

# Opinion

MONDAY, MARCH 25, 2019

## LOCALISED POLITICS

K Kavitha, TRS Lok Sabha member

Today people are becoming more and more local. Local parties having a global vision are what people are looking for. And that can be provided by only regional parties, not national parties

## Rational Expectations

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## THE BIG PUZZLE

WHAT EXPLