All eyes on Walmart

Will Walmart stay put in India or will the policy flip-flop make it review its plans?

NOT FOR PROFIT

NIVEDITA MOOKERJI

American brokerage firm Morgan Stanley put out a warning note earlier this week that Walmart may exit Flipkart, similar to what Amazon had done in China, if there's no clear path to profitability. While Flipkart chief executive Kalyan Krishnamurthy countered that theory immediately in a communication to the company employees, it's surprising that Morgan Stanley mentioned Amazon's exit from China but not Walmart's from several foreign markets over the years.

Even though a few changes, however life-changing they may be, in the e-commerce rules may or may not make the American retail major leave India, exit is nothing new for Walmart. Last year, it realised that it was tough to win the UK market alone. So, it sold a majority stake in its UK arm ASDA to UK's second biggest supermarket chain Sainsbury for around $10 billion. It was around the same time that it was buying a controlling stake in Flipkart for $16 billion. Brazil was yet another market where it sold some 80 per cent stake to private equity firm Advent International as recently as in June 2018. While it wanted to beat the top player Tesco in the UK through the deal with Sainsbury, the move in Brazil was prompted by an under-performing business.

Walmart's exits had started more than a decade ago when it didn't have a good going in Germany and South Korea. China hasn't been a great story either for Walmart till it partnered with JD.com to take on Alibaba. In Japan too, it recently withdrew from general merchandise retailing so that it could use its resources more effectively in other geographies. There have been other break-ups as well, including the one with the Bharti group a few years ago, though Walmart stayed on looking for a better future in India. And then Flipkart happened.

That brings us back to the current confusion over Walmart's India plans. If conspiracy theories are to be believed, the American major has not exactly been on top of the world after the much anticipated Flipkart deal due to shareholders' concern. According to one such theory, Walmart may have been looking for a way out of the deal soon after its shares plunged and market cap eroded. A "no" from the Competition Commission of India (CCI) may have provided the company an escape route, but Walmart swam through the regulatory processes. There was no doubt then that the biggest retailer of the world was here to stay in India, though its multi-brand retail dreams had been shattered long ago.

Online looked like a safe bet despite some fringe protests by trade bodies against international hold over e-commerce companies and deep discounts that they were offering. Once the Flipkart founders — Sachin Bansal and Binny Bansal — were out of the scheme of things, Walmart had settled down to compete with Amazon and plan things ahead of Reliance's entry into e-commerce.

But the e-commerce universe turned upside down when the government issued revised foreign direct investment (FDI) guidelines that meant doing the online retail business in a completely different way from February 1. Walmart-owned Flipkart and Amazon were at the receiving end, while domestic traders' bodies such as CAIT claimed victory as the government refused to even extend the February 1 deadline. The most obvious interpretation was that the government didn't want to annoy domestic traders' lobby, a large voter base, ahead of a crucial Lok Sabha poll. After all, throughout its term, this government held on to its promise made to the traders back in 2014 that FDI wouldn't be permitted in multi-brand retail.

In the middle of all the chaos when Amazon and Flipkart (Walmart) are busy restructuring sellers and products on their respective marketplace platforms to comply with the latest e-commerce rules, conspiracy theorists are again wondering if the regulatory changes may offer an escape route to the international majors from a market that looks tough to operate in. As foreign investors depend more rigidly on board approvals for every investment and business decision, policy stability is critical to them. A continuing policy flip flop, like the one in e-commerce currently, could possibly force them to look out.

For now, Walmart has said it remains optimistic about India. That could change without prior notice. Flash back to October 2013: Then Walmart Asia chief executive Scott Price had chosen Bali to famously say, "frankly, the FDI has passed". That ended a partnership that had begun on long-term promise.

Exit, whether partial or full, is not uncommon for any business, including in retail. Tesco, Walmart, Carrefour and others — everyone has done it routinely. And it can happen again.

CHINESE WHISPERS

Maya's Twitter debut

Twitter is treating this as nothing short of a coup. The Bahujan Samaj Party (BSP) president, Mayawati (*pictured*), has finally debuted on the social media platform. In the past, Mayawati had not just disapproved of her party members officially joining the platform, but a youth leader was publicly ticked off for operating a quasi-official Twitter handle in the name of the party, and had to eventually quit the party. On Wednesday, an anodyne press statement from the BSP stated that Mayawati "has for the first time decided to join Twitter for speedy interaction with media and masses, besides expressing her views on various issues of national and political importance through Twitter". The BSP chief's Twitter handle is @SushriMayawati, and the first tweet on it was posted on January 22. However, no one took it seriously until the official statement considering previous similar handles were termed fake by the party.

