Opinion

TUESDAY, MARCH 19, 2019

SOON TO BE RESOLVED

Luo Zhaohui, Chinese ambassador to India

I am quite sure this matter [listing of Azhar by the UN] will be resolved. This is only a technical hold and the matter can be resolved through continued consultation

Boycotting Chinese goods is pie-in-the-sky for now

Till India's conditions for manufacturing are not world-class, there is no alternative to large Chinese imports

EVER SINCE THE Pulwama attack that killed CRPF jawans and the continued Chinese cover for Pakistan—China, once again, thwarted India's efforts to have Jaish-e-Mohammad chief Masood Azhar declared a 'global terrorist'—there have been a series of calls to boycott Chinese goods, to keep Chinese firms out of the Indian market; US president Donald Trump playing hardball with the Chinese on trade and the US government action against Huawei are cited admiringly in this context. A Delhi-based traders association has called for a Holika-dahan-style burning of Chinese goods on Tuesday and various WhatsApp forwards helpfully give details of Indian mobile phones that can be bought here instead of Chinese brands; so they cost a bit more, the underlying argument is, but a true patriot won't mind as this will deal a big blow to China since mobile phone imports are around a fifth of imports from that country.

All of this is pie-in-the-sky. For all the talk by various government ministers, starting with prime minister Narendra Modi, of how the number of mobile phone manufacturing units in India has skyrocketed over the past five years, the fact of the matter is that all of this has only meant more business for China as 85-90% of the components used in even Indian brands are made in China, apart from the fact that the market share of most Indian brands is miniscule. So, as more mobile phone units came into being and started assembling phones here, Counterpoint data shows imports of mobile phones crashed, from $7.4 billion in 2014 to under $2 billion in 2018 but, at the same time, imports of components rose from $1.4 billion to $11.4 billion. Indeed, this number is likely to be an understatement because India's commerce ministry data puts FY18 imports of 'telecom instruments' from China alone at $15.6 billion, up from $5.2 billion in FY10.

While calls to the faithful to boycott Chinese goods to treat China a lesson are quite stirring, at $2.5 trillion, China is the world's largest exporter—its exports, by the way, are almost as large as India's GDP of $2.7 trillion—and you don't achieve that unless you are very competitive. In a more or less free-trade situation, if you aren't competitive globally, you can't be competitive locally. So, if India has to be able to stop Chinese imports, it needs to be as competitive in global markets; and given its exports are less than a seventh those of China, it is clear India cannot keep Chinese imports out. At 77th, India's DoingBusiness rank is far behind China's 46th and, at 163rd, India's rank for enforcing contracts is way behind China's 6th rank. But more than this is the fact that India's real interest rates are upwards of 10-11% and make investments that much more unattractive, and its tax rates are amongst the highest in the world. Coupled with rigid labour laws and high-cost infrastructure like land and electricity, it is hardly surprising that both foreign and local investment levels in India are falling as a share of GDP; add to this the government's inability to fix its telecom policy for over a decade or the U-turn in its e-commerce policy or the frequent reversals in its policy towards oil and gas producers. Talk of boycotting Chinese imports is easy, much like the 'taking out' of Masood Azhar with a drone-shot, but it will take a long time, and requires the government to, simultaneously, carry out wide-ranging reforms in areas where most governments have hesitated since even 1991.

Right move on pollution

Data on pollution sources will help take concerted action

THE SUPREME COURT asking the Centre for a comparative study of pollution from firecrackers and that from vehicles is the approach that has been lacking in India's fight against pollution. Governments, both the Centre and the states, as well as the courts have often favoured piecemeal solutions that have popular appeal. But, rarely has such an approach had a meaningful impact. The Delhi government, for instance, lobbed the odd-even initiative on the national capital twice in 2016—and brings it up now and then when there is talk of acting against pollution—but, as a report by the Central Pollution Control Board shows, the move did nothing to improve air quality. That is hardly surprising because, as the 2016 IIT-Kanpur study pointed out, the largest source of PM2.5 and PM10 pollution in the national capital is road dust, while industries are to blame for the lion's share of its NOx pollution; vehicular pollution—within which two-wheelers were worse offenders than cars—contributed just 9%, the report had noted.

