Opinion

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INDIA'S LARGE AI POTENTIAL

Anant Maheshwari, Microsoft India president

"The world is a computer today... everyone is generating data. India is at a unique position to play a great role in this revolution. As of now, only 8% of India's GDP is affected by digital technologies. But this number will be 60% in 2021"

Lower taxes, quick permits the right *niti* on minerals

Even non-oil minerals account for 30% of imports, yet our levies very high and permissions time-consuming

GIVEN THAT EVEN non-oil minerals account for 30% of the country's total import bill—and around 55% if oil is included—Niti Aayog has done well to propose that the government adopt a new mineral exploration strategy in order to encourage local exploration and production. The Niti Aayog strategy paper on minerals points out, India's "prospective geology is broadly similar to that of Western Australia, especially in relation to iron ore, bauxite, coal, diamonds and heavy mineral sand", but of the area identified as rich in minerals, only 10% has been—the corresponding figure for Australia is 95%—and an even smaller 1.5% is presently being mined. According to Niti Aayog, even doubling the area explored to 20% of 'obvious geological potential' can create an additional 5 million jobs by 2022-23, from the current 10 million. Indeed, Niti Aayog points out that India's imports of minerals are roughly seven times as high as the domestic output; such is the poor level of exploration and production.

It is to fix this that Niti Aayog suggests a better minerals exploration and licencing policy and fixing of the exceptionally high taxes/royalties/levies—while these add up to around 65%, the global maximum seems to be in the region of 40%. Equally important, ways have to be found to ensure that all necessary permissions are granted at the earliest. While Niti Aayog recommends that all statutory approvals should mandatorily be granted within a period of 180 days; it suggests that, if this is not given, a provision for a deemed-to-have-been-given approval be put in place in the law; it also suggests that local forest officers may be empowered to grant permission under the forests law for exploration in forest areas. To put this in perspective, environmental clearances take up to even 390 days to get, and it was found in the case of the government-owned Coal India—which has been fined ₹40,000 crore already for illegal mining—that it was routine practice for the government to give environment clearances late and then retrospectively condone the mining that was illegal since it took place without the environmental clearances. The fact that a PSU, which has no reason to damage the environment for profits—in the way the private sector is accused of doing—tells you just how serious the problem with India's regulatory system is.

While the government can certainly help reduce the mandatory levies—iron ore royalties in India are 30% (15% for new miners) versus 6.5-7.5% in Australia and 2% in Brazil—it can also play a big role in ensuring local communities are less hostile when it comes to mining companies. Certainly, if more stringent 24x7 checks were kept on the quality of mining—using drones and satellite imagery make this easier—local communities would not feel their lands were being destroyed and valuable forest cover removed. Indeed, the Supreme Court has pulled up the government for not spending ₹90,000 crore of the Compensatory Afforestation Fund Management and Planning Authority (CAMPA) fund; had enough forestry been done on time, the local population would be less averse to fresh mining. Also, around three-fourths of money that states got via the District Mineral Foundation—DMF funds are meant to be used to benefit local people affected by mining activity—have not been spent, making it clear that it is not just the Central government that is not doing its job. With such a massive failure to monetise the country's assets, is it any wonder that the current account deficit mostly looks like it is about to swing out of control?

India a R&D force?

Research impact must match output

IN 2016, DATA from the US's National Science Foundation (NSF) shows India overtook Japan as the fourth-largest producer of science and engineering (S&E) research. Between 2003 and 2016, India's article count in Scopus, the world's largest catalogue of abstracts and citations, increased from 27,000 to 110,000. Over that period, China's went up from 87,000 to 426,000, a meteoric rise that helped it dislodge the US as the largest single-country producer of S&E research. India's research output jump is no small feat, viewed against chronic problems like poor higher education regulation and low tertiary GER. However, for better output and impact, India must not only fix these problems at the earliest, but also drastically increase R&D expenditure as well as reform policy in key research areas.

Biotechnology and engineering are the two fields where knowledge-intensive and technologically advanced economies dominate. Research in these fields account for 57% of the total S&E publication worldwide, and, in 2016, the US and the EU accounted for the bulk of this. China, on the other hand, beat the two on engineering research. Meanwhile, Indian policymakers have taken such strident anti-genetic-modification positions—for instance, over Monsanto's patent rights and royalties—that, even with the country's biotech sector booming, a pall of uncertainty always hangs over such research. And, sadly, this myopia extends to the government sector as well; the fate of DMH-11, a GM mustard variety developed by former DU vice-chancellor Deepak Pental, is proof of this. In sharp contrast, state-owned ChemChina acquired seed-tech giant Syngenta for $43 billion; this should show how big the country is betting on biotechnology.