Together we can

Bravado is probably a necessary requirement for a politician's job profile. On Wednesday, Indian National Lok Dal (INLD) leader Abhay Singh Chautala rejected reports that his party's alliance with the Bahujan Samaj Party (BSP) was under strain after the drubbing it received in the Jind bypoll, asserting that the two would jointly contest the coming Lok Sabha polls. Abhay is the younger son of INLD president and former Haryana chief minister Om Prakash Chautala. In the Jind bypolls, Digvijay Chautala of the Jannayak Janata Party (JJP) finished at number two, while the INLD candidate lost his security deposit and the Bharatiya Janata Party (BJP) emerged the winner. Abhay's brother Ajay Singh Chautala, currently serving a jail term, is a patron of the JJP and his two sons — Digvijay and Dushyant — are spearheading the party in his absence. Interestingly, BSP chief Mayawati, in a press statement issued on Monday, said her party would not have any truck with the INLD till the warring family reunites.

Missing in action

The Congress and Janata Dal (Secular) coalition government in Karnataka has moved from one crisis to another since it was formed last May. On Wednesday, Congress general secretary K C Venugopal rushed to Bengaluru following reports that at least four Congress legislators were missing on the first day of the Assembly session. On Tuesday, a whip had been issued to all MLAs of the ruling coalition to be present in the Assembly on all days of the Budget session. That was seen as a move by the ruling coalition to pre-empt any plans of disgruntled Congress MLAs on the radar of BJP to stay away from the Assembly and threaten the government. Former chief minister and Congress leader Siddaramaiah served a second notice to the MLAs who did not turn up for the meeting. Congress sources claimed some of the BJP legislators have also gone missing.

GMS 2.0: Banks' participation key to success

The scheme's inability to convince big players like temples has to be sorted on a war footing

RAJESH BHAYANI

After three years of launching the Gold Monetisation Scheme (GMS), the central government is planning to rehaul the entire scheme to attract physical gold hoarders. The reason: The scheme has collected less than 20 tonnes. To put the number in perspective, two years back, the World Gold Council had estimated that Indian households held as much as 24,000 tonnes of gold.

Banks have been the main culprit in this fiasco. That is, 14 banks have indeed signed tripartite agreements with seven refineries and 47 hallmarking centres to run the scheme. However, they have not returned signed agreements with the respective centres to start the process. In other words, they have not launched the scheme.

The only bank that seems to have some kind of scheme in place is the State Bank of India. And that too because it has been running a gold deposit scheme for years, and has its systems in place. "We are getting several inquiries from depositors who wish to deposit gold ranging from 30 gram (which is the minimum) to 5 kg in the Gold Monetisation Scheme," said Kolkata-based Harshad Ajmera, president, Indian Association of Hallmarking Centres (IAHC), adding that if banks show interest, a few hundred kilograms of gold may be deposited in a very short time. Another bullion refiner from Kochi said he had even approached the finance ministry for guidance after getting customers' queries. But nothing happened.

TAKE TWO

The GMS, introduced by the government in 2015, has these key features. There are three kinds of deposits — short, medium and long term. Under the short-term (one to three years) scheme, banks are allowed to lend to jewellers, collect it back and return to depositors on maturity. Under the medium- and long-term schemes (five to 15 years), the liability of the deposit is with the government. The mobilised gold is to be auctioned by the MMTC on behalf of the government, and the money collected will be treated as market borrowings. If the price of gold goes up on maturity, the government will pay back the higher amount to the depositor.

The Narendra Modi-led government's plan to unlock the gold held by temples and individuals was introduced after India's current account deficit shot up to 4.7 per cent of GDP, or $88 billion, in 2012-13, necessitating the need to reduce gold imports for which India was spending $50 billion-plus on import bills. The government decided to unlock the value of idle gold through GMS. The idea was to mobilise gold and lend it to jewellers. This was expected to reduce the import bill. The World Gold Council, two years back, had estimated that 24,000 tonnes of gold might be with Indian households (worth over 440 per cent of GDP) . This holding figure has only increased now.

Last week, the finance ministry stated in its Interim Budget document that "broad guidelines for amendment of Gold Monetisation Scheme has been prepared and is under consideration." While the government's proposals are yet to be made public, the Reserve Bank of India has already started taking some concrete actions. For example, last month it allowed banks to accept gold from government agencies (those confiscating gold for any reason are potential depositors) and trusts.

According to the source, the government is planning to ask banks to open a gold metal deposit account, which will allow banks to return gold in the metal form on maturity instead of the equivalent value in cash. This move could be particularly attractive to temples, which hold around 3,500 to 4,000 tonnes, as they would like to get back gold in metal format instead of cash.

