The real drama on TV

The world's second largest TV market continues to grow and surprise

MEDIASCOPE

VANITA KOHLI KHANDEKAR

The numbers, the diversity and the sense of sameness. Those are the big insights from the Broadcast Audience Research Council's or BARC's year-end compendium, "What India Watched 2018." Currently at 40,000 homes covering more than 180,000 individuals BARC is by the far the world's largest audience measurement system tracking its second largest TV market — India. A joint venture between advertisers, broadcasters and media agencies it keeps tabs on 595 channels by sifting through 7.5 petabytes of data. This gives the industry a currency that powers $5.7 billion of advertising and content spends. The ₹74,000 crore Indian television business is the largest chunk of the media and entertainment industry (45 per cent) and impacts 4.5 million jobs. BARC's insights then are critical to anyone tracking this business — advertisers, broadcasters, investors or content creators.

Take the first — the sheer numbers. India's 197 million homes house 836 million TV viewers who watch everything from general entertainment channels (GECs) to films and sports in a largely single TV market. That is up from 790 million in 2016 when the last establishment survey, the study that updates the base number on which the sample is chosen, was done. Television viewership rose by 13 per cent in 2018 over 2017. Over 30 billion impressions, 75 new channels, 24,076 movies and 989 billion man minutes of TV viewing per week are the other big, bull-dozer like numbers that hit you. And for the over the top (OTT) enthusiasts here is a comparison — the 480 million Indians with broadband connections spend about 50 minutes a day watching VIDEO online. TV on the other hand averages 3 hours and 45 minutes and continues to grow. It reiterates what this column has maintained — the growth of online has been supplementary not cannibalistic.

The second takeaway is the one that always fascinates me — India's diversity. The social reality of India's 29 states and 22 key languages is so evident in our TV viewing habits. The biggest languages are Hindi, Tamil, Telugu, Malayalam, Kannada and others. What is interesting is that the time spent on Tamil, Telugu or other GECs that cater to a smaller numbers of people compared to Hindi, is way higher than Hindi. Over 53 per cent of total TV viewership goes to GECs and a bulk of what people watch on them is drama — so fiction rules. That is what OTT trends show too.

After GECs movies dominate having risen from about 12 per cent of total viewership in 2010 to 24 per cent now. It underlines once again that movies are the fuel that drive both TV and OTT viewership — across male and female or urban and rural viewers.

Unfortunately news remains the third most watched genre at 7.2 per cent — the fall in the standards of news broadcasting simply seems to have attracted more people to it.

What I was really looking forward to was seeing a jump in sports viewership after all the noise about kabaddi, badminton, football et al. Over the decades, cricket has dominated both the broadcast business and the sporting ecosystem to the detriment of every other sport. Thankfully, kabaddi has become huge. It is second only to cricket and accounts for 15 per cent of total sports viewership. But the sports pie itself remains disappointing — it has inched from the two per cent it was at for years to three last year. There is now a variety of sports on TV in a variety of languages. Why then doesn't it grow?

And that brings me to the third important thing. How things remain the same. These proportions, of GEC, FILMS, kids, sports etc, have remained roughly the same over the 18 years that I have been tracking this industry. GECs have always been roughly half of all viewing, kids five to six per cent. Films is the only genre that has shown exceptional growth. Twenty eight years after private television began, drama, films and news continue to drives viewership. In the 90s it was *Tara* and *Amaanat* now it is *Naagin* and *Ishq Subhan Allah*. That is true for OTT as well. Netflix saw a huge surge in subscriptions when it released its first Indian original, Sacred Games in June last year. We still look for a good story. Mostly we watch it on a GEC or on a movie channel. At time news channels offer that with their hyper-dramatised, frequently fictionalised version of events. But each and every time, it is our search for a story, for drama that drives us to a screen and keeps us there.

http://twitter.com/vanitakohlik

CHINESE WHISPERS

Confessions of an ally

The All India Anna Dravida Munnetra Kazhagam (AIADMK) might be the third-largest party in the current Lok Sabha and part of the National Democratic Alliance (NDA), but that does not make it "a decisive political force", said party Spokesperson Avadi Kumar during a debate. Then, much to the chagrin of his party colleagues, he said in the upcoming election, his party's focus would be on the by-elections to the 18 Assembly constituencies rather than the Lok Sabha. "With 37 members in a 534-member Lok Sabha, we are just a droplet," he said comparing the fate of his party to that of the Dravida Munnetra Kazhagam, which was part of the United Progressive Alliance.