The SC, in the present instance, was mindful of the impact banning crackers could have on the fireworks industry, especially in terms of rendering thousands unemployed while there isn't much in terms of social security that could see fireworks industry workers through if they were to be reskilled. The court also wondered whether such a ban would stand the test of Article 19 that allows citizens to practice any profession or trade/occupation; given the fireworks industry isn't an illegal one and licences have been granted for these to function, a ban would surely violate the Constitution? This is certainly a welcome change from last year when the apex court ordered that people could burst crackers on festivals and special occasions only between 8 pm and 10 pm and only "green crackers" were to be allowed—and the year before, when it banned crackers altogether in the national capital. Read against the fact that Harvard-Nasa estimated crop-stubble burning in Haryana and Punjab accounts for 50% of the pollution in Delhi between October and November—Diwali, when the maximum cracker-related pollution occurs, is observed on an October/November date—the myopia of banning crackers is revealed. This is not to say that there should be no action on making crackers less polluting—the Centre has told the apex court that expert agencies tasked with coming up with a template for green-cracker production already have a composition formula and are now in the experimentation stage—or that the odd-even de-clogging of Delhi's roads wasn't a welcome relief. But, banning crackers or imposing odd-even as part of the arsenal against pollution have shown limited efficacy, and the courts and the government can't keep falling back to these to assure the masses that action is underway.

The National Green Tribunal, late last year, termed (in an interim order) the decision of the Tamil Nadu government to shut down Sterlite's copper smelting plant in Toothukudi as "unjustified". Even though there were violent protests against the plant for allegedly polluting the air and its effluents poisoning groundwater, the order exposes serious flaws in the approaches to green governance that various authorities have adopted—though it is possible that either the NGT underestimates the impact of Sterlite's emissions and effluents or Tamil Nadu makes too much of it. What is needed instead is thorough research and updated data on pollution. If a comparative analysis of the sources of pollution the apex court has asked is done, concerted green action can be taken, instead of the episodic, knee-jerk moves being made.

Automaton

#MainBhiChowkidar backfires as Modi (automated responder) tags Modi (economic fugitive's parody)

IT IS GOOD to be tech-forward. But, it is even better to avoid embarrassment. Prime minister Narendra Modi's social media team and the BJP's IT cell would have learnt this the hard way these past few days. To return Rahul Gandhi's verbal volley "*chowkidar chor hai*"—the prime minister has often called himself a "*chowkidar at the service of India*"—the BJP launched the "*Main bhi Chowkidar*" online campaign. Only, it backfired. On Twitter, faithfuls and loyals were surprised to see the prime minister's personal Twitter account not only tag known critics of the NDA-2 government and parody accounts such as *@AmbaniKaChela* *@NehruKiGaltiHai* and *@niiravmodi*, but also thank them for joining the "*Main bhi chowkidar*" campaign. Given the opposition has been routinely accusing the government of crony capitalism and aiding "loot and scoot", this played right into the hands of the critics. So, why would the prime minister sabotage his own campaign? The truth is the prime minister did not. But, tellingly, the social media team running the campaign failed to anticipate the dangers of running the campaign on an auto-responder mode.

Thanks to the absence of human vetting, what could have been a successful social media campaign has become the butt of Twitter jeers. And, given how social media amplifies both glory and gaffes, this isn't going to die down in a hurry. The soft underbelly of an unqualified reliance on technology has been exposed before—when *AltNews's* Pratik Sinha exposed how easy it was to manipulate the mass-tweeting the BJP's IT cell organises on a daily basis. For better or worse, the BJP and the NDA-2 government have positioned themselves as tech-forward. A Nirav Modi, even if a parody, tweeting *#MainBhiChowkidar* may not take that sheen off, but the party comes off looking quite silly.

NO PROOF REQUIRED

THE RECENTLY RELEASED ASI DATA FOR 2016-17 SUPPORTS THE CONCLUSION THAT BOTH OUTPUT GROWTH AND INDUSTRIAL JOB GROWTH HAVE SHARPLY ACCELERATED POST-2013

Fact vs fiction— ASI data sheds light

SURJIT S BHALLA

Contributing editor, Indian Express and consultant, Network 18. *Views are personal*

Surjit tweets @*surjitbhalla*

IN SEVERAL ARTICLES over the last few months, I have been documenting the following simple point—it is the age of fake news, and political parties across the world have used it or are using it. In my forthcoming book, *Citizen Raj: Elections 1952-2019*, I have a chapter titled, "The Birth of the Fake and Faulty Twins" in which I stress the simple point that, conceptually, it does not benefit the incumbent (and especially an incumbent with an outright majority) to engage in fake news. It can only backfire—however, it can benefit the challenger who can throw any accusation (as president Trump did in an earlier election) and the incumbent then has to try and prove the impossible.

On March 15, 2018, 108 economists and scientists released a letter titled, *Economic Statistics in Shambles*, published in the prestigious *Economic and Political Weekly*, that accused the Modi government of suppressing data. It is worth quoting a few sentences from the letter.