Apart from some big temples, several small temples across the country can potentially deposit 25-50 kg gold in GMS. However, they are managed by trusts that have deeds that do not allow selling of gold. And the GMS, in its present format, gives back cash over the medium or long term – this tantamounts to selling gold, which is prohibited by the trust deeds.

Experts suggest that the government consider more moves. For example, James Jose, secretary, Association of Gold Refineries and Mints said: "The government should open a GMS portal giving details of banks that will accept gold with branches and designated officials. Also, information about locations of hallmarking centres – the first point for customers to melt and weigh gold and issue certificates – should also be provided in this portal. Banks will open gold deposit accounts, based on the certificates issued by hallmarking centres. Such information will help customers who want to deposit gold."

Another issue that needs attention is the lack of availability of bills. Many potential depositors do not want to go through the hassle of depositing gold, as they don't have supporting bills. Some might not even know the origin since they may have received family heirloom held to many decades. They would be clearly worried about the income-tax department's queries. Professor Arvind Sahay, chairperson, India Gold Policy Center, IIM-A recommended the government should give a clarification that up to 1 kg of gold deposited by the gold under GMS will not go through any tax scrutiny. At today's price 1 kg gold bought 25 years back would be around ₹33 lakh.

To encourage banks, Sahay suggested incentivising banks to make them feel that GMS is a profitable business proposition. "This can be done by providing monetary incentives, allowing gold collected under GMS to be treated as part of the cash reserve ratio and other moves," he added.

GLITTERING FACTS

24,000 tonnes of gold are estimated to be in Indian households

20 tonnes have been mobilised under the GMS

13 tonnes are to be auctioned by MMTC

Deposit from temples are estimated to be around **2–3 tonnes** under the new GMS–2015

16 tonnes were mobilised under old gold deposit scheme which is closed now

The target under the scheme is to mobilise **50 tonnes of gold** per annum

47 collection centres ready, over 700 more ready to participate in GMS

INSIGHT

India's employment: The challenges

In the concluding part of the series, the author says India's next challenge is to meet the aspirations of people who are employed but want higher incomes

AMITABH KANT

So what is the true picture of employment in India? We now have extensive data available on people contributing to social security benefits are provided through the Employee Provident Fund Organisation (EPFO), the Employee State Insurance Corporation (ESIC) and the National Pension Fund (NPS). Between September 2017 and November 2018, a total of 73,50,786 new subscribers were added to the EPFO, an average of 490,000 subscribers each month. ESIC tells a similar story. On an average, between September 2017 and November 2018, approximately 1-1.1 million subscribers were added each month. Even if we consider a 50 per cent overlap with EPFO data, it yields about 1 million workers being added to the formal workforce per month, or 12 million annually. An analysis of NPS shows that we are adding close to 600,000-plus jobs in central and all state governments.

Another complementary measure of employment can be based on the transport sector. Consider the sale of commercial vehicles. The net of exports, approximately 750,000 vehicles were sold in FY18 in India. Considering a replacement rate of 25 per cent, this still translates to 560,000 new commercial vehicles added to the transport sector. Assuming a capacity of employment for each commercial vehicle at two, we can infer that 1.1 million jobs are annually added in this sector alone. To this if one added the sales of cars, three-wheelers and tractors, around 30-plus lakh jobs are created in this sector alone yearly.

Self-employment is also a critical source of employment generation in India. Job creation among professional service providers such as chartered accountants, lawyers and doctors is also robust, as per data from their respective regulatory bodies. Income Tax (IT) data provides an indication on the number of new self-employed professionals. As per data available, an average of 150,000 tax paying professionals were added annually between assessment year (AY) 2014-15 and AY 2017-18. One can further assume that most of these professional tax payers hire support staff, likely to be below the threshold of 20 employees which then makes social security registration mandatory. Assuming each professional hires a support staff of five, this indicates an average of 750,000 jobs being created annually. Under MUDRA Yojana, 155.6 million loans have been disbursed amounting to over ₹7 trillion. Over 40 million first time borrowers have started their business enterprises. Such a huge magnitude of loans being given to small entrepreneurs has created gainful employment.

A study by McKinsey Global Institute titled "*India's Labour Market — A New Emphasis on Gainful Employment*" has highlighted that increased government spending, rise of independent work and entrepreneurship have boosted incremental job for 20-26 million people during 2014-17. According to an analysis by the Ministry of Tourism, the tourism sector alone has created 14.62 million job opportunities in the country during last four years.

While the above statistics do not present the full extent of employment generation, they do lend irrefutable and concrete evidence of the extent of employment being generated across the country. There is certainly enough evidence to doubt and even contradict the narrative of joblessness with shrinking workforce and rise in unemployment.