Battle for Chhindwara

The Chhindwara Lok Sabha seat in Madhya Pradesh is key for both the Congress and the Bharatiya Janata Party (BJP). For the coming Lok Sabha election, Chief Minister Kamal Nath's *(pictured)* son Nakul Nath will represent the seat on a Congress ticket. This is the second time since 1980 that Kamal Nath will not contest the seat. As chief minister he will fight an Assembly seat instead. Earlier, in 1996, he couldn't contest the seat after being accused in the Jain hawala case and denied a party ticket. On its part, the BJP senses a reasonably fair chance to win the seat this time around. The party is expected to field former union minister Prahlad Patel there. Like Nath, Patel hails from the tribal-dominated Mahakaushal region.

Backbench leader

The Congress Working Committee (CWC) meeting in Ahmedabad on Tuesday marked the debut of recently appointed general secretary of the party, Priyanka Gandhi Vadra, as a member of its highest decision making body. However, at the customary photo-op of all the participants of the CWC, she stood in one of the last rows along with some of the junior leaders, while Congress President Rahul Gandhi and UPA Chairperson Sonia Gandhi, along with some other top leaders, stood in the front row. Interestingly, the party had organised for modified golf carts to ferry the elderly among its leaders to the meeting venue at the Sardar Vallabhbhai Patel National Memorial.

Mining waste is an environmental time bomb

The industry has consistently displayed a cavalier approach to safety when it comes to disposing of waste

ILLUSTRATION BY BINAY SINHA

KUNAL BOSE

The world mining industry always had an image problem relating to the hollowness of safety-first claim and poor corporate governance. The image was dented further and quite badly so in the past four years as a result of three major accidents. As it would happen all the three mine disasters took place in Brazil where crony capitalism has taken deep roots. In one of the worst tailings tragedies in history, a dam holding sludge of a mine owned by the world's largest iron ore producer, Vale, in Minas Gerais state of Brazil collapsed on January 28 claiming a few hundred lives. The tragedy is a pointer to serious lapses in corporate governance since the company was warned last year that the dam had heightened risk of rupturing.

TAKE TWO

Earlier in November 2015, a tailings dam linked to a Brazilian mine jointly owned by Vale and Anglo-Australian BHP Billiton breached unleashing a tidal wave of about 40 million cubic metres of mining waste that killed 19 people and caused incalculable damage to a river and surrounding villages and acres and acres of farmland. Then in February 2018, Brazil had to contend with another environmental crisis when toxic wastewater leaks at the world's largest alumina refinery Alunorte owned by Norwegian Hydro following heavy rains poisoned drinking water and farmland in nearby plant areas. Alunorte suffered an identical crisis in 2009. The two wastewater leaks at Alunorte facilities were a wakeup call for New Delhi since the country has a growing profile in bauxite mining and refining of alumina.

The fact is, what happened in Brazil could too occur elsewhere, including India unless a regular audit is done of the storage of mines and alumina refinery waste materials and corrective steps are taken without postponement that could harm the environment and people as dearly as in Brazil. Indian Bureau of Mines gives the message that management of a tailings dam, which is typically an earth-fill embankment dam, should be "an integral part of large-scale mining operations." Safety apart, the mining sector in India suffered from many other ills, exposing the lack of effective corporate governance for the correction of which the Supreme Court had to make game-changing interventions in Karnataka, Odisha and Goa.

Bauxite is an important mining activity in India, which, after its processing into alumina, supports an annual white metal production of around 3.5 million tonnes (mt). Whatever the industry may say, unless the miners make foolproof arrangements of environment protection, the dust generated in the process of excavating bauxite will affect the health of workers and people in surrounding areas. Then, the leaching of bauxite in streams and rivers will do considerable harm to soil fertility and aquatic life. Because of grievous injuries that bauxite could do to the environment, governments everywhere, under pressure from environmentalists and NGOs, are putting increasingly stringent conditions on the opening of new mines.

What is of no less concern is the storage of highly alkaline red mud (RM) generated as a by-product in the Bayer process of extraction of alumina from bauxite by using a hot solution of caustic soda and lime. Depending on bauxite quality and refinery operational efficiency, anything between 1 and 1.5 tonnes of red mud containing six major oxides and several minerals is generated for every tonne of alumina. Because of its high alkalinity and traces of toxic heavy metals, the disposal and storage of RM remain a massive challenge for alumina producers.

RM is disposed of in ponds, lakes and streams after building a lining wall. Even then, a certain amount of seepage takes place, damaging soil in surrounding areas and all life forms. Embankment breaches and spill over from RM storage ponds during heavy rains always remain a possibility. As recently as August 2016, two villages in the Henan province of China were submerged in RM following the collapse of a waste pond dam. Here there was no human casualty, though a mass evacuation of people had to be undertaken and large tracts of farmland were covered in RM. But when a similar accident happened at Ajka in Hungary in 2010, ten people died and a large number sustained severe chemical burns.

The world is sitting on a pile of at least 3 billion tonnes (bt) of RM and is producing annually over 150 mt of the toxic alumina by-product. While alumina units will have to stay alert that embankment lining walls remain in good condition, every producing country should have a target for recycling of a certain percentage of RM. China, the world's largest producer of alumina and aluminium, is chasing a target of 10 per cent recycling of RM a year.

In an attempt to recover wealth from waste, Indian mines secretary Anil Mukim wants recovery of iron from RM. The Chinese aluminium maker Chalco is credited with finding ways to recover iron and rare earth metals from alumina by-product. RM contains 25 to 30 per cent iron. A few pilot projects to extract iron from RM are in operation and Mukim wants "such recovery to be made feasible on a commercial scale." The twin goals are to find a solution to RM menace and create a new revenue stream for alumina makers. RM too could be used for making a host of building and construction materials, including cement and bricks.

INSIGHT

Reshaping India's financial markets

We need to diversify the forex, credit and interest rate risks across the financial market

SOUMYA KANTI GHOSH

The decision by the State Bank of India (SBI) to expedite the transmission of policy rate by linking the asset and liability sides could reshape the Indian financial markets. On March 8, the SBI decided to link savings bank (SB) deposits with balances above ₹1 lakh to the repo rate; all cash credit accounts and overdrafts with limits above ₹1 lakh will also be linked to the repo rate. The risk premiums over and above the floor rate would continue to be based on the risk profile of the borrower.

SB deposits typically serve the transaction needs of the depositor. Aligning the repo rate with the savings bank rate over the ₹1 lakh threshold would be a win-win for the bank, customer and the regulator. The option is always available with the customer to shift the extra SB balance to time deposits, which will help the banks to plan their asset-liability management accordingly. Setting the limit at ₹1 lakh is primarily aimed to protect the small-time depositors from the vagaries of market fluctuations. It may also be noted that the RBI allows a differential interest rate structure for saving bank deposits only beyond ₹1 lakh and the deposit insurance cover is also applicable up to ₹1 lakh.

The Indian banking sector has a deposit base (as of March '18) of ₹114 trillion, of which 32.9 per cent or ₹37 trillion is SB deposits with almost 70 per cent of the SB deposits with public sector banks. Nearly 75 per cent of SB deposits are above ₹1 lakh and if the banking sector goes ahead with this move then a 25 bps change in the repo rate will have an impact of ₹70.6 billion on the liability side in either direction.

On the asset side, for All Schedulad Commercial Banks (ASCBs), the outstanding cash credit (CC) and overdraft (OD) above ₹1 lakh amount to 22.30 per cent of the total ASCB advances. If all banks link CC/OD to repo rate and there is 25 bps change in repo, the net interest income of ASCB will change by around ₹49 billion. Furthermore, MCLR linked rates could change by ₹22.7 billion, taking the total impact on advances to ₹71.5 billion. Hence, the total impact of the repo rate change is likely to be net interest margin neutral for the banking sector.

One of the primary reasons for linking the SB rate with the repo rate and not T-bills is that T-bills are more volatile than the policy repo rate and this could introduce a noise element into consumption expenditure of individuals if T-bills are used as an external benchmark. A more compelling argument could be that term deposits with ASCBs have an average balance of ₹2.75 lakh equivalent to a monthly interest income of ₹1,610 (at the rate of 7 per cent per annum) against a monthly income of ₹9,416 (per capita income of Indians is ₹1.13 lakh). The interest income, therefore, forms up to 17 per cent of the income — too big an amount to be left to the whims of market determined rates. It may be noted that SB interest is around 2 per cent of our private final consumption expenditure, and less prone to market volatilities and hence the decision to link SB is perfectly justified. The volatility in rate movements could result in a concomitant decline in income velocity of money as it could then be used more for precautionary purposes.

Aligning the repo rate with the savings bank rate over the ₹1 lakh threshold would be a win-win for the bank, customer and the regulator

The linking of lending rates to external benchmark also needs to factor in two key developments announced during the last four years. In December 2018, the RBI announced guidelines on the minimum level of "loan component" for large corporates that could be carved out of working capital loans. The key intent of the guideline was to instill credit discipline among large borrowers. Large corporates responded to the RBI intent and corporate bond issuances swelled from ₹5.84 trillion in FY15-16 to ₹6.77 trillion in FY2017-18, reporting around 8 per cent CAGR. During the nine-month FY19 period, ₹4.70 trillion has been mobilised.

