

Opinion

London as a 'Bollygarch' bolthole rankles with New Delhi

James
Crabtree

He might not be a global name like Roman Abramovich, but in India the billionaire jeweller Nirav Modi is notorious enough. Authorities in New Delhi hunted the fugitive magnate for months, following one of India's largest financial scandals. News that he is now preparing to seek asylum in Britain is likely to dent already fractious UK-India relations. But it also underlines a deeper issue: Britain may have a Russian oligarch problem, but it has an Indian 'Bollygarch' problem too.

Mr Modi made his name selling ornate necklaces and bracelets to high-

wood starlets, before opening Nirav Modi stores from Bond Street in London to Madison Avenue in New York. His downfall began this year when India's second-largest state bank linked an alleged \$1.77bn fraud to Mr Modi, who denies any wrongdoing.

For months, rumours swirled that the tycoon might be holed up in Hong Kong or New York. His emergence in London leaves Britain hosting three of India's émigré billionaires. Alongside Mr Modi are the brewer and airline mogul Vijay Mallya and cricket tycoon Lalit Modi, both of whom deny wrongdoing in domestic scandals, but have left their homeland nonetheless.

Prime Minister Narendra Modi's government makes no secret of its displeasure with the UK's role as a haven for its absconding super-rich. Britain's perceived reluctance to send them home rubs Indians the wrong way too, adding to a reputation for high-

handedness with deep colonial roots.

The resulting bad blood is undermining Theresa May's faltering attempts to woo India as a post-Brexit trading partner. In truth, the UK prime minister is caught in a bind.

If billionaires pop up in London seeking asylum, the rule of law must still be

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followed. The likes of Mr Nirav Modi and Mr Mallya have legitimate concerns about the chances of receiving a fair trial at home too, given the public outcry generated by their alleged misdeeds.

More to the point, the UK gains a great deal by being a favoured bolthole for

India's super-rich. Numerous entirely respectable tycoons have set up shop in London. Indians are among the biggest investors in the capital's prime property, helping to invigorate the lethargic luxury housing market.

Much as the old British colonial elite fled New Delhi's summers for the cool of the Himalayas, so India's new ultra-wealthy now arrive en masse in London at about this time of year, settling down in those latter-day hill stations of Chelsea and South Kensington – and adding financial and cultural vibrancy to the UK capital in turn.

Yet even if there is not much Britain can do about Mr Nirav Modi's particular case, its broader policy towards India is still in a mess. In business, a rush to attract Indian capital led a range of controversial enterprises to list on the London Stock Exchange over the past decade, including resources groups Essar and Vedanta, which have faced criticism

over opaque governance and environmental standards respectively.

Meanwhile, although visas appear to be easily available for the wealthy, ordinary Indians find it ever more difficult to study and work in Britain, as shown by last month's visa cap debacle, which affected hundreds of Indian doctors, IT contractors and finance professionals.

In the aftermath of the poisoning of former double agent Sergei Skripal in March, the UK seems to have tired of its "Londongrad" reputation as a refuge for Russian plutocrats, sending a signal last month by delaying a visa for Mr Abramovich, owner of Chelsea football club.

A similar change towards India would be tricky, however. Many wealthy Indians hold British passports, given their ties to the country's sizeable diaspora. More than half a million people of Indian descent live in London, including the Hinduja, the country's second-richest family, who are worth \$21bn

between them and live in a sprawling mansion overlooking St James Park.

Nor is the UK wrong to woo India as it prepares for life outside the EU. Indeed, as Indian businesses look increasingly for growth around the developing world, Britain must work harder to keep its place as a prized destination for Indian money and talent.

This is exactly why a rebalancing is needed. Viewed from India, Britain's policies seem back-to-front, creating a hostile environment for students and entrepreneurs, while leaving the door wide open for the questionable rich. To build a new special relationship, Britain must make it easier for Indians to live, study and work in the UK instead. And if the odd fugitive tycoon decides to head elsewhere, so much the better.

The writer, a former Financial Times Mumbai correspondent, is author of the forthcoming 'The Billionaire Raj'

Waiting for a productivity resurgence

Martin Wolf Economics

Improvement in living standards depends almost entirely on rising output per worker



You can see the computer age everywhere but in the productivity statistics. Today, we could repeat this celebrated 1987 statement by Robert Solow, Nobel laureate founder of modern growth theory, with the substitution of "technology" for "computer".