Does this mean that India has no challenges related to employment? That's also not true. Over the last few years, India's next challenge is to meet the aspirations of people who are employed but want higher incomes. This requires creation of enough well-paying jobs for existing industrial workforce and for those who want to move out of agriculture. This requires policies that encourage productivity growth in the country, which necessitate concerted efforts towards formalisation, urbanisation and industrialisation of Indian economy. Regarding the PLFS, I feel that the experience of the pilot should be used to improve the survey through use of technology, accessing real-time data, and increasing the sample size. The draft estimates just do not add up. The above are issues I would have raised if I had been presented a copy beforehand as member of the Commission or if the full Commission had met to discuss the draft report. (*Concluded*)

The author is CEO of NITI Aayog. Views expressed are personal.

LETTERS

Beyond the drama

The drama involving the West Bengal government and the Central Bureau of Investigation (CBI) has been both disturbing and unedifying. To the non-aligned, both parties' behaviour fails the smell-test. The Kolkata Police Commissioner Rajeev Kumar should have joined the investigation much earlier. If he had apprehensions that he might be framed or coerced, then he could have sought the presence of his lawyer. The CBI team should have been treated with greater courtesy. Similarly, the CBI could have come at normal hours, not at 7 pm, and with less show of strength. The CBI's inaction over the past four years, the fact that it's not pursuing others allegedly involved, the timing of the visit, that is, on the last day of the interim chief of the agency, and doing all that just a few months before the elections — can be seen as part of a script.

This, however, brings up the bigger question of Union-state relations. By design, the Union government has been successful in extending its say over matters that can be better handled at the state level. The inter-state National Development Council is hardly functional. Another example is the duality over the cadre distribution of the Indian Administrative Services and the Indian Police Services officers. Once allotted to a state, these officers logically should be under the sole administrative authority of that state. The other is the post of the governor. He/she is the most senior unelected constitutional authority but there is little transparency in the appointment. The governor's ability to seek dissolution of an elected state government on his own determination, should have had no place in a democratic Constitution.

Our states are not to the Union of India what a district of the state is to the state.

P Datta New Delhi

Improve skill sets

This refers to "Challenge is to create more organised jobs" (February 6). The economy, as rightly pointed out in the article, has to be more organised and infrastructure needs to be of a better quality to ensure access to basic requirements such as health care, education and financial services. This inadequacy and a lack of connectivity are responsible for the high level of informal employment currently. Adequate geographical and regional connectivity is essential to ensure growth in formal organised employment and encourage the informal sector to switch over.

C Gopinath Nair Kochi

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HAMBONE

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Premature assumptions

Opposition parties lack a coherent alternative plan

With the interim Budget out of the way, the focus is now on the next general elections in May. Opinion polls have started on whether the Indian voter will return Prime Minister Narendra Modi-led National Democratic Alliance government (NDA) to the Centre or not. The Opposition parties are seemingly determined to form a grand alliance, or mahagathbandhan, to challenge the ruling party. Several age-old opponents such as the Bahujan Samaj Party and the Samajwadi Party in Uttar Pradesh have announced that they will fight elections together. The Congress party is hoping to ally with parties that it opposes bitterly at the state level such as the Trinamool Congress or even the Communist Party of India (Marxist). Indeed, on January 19, leaders from as many as 20 parties shared a common platform in West Bengal to signal their combined challenge to the NDA. But it is not going to be an easy task, as evident from the SP-BSP's decision to keep the Congress out of the alliance and Mayawati's assertion that she would reconsider her support to Madhya Pradesh and Rajasthan governments if some of her conditions are not met.

Going by some of the recent opinion polls, it would appear that the NDA is way ahead of the grand alliance, though it might fall short of a majority in the House. One of the opinion polls, unveiled in January-end, assessed what the performance of the political alliances would be in case the elections were held immediately. The BJP-led NDA, according to this poll, is poised to get 252 seats — 20 short of the majority mark of 272 in the 543-seat Lok Sabha. Though this is considerably less than what the NDA managed in 2014, the fact is that it is within sniffing distance of the critical mark. The result suggests that the NDA will become the largest pre-poll alliance by a significant margin. The Congress-led United Progress Alliance is pegged at 147 seats and all the rest, a sort of a non-BJP, non-Congress front, is slated to get 144 seats. Two other surveys, however, predicted a less flattering picture of NDA fortunes. The verdict in both the surveys was that it will be a hung House, with NDA stopping at 233-237 seats, while the UPA might have to settle for less than 170 seats.