Thus, raising corporate bonds/CPs/ECBs/masala bonds/NCDs etc at fine pricing for large well-perceived borrower meant transmission of rates was already being factored in through competitive market offerings, allowing for market decided price discovery. The process of tapering aggregate fund-based credit limit within the scheduled time appears to be running its course. Thus, this SBI step could potentially usher in a better all-round price discovery and complement the current mechanism.

With India currently a $2.6 trillion economy it is imperative that the interest rate derivative market also expands with this move. Put in a different way, currently, all kinds of risks — be it FX, credit or interest rates — all are largely warehoused in the banking system and with the economy growing, we need to diversify this risk across the financial market. The current step could just be a beginning.

The author is group chief economic advisor, State Bank of India. Views are personal

LETTERS

A matter of trust

Apropos "Foreign fund inflow propels markets to 6-month peak, rupee to 2-month high" by Sundar Sethuraman and Samie Modak (March 12), the inflow of $3.8 billion in less than three weeks is unprecedented — something to be cherished and celebrated — and calls for dedicated efforts to sustain this kind of confidence of international investors in our country and our corporate world. It is a strong endorsement of our robust ecosystem including government policies. Arguably, the biggest boost to this has come from our measured, well thought out and strong response to the terrorist attack at Pulwama and consequently, global condemnation of Pakistan's overt and covert support to militants.

The foreign portfolio investor investment of an eye popping $545 million in a single day — March 11 — is proof of the world welcoming the strong possibility of the present regime retaining power for another five years and thus assuring continuity of policies and ushering in greater stability and continuity.

Krishan Kalra Gurugram

Speed up investment

This refers to "Quicker transmission" (March 11). Despite the growing competition among the financial intermediaries for garnering low-cost resources, the State Bank of India linked its interest rates on savings deposit, overdrafts and cash credits on the threshold limit above ₹1 lakh with the repo rate of the Reserve Bank of India. Accordingly, the rate on savings deposit above ₹1 lakh is repo rate (6.25 per cent) minus 2.75 per cent that comes to 3.5 per cent and for cash credits and overdrafts above ₹1 lakh, it is 6.5 per cent (6.25 plus spread of 2.25). The lower rate on the savings deposit will lead to the conversion of the savings deposit into short-term fixed deposits and flight of these deposits to acquire other forms of assets. But if all the financial intermediaries proceed for such changes, the conversion of financial assets into other forms of assets will not take place and will not adversely impact the business and profitability of the individual bank that went for such a change.

The transmission of the policy rates into the economy will be complete if only all the financial intermediaries pass it. Partial transmission of the changes in the repo rate is against the purpose for which the changes have been initiated. The banking regulator has to advise all the financial intermediaries in general and the banking sector in particular to make corresponding changes in the deposit and lending rates to speed up investments.

VSK Pillai Kottayam

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 • E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE

Business Standard
Volume XXIII Number 150
MUMBAI | WEDNESDAY, 13 MARCH 2019

Fighting fuel dependence

India has to think strategically to ensure macro stability

India's dependence on fuel imports continues to grow. India imports over 80 per cent of its crude oil and the largest sources are Iraq, Saudi Arabia and sanctions-hit Iran. Overall, India's import dependency in its energy mix has risen sharply from 21 per cent in 2000 to 36 per cent in 2015 — and could be as much as 50 per cent in 2040 even if energy production domestically grows faster than it has in the past. This is clearly a major, continuing problem and there are no easy solutions. As India modernises its economy, it will clearly move away from older, less dense forms of energy — such as biomass — to more dense ones. India largely lacks proven resources of oil, gas and metallurgical coal on the scale required. However, the consequence of this continued dependence for the external balance and for overall macro-economic stability is unwelcome. A spike in the price of oil, for example, drives up domestic inflation, stresses the fiscal deficit and can — as it did in 1991 and nearly did in 2013 — drive India close to a crisis in terms of its balance of payments.

What are the alternatives? It is true India does have extensive resources of coal. However, not all of the proven reserves are of the quality needed. In order to ensure that Indian coal burns relatively cleanly, it would have to be processed or washed — which can greatly add to water stress in the area around a coal plant. Areas already short of water, such as for example Vidarbha in Maharashtra, can hardly afford a cluster of new coal-fired plants. Besides the effect of coal-fired plants' emissions on greenhouse gas concentrations and their more direct health effect on those living near them also need to be taken into account. Coal is, in many ways, on the way out — Glencore, for example, has promised to cap its coal production. So where does that leave India? It may well be dependent on coal for many years into the future, but it is clear that alternatives will have to be found. Gasification of coal is one possibility.