We live in an age judged to be one of exciting technological change, but our national accounts tell us that productivity is almost stagnant. Is the slowdown or the innovation an illusion? If not, what might explain the puzzle? The slowdown, if true, matters. As Paul Krugman, also a Nobel laureate, argued, "Productivity isn't everything, but in the long run it is almost everything." Improvements in standards of living depend almost entirely on rising output per worker. The productivity slowdown is a major explanation for the stagnation in real incomes and the pressure for fiscal austerity in high-income countries. Gene Grossman of Princeton and three co-authors even argue that the marked slowdown in the growth of incomes per head also explains the decline in labour's share of national income in wealthy countries.

No economist has done more to promote the revolutionary implications of information technology than MIT's Erik Brynjolfsson, above all in books co-authored with Andrew McAfee, also of MIT. But, in an interesting recent paper with two co-authors, he too recognises the "productivity paradox". The paper does not resile from a belief in the trans-

formative power of recent technological advances, particularly artificial intelligence. On the contrary, it emphasises it, notably in image recognition and translation. Yet the productivity slowdown, the paper admits, is real.

This seems to reflect weak investment and, above all, declining growth of "total factor productivity", a measure of output per input of capital and (quality-adjusted) labour. TFP is a measure of innovation, of the ability to produce more valuable output with given quantities of inputs. Without innovation, the rising prosperity of the past two centuries would have been impossible. In truth, innovation, not productivity, is almost everything.

We should also focus our attention on the US, since this large country has been driving the innovation frontier outwards since the late 19th century. A study by Nicholas Crafts of Warwick University and Terence Mills of Loughborough shows a decline in trend growth of TFP in the US from just above 1.5 per cent a year in the early 1970s to 0.9 per cent most recently. Others, notably Robert Gordon of Northwestern University, in his masterpiece *The Rise and Fall of American Growth*, come to similar conclusions about the recent slowdown, from analysis of longer time periods. (See charts.)

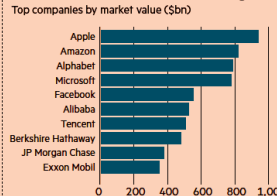
One possible explanation is mismanagement. It is, and always has been, difficult to measure the impact of new technologies, particularly now when many services are free and many are

The long slowdown in productivity growth
Trend growth in US total factor productivity (% pa)



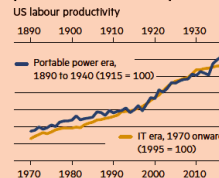
Source: N Crafts, T Mills (CEPR, July 2017)

The economic dominance of the tech giants
Top companies by market value (\$bn)



Source: Thomson Reuters Datastream

Impact of information technology parallels that of electricity
US labour productivity



Source: E Brynjolfsson, D Rock, C Syverson (NBER, Oct 2017)

provided, invisibly, from outside the US. Yet it is hard to accept that measurement suddenly became more difficult in 2005, when the US productivity slowdown began. Moreover, even when account is taken of likely measurement error, in a study by David Byrne of the Federal Reserve and Dan Sichel of Wellesley College, the result is to raise TFP growth in the tech sector, but lower it elsewhere, with negligible effects on the whole economy. Mismeasurement then is not the explanation.

Artificial intelligence is in its earliest stages but soon, it is argued, it will change everything

A second possibility is that diminished competition and expensive rent capture have dissipated the potential gains. So we have islands of innovation and huge wealth, but a weak economy. Several researchers do argue on these lines. This may even be a partial explanation. But it would be astonishing if monopoly alone prevented innovative technologies from bringing productivity benefits to today's open economies.

A third possibility is that the new technologies are simply not what they are claimed to be, particularly compared with the wide range of transformative ones from the late 19th and early 20th centuries: clean water, electricity, the internal combustion engine, powered flight, petroleum and chemicals. We take all those for granted, but they changed everything, as recent

technologies may have not. Artificial intelligence may be a revolutionary general purpose technology but, a century ago, several technologies arrived at much the same time. A complementary view is that progress is harder now: it takes more researchers to advance technology than it used to do (though we can also employ more researchers today).