There are many reasons why one should not jump to conclusions based on these opinion polls. The fact is these are early days and the easy assumptions made by many about an Opposition alliance unseating Mr Modi may be premature. For instance, there is no overriding seat adjustment in key states such as UP. With little time left before the polls, there is still no clarity whether the Congress is with the SP-BSP combine or whether there will be a triangular contest. Moreover, several regional parties that rule states such as Odisha and Telangana have stayed away from the emerging mahagathbandhan. It is not difficult to see them siding with the party most likely to reach the majority mark. And NDA has a clear edge in all the surveys. Lastly, the grand alliance per se has not yet gone beyond an anti-Modi rhetoric; they have not presented a coherent alternative plan, except for criticising the NDA. The only real promise so far is Rahul Gandhi's minimum income guarantee scheme, which could be an operational nightmare since it would mean assessing beneficiaries' income first. It's time for the opposition alliance to wake up and smell the coffee.

Sticking to his guns

Mr Trump promises bipartisanship, but his speech was divisive

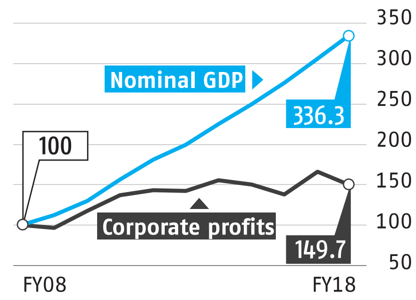
United States President Donald Trump's annual State of the Union address to both houses of the US Congress was billed by the Republican administration as an exercise in bipartisanship. That is what, presumably, is necessary at a time when once again the US has to deal with a House of Representatives that is controlled by one party and a White House that is controlled by another. But that is not at all how things turned out. While Mr Trump did gesture towards bipartisanship at times, most of his speech was focused on energising his base, and he showed no sign of abandoning his hard line on several issues — particularly immigration. He spoke of an "urgent national crisis" at the US border with Mexico, demanding funds to build the border wall that has already this year shut down the government for over a month.

He also made it clear that in his view, "legislation" could not co-exist with "investigation" — that, in other words, House Democrats should not examine his record, his ties with Russia, or other problematic aspects of his 2016 campaign. The only moments of genuine bipartisan applause were when he committed to eliminating HIV, the virus that causes AIDS, in 10 years, and when he mentioned criminal justice reform that he had signed in December with support from both Democrats and Republicans. The record number of women legislators — all female Democrats in Congress dressed in suffragette white for the speech — was also another shared applause line.

Mr Trump praised the strength of the US economy, and warned that only "war and investigation" could derail it. While he is wrong about those two — and his unmistakable desire to get out of Afghanistan as soon as possible will vastly imperil the security of South Asia and the world — it is certainly true that the economic recovery is fragile and a divided Washington will struggle to keep the revival going. Infrastructure building, for example, which both parties agree is necessary, might be impossible to put into place given the sharp divisions in polity. Another aspect of his speech with economic implications was his continuing tough line on China. "The theft of American jobs and wealth has come to an end," said Mr Trump, underlining his economic nationalist approach. Mr Trump also asked for more tariff-setting authority for the White House — but, although the Democrats have traditionally been less of a free-trade party than the Republicans, it is not sure that the House majority will be willing to cede more power to a Trump White House. Indeed, bipartisan legislation has been introduced last week to limit, and not expand, the president's powers to prosecute a trade war.

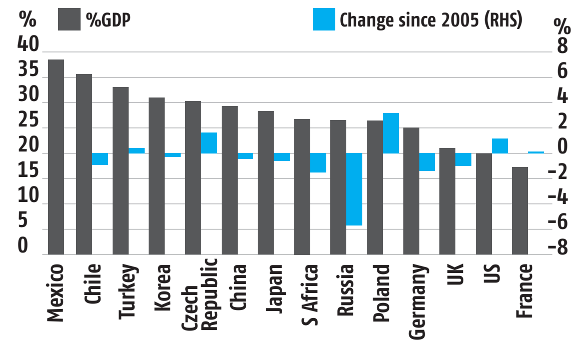
For the world and for India, the implications of a divided Washington are worrying. An inward-looking US will continue to see its role in the world diminish. Those areas of bipartisanship that remain are likely to be net negative for India — such as the possibility that the US will strike a bad deal with the Taliban and exit precipitately from Afghanistan.