"For decades, India's statistical machinery has enjoyed a high level of reputation for the integrity of the data it produced on a range of economic and social parameters. It has often been criticised for the quality of its estimates, but never were allegations made of political interference influencing decisions and the estimates themselves. Lately, Indian statistics and the institutions associated with it have, however, come under a cloud for being influenced and, indeed, even controlled by political considerations.

In early 2015, the CSO issued a new gross domestic product (GDP) series (with the revised base year 2011-12) that showed a significantly faster growth rate for 2012-13 and 2013-14 compared to growth under the earlier series.". The complaint goes on to add, "In fact, any statistics that cast an iota of doubt on the achievement of the government seem to get revised or suppressed on the basis of some questionable methodology".

The new GDP series, which is a major part of the complaint, replaced the existing industry-level data (as compiled by the CSO as Annual Survey of Industries (ASI) and released with a two-year lag) by the more timely ministry of corporate affairs (MCA) balance sheet data on Indian industry. Unfortunately, these data do not go further back than 2006 and hence the controversy on GDP back-series which has arisen. On March 14, 2019, a day before the news of 'suppression of data' and 'political interference' towards manipulation hit the headlines, the first revised estimates of ASI data for 2016-17 were released on the CSO website.

The preliminary estimates were released on March 6. This rich source of data is examined below to shed some light on concerns raised by the 108+ eminent economists and scientists. In my experience, I have never come across such criticism, let alone accusations, ever before. The list of economists who signed the list are a virtual who's who of the Indian economic establishment (both domestic and NRIs). I know many of them, and I have enormous intellectual respect for several of these eminences. What they say has to be taken seriously by all concerned, especially by the government.

In my next article, I will examine, in detail, the accusations concerning the Periodic Labour Force Survey (PLFS) for 2017-18 which the government has stubbornly, and inexplicably, refused to release (till date). Regardless of any complaints that the government may have against the 'accuracy' or representativeness of the PLFS data, there is absolutely no basis for not releasing the data. In this regard, I am with anyone who states that the unit-level data (and not just the report on the PLFS data) should be released immediately. The government should realise that when it does not release data as per schedule, the immediate, and not incorrect, assumption is that the government has something to hide.

One of the biggest economic stories of our time (both in India and abroad) has been the decline in inflation rate to very low levels. This process has been going on in the world for 20+ years; its influence was masked in India by the extraordinarily high inflation inflicted on the Indian economy by the UPA governments 1 and 2 (especially 2). Curiously, when it comes to evaluation of GDP growth rates, the 108+ economists are quick to point out (in separate writings over the years) that India has benefitted from the oil price decline in the Modi years post-2014. But they don't point out how GDP growth benefitted from explosive global growth in UPA-1; and how the Indian macroeconomy was severely affected by high inflation post the 2008 financial crisis.

The attached graphic looks at ASI data on three important economic variables—net value added, wages to workers, and the number of workers. In addition, data on two price indices—CPI and WPI—are reported. The latter two are needed to analyse the ASI information in terms of real growth in value added, and real incomes of workers. Worker income is deflated by CPI; industrial value added is deflated by WPI for manufacturing. Data are available for only three of the Modi years, 2014-15 to 2016-17; past ASI data are available since 1981. If three years post- and pre-2014 are taken, then a valid comparison can be made between the UPA-2 years and the NDA-2 Modi years.

Note that the terminal year for the Modi period is 2016-17 i.e, the year of demonetisation. This selection of the demonetisation year biases all the results in an anti-Modi direction; all critics believe that demonetisation caused a severe dent in employment and output. What does the data show? First, the unambiguous record on decline in inflation. CPI inflation declined by 400 bps, from an average of 9% to an average of 5%. WPI for manufacturing declined at a slightly faster rate by 420 bps. Aggregate WPI inflation (not used in our computations) declined at a faster pace of 710 bps.

Now let us look at output growth. The 108+ experts believe that the new 2011-12 series is flawed. The new series is based on the MCA industrial data. But here, even according to the old ASI base, industrial growth in value added during the Modi years was at a substantially higher pace than the UPA-2 years—7.5% for net value added and an acceleration of 440 bps a year, on average. One of the suspicions of the 108+ economists is that GDP growth rate in 2016-17 was artificially and superficially boosted.

But what the old and ostensibly more reliable ASI data show is that the Modi years have been rather good for output (GDP) growth. But what about wages to workers?—the allegation is that there hasn't been much increase in wages. It is true that nominal wage growth has declined from 13% to 10.5%. But, inflation declined by a higher amount, thus yielding faster growth in real wages.

But what about jobs? Job growth must have been terrible, which is why the PLFS data are being suppressed as per the dissident economists. But, according to the ASI data, employment has grown at more than twice the rate in the three NDA-2 years than in the preceding three UPA years. The ASI employment data are also consistent with other sources of formal job data such as the EPFO database. It should also be noted that, around the world, establishment surveys are being preferred to household surveys on jobs; on unemployment, the only source is household surveys.

We conclude as follows: There is no denying the reality that the government has delayed the release of the PLFS data. For that, the government should be criticised. The rest of the rather extreme accusations made by responsible academics need to be examined by other academics—were they made in haste or after honest, non-ideological considerations? Only future research can help identify.

ASI data on industrial output and job growth

(% per year, CAGR)	Nominal		Real	
Indicator	2011-13	2014-16	2011-13	2014-16
Inflation data				
CPI	9	5		
WPI	6.8	-0.3		
WPI manufacturing	4.9	0.7		
ASI data				
Net income	7.3	8.6	2.4	7.9
Net value added	8	8.2	3.1	7.5
Wages to workers	13	10.5	4	5.5
Jobs (number of workers)	1.8	3.7	1.8	3.7

Source: CSO

What will the ₹ do now

After every sharp decline, there is a reaction; and, after the reaction runs its course, the rupee continues back down—usually below the previous all-time low but, at the very least, back to that level

JAMAL MECKLAI

CEO of Mecklai Financial

NOW THAT THE rupee has broken smartly above 69 to the $, the level at which Raghuram Rajan came in as Governor (2013) and which had provided a strong support to the rupee till last August, when it fell sharply (to nearly ₹75 to the $) during the last rupee 'crisis', where do we go from here?

Will this episode parallel what happened in 2009, when, after hitting a (then) all-time low of ₹51.95 to the $, the rupee strengthened by nearly 15% over the next 2+ years? Or, will it simply rally for a year as it did in 2012-13, before falling sharply again (to another all-time low)? Or will it hold above the current all-time low (of ₹75 to the $) but be battered with high volatility for the next 5 years, paralleling its path from 2013 to 2018?

Or, since history only repeats itself approximately, will it trace an entirely different path?

There are no answers but it may be worth looking at several new forces in the game. Perhaps the most significant is the possibility that India's share in the MSCI index may be increased—this would substantially influence debt flows into the Indian market—indeed, on March 14, there were debt inflows of $223 million, more than double the average daily debt inflows earlier in March.

Then, there is the $5 billion debt swap, where RBI will buy dollars and sell rupees to banks. While this is intended to improve rupee liquidity in the market, it has had the immediate effect of depressing the forward premiums, which could be an effective way of forcing medium-term rupee rates down, which again would draw money into the debt market to benefit from falling yields. As far as FX goes, the swap should have the impact of taking dollar supply out of the market—in other words, increasing relative demand for dollars, which is the reverse of what has been happening. Of course, it could be that banks are borrowing dollars overseas to swap them into cheap rupees for domestic operations—this, then, would be neutral for spot USD to the INR. The swap goes to auction on March 26, so we will likely see increased volatility right about then.

And, of course, there is the belief that, since the Pulwama attack, Modi's chances for returning as prime minister have increased, which is drawing foreign investors into Indian equities, strengthening the rupee. To be sure, since February 22 (the date of the response), equity inflows have strengthened. There is certainly some talk in the international press about this, and, of course, some pretty hysterical rhetoric from the ruling party—and, to be fair, from the Opposition as well. The truth on the ground, however, is much more complex, and, as we know, the 'Great Indian Election' show always surprises. I wouldn't take any bets.

In any case, hedging FX risk should not be about taking bets. After every sharp decline, there is a reaction; and, after the reaction runs its course (over varying periods), the rupee continues back down—usually below the previous all-time low but at very least back to that level. It is hard to see the broad pattern change.

With volatility high, it is dangerous to stay overly exposed. Importers should celebrate the much lower premiums and increase their hedges; exporters should note the still-high volatility and shorten their hedge horizons.

And we all should vote for a brave, new India that builds on the strengths of all our people. *Jai Hind*

LETTERS TO THE EDITOR

A man for the masses

In the demise of Manohar Parrikar, the nation has lost a true patriot and an accomplished administrator. As an epitome of integrity and simplicity, Parrikar had played a pivotal role in making BJP a greater force to reckon with in the political landscape of his home state Goa. Parrikar's stint as defence minister of the country would always be remembered for his empathetic approach towards the grievances of the soldiers. As the chief minister of Goa, he worked hard to put the state firmly on the trajectory of high economic development. With his exemplary commitment to public welfare, Parrikar had cemented his place as a man for the masses

— M Jeyaram, Madurai

Finishing on a high

Table-toppers Bangalore FC came out in glorious colours to bag their maiden Indian Super League title. After the two teams were locked even-steven at the end of regulation time, Rahul Bheke emerged the unlikely hero by nodding in the winner in the second half of extra time from a Dimas Delgado corner kick. The loss helped to erase the bitter memories of last year's final when Bangalore FC squandered a lead to go down 2-3 to Chennaiyin FC. Kudos!