Indian research is also hobbled by its poor indicators over research impact. Citation by researchers in a foreign country or publication are "strongly influenced by cultural, geographic and language ties", as the NSF puts it; which is why, American researchers disproportionately—in terms of research produced in these countries—cite the work of their Canadian and United Kingdom peers compared to the work of their Asian peers. As per NSF, India's share in the world's top 1% of cited articles peaked in 2006. A decade later, it is somewhat lower—not in terms of the absolute number, but in terms of the number relative to what is expected given the overall publication number. China, which had a lower S&E research impact than India in 2006, now has the third-highest impact and is poised to dislodge the EU soon.

India must take a cue from China. China has pumped in billions of dollars into its public education, with a focus on developing its leading universities to match, and even overtake, the global best. It has stepped up funding for academics—from $25/paper nearly three decades ago to, as per *The Economist*, $165,000 for a paper published in Nature. Emulating China, however, will have to begin with higher education reforms. Else, even though India surpasses a Japan in terms of research output, the latter will continue to have much better research impact.

Lacking Transparency

Controversy over the latest appointments to the SC benches show how opaque the collegium system still is

THE FACT THAT one of the four judges who sought greater probity from the then Chief Justice Dipak Misra should himself face similar demands—albeit in a matter where the lack of transparency is institutional—is rich in irony. The January decision of the present Supreme Court collegium, which is headed by Chief Justice Ranjan Gogoi, to elevate two high court judges to the apex court by superseding 32 judges with greater seniority, has drawn flak from sitting Supreme Court judges, with one of them writing to the President against the decision. What makes the matter murkier is that, in December, the collegium had decided to elevate P Nandrajog, Chief Justice of Rajasthan High Court, to the apex court. The December collegium comprised the same judges as the January one, except for Justice Madan Lokur who retired later in December, with the addition of Justice Arun Mishra. The December decision was overturned ostensibly because the selection of Justice Nandrajog and Justice Rajendra Menon of the Delhi High Court was leaked to the media. But, why a media leak that happened after the selection should result in a overturning of the December decision is not clear. However, the Supreme Court and judicial transparency cut a sorry figure when the continued opacity of the collegium system is what needs to be questioned.

Indeed, when the apex court junked the proposed National Judicial Appointments Commission Bill, terming it unconstitutional, it had acknowledged the shortcomings of the collegium system and had called for greater transparency. More than three years after, even as the Supreme Court posts collegium decisions online, questions linger over the rationale behind the decisions themselves. The latest controversy shows that, while there is an appearance of transparency, the process remains as veiled as ever.

FARM PANACEA

FOR TACKLING FARM DISTRESS EFFICIENTLY, ALL LINKS IN THE VALUE CHAIN—FROM INPUT PROCUREMENT TO *MANDIS*—NEED TO FUNCTION WELL. ELSE, THE FARM-SECTOR RUT CONTINUES

Agriculture needs an Amul-like solution

MADAN SABNAVIS

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Views are personal

THE AGRARIAN CHALLENGE is well known in India and the reaction of politicians, economists, and experts is always on target. Yet little seems to be achieved, and after the regular noise for a season or so, it is back to the old ways. Announcements that are made are rarely followed up and there is a big gap between loan waivers announced and allocations made. It is not that there is a magic formula to address the issue as the problems and solutions are well known. Yet, we never seem to be anywhere close to a solution and the same story which we heard two decades back is replayed.

The issue of farm loan waivers is due to farmers not paying their debt service commitment because the crop has either failed or prices have come down, resulting in defaults. There is a farm insurance scheme in place which has not worked because, if it did, this problem would be non existent. Therefore, it is clear that we have not sewn the pieces and have done the usual patchwork which is very typical of our entire policy framework. It is not surprising that there is a lot of apprehension when schemes are announced. This holds for interest rate subvention, e-NAM, repeal of APMC Act, free power and water, subsidies on fertilisers, and so on.

Agriculture is a 'state' subject in our federal structure and hence, while the Central government has its contribution and takes credit for everything good that happens, the flak also comes back to haunt it even though its influence is limited. This is so as some expenses are incurred by the Centre but states have a different mindset when it comes to reforms.