CHART 1: TREND IN CORPORTATE PROFITS AND INDIA'S NOMINAL GDP



Indexed to base 100
Compiled by BS Research Bureau
Sources: Capitaline, Reserve Bank of India

CHART 2: GROSS CORPORATE PROFITS % GDP



Source: OECD, latest data as 2015 for all countries other than China, South Korea and South Africa, which are to 2014

Guns or butter, both need investments

Our common interest requires building a consensus on cash flows

"Money, money, money... makes the world go round". This line from a musical set in the 1930s' Berlin is inescapable in the commercial, economic, and often the political aspects of reality. While the show emphasised escaping through make-believe, the real-world actually follows closely along.

Take India's economy: Despite growth, without commensurate profits, employment, and wellbeing, we are marking time. Analysts point out that corporate profits languished since 2008, trending down as a percentage of GDP from 2010, excluding a minor improvement in 2017.[1] In fact, profits have not grown in real terms despite annual GDP growth of about 7 per cent for 10 years. This comes through powerfully in Chart 1.

In the boom from 2003 to 2008, profits to GDP doubled from 2.8 per cent to 5.5 per cent. Growth was driven by investment and exports as well as by consumption. After the subprime crisis of 2008 and the recession, profits in India slumped, partly because of excess capacity, and the rising costs of additional debt caused by inflation targeting (the components being wages, taxes, corporate profits, interest payments and rents).

SHYAM PONAPPA

Although profits recovered somewhat, they trended downward, and by 2018 were 3 per cent, the same as in 2003. By comparison, US figures (after a low of 4.95 per cent in Q4 2008) ranged from 9 to 11.7 per cent. Gross profit to GDP in the US was 20 per cent in 2015, while in China (2014) it was nearly 30 per cent (Chart 2). Surpluses are essential for investment and development, because neither can happen without them. Only thereafter is a higher wage-share affordable.

Of the decline in India from 2008 to 2018, about nine-tenths happened in four sectors: PSU banks (36 per cent), oil and gas (19), metals (18) and telecom (15). During this period, consumption replaced investment as the driver, with growth in sectors such as automobiles, consumer durables and retail. Some commentators expect these trends to continue, with some optimism on the revival of investment.

The counterfactual is that we haven't had any required reforms of structure and organisation for surpluses to grow in PSU banks, utilities or telecom. For instance:

- In banking, the NPA crisis remains, but the focus has moved away to elections.
- Reliable electricity supply needs financial sustainability and stable pricing, and neither is available. Coal mine auctions haven't resolved resource costs and availability, while financial gambits in the form of race-to-the-bottom bids to start projects and sell out early, instead of staying for profits from operations, aggravate problems in pricing and delivery for renewable energy as for conventional fuels. The financial incapacity of state electricity boards has created another set of problems, compounded by continued populism (unsustainable prices).
- In telecom there has been only one major reform for 5 GHz spectrum for WiFi, despite the new National Digital Communications Policy.

Meanwhile, electoral wrangling threatens to further deplete the treasury, whereas the problem is the opposite: Lack of surpluses (profits, and ultimately, cash). Profits have been stagnant for a decade starting from UPA-II, partly because of the excess capacity of the boom.[2] This has constrained development spending, because low surpluses have kept investments down. By contrast, investments and exports were strong from 2003-2008.

Several other social forces add to the downdraft.

- One is a political system that encourages splintering and divergence. As large parties have established hierarchies, it's easier to start anew to get and control funding for splinter parties around divergent special interest groups.
- Another is incomplete or dysfunctional design, whereas expenditure must produce surpluses. For example, a new metro service in one part of the National Capital Region does not connect with the Delhi Metro. What's more, the interchange is separated by several kilometres, and is reportedly designed to end ultimately with a gap of 350 metres at street level. A 'rapid transit' system that slows you down? If this were designed by enemy action to tie up resources and make people unproductive, they could not have done better. Similar problems assail the design of communications systems that often don't 'connect the pipes' all the way through, such as spectrum regulations that hinder communications, hastily applied GST regulations, or expressways with bottlenecks.
- A third is behavioural acts of omission or commission that increase costs and reduce surpluses. Ignoring laws, rules and regulations, whether it's driving down the wrong side, lane indiscipline, jumping traffic lights, breaking queues, littering, polluting, and such other lapses, including government agencies not paying bills.
- Yet another is accepting mediocrity, ignoring standards and protocols required for quality outcomes, products or services.

If we are to achieve surpluses, we will have to build a consensus focused on cash flows. The building blocks are 'trainable' virtues, with appropriate structures, processes, and behaviour. Social disciplines such as a sense of responsibility for and a desire to maintain good order, working logically, cooperatively, to plan — an 'objective oriented, project management approach' for individual and group gain — needs to be taught, ideally from the cradle, and reinforced in our activities, provided the connectivity and content are built to support this. These values can also be introduced at any level. Playing for group stakes and open, direct communication can be habituated through practice, by educational, economic and political systems treating them as worthy of inculcation and reward.