— Ravi Chander, Bengaluru

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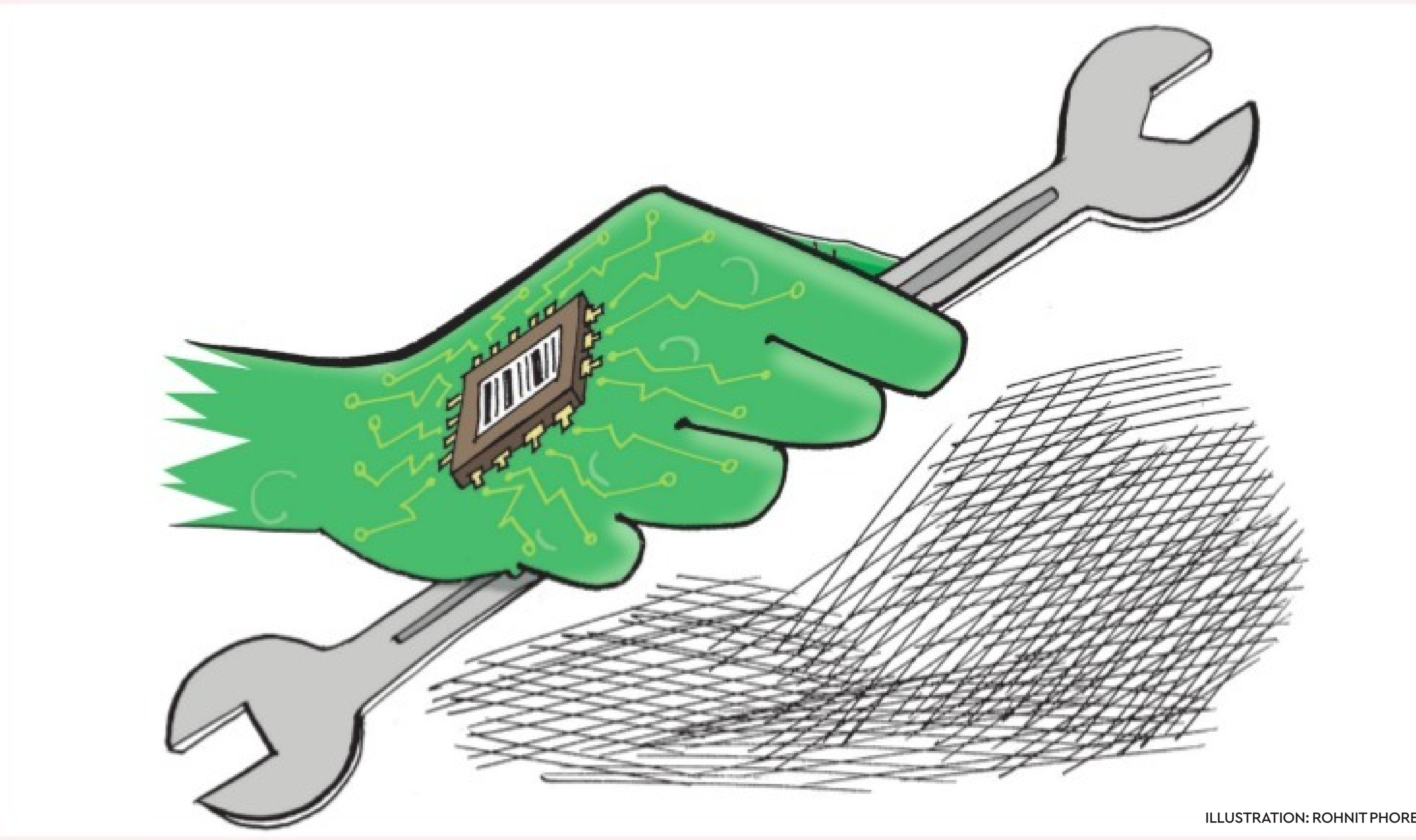

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Recollecting skills with ICE

By applying the ISCO-08 concepts to the ICE360° Survey, and classifying skill levels, we can better understand the connection between earnings and quality of labour force. This can provide important insights regarding skill levels, and can be used to equip the workforce with adequate skills

SKILLING HAS EMERGED as a buzzword. The push for a policy-backed skill development initiative is a significant step towards realising the potential of the workforce by enhancing its employability. The initiative seeks to strengthen institutional training, infrastructure, training of trainers, overseas employment, sustainable livelihoods and leveraging of public infrastructure. But there exists a huge gap between the current status and the desired goals in terms of a skilled workforce.