The final possibility – and the one that the paper by Mr Brynjolfsson and his co-authors unsurprisingly believes – is that this is the lull before a storm. It argues that the same productivity pause happened with electricity in the 1920s. It takes time for a new GPT to transform an economy.

Today, AI is in its earliest stages. Soon, they argue, it will change everything. This is consistent with the finding of Profs Crafts and Mills that past produc-

tivity performance is a poor forecaster of future performance.

When I look at the weighty presence in the modern economy of labour-intensive service sectors, such as health, education and care of children and the elderly, I conclude that the technological transformation will be slow. If it is wrong, it will be disruptive. At the moment, however, we have the worst of both worlds: significant disruption but near stagnation in average incomes.

What it will be in future – slow or disruptive – we do not yet know. But our societies are built on an implicit promise of growth. If the choice were between no progress and disruptive advance, we must hope for the latter – and do our best to manage the consequences.

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Taking the measure of a US-China trade war

ECONOMICS

Megan
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With Donald Trump poised to deliver on his presidential campaign promises to protect American industries with tariffs, the question is what does this mean for the world economy?

If you plug the actual and anticipated actions of the US into most models, there is an almost imperceptible annual shift in gross domestic product growth in the US, Chinese and global economies. Despite the sound and fury, the steel and aluminium tariffs, \$50bn of

tariffs on Chinese goods imported by the US and \$50bn tariffs on US goods imported by China add up, based on the models, to the economic equivalent of a mosquito bite.

The impact of a trade war is greatest on the countries directly involved in the tariffs and tends to be felt early on. In this case, the models point to an average of one- to two-tenths of a percentage point drop on growth per year for the US and China over a five-year period.

The brunt of the pain is felt in the first two years, and after five years it is virtually undetectable. This remains true even if the additional \$100bn of tariffs on Chinese imports that Mr Trump once threatened are included. The results are similar for most forecasts of the impact of a collapse of the North American Free Trade Agreement on US, Canadian and Mexican GDP (though Mexico would be worse off than the other two).

In the event of a trade war, the models suggest a benign – boring, even – global growth picture. The US would still grow well above its potential GDP growth over the next two years because of fiscal stimulus measures from tax cuts and deficit spending.

Models suggest that a tariff tit-for-tat will not significantly cut global growth

China's GDP growth would still decelerate gradually over the next five years. The EU would see its GDP growth converge with its lower potential GDP over the medium-term. Emerging markets would suffer marginally in the short term because of a stronger dollar.

All this is annoying but not a game changer. These predictions, and Mr Trump's reputation for backtracking on his bluster, help explain Wall Street's reaction. The S&P 500 is up almost 4 per cent since the administration began talking up trade wars in March.

However, the models largely ignore that the effects of a trade war would hit some industries and regions harder than others. This will become more of an issue if President Trump follows through on threats to impose 25 per cent tariffs on imported automobiles. The Canadian, Mexican and German auto industries would suffer significantly, even if the overall impact is muted.

These benign predictions are probably flawed in other ways. First, most models are not granular enough to reflect the disruption in global supply chains that would result from tariffs. These are likely to provide the biggest

drag on growth from the tension over trade. Some car parts cross the Mexican, Canadian and US borders several times before they end up in a finished vehicle. If NAFTA collapses, would carmakers raise prices, absorb additional tariffs or find ways to procure all of their parts in one country?

Second, it is difficult to model the impact of trade-related uncertainty on business sentiment. The stalled NAFTA negotiations are starting to affect Canada through lost or deferred business investment.

The trade wars could quickly extend into areas that are even harder to quantify. When the US first threatened an additional \$100bn in tariffs on Chinese imports, it became clear that China could not respond in kind; it simply does not import enough US goods. But it could hit back by creating more bureaucratic hurdles for US companies operat-

ing in China, and interfering with licensing. The impact of such steps would be hard to measure in economic forecasts.

Finally, the Trump administration's approach has led to the country's isolation on the global stage, as highlighted by its refusal to sign the G7 communiqué over the weekend. The economic implications of that are impossible to specify.

A cardinal rule in economics says that, while tariffs create winners and losers in any economy, the latter outweigh the former. The gap is known as "deadweight losses".

Even though econometric models suggest a trade war will not significantly cut global growth, there is a real danger that investors are underestimating the impact of those deadweight losses, and a world with vastly different rules.

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