A necessary adjunct is to embrace long-horizon plans and group gains through multipartisan activity. For example, export initiatives are needed using digital technologies that feed into a digitally informed foreign trade policy (DIFTP).[3] Such initiatives require diligent collective effort, recognising that short cuts are at the cost of larger gains. Until we practice such convergent, national-gain behaviour, we are unlikely to generate the surpluses we wish for.

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1: "Corporate profit to GDP: Analyzing growth across cycles - 2018 mirroring 2003 bottom": https://www.motilaloswal.com/site/rreports/636840041276772228.pdf

2: https://thewire.in/political-economy/what-explains-india-incs-corporate-earnings-conundrum

3: https://www.researchgate.net/profile/RASHMI_BANGA/publication/330824656_Is_India_Digitally_Prepared_for_International_Trade

India's management conundrum

When you line up people from India Inc who have dominated news from the latter half of 2017 to the end of 2018, examples of poor management, due diligence, business judgement and outright fraud abound.

Nirav Modi, Vijay Mallya, Naresh Goyal, Subhash Chandra, IL&FS, Chanda Kochhar, the Ruia family, Anil Ambani, Shikha Sharma, Rana Kapoor...

The notable successes, on the other hand, are conspicuously few: Mukesh Ambani, Ritesh Agarwal of Oyo and Flipkart duo Sachin & Binny Bansal (but only for making a successful sale).

So: Are Indian businesspeople, managers and bankers sub-par or are they victims of a sub-optimal business environment, where lobbying trumps rules and policymaking is capricious?

SWOT

KANIKA DATTA

A bit of both, if you scan the two lists above. Vijay Mallya, Naresh Goyal and Subhash Chandra all confessed to poor decision-making. For the first two the principal failing has been a basic one: Cost-control, the bread and butter of any airline anywhere in the world.

In Mr Goyal's case, it would be wrong to attribute only soaring oil prices to his current woes. His struggles with cost, and its related challenge, people management, date back at least a decade, the legacy of the decision to buy the sinking Air Sahara in 2006.

Recall the drama played out on TV when he sacked some 1,900 employees — cabin crew, ground staff etc — and then reinstated them after a dramatic late night press conference in 2008. Few Bollywood blockbusters could have matched the histrionics of this episode. Youthful protesters gathered in their bright yellow Jet Airways uniform and dark glasses, surely one of the most glamorous *dharnas* in recent memory. Then came Mr Goyal's turn at the presser, where he teared up and swore on his late mother that he bore them no ill will.

Mr Mallya has long cultivated a theatrical persona, but Kingfisher Airlines' crash landing was unprecedented in its drama. As with Jet Airways, an ill-judged acquisition, this time of Air Deccan, to beat government rules for flying overseas routes, proved his undoing as did his weird strategy of offering business class facilities to economy class passengers. An 18th birthday present for a son with a personality resembling Donald Trump Jr, Mallya pater called it a business failure.

The banks, owed more than ₹7,000 crore, begged to differ. Questions arose as to how aviation came to be designated "infrastructure lending" when he, a Rajya Sabha MP, was accessing loans. By 2012, the airline closed leaving scores of employees jobless. Then came reports of spectacular assets being requisitioned by lenders — zillions of cars, luxury homes, private jets. Topping this out were his flight to England after selling his core liquor business to Diageo, extradition hearings that involved an improbable photo of an Indian jail where he would be incarcerated to assure a British judge that he would not be mistreated.

Subhash Chandra, whose Essel group saw its stocks hammered last week, offered a point-by-point explanation of why he's in this predicament: "Incorrect bids" in infrastructure; a "key error" in acquiring D2H; shouldering a major debt when the family businesses were separated; the IL&FS crisis which "diminished" his ability to service borrowings. Bar his core media business, then, Mr Chandra was not great at diversification. But he blamed his problems as much on "negative forces" (unspecified) that intentionally hammered down his company's shares.

Managing costs and diversifying wisely are basics of management. It is notable that several groups — IL&FS among them — have been felled by splurging on expensive projects in infrastructure, a sector so tied up in unpredictable government policy that it now accounts for the bulk of bad debts in the Indian banking system.

But basic management also demands due diligence. Axis Bank's Shikha Sharma and YES Bank's Rana Kapoor, once poster-people for the Indian banking system, were both asked by the central banker to step aside on these grounds. Ms Kochhar's case, yet unclear since the investigative documents against her have not been made public, suggests, at the very least, a casual approach to the issue of conflict of interest.