The foremost challenge is the huge proportion of poorly-trained workers in the informal sector—the large employment generator in India. The large majority of skill training is carried out through self-taught practices, observation or a transfer of skills from a master craftsperson to an apprentice. The proportion of formally skilled workers in India is extremely low, at 4.69% of total workforce, compared to 24% in China, 52% in the US, 68% in the UK, 75% in Germany, 80% in Japan and 96% in South Korea.

The mismatch between skill, academic training and employment has broadened to an extent where, on one hand, employers are unable to discover suitably trained people, and on the other, the youth is unable to find the kind of jobs they aspire for. According to the latest India Skill Report (2019), only 45.6% of the youth graduating from educational institutions are employable. To address this mismatch, it is imperative to understand the 'return on skill' (ROS) concept.

Common sense tells us that a skilled person is in a better position to enhance his earnings. But to be able to understand the impact of skills on employment, one needs to take a closer and analytical look at it. The International Standard Classification of Occupations (ILO, ISCO-08) provides a framework to make it possible to compare occupational data internationally. ISCO-08 does not seek to substitute the existing National Classification of Occupations, but enables inter-country comparisons by aligning occupational classifications to ISCO-08 in concept and structure. In the Indian context, many studies estimate return on education at the national level using NSSO data, India Human Development Surveys I and II (IHDS), National Data Survey on Savings Patterns of India, etc. But there are hardly any studies that investigate the labour-market ROS due to the absence of skill-based earning data.

To bridge this gap, the ICE360° (2016) survey of 60,360 households, 2,50,720 individuals covering multidimensional aspects of the economy, society and polity is an important data source. Geographically, the sample has been drawn from across 216 districts, 1,217 villages and 487 towns spread across 25 major states. By applying ISCO-08 concepts to ICE360° survey (2016), we have classified the skill levels, where skill is defined as the ability to carry out tasks and duties of a given job for which the person earns a remuneration. This corresponds to 62.4% of the total population who belong to the working-age group of 15-65 years who are eligible to work, excluding students and those unable to work. The skill levels have thus been classified as four types, from Levels 1-4 (see table).

Little above half (56%) of the labour market is dominated by people who are classified at Level 2 skills, while 30% constitute skill Level 1 type. Nearly 11% of the population can be classified at skill Level 3, while the smallest share is that of skill Level 4. Slightly more than over half of skill Level 1 individuals are in the 15-35 years age group, whereas this group constitutes to about 40% for other skill level types. Over one-third of skill Level 4 individuals belong in the 36-45 years age group, which is higher than that for other skill levels. It is not surprising that higher skill level individuals reside in urban areas—a mere 26% of skill Level 2 individuals reside in urban areas.

There is a high correlation between skill levels and education. One can argue that the higher the education, the higher the skill level. This can be further substantiated with the fact that only 3% of skill Level 1 individuals have high educational qualifications compared to 65% workers of skill Level 4.

Regular salaried income offers a foreseeable income stream and is most likely to be associated with better job security. Only 13% of skill Level 1 workers report that they are paid a regular salary. In contrast, 60% of workers classified as skill Level 4 earn regular salaries. Skill Level 1 workers, on the other hand, receive 75% of their earnings from non-agriculture wage labour as daily wages. It is important to note that skill Level 3 and Level 4 workers are concentrated in regular salaried and self-employed non-agricultural occupations. This wide disparity in skill levels of the labour force is a cause for concern in terms of employability.

More than three-fourths of skill Level 4 workforce resides in pucca houses, while only 35% of skill Level 1 workers do so. Household amenities like tap water, a separate kitchen, an in-house toilet, and liquefied petroleum gas (LPG) stoves are mostly to be found in the houses of skill Level 4 workers. The home conditions of the workers with skill Level 4 are indeed superior in terms of various household amenities. However, access to electricity connections is a common feature across all skill level type households.

Skills and ICT (information and communications technology) usage share a positive relationship, with the higher the skill levels, the higher is the usage. Our data reveals that ICT users earn more than double non-ICT users. Although this phenomenon is common across all skill levels, skill Level 1 shows exceptionally significant results.

Clearly, this skill level concept can help us better understand the connection between earnings and quality of the labour force. Such analysis is likely to provide important insights regarding the skill levels, which would require re-qualification and re-specialisation of the labour force in order to compete in the fast-changing globalised India. It can further be used to retrain and equip the workforce with adequate skills. In the next part of this series, we will discuss the concept of ROS and the factors that contribute to enhancing ROS.

(The second part of this article will appear tomorrow.)