We need to construct a matrix that has to be addressed in a concerted manner much like the production line in a manufacturing concern where the production process is linked with the supply chains and then cemented with a marketing strategy.

There are two steps in agriculture. The first is the pre-harvest stage where farmers need support from the system. This includes procuring inputs which cover high quality seeds like the HYV, fertilisers, pesticides (which came with the Green Revolution) and which are backed by irrigation to ensure that output is protected and productivity enhanced. To enable the same, it is essential to have access to credit or else the farmer has to move to the moneylender.

At this stage, the farmer has two kinds of risks which have to be covered. The volumetric which is the size of the crop that gets affected and which should be covered by the insurance policy. This is a major lacuna. The other unknown is price risk where the farmer is not certain of the price at harvest. Here, the *arhatiya* plays a role in offering a buyback which may be skewed against the farmer, causing adverse comments, but the risk is transferred. Alternatively, an active commodities futures market would work to cover price risk. All this has to be addressed by policy.

Intuitively, it may be seen that the state plays a role here. If there is an insurance scheme which we are committed to, then ideally every farm loan that is disbursed should be covered automatically where the government pays the premium while the farmer's share is deducted from the loan amount and disbursed. By enabling an automatic hedge through banks which can take the price cover on commodity futures exchanges, the circle is complete. This sounds simple but requires mindsets to change to enable it.

The second stage is post-harvest where things go wrong for the farmer. There are challenges in getting the crop to the consumer. There are issues of infrastructure such as roads, connectivity to the *mandi*, storage, packing and marketing. Unless all these steps are in place, the solution is never attained. e-NAM makes sense only if we are able to connect the farmer to the *e-mandi* which means connectivity, warehousing and transport to the *mandi*. Otherwise it is only a partial solution and will not work. Repealing APMC laws is one thing, but ultimately the farmer requires money immediately and has no other option but to sell at the *mandi* which is the known place. Putting him in touch with the consumer is feasible as can be seen in case of horticulture which links them to cities. But this has to be made scalable which means all local laws have to be aligned to enable such sales.

Further, while policies talk of MSP and marketing, foreign trade policies have to be integrated by routine. This calls for state intervention to ensure that surpluses are immediately channelled to exports or, alternatively, to the creation of buffers based on a pre-stated policy.

As can be seen in the absence of all these links being tied up, farming will always run the risk of slipping at some stage, leading to distress. For the present, two solutions can be considered. The first is corporate and contract farming with adequate safeguards to ensure farmers get a fair deal and the back-end is tied up. Secondly, the state governments need to get more active and treat it as an industry. Rather than running services like power and transport, agriculture should gain in precedence so that it can start the process of tying up the ends.

In this context, the Amul example merits mentioning to show how a low-value perishable product like milk, being produced by myriad small farmers, has now become an established industry. This was possible because it was treated as an industry with a cooperative set up. The back-end in terms of collection, processing, storage (cold), transportation, packaging, conversion to value-added products and, finally, export has become a seamless chain. Quite clearly, we need to do the same for other products, especially horticulture, to get out of this risk-trap which is now perennial in nature.

The message is that loan waivers or raising MSPs or creating electronic markets, even if implemented, sound good on paper but will never quite provide a complete solution. A holistic view is required to address the concerns. All organs of the government need to work in unison with support taken from cooperatives as well as corporates given the distance to be covered.

Solutions for making farming more resilient

	Requirement	Responsibility
Pre-harvest		
Physical inputs	Supply of seeds, fertilizers, pesticides	State government, central government through subsidies and access
Irrigation	Access to irrigation	State government to ensure such access
Credit	Finance for cultivation	Link farmers to banks/RRB/cooperative banks
Volumetric risk	Insurance	Link PM insurance automatically with farm loans and cut red tape
Price risk	Price hedging	Enable futures sale with farmer association and banks being enablers
Post-harvest		
Packing	Access	Panchayat/state
Warehousing	To store product to avoid distress sale	State
Transport	To move goods to mandi	Panchayat and state
Credit	Post-harvest credit against warehouse receipt	Banks with warehouse receipt finance
Actual sale	e-mandi to get transparent price	Central government
	Direct sale to consumer especially horticulture	Align urban laws, create space for sale in weekly or daily bazars
	Procurement at MSP	State /Central government
Surpluses	Channel to buffers/exports	Central/state government and cooperatives