Which brings us to the successes. Of these, the steady and exponential growth of Mr Agarwal's OYO Rooms appears to be unambiguously a business success. It is now India's largest hotel firm by number of rooms and has ventured overseas. Mukesh Ambani's Jio, the most formidable force on the Indian telecom scene today, would qualify a distant second only because the company leveraged gaps — perfectly legal ones — in Indian competition and regulatory laws to establish itself. It is worth wondering, however, whether it would have succeeded with quite the same dominance in any other rule-based polity.

Overall, then, the picture is a dismal one. On the cusp of the third decade of the 21st century and after nearly three decades of economic liberalisation, India is struggling to create a vibrant business climate. This says as much for those who run businesses as for the legal and regulatory environment in which they operate.

Countering India's e-commerce cacophony

BOOK REVIEW

AJIT BALAKRISHNAN

In *When it Clicks: Field Notes from India's E-Commerce Revolution*, an India Railway Reservation pioneer tells his story in a world that is awash with misgivings about what the internet revolution has wrought. Such misgivings range from accusations that e-commerce is destroying the livelihood of small shopkeepers, who employ half of India's young who are desperately seeking jobs in urban India to escape the misery of rural India, to accusations that the internet is being used to fix elections. In this dismal scenario, the book shines a bright light on an achievement most Indians will probably agree on: the availability of online reservations on Indian Railways. Gone are the days of waiting for hours in queue at dawn or dealing with sleazy brokers in dark alleys to get a railway ticket to go see your parents. And this book is by one of the key people who fought against overwhelming odds to make the Online Railway Reservation system happen.

Few people would have dared to take on a job as gigantic as this. The Indian Railway system has 7,300-plus railway stations that carries millions of passengers every year over 67,000-plus kilometres in the country. Imagine also the task of making it happen in an organisation that employs more than 1.3 million people. Amitabh Pandey's book is about how he went about enthusing teams inside the Indian Railways and facilitating online reservations — with all its complexities of keeping track of seats available across thousands of trains, to taking the booking, getting payment systems implemented and ensuring that tickets are delivered safely to ticket buyers across the vast expanse of India.

The Indian Railways website went live in August 2002 complete with online payments at a time when most Indian corporate bosses viewed the internet as a plaything where their teenage children went and listened to pirated music and films or viewed pornography. Yet in those early days, when telephone lines barely worked and most banks did not offer online payment facilities, online ticketing at Indian Railways leapt from a few hundred tickets a day to several thousand tickets a day in a few months. The cliché is that real startups get started in garages. Mr Pandey and the online Railway Reservations team were given a stretch of corridor in an Indian Railways building where they created a small room barely large enough to house three server racks and his team.

We are a country in which selfless, faceless civil servants undertake some truly heroic acts, but the media glory is focused on "start-ups" and business tycoons. Enabling the online booking and payment for Indian Railway tickets is one such case. Having toiled in the internet industry for two decades, I can venture to say that just about the only worthwhile achievement of India's e-commerce industry is this: creating the online reservation and payment of the Indian Railways. The rest of India's e-commerce industry seemed to be devoted to flooding the Indian market with cheap Chinese fake-name consumer electronic goods and running up astronomical losses.

Reading this book, I suddenly recalled how much of the foundation of India's later success in Information Technology services was laid by outsourcing contracts that the India Railways (and later the nationalised banks) handed out in the late 1980s to Indian entrepreneurs. These projects enabled and nurtured the early IT services companies and helped them prepare to capitalise on the worldwide Y2K boom of the late 1990s

The author devotes some of his book to an overview of the online travel industry in India, particularly the venture-funded air-travel portion of it. He analyses the various segments of this industry and concludes that "the pattern is slightly disturbing". He says that there is a "tendency towards hubris when large sums of money are available to burn..." and that there is an attitude "of 'get me the best there is, money is no object!' This leads to unnecessary waste". He concludes that maybe "venture capital perhaps needs to introspect..." and adds that "most VCs have their roots in the West". He asks, like many others, about the e-commerce industry, "How long will ...loss-making operations last?" and follows it up with an interesting discussion on whether the market share they have acquired by discounting prices be lost once the discounting stops.

These questions, plus the ones he raises on "Dark-Suited Bankers" in India who, in his view, never take risks, and on whether electronic transactions can replace "overworked, often rude and ill-informed and unhelpful 'babu'" and thus make the life of ordinary citizens in India a little more bearable, should make this book appealing to all thinking people. Mr Pandey accomplishes all of this in a mere 156 pages, something you can easily read, let's say, on a Bombay-Delhi flight.

WHEN IT CLICKS:
Field Notes from India's E-Commerce Revolution
Amitabh Pandey
Pan Macmillan, ₹299, 156 pages