Renewable energy sources are, of course, a major source of hope, especially as they are currently competitive in terms of variable costs. However, solar and wind power are not perfect substitutes for current energy sources, given that they are variable in terms of output — wind farms produce power when the wind is blowing, and solar farms when the sun is shining. Thus India will have to think strategically about the effect of a continuing import dependence. There are two dimensions it must consider: First in terms of survival during a crisis, and second in preventing macro instability. For the first, it needs to ensure that there are sufficient reserves on its own soil — the strategic reserves being set up in cooperation with the UAE and Saudi Arabia are a good step in that direction. And, for the second, there is no alternative to ensuring that the balance of trade becomes healthier. If India wants to be confident, it can always pay for imported fuel, but it needs to ensure that exports grow sustainably. That is the only way macro stability can be paid for.

737 concerns

DGCA's decision to ground planes is appropriate

The crash on Sunday of an Ethiopian Airlines Boeing 737 MAX 8 airliner flying from Addis Ababa to Nairobi, killing all 157 people on board, has sent shock waves through the aviation community. The crash is unexplained at the moment.

The aircraft was new, less than six months old; and it was being flown by an experienced pilot. Ethiopian itself, a member of the Star Alliance, which includes Air India, is a well-respected airline with a solid safety record. Worse, this crash comes within a few months of another tragic incident — in October, a Lion Air jet from Indonesia went down, killing 189. That was also a Boeing 737 MAX 8, the latest version of the venerable aircraft. Concern has begun to spread about the planes, about 350 of which are currently in active service. About 40 per cent of them, however, have been grounded in the past few days while more information is built up about the crashed planes. Ethiopia, Australia and Singapore were among the first to ban the aircraft, alongside the civil aviation authority of the People's Republic of China — the market where about 20 per cent of Boeing jets are sold. Multiple other countries, such as India, the UK, Germany, France, Argentina, Malaysia and South Korea, have taken similar decisions, while in some cases airlines — such as Aeromexico and South Africa's Comair — have taken a decision on their own to ground their 737 MAX 8s. Other airlines, however, are holding out, including some of the biggest purchasers of the 737 MAX 8s — the US' Southwest and American Airlines, and flydubai. Boeing's share price has, naturally, suffered.

Concerns about the MAX 8 have the potential to severely hamper the growth of the sector. While only 350 have been delivered so far, there are over 4,500 orders in place — the 737 MAX 8 is likely to be the medium-haul workhorse just as its predecessors were of the past. It is essential for Boeing to work closely with national regulators and airlines to work out if there is a problem and, if so, how to fix it. Matters have reached the point where, if a perception takes hold that this jet is unsafe, it will be very difficult to get passengers to fly on one. Transparency and swift action are therefore essential.

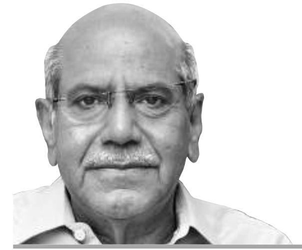
In India, SpiceJet and Jet Airways have the new variant 737s, although Jet Airways — which in any case, thanks to other troubles, has grounded part of its fleet — has said it is not flying any of them at the moment. After grounding the planes, the Directorate General of Civil Aviation has said its decision will remain in force till appropriate modifications and safety measures are undertaken to ensure their safe operations. It is a wise decision, even though it comes after the aviation regulator's inexplicable statement earlier in the day that it sees no immediate cause for concern. That kneejerk reaction was perhaps a result of the backlash after the National Front government in 1990 grounded the Airbus 320 in Indian Airlines' fleet after a crash, only to be later forced to reintroduce the planes into the fleet. However, better sense has finally prevailed in the face of growing public concern.

ILLUSTRATION: BINAY SINHA

China's quest for a new financial order

The step by step opening up of its markets offers unprecedented opportunities for global banking and financial firms

China is committed to full internationalisation of its national currency, the Renminbi (RMB), but is unwilling to embrace the liberalisation of its financial markets with consequent prospects of exchange rate volatility and potential capital flight. Its efforts so far have been to promote the use of the RMB in trade settlement, in investment products and as reserve currency to enhance its international profile. The Belt and Road Initiative (BRI) also enables China to expand the use of the RMB in project related finance in partner countries. A major initiative was taken in March 2018 when the Shanghai International Energy Exchange was set up to promote a petro-yuan market to rival the petro-dollar market. Since China is the world's largest importer of oil, it is encouraging the settlement of oil contracts in its own currency. The Shanghai Exchange deals in oil futures rivalling those in New York and London and could potentially set price benchmarks in the Asian region. The Shanghai Exchange dealt with 6 per cent of the spot market in just one year of trading. Fifteen per cent of the futures are held by foreign entities. The petro-yuan market has also been given a boost by imposition of US sanctions on Russia and Iran, providing an alternative to dollar-designated contracts. As the functioning of the Exchange matures, it is likely to rival the West Texas International and Brent as benchmark for oil prices globally.