Skill levels have been classified as four types

Skill level	Definition	Examples
Level 1	Skills involving simple and routine physical or manual tasks	Hawker, street vendor, gardener, cook, household servant, construction worker, mason, etc
Level 2	Skills involving operation of machinery and electronic equipment	Plumber, electrician, artisan, barber, mechanic, tailor, etc
Level 3	Skills involving written records of work, simple calculations, good personal communication skills in specialised fields	Clerical, supervisory level, etc
Level 4	Skills involving decision-making and creativity based on theoretical and factual knowledge	Doctor, lawyer, chartered accountant, engineer, architect, scientist, actor, author, etc

MANOHAR PARRIKAR (1955-2019)

Undying spirit, unparalleled simplicity

ANIL AGARWAL

The author is executive chairman, Vedanta Resources

THE UNTIMELY PASSING away of Manohar Parrikar has left an enormous void in the lives of the people he served selflessly. A true leader, his humility and dedication to the state and the country has made an indelible impression on the minds of the people, across India. Privileged to have met him personally, his down-to-earth personality, simple lifestyle and humble nature was truly inspiring. Considering that he has served important positions for the government, including holding the office of the defence minister and serving as the chief minister of Goa, he exuded great modesty while interacting with the people.

Given our presence across multiple sectors in Goa, from iron-ore mining to football academy and numerous CSR activities including our flagship Nand Ghar, I had the opportunity to interact with him on numerous occasions. On every single instance, I found a leader who was an attentive listener, had an eye for detail, and interest of the state and its people as his priority. He was crystal clear in his thought process and decision-making, and firmly believed that the government was meant to serve the people.

The original '*aam aadmi*' or the 'common man', as he was often referred to, Parrikar dedicated his whole life to fighting for and defending the rights of the people who were not so privileged. As we all attempt to come out of a state of disbelief after hearing the news of his early demise, we should commit ourselves in imbibing the values that he represented and pass on these principles, morals and ethics to future generations. An epitome of simplicity, Parrikar has left behind a legacy that is irreplaceable. He was working till his final hours, and that speaks volumes about his undying spirit and unparalleled simplicity. While he may not be with us in person, he will continue to live amongst us in spirit; his impeccable service to the people of the nation will be remembered for generations to come.

LACKLUSTRE

Indians may be falling out of love with gold

A weak rupee, a high gold price and changing fashions all play a part

P N GADGIL & Sons, a jewellery shop in Thane, a suburb of Mumbai, is gearing up for the wedding season—a busy time for gold sales, even if demand is brisker still during Hindu festivals, when jewellers stay open almost round the clock. Free *samosas* and Pepsi are offered to those queuing outside; inside, the noise and bustle are non-stop.

Indians have long regarded gold as the surest store of wealth. Brides bring it as dowry. Newborns are given bangles and anklets. Astrologers prescribe gold rings for stress. Indian households own 23,000 tonnes, three times more than the bullion held by America's Federal Reserve. In the year to March 2018, gold imports, at $74.7 billion, ranked after only oil.

The government has tried repeatedly to break Indians' addiction, increasing import duty fivefold since 2013. In 2015, it began a scheme allowing investors to exchange gold for interest-bearing bonds and get it back when the bonds mature. Television commercials nudge viewers to invest in mutual funds instead.

Such efforts long seemed unavailing, but something seems to have shifted. Demand has fallen by a fifth since 2010.

> The demand for gold has fallen by a fifth since 2010, and consumer preferences are one reason: many prefer lighter jewellery for daily wear. Millennials, a third of the population, spend more than older generations on mobile phones and other electronic goods

Consumer preferences are one reason: many prefer lighter jewellery for daily wear. Millennials, a third of the population, spend more than older generations on mobile phones and other electronic goods. The international price of gold has gone up; last month, it was near a five-year high, measured in dollars. The weak rupee, close to a record low at 70 to the dollar, makes the domestic price dearer still. A goods-and-services tax introduced in 2017, one-third higher than the levy it replaced, has also hit sales. And with inflation down to just 2.6%, gold's utility as a hedge has lessened, says Ajit Ranade, an economist.

Jewellers' margins are already slim, gripes Rajendra Jain, who owns another shop in Thane. Online firms selling small amounts for as little as one (American) cent are adding to the pain. Since 2016, over 30 million customers have traded three tonnes via Paytm, an e-commerce giant. The average transaction is Rs 50-100. It's like "buying shampoo in small sachets instead of the whole bottle," says Gaurav Mathur of SafeGold, a rival.

Jewellers, who account for 70% of sales, are also still recovering from the government's messy recall, in 2016, of high-value banknotes, which squeezed cash purchases. The end of India's love affair with gold may be overdue. But it is bad luck for the shopkeepers of Thane.