May's humbling offers ray of hope

May promised to reach out to other parties in a "constructive spirit" to find a solution that has broad support. The 52-48 split in the 2016 referendum practically begged for a consensus-driven solution to delivering Brexit

THERESE RAPHAEL

Bloomberg

IT WAS CERTAINLY a historic defeat for the British government. But while it was called a "meaningful vote," Parliament's crushing rejection of Theresa May's Brexit deal on Tuesday was actually anything but. Tuesday's ballot was all about tactics; not one MP thought it would decide anything. As the prime minister noted herself afterwards, it makes clear what Parliament doesn't want, but not what alternative can garner a majority among lawmakers. As such, it has left all factions even more entrenched. Remainers are divided largely between those who want a second referendum and those who support a cross-party deal to keep Britain in the EU's customs union permanently or a Norway-style settlement that keeps it in the single market too. The Norway brigade (their preferred Brexit is now called Common Market 2.0) argue that a second referendum would be undemocratic and divisive. But they gloss over the fact that their own option would require allowing the free movement of people from the bloc, one of the things many Brexit voters clearly wanted to end.

For their part, most of those MPs holding out for a second referendum would be horrified at the idea of crashing out of the EU without an agreement. And yet it is hard to imagine a referendum that would be supported by Parliament without a "no deal" option on the table. Who is to say that economically catastrophic outcome might not win, given the resentment that would be unleashed among leavers about a second vote—whatever the polls say now? If Brexit were a Hollywood film (and, yes, there is a British one already about the referendum campaign starring Benedict Cumberbatch and there will undoubtedly be more to come), its moment of peak confrontation and, indeed, revelation would have been when UK Attorney General Geoffrey Cox, his deep voice booming, turned furiously to his fellow lawmakers on Tuesday and challenged them to grow up: "What are you playing at? What are you doing? You are not children in the playground, you are legislators. We are playing with people's lives".

Cox put his finger on why May's Brexit deal hadn't the slightest chance of passing. Whatever voters had in mind in June 2016 when they cast their ballots, delivering Brexit has become a zero-sum game of multiple competing tribes in Parliament (the hard Brexiters, the second referendum crowd, the Norway brigade, the General Election-seeking Labour Party, and so on), where each has to defeat the other's preferred option in order to advance their own. That has taken the country to the brink of leaving the EU without a negotiated settlement. May has refused, so far, to explicitly rule out leaving without a deal because she hopes that threat (Britain is on course to crash out of the bloc automatically at the end of March) will convince remainers and soft Brexiters to vote for some version of her deal. At the same time, she is telling the hardline Brexiters in her party that the whole departure might be cancelled if they continue to thwart her plan. In a pitch to Parliament before the vote, she even warned her allies in the Democratic Unionist Party of Northern Ireland that failure might lead to the one thing they dread more than anything: Irish reunification. As was seen by her 230-vote loss on Tuesday night, none of these tactics has been working for her.

Intriguingly, there was a signal from May after the crushing defeat that this least consensual of political figures was finally prepared to listen to Parliament to break the impasse. She promised to reach out to other parties in a "constructive spirit" to find a solution that has broad support. Now this is something she should have done from the very beginning. The 52-48 split in the 2016 referendum practically begged for a consensus-driven solution to delivering Brexit. The battered pound actually moved higher against the dollar soon after Tuesday's vote as markets interpreted her more humble overture as a sign that she will effectively rule out a no-deal exit, with a cross-party approach more likely to deliver a softer departure.

Indeed, if the opposition Labour Party loses the no-confidence motion it has called on May's government on Wednesday, as expected, its stated policy requires it to support a second referendum, something its leader Jeremy Corbyn has resisted. If that were the only solution for which there is a parliamentary majority, it would be difficult for May to resist. But it is still not clear that the so-called "people's vote" would win the day among lawmakers, any more than May's deal or the Norway option. Some "45 years of legal integration have brought our two legal systems into a situation in which they are organically linked", Cox told MPs, likening the UK's EU membership to that of a body. Separation is major surgery. "We cannot underestimate the complexity of what we are embarked upon doing". Britain's political elite is finally, after years of time-wasting and grand-standing, starting to grasp this. In the meantime, the clock is ticking on a no-deal Brexit.

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LETTERS TO THE EDITOR

Game of numbers

Independent MLAs H Nagesh and R Shankar's shock decision to dump chief minister H D Kumaraswamy and extend support to the BJP has given grist to the rumour mill that Operation Kamala is indeed on. With this, the BJP's tally in the state assembly jumped to 106 but it is still a long way away from a simple majority in a house of 224. Though the JD(S) and its coalition partner, the Congress, have rubbished any possibility of a threat to the government, they would do well to be on guard and ensure that the flock stays together

— Ravi Chander, Bengaluru

Remove exemption of CBI under RTI Act

Recent happenings in affairs of the Central Bureau of Investigation (CBI) resulting in big controversies, even involving Supreme Court judges, are a result of a great mistake done by the earlier UPA regime by putting CBI under the second schedule of RTI Act, thereby exempting the premium investigating agency out of the purview of RTI Act under section 24 of the Act. Even CBI at that time demanded only a partial exemption from the RTI Act which was also not needed because ten subsections of section 8(1) of RTI Act take sufficient care for information not to be disclosed even for organisations coming under the purview of RTI Act. Present BJP-led Central government should undo the mistake by removing CBI from the second schedule of RTI Act and bring it again under the purview of it to bring transparency in the affairs of CBI, thus putting a complete full-stop on undesired controversies in the affairs of the investing agency

— Madhu Agrawal, Delhi

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● DESCENT OF MONEY

The good, the bad and the ugly of India's loan conundrum

The failure of a loan usually represents miscalculation on both sides of the transaction or distortion in the lending process itself, and India's miscalculations and distortion in dealing with lending risks is a work in progress. The new focus on fundamentals and first principles like balancing risks with processes and technology, data and enhanced oversight along with greater accountability of borrowers could help reduce the imperfections

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ILLUSTRATION: ROHNIT PHORE

INDIA FACED A BANKING shock in 2015, when the then Reserve Bank of India (RBI) Governor Raghuram Rajan undertook an Asset Quality Review of major commercial banks. It was discovered that banks were delaying the recognition of the inevitable—neither recording the non-performing assets (NPAs), nor accounting for lending losses. They used creative accounting like evergreening loans, i.e. lending to the borrower more loans to enable him to return the outstanding loan, extending payment schedules, or even changing the milestones so that the loan appears as good. The NPA juggernaut did not suddenly emerge in 2016 due to any policy or fiscal intervention, but the accumulated toxic loans simply got recognised by banks due to stringent review standards of RBI.

Most public sector banks ended up reporting losses in 2016 as they stepped up provisioning for the newly-declared bad loans. In 2015-16, NPAs shot up by 99%, and bank profits reduced by 62%. Although RBI has scaled down its baseline estimate of gross NPAs for FY18 to 10.3%, it is still high. According to the World Bank, the average gross NPA ratio across countries was 6.7% in 2017, and it recorded India's gross NPA as 10% during the year, higher than the average. Researchers expect that, up to 2020, public sector banks will continue to have NPAs at 5% of their loan portfolio.

Money drives all engines of economic growth, and in case of India this is driven significantly by public money from government-owned banks and institutions, as the corporate debt market is still not deep. The total lending in economies varied roughly 1 times of GDP for countries like Brazil, Russia and the US, to 2-6 times of GDP for South Korea, China and euro area countries.

Economic growth gives rise to exuberant lending, but credit losses precipitate once growth slows down and then emerges disbelief over ignorance of simple fundamentals. The source of the NPA crisis, as enunciated by Rajan in his reply to the Estimates Committee of Parliament in September 2018, can be traced to 2006-08, when economic growth was strong and the success of previous infrastructure projects led banks to assume that the good times would continue. So, they extrapolated past growth to the future and lent generously, not demanding enough promoter equity in the projects. After 2009, growth suddenly slowed, and so did projects, due to either government slowing down permissions or dragging their feet. Costs escalated, and promoters who anyway had very little equity in the projects walked away. Another factor that increased lending risks was the level of corruption that lowered the barriers for giving loans, making our lending edifice vulnerable.

Subsequently, RBI tightened the screws on banks through the Prompt Corrective Action (PCA) framework. Three main ratios evaluated under it are capital to risk weighted assets (CRAR), net NPAs and Return on Assets (RoA). Once CRAR falls below 9%, or net NPAs cross 10% or RoA falls below 0.25%, it starts to face penalties like limits on branch expansion, dividend payments, change in ownership and eventual liquidation. Currently, there are 10 banks in PCA and the government is trying hard to bring six banks out of the quarantine through infusing fresh capital.

In the midst of such tight regulation, banks started lending to non-banking financial companies (NBFCs), and they grew rapidly—such that their latest balance sheet size is a whopping ₹26 trillion, according to the December 2018 Financial Stability Report of RBI. The collapse of IL&FS shows that the NPA problem was only being outsourced to NBFCs, and not addressed.

Banks are now riddled with toxic NPA assets, new lending has been crowded out, and they are spending inordinate resources in recouping lent capital. Companies' debts have ballooned, but their loan servicing capacities are stagnant, which has led to the infamous twin balance sheet problem—a situation where banks' balance sheets are not robust and borrowers, i.e. companies, don't have adequate income to pay for the interest and loans. According to the Economic Survey 2016-17, it was reported that around 40% of the corporate debt it monitored was owed by companies that had an interest coverage ratio less than 1. This condition then snowballs into high government bond yields and, ultimately, sovereign ratings barely two notches above junk status.

A curtailment of lending, which is the first reaction to toxic assets, cannot be a solution to the NPA problem. As of March 2017, the total assets of the Indian scheduled commercial banks (SCBs) were ₹141.6 trillion, according to the RBI Data Warehouse, or $2.2 trillion at the prevailing exchange rate, roughly equal to India's GDP. In contrast, assets of China's banks totalled $37.1 trillion in Q3 2017, the highest in the world, roughly three times China's GDP. It is safe to infer that the Indian banking industry's asset size is not a problem and, in fact, we have space to lend more, if we go by China's lending strategy to support growth, employment and building of infrastructure.

One of the key lending paradigms in India is reflected in the fact that 40% of the large borrowers contribute to 70% of NPAs, which, in turn, questions the basic rationale and robustness of evaluation of lending in India. In the case of IL&FS, a bank's ability to safeguard its lending when the loans flow through a group that has over 200 associates and subsidiaries can rarely be done effectively. In other cases, such as the Bank of Baroda's ₹6,000 crore scam in early 2018, funds get round-tripped from the same branch of the bank, undetected for months, and loans or letters of comfort are given on non-existing collaterals and receivables in collusion with bank employees, like in Nirav Modi's case.

Public sector banks, whose NPAs were triple that of private sector banks in FY18, need to invest more in due diligence of projects, which comprises evaluating business plans of companies, their expected earnings, and realisable cash flows. The focus on realisable cash flows and on the real strength of a balance sheet has been somewhat lost, and that needs to be refocused. Further, regulators and gatekeepers like auditors, rating agencies and boards must work with the government to make banks Basel-III-compliant, which requires strengthening the quantity and quality of capital, stronger supervision, stringent risk management, and disclosure standards.

The Insolvency and Bankruptcy Code (IBC) is a meaningful step to increase promoter liability, as for the first time the risk of losing one's enterprise is real, but it is only useful once the borrower has defaulted. When the State Bank of India (SBI) and its associates accepted an intangible asset, the Kingfisher brand, as collateral for granting loans to companies of Vijay Mallya, based on the company's own evaluation of the brand, they were asking for trouble! According to the Bank for International Settlements, once a loan becomes an NPA, 'the single biggest driver of the required level of provisions is the value assigned to collateral'.

Experts say "that the failure of a loan usually represents miscalculation on both sides of the transaction or distortion in the lending process itself," and India's miscalculations and distortion in dealing with lending risks is a work in progress. The new focus on fundamentals and first principles like balancing risks with processes and technology, data and enhanced oversight along with greater accountability of the borrowers could help reduce the imperfections, and we hope that these measures will contain the NPA floodgates at acceptable norms that public money can afford.

● E-COMMERCE

The changing status quo

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The enablers of digital adoption and growth are falling into place

LAST YEAR WAS INTERESTING for e-commerce, with companies expanding services, global expansions becoming a reality, consolidation playing out, and players being funded to create deeper pockets. While headlines were dominated by Walmart-Flipkart, Udaan reaching unicorn status at lightning speed, Bengaluru ranked in top-3 cities globally for the launch of tech start-ups, significant strides were made in creating new avenues and approaching existing/established sectors with the intent of driving innovation and growth. Here are a few trends we are likely to witness in 2019.

■ **All data is good data:** Data consumption in India is at 8GB per month per subscriber. It generates huge opportunities for data-led personalisation that enhances customer experience and improves conversion rates. In India, with varying preferences—sensibilities, languages, taste, behaviour—businesses have been able to tweak products and services with degrees of success. With user data, businesses can cater to individual preferences and also see what is working in a segment/region, down to a level of detail that was earlier not possible. This will lead to greater degree of personalisation and lead to more usage, satisfaction and penetration.