SHYAM SARAN

Another significant development during 2018 was foreign access granted to China's bond market, which is currently worth $12.7 trillion, and likely to double in the next four years. It is the third largest bond market in the world after the US and Europe. In 2017, China set up the Bond Connect which allows qualified and designated foreign financial entities such as banks, sovereign wealth funds and central banks, to invest in Chinese bonds through authorised entities in Hong Kong. However, the current foreign holding of Chinese bonds is a mere 2 per cent of the total but rising rapidly. In November 2018, the Chinese government announced that foreign investments in the bond market would be exempt from corporate income tax and value added tax for the next three years. The quota for foreign investors using the Bond Connect has been raised to $300 billion in the current year. It may be noted that Chinese domestic investors do not have the permission to invest in foreign bonds and this detracts from the creation of a truly international and open bond market.

An important gain for China last year was the inclusion of select Chinese A-shares traded on the Shanghai stock market in the MSCI Emerging Market Index. These shares have a current weight of 0.7 per cent in the index, but MSCI has announced that it will quadruple the number of Chinese shares to be included in its index by November this year, increasing their weight to 3.3 per cent. The Standard and Poor(S&P) Index and the Financial Times Security Exchange(FTSE) Index have also followed suit in including Chinese shares in their Emerging Market benchmarks.

With the liberalisation of the Chinese bond market, China has been pressing these indices to include Chinese government bonds in determining their benchmarks. Just recently, Bloomberg Barclays Global Aggregate, which is the most prominent in this field, has announced that it will, over a 20-month period, include 363 Chinese securities in its benchmark index , with a weight of 6 per cent. Other Indices such as J P Morgan Government Bond Index and Citi World Government Bond Index are likely to follow suit. The inclusion of Chinese stocks and bonds in these international indices would automatically direct funds to Chinese financial markets since many international sovereign wealth funds and pension funds allocate money passively tracking such indices. It is estimated that there may be, in the first year itself, a $ 80-billion inflow into Chinese stock market, while purchases of Chinese bonds may be at $250-$300 billion. It may be noted that this could result in deflection of such financial flows from countries like India.

In the context of Chinese efforts to promote the use of RMB internationally, one must also consider the success of Union Pay which has become the world's largest credit card issuing company. It was established in 2002 and having issued 7 billion cards, commands 56 per cent of the global market. It has been used mainly by the rapidly growing outbound Chinese tourists but currently there are 100 million card holders outside China. The card can be used in as many as 150 countries and a deliberate policy has been adopted to promote its use in BRI partner countries.

Chinese banks are encouraged to establish a strong overseas presence. They currently hold $2 trillion in overseas assets. The Bank of China is ranked sixth among the top 10 international banks. China set up 12 financial Free Trade Zones to experiment with a number of financial sector reforms and liberalisation, with Shanghai occupying the pride of place. However, these initiatives have yielded disappointing results. The focus has shifted in these zones to a broader economic reform agenda not limited to the financial sector. For example, Chengdu in the inland Sichuan province, is being developed as a logistics base to cater to the Eurasian corridor which is part of the BRI.

Taken together these various developments add up to a substantial agenda of financial reform through a step by step integration with the global financial system. China is leveraging its weight as the second largest economy in the world and the attraction of its vast and expanding market, to obtain access and deeper working arrangements with established international players. This is in sharp contrast to the headwinds the country is encountering on the trade and technology fronts . The gains it is making in the global financial markets may suffer a setback if its economy heads into a serious slowdown or even a crisis triggered by the ongoing US-China trade war. However, it is unlikely that the overall trend will see a reversal. For the major international banking and financial firms, the opening up of the Chinese securities and bond markets offers unprecedented profit opportunities . China may well achieve its aim to become a global financial hub. The global financial system is being reshaped in ways that are only dimly understood.

The writer is a former Foreign Secretary and is currently Senior Fellow, CPR.

