



Summit spirit

News: The virtual summit that brought together leaders of the Quadrilateral Security Dialogue, or Quad, last week, contained both broad substance and deep symbolism.

Not Merely a talk Show

1. Countering any perception that the Quad is merely a “talk-shop”, the outcomes announced by U.S. President Biden and Prime Ministers Modi, Morrison and Suga include a vaccine initiative and joint working groups to cooperate on critical technology as well as climate change.
2. The vaccine initiative comes with an ambitious deadline: a billion vaccines by the end of 2022, made in India with U.S. technology, Japanese funding and Australian distribution networks to reach as many Indo-Pacific countries as possible.
3. The four Quad countries will ensure emissions reduction based on the Paris accord as well as cooperate on technology supply chains, 5G networks, and biotechnology.
4. Mr Biden, who hosted the summit, managed some powerful atmospherics, by coordinating a joint statement — and a first — called “The Spirit of the Quad”, and a joint article by the four leaders that committed to an open Indo-Pacific “free from coercion”.
5. The leaders are expected to meet later this year, at the G-7 summit. For Mr Biden, the early push for the Quad engagement is part of his promise that “America is back” in terms of global leadership, reaffirming regional alliances, and taking on the growing challenge from China.
6. For similar reasons, and due to maritime tensions with China, trade and telecommunication issues, Australia and Japan are keen on taking the Quad partnership to deeper levels of cooperation.
7. For India, the new terms of the Quad will mean more strategic support after a tense year at the LAC, as also a boost for its pharmaceutical prowess, opportunities for technology partnerships, and more avenues for regional cooperation on development projects and financing infrastructure, especially in South Asia, where China has taken the lead.

Complexities of Quad and Indian Interests

1. The new U.S. government is still exploring its own relationship with China; its first engagement with Beijing’s top diplomats is in Alaska.



2. For Japan and Australia, China remains the biggest trading partner, a relationship that will only grow once the 15-nation RCEP kicks in.
3. India, given its own ties with China, sensitivities over ongoing LAC disengagement talks, and its other multilateral commitments at the BRICS and SCO groupings, also displayed caution in the Quad engagement, keeping the conversation focused on what Mr Modi called making the Quad a “force for global good” rather than pushing plans for a militaristic coalition.
4. In that sense, the Quad’s new “summit avatar” has given India yet another string to its bow, broadening India’s interests on its geopolitical horizons even further.

The job crunch and the growing fires of nativism

Bottom Line: Unless States in India have the autonomy to create jobs, they will only resort to reserving existing jobs for locals

Unemployment in Haryana:

1. The Haryana government has recently passed legislation that mandates companies in Haryana to provide jobs to local Haryanvis first, before hiring people from outside the State.
2. The unemployment rate in Haryana is the highest of all States in India, as per data from the Centre for Monitoring Indian Economy, or CMIE.
3. A whopping 80% of women in Haryana who want to work cannot find a job. More than half of all graduates in Haryana are jobless. The jobs situation in Haryana is staggeringly dismal.
4. Haryana is not alone in this quandary. The cabinet of the government of Jharkhand approved similar legislation to reserve jobs for Jharkhand residents. Many states in India have embarked on this nativism adventure to protect the interests of the vast number of their jobless locals.

The inability of states to create new jobs

The creation of new jobs is not entirely in the control of State governments. It is a complex interplay of a multitude of factors.

States and key parameters

1. Job creation is obviously an outcome of the performance of the larger economy. Let’s say, the American giant retailer, Amazon, believes that the Indian economy is poised to grow robustly, it may choose to expand its



operations in India. The State governments can compete to lure Amazon to their State and help create new jobs.

2. Ostensibly, Amazon needs abundant high quality skilled and unskilled labour, land at affordable prices, uninterrupted supply of electricity, water and other such 'ease of business' facilities for its expansion.
3. State governments in India can theoretically compete with each other on these parameters to attract Amazon to set up operations in their State.
4. Further, any tax advantages that a particular State can provide vis-à-vis others will increase its attractiveness for Amazon.

Critical factors

1. An elected State government can certainly, during its five-year tenure, attempt to provide high-quality local infrastructure to attract new businesses. State governments also have the ability to provide land at affordable prices or for free to attract investments.
2. However, the availability of skilled local labour is a function of many decades of social progress of the State and cannot be retooled immediately.
3. After the introduction of the Goods and Services Tax (GST), State governments in India have lost their fiscal autonomy and have no powers to provide any tax concessions to businesses.
4. So, while State governments have the ability to use land and local infrastructure as tools to attract businesses, they do not have control over the immediate availability of skilled manpower or to use taxes as a tool to lure.
5. But, beyond all these, the most critical factor in the choice of a location for a large business is what economists term as the 'agglomeration effect' — the ecosystem of the supply chain, talent, good living conditions and so on.
6. A State with an already well-established network of suppliers, people, schools, etc. are at a greater advantage to attract even more businesses than the States that are left behind.
7. Put simply, if Amazon's competitor Walmart is already established in Karnataka, then there is a greater incentive for Amazon to also locate itself in Karnataka to take advantage of the established ecosystem. This leads to a cycle of the more prosperous States growing even faster at the expense of the lagging States.



The '3-3-3' danger

1. This phenomenon is already evident in India's increasing economic divergence among its States. In published research, the '3-3-3' effect has been shown — the three richest large States (Maharashtra, Tamil Nadu and Karnataka) are three times richer than the three poorest large States (Bihar, Uttar Pradesh and Madhya Pradesh), in per-capita income, compared to 1.4 times in 1970.
2. This gap between the richer and poorer States in India is only widening rapidly and not narrowing, due to the agglomeration impact of modern economic development paradigms.

Sub-nationalism

1. In the absence of a level playing field and with no fiscal autonomy, it is enormously difficult for developing States in India to attract new investments and create new jobs.
2. In this context, an elected government that operates on a five-year electoral cycle, confronted with a powder keg of millions of jobless voters will understandably resort to seemingly 'paisa wise, rupees foolish' appeasement policies to salvage whatever it can of an ominous employment situation.

The potent combination of widening inter-State inequality, a 'rich States get richer' economic development model, an impending demographic disaster and shrinking fiscal autonomy for elected State governments in a politically and culturally diverse democracy will inevitably propagate nativistic sub-nationalism among the various States of India. Until the economic playing fields for the various States are levelled and much greater fiscal freedom provided to the States, "don't protect but create jobs" will only remain a topic of a hollow lecture and moral sermons.