■ **Here, there, everywhere:** Online-to-offline and offline-to-online is becoming relevant. While India's retail space is dominated by physical stores, we are witnessing bigger brands take the omnichannel approach that provides for confidence and assurance of the offline world and the ease and convenience of the online world. This helps companies allow for greater reach by creating multiple touchpoints with a consistent and unified experience of the brand.

■ **Star tech is the future:** A few years ago, words like AI, AR, VR, IoT, cloud, blockchain were heard in tech conferences, not in daily conversations. We are seeing adoption of these in e-commerce businesses, effectively transforming the interaction between customers and brands. Virtual tours, smart mirrors, AR-based learning, 3D modelling, automation, smart home devices are examples of the things to come.

■ **Speak the lingo:** English and Hindi power e-commerce in India. But most of these speakers are already online, and for successful interaction with new users, businesses need to provide services in local languages. This will provide for easier adoption of digital services, information sharing, and creation of a larger customer base. Voice search is another trend that will enable access for products online. There is a need for players to optimise voice listings. Another trend will be image search enabled shopping. Language, voice and picture will be the levellers to bring down barriers for adoption.

■ **Network effect—it pays to be social:** Social commerce takes advantage of the tight social fabric and entrepreneurial spirit we have. With WhatsApp and Facebook, influencers are acting as resellers of products within their networks. Since influencers know the people they are selling to, they also have an advantage of knowing their preferences and style, and recommending products. This area of e-commerce helps target those customers who are not comfortable shopping online. Language will be an important enabler here.

■ **Go deep, go wide—Bharat beckons:** While some are going deeper into top-100 cities, others are addressing untapped markets, and the major hurdles here are volume and logistics. New e-commerce players helping make rural a lucrative opportunity. With limited availability of branded products coupled with the aspirational rural population, entrants should see their efforts rewarded.

■ **Bundle of joy:** A disadvantage of inexpensive smartphones is the lack of storage space. Some companies are starting to turn this to their advantage—bundle it all, aka super aggregators. Companies are providing a single gateway to a host of online services. This helps users who are not comfortable with varying interfaces—super aggregators provide for a unifying experience while providing services.

■ **B2B—the unheralded segment:** Unlike B2C—where decisions are driven by impulse, popularity, aesthetics—B2B marketplaces are driven by price and margins. Digitisation of supply chain ecosystem along with leveraging AI, analytics around buying behaviour, technology-driven inventory management allows for a more customised experience and quicker turnaround. B2B sales already outpace B2C sales in the e-commerce market, and this trend is likely to continue.

The wireframe of this digital network has been taking shape and the launchpad for faster trajectory is in place, and these are interesting times for the sector since the enablers of digital adoption and growth are falling into place.

A wall too high

The longest government shutdown puts the US on thin ice

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THE PARTIAL US SHUTDOWN, which started on December 22, 2018, reached its 26st day on Wednesday, with no resolution in sight yet. The Donald Trump administration is still adamant on its demand for $6 billion to build a wall on the US-Mexico border. Given the ongoing tensions, the possibility of a national emergency cannot be ruled out.

In the period of the shutdown, there was a mixed reaction from the markets. While the US Dollar Index fell by 0.5%, the S&P 500 improved by 11% after a stock market crash in December. The 10-year bond yields softened only marginally in the same period to 2.7%.

Financial markets seem to have so far ignored the shutdown event risk—focusing on hopes of a positive outcome from US-China trade negotiations and a dovish Federal Reserve, thereby implicitly assuming that the ego-fight driving the shutdown will be resolved soon. This risk may, however, come to the fore in case the issue remains unresolved.