Singapore versus Mauritius

The sheen of the Modi government's performance in attracting foreign direct investment (FDI) to India has worn off considerably. Last year, i.e. 2017-18, total FDI inflows improved by just over 1.25 per cent over $60.22 billion recorded in 2016-17. In the current year, such inflows are expected to decline over those in the previous year. In the first three quarters of 2018-19, total FDI inflows at $46.62 billion fell by over 3 per cent over the same period of 2017-18. If this trend continues, the current year will see the first annual decline in FDI inflows during the five years of the Modi regime.

To be sure, the first two years of the Modi regime did see a healthy rise in FDI flows — by 25 per cent and 23 per cent, respectively, in 2014-15 and 2015-16. In the third year, the growth decelerated to just 8 per cent. That is why, perhaps, further deceleration in 2017-18 and a likely decline in 2018-19 will stand out in comparison.

NEW DELHI DIARY
A K BHATTACHARYA

Of course, this performance looks better than the Manmohan Singh government's FDI show between 2009-10 and 2013-14. During the Singh government's five years, FDI inflows fell in as many as three years — by 10 per cent in 2009-10, by 8 per cent in the following year and again by 26 per cent in 2012-13. There was a smart recovery of 34 per cent in 2011-12 and a 5 per cent pick-up in 2013-14. Thus, total FDI flows of $36 billion in the last year of the Singh government (2013-14) were even lower than the flows of $37.7 billion in its first year (2009-10).

The Modi government will certainly do better than that. But its FDI performance has a few other facets that need closer scrutiny. The services sector continues to attract the single largest amount of FDI equity. According to the government's definition for FDI purposes, the services sector includes financial entities, banks, insurance services, business outsourcing, research and development activities, courier services, technology firms, and testing and analysis companies. After seeing a decline in 2017-18, the services sector has once again recovered with FDI equity flows of $6.59 billion in the first three quarters of 2018-19.

Computer software and hardware as a sector is the other steady performer. FDI equity inflows into this category are estimated at about $5 billion in the April-December 2018 period, compared to $6.15 billion in the whole of 2017-18. Trading and telecommunications have also continued to attract reasonably large FDI equity flows. Sectors that have done poorly in comparison include construction and pharmaceuticals.

The only manufacturing sector that continues to maintain steady performance is the automobile industry. At $2.1 billion in the first three quarters of 2018-19, this sector has already exceeded the total FDI equity inflows during the entire period of 2017-18, which in itself represented a 30 per cent increase over the previous year. It would thus appear that the automobile story in FDI equity inflows is very much intact.

However, there is no denying that it is the services sector and not manufacturing that continues to be the leading catalyst for dynamism in India's FDI equity inflows. This has its obvious ramifications for the economy. As is to be expected, the services sector is generally more suitable for the skilled category of workers and may not facilitate easy migration or redeployment of a large number of agricultural workers, who are looking out for fresh opportunities outside the farm sector.

The latest numbers on FDI equity inflows reveal another interesting trend. Two of India's biggest sources of FDI equity inflows are Mauritius and Singapore. Cumulatively, these two countries account for a little more than half of India's entire FDI equity inflows in the last 18 years. This amounts to over $2.1 trillion in this period. Such large FDI equity flows have taken place mainly because of the kind of tax advantages, which investments from these two destinations used to enjoy, till recently. But these advantages began to be phased out from 2017 in an attempt to prevent tax evasion, curb revenue loss and streamline the flow of investments.

Thus, in August 2016, the Indian government notified a revised tax treaty with Mauritius, which in effect levied capital gains tax on investments routed through that country. From April 1, 2017, the capital gains tax on such investments from Mauritius was imposed at half of the prevailing domestic rate; and the full duty without any rebate will be imposed from April 1, 2019.

A few months later, in March 2017, the government notified a similar amendment to its tax treaty with Singapore. As a result of this change, all investments into India from Singapore began attracting capital gains tax at the source of such investments. In a bid to reduce the jolt to the system, the government also decided that from April 1, 2017, the capital gains tax would be levied at 50 per cent of the prevailing domestic rate and the full rate would be enforced from April 1, 2019.

Significantly, there was no measurable impact on FDI equity inflows from Singapore or Mauritius in 2017-18, the first year when the tax benefits were effectively cut by half. FDI equity inflows from Mauritius that year were estimated at about $16 billion, just about a per cent more than those in 2016-17. But Singapore showed a dramatic recovery and India's FDI equity inflows from that country in 2017-18 rose by about 40 per cent to $12 billion.

The trend so far in the first three quarters of current year shows that India continues to see higher FDI equity inflows from Singapore ($13 billion), while the flows from Mauritius have taken a big hit, slowing down to just about $6 billion.

