processes. He opened scores of illegal mines and greatly increased production. Thousands of ore-laden trucks rumbled daily through Hospet's streets. Much of the town's populace was either directly or indirectly on the take. Times were good.

Then India's creaky justice system began to swing into action. Mining was stopped. The kingmaker, G. Janardhana Reddy, was arrested, and the local economy tanked.

But, remarkably, in dozens of man-on-the-street interviews, not one person in Hospet said the corruption should have been allowed to continue.

E. Vishwanath, owner of V.S.R. Minerals, was typical. Three years ago, he owned 10 dump trucks and leased 1,000 more and made nearly \$2,000 a month, a high salary in India. He owned a car, gave his wife heavy gold chains and invited as many as 200 people to catered birthday parties for his young daughters.

Since the change, banks have repossessed his trucks and he has been forced to sell his car and his wife's jewelry. His daughters' birthday parties are now small family affairs.

"We were very happy then. We were spending and enjoying life," Mr. Vishwanath said. "Now, it's totally nil."

But instead of blaming judges for ending the boom, Mr. Vishwanath blamed corrupt politicians for making it too frothy.

"I think we have to totally stop the corruption," Mr. Vishwanath said. "If it had been regulated, I would still be in business."

Kiran Kumar, manager of the Krishna Palace hotel, had much the same reaction. During the boom, his hotel was bursting with steel and mining executives from China and Australia, his banquet facilities were booked months ahead of time, and he always sold out his supplies of Johnnie Walker Black Label whiskey.

Now, his hotel's occupancy and room rates are half what they were, his restaurant and banquet facilities are largely empty, and almost no one drinks Johnnie Walker anymore.

Despite the hardship, he is passionately against corruption. This year, he paid a bribe to get his 4-year-old son into a good school, an indignity that outraged him. "I know I benefited from corruption, but I'm still against it, and everyone else in India is, too," he said.

Sourindra Banerjee, an assistant professor of marketing at the University of Warwick in Britain, said corruption had been more acceptable in India when its economy had been small and closed. But now that India has entered the global market, expectations both inside and outside India have changed. "Foreign investors won't stand for the kind of corruption that has always been fairly common in Indian companies," Mr. Banerjee said.

Corruption is not India's only problem, of course. A tidal shift in global money flow resulting from improving economic conditions in the United States has hurt many emerging market currencies, including those of Brazil, Turkey, Indonesia and South Africa. But India has been among the hardest hit.

And within India, Hospet's dilemma is not unique. Similar corruption-fueled mining booms and busts have affected Goa and states in India's east. As a result, India's iron ore production dropped 36 percent in the past three years to 140 million tons from 219 million tons.

Over several years, a corruption scandal involving coal mine leases tarnished even Prime Minister Manmohan Singh. It has prevented India from extracting much of its coal reserves, among the world's largest. India's inability to mine coal has robbed its power plants of needed fuel and led to widespread power failures, including one last year that blacked out half the country.

Similar scams have plagued bauxite and sand mining. India must import much of its iron ore, coal and other minerals, and shortages of critical materials have slowed crucial infrastructure projects.

Shekhar Gupta, editor in chief of The Indian Express, recently estimated that such unnecessary imports account for nearly three-quarters of India's \$70 billion current account deficit, the difference between imports and exports that is widely cited as a principal cause of the rupee's recent plunge in value.

And the troubles of India's mining companies are widely shared. An estimated one-quarter of India's public companies are now unable to pay even the interest payments on their debt. Many of the worst performers have been companies "on that most lucrative cusp of finance, politics and natural resources," Mr. Gupta wrote.

But whether India will succeed in squelching its endemic corruption is far from certain, said Swaminathan Aiyar, a research fellow at the Cato Institute in Washington. Instead, corruption may simply become less apparent, he said.

Mr. Aiyar noted that next year's national elections are expected to be the most expensive in history. Those expenses are largely borne by under-the-table payments from Indian oligarchs, who will expect a return for their investments.

"Legislation is bought by bribery, and at this point I see no politicians who are truly wanting to crack down on one another," Mr. Aiyar said. "If you really want to change this, you need to overhaul the whole system."