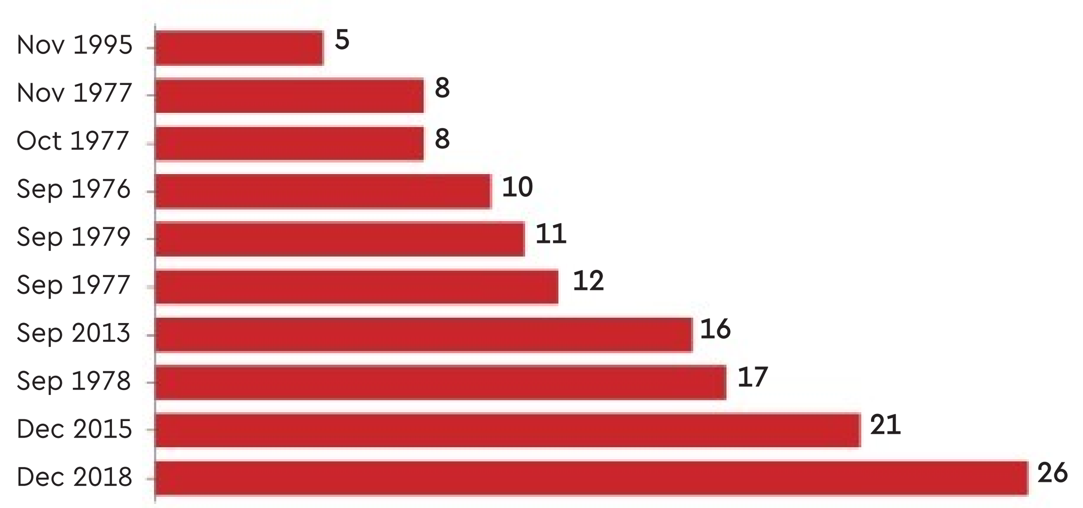
The story so far

This partial shutdown is the longest in the history of the US. The other longest one happened in December 1995. The current shutdown has led to 9-10 government departments closing down along with certain public services such as parks. Subsequently, around 800,000 federal employees have been either furloughed (a temporary leave of absence) or are working without pay. A typical Federal worker has missed about $5,000 in pay from the shutdown so far.

The US-Mexico border is over 2,000-miles long. The Department of Homeland Security proposed to get a budget of $6 billion to build over 200 miles of the border in the coming fiscal. While this amount forms a small percentage of the overall budget ($4-5 trillion), it has become a strong point of principle debate between the President and the Democratic Party. There is bipartisan agreement in both the Houses on a short-term spending bill that will allow the government to reopen and also allocate $1.3 billion to the Department of Homeland Security. However, this bill does not have any allocation for the border wall. President Trump has indicated that he will not approve such a bill unless it has $6 billion additional allocated for the border wall. He had also openly spoken about declaring a National Emergency in order to get the wall built.

Where do the two parties stand?

Democrats, who now control the House, oppose any funding of the border wall. Nancy Pelosi, the Speaker, in her address recently stated that under no condition will the Democratic Party agree to border wall spending. She also indicated that they will support measures that are more technologically enabled to contain the threat of illegal immigration. The Democrats intend to get a symbolic political victory on this issue. Several key Republicans have voiced their agreement with the proposed Democratic Party bill to fund the eight other departments of the government, apart from Homeland Security. As many as eight Republican representatives broke rank in the House to vote for a bill that would open the Internal Revenue Service (IRS). There is enough coalition support to opening the government, but the President's office is not in agreement.



Can Trump use emergency powers to build the wall?

President Trump requires two components to build the wall—the authorisation to start the construction and the land to build the wall on. Currently, a significant portion of the land on which the wall is to be built is private property of citizens. In case of an emergency, the President has the powers to unilaterally authorise construction without Congress's approval. However, he cannot seize private property in an emergency without paying the market price for it. The question then becomes, will President Trump be able to reallocate funds from the defence budget or would it be disallowed by the courts, which, at this point, seems more likely.

What will be the impact of a prolonged shutdown?

This shutdown has increased the uncertainty of the state of the economy and the movement of interest rates. If it continues for longer, it will likely hamper business confidence and government data releases such as Nonfarm payrolls, inflation. It remains a challenge for the Fed to decide on interest rate hike without reliable data and definitive signs of continued recovery. The Fed is maintaining a dovish stance on rate hikes following the shutdown and increased concerns on growth despite the guidance for two hikes in 2019 in their previous meeting.

Many federal workers will continue to miss their paycheck and stay away from work. There is a possibility that President Trump could end the standoff in the coming weeks if the anxiety about the economic impact grows.

The committee for federal budget has estimated the total cost of the US-Mexico border at $25 billion, which will be around $200 per US household. So, even if the current demand of $6 billion is approved, this could only be a short-term resolution.

Uncertainty in the US government, the US-China trade war, and concerns of an impending slowdown continue to pose risks for the US economy. The shutdown also makes the discussion about raising the debt ceiling more difficult, which is expected to happen before March 2019. Congress is likely to extend the funding for some months. However, a prolonged standoff over the borrowing cap increases the risk of a ratings downgrade from Aaa/AA+.