It seems that the impact of the new tax laws has been negligible on Singapore, but significantly adverse for Mauritius. Indeed, the flows from Singapore have increased. A clearer indication will be available from 2019-20, when the entire capital gains benefits for both the countries will be withdrawn from April 1, 2019. But a reasonable question that can be raised now is: Has Singapore gained at the expense of Mauritius?

Pioneer across the borders

BOOK REVIEW
SEEMA GOSWAMI

By any standards, Begum Ra'ana Liaquat Ali Khan led a remarkable life. And it is a measure of how remarkable her life was that it takes two people, from two different countries, to tell her story in all its complexity and nuance.

Even if you boil it down to bare essentials, Begum Ra'ana's journey was quite extraordinary. Born to a Kumaoni Brahmin family which had controversially converted to Christianity a couple of generations ago, Irene Margaret Pant — as she was known in her early life — was among the first women of her generation to get the benefit of higher education, which she went on to put to good use by becoming a college lecturer.

At a time when women were routinely married off at a young age to men that their parents chose, Irene fell in love with and wed a man of her own choice. That in itself was a bold enough move. What made it revolutionary was that Nawabzada Liaquat Ali Khan was much older than her, already married with a child, and a Muslim to boot. So, it was in the teeth of parental opposition that Irene converted to Islam (and was bestowed the name Gul-i-Ra'ana, later shortened to just Ra'ana) and married the man who had stolen her heart.

It was that choice that would dictate the trajectory of Ra'ana's life from then on. Liaquat Ali Khan was a leading light of the Muslim League and a close confidant and lieutenant of Mohammad Ali Jinnah. And Ra'ana, who had always been politically inclined, soon became completely enmeshed in the freedom movement, and in the push for a separate homeland for Muslims.

This early part of her life, on our side of the border, is told by Deepa Agarwal. As a fellow Kumaoni, Ms Agarwal brings alive the childhood of Irene Pant from the perspective of an insider. We see the Pants being ostracised by polite society and, indeed, all their friends and relatives, because their grandfather, a caste Brahmin no less, converted to Christianity, and all the strains and stresses it puts on the family.

In a strange twist of fate, many decades later, Irene goes through the same experience as her grandfather, when she gives up the religion she was born into, and defies her family by embracing Islam and Liaquat Ali Khan. Not a single member of her family attends her wedding and she never ever sets foot in Kumaon again.

But enmeshed in the political world of Delhi and bringing up her two sons, it is hard to gauge if Ra'ana ever missed the hills amidst which she grew up. Or indeed, if she missed the country she grew up in once she crossed the border to take up residence in the newly-minted state of Pakistan, of which her husband was the first Prime Minister.

From this point on in the book, the narrative is taken up by Tahmina Aziz Ayub, a Pakistani writer, who is best equipped to tell the Begum's story as it unfolded in Pakistan. And in this recounting, Ms Ayub also gives us an insight into the birth of a country. The Pakistan of this time is alive with hopes and dreams, and Begum Liaquat Ali Khan — who would soon earn the title of Madar-e-Pakistan — is at the forefront, ensuring that women have equal participation in the task of nation building.

It was Begum Ra'ana who encouraged young, middle-class Muslim women to come out of purdah and train as nurses and teachers so that they could contribute to their country, brushing aside the resistance she encountered in what was still a feudal and conservative society. And to set an example, she worked in refugee camps herself, providing succor to those who had been rendered homeless and penniless by Partition.

But just five years later, Ra'ana's life imploded, when her husband was assassinated, leaving her a widow with two young sons aged 14 and 11. It is a measure of her steely determination that the Begum did not allow this tragedy to destroy her life. Instead, she went on to become a trusted advisor to different Pakistani governments, was appointed Ambassador to such capitals as Amsterdam and Rome, and soon attained the stature of a senior stateswoman in her own right.

It is intriguing to speculate how Pakistan would have developed as a nation if the two men instrumental in its creation — Jinnah and Liaquat Ali Khan — had not died within a few years of its formation. Would their liberal instincts, the ones that Begum Ra'ana tried to translate into her work with women, have survived and thrived? I guess we will never know. But what is clear is that this is the story of a truly remarkable woman, who straddled two religions, two countries, and two lives. A woman who lived on her own terms at a time when women could barely call their lives their own. And for that achievement alone, Begum Ra'ana deserves to live on in history.

THE BEGUM: A Portrait of Ra'ana Liaquat Ali Khan, Pakistan's Pioneering First Lady
Deepa Agarwal, Tahmina Aziz Ayub
Penguin
₹599, 256 pages