THE ECONOMIST

E-com FDI policy: In letter or spirit?

Are new solutions enough for continued commitment of large capital flows by foreign investors?

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AS 2018 DREW to a close, the year-end vacations had begun as also customary celebrations, but a last-mile twist was in store (no pun intended). Against the backdrop of litigation, enquiries by the Enforcement Directorate and impending general elections, the government issued Press Note 2 (December 26, 2018) to provide more clarity on the foreign investment policy in e-commerce. While the Press Note provided more clarity, it also shook up the status quo in a number of ways. After the customary furore, the government issued a clarification in January to reiterate that the Press Note was necessary given the instances of policy violation and circumvention—clearly, the concerns were grave. For the market, the Press Note introduced new variables in a number of ongoing deals and called for significant restructuring efforts.

While players in the e-commerce sector operate using complex structures, they are all household names thanks to the huge investment in this category and the high number of touchpoints (via customers, merchants, ads, jobs). While some e-commerce companies revisited existing structures, others didn't need to change a thing. Either way, the government set a deadline of February 1, 2019, for compliance, meaning decisions had to be made quickly. So, the obvious questions arose: Would sophisticated investors and the largest companies in the world commit billions in investment with scant regard for the law of this land? Were the legacy structures and arrangements employed by e-commerce companies fundamentally inimical to the interests of the Indian market (notwithstanding consumers' affection for discounts and freebies)?

To understand more, one should see that the policy on foreign investment in e-commerce has three broad pillars: (1) policy on e-commerce, (2) policy on B2B wholesale trading, and (3) policy on what counts as foreign investment and what doesn't. While it is perfectly okay for foreign investors to own 100% of e-commerce 'marketplaces', there is a specific bar on owning inventory, B2C sales and influencing product prices directly or indirectly (for example, deep discounting). It is probably a safe bet to say that no company worth its salt will engage in business practices that blatantly flout these guidelines. However, the debate was that e-commerce players comply with the letter of the law, but not necessarily with its spirit. So, what has the Press Note done to cause concern? Here is a quick summary:

(a) It introduced a new restriction on vendors (no vendor can purchase more than 25% of its stocks from marketplace or its group companies) and deleted the old one (no vendor group can comprise more than 25% of sales on marketplace);

(b) It introduced a new ownership condition, i.e. no vendor can have equity participation by marketplace or its group companies;

(c) It introduced a test of fair, non-discriminatory and arms-length principles into arrangements between the vendors and the marketplace/its group companies, apart from a ban on exclusive sales arrangements;

(d) To build checks & balances, it requires a certificate/report from the statutory auditor confirming that the company complies with the regulations.

So, does the Press Note answer all the questions and provide the clarity needed for companies to comply with both letter and spirit of law? Perhaps not. For example, an e-commerce entity is defined as one that is owned and controlled by foreign companies. Does this mean a company with 49% foreign investment and board representation doesn't need to comply with any of the new guidelines? The Press Note uses terms such as 'equity participation', 'group companies', 'direct or indirect equity participation', 'common control', etc, some of which are defined terms, while others are not. Who decides whether a certain practice is par for the course or discriminatory, and what stops a disgruntled vendor or competitor from alleging malpractices? How would a partner of an audit firm certify compliance of every business practice? There are many questions.

A related question concerns grandfathering of existing players—there is a thought process that the policy should only operate prospectively with respect to fresh FDI inflows and, therefore, existing structures do not require change.

While this is a welcome view for companies that have made significant commitments based on regulations prevailing at the time of investment, it is subject to two obvious challenges. One, the Press Note is ostensibly clarificatory in nature and, therefore, there is no new rule per se that requires prospective compliance. Two, the need for a compliance certificate every year is an absolute condition for all players without exceptions.

So, who gets to decide whether compliance with the law is truly delivered in both letter and spirit; or more importantly, where does this debate lead to?

On one hand, the modification of existing legal structures requires multiple considerations/costs, without explicit assurance on whether the revisions comply with the law or not. On the other hand, we need to consider the philosophical issue of integrity and consistency of Indian policymaking, which is essential to attract capital to create infrastructure, benefits for consumers and job opportunities.

To conclude, one would argue that there are several solutions to comply even with the new guidelines, some of which are already visible. The question, however, is whether the new solutions are adequate for the continued commitment of large capital flows by foreign investors? In order to build confidence and certainty, it would be helpful if all the concerned players are involved in a consultative process to evolve a clear policy framework with a comprehensive set of FAQs. Meanwhile, fresh investments might just adopt a wait-and-watch approach even as restructuring kicks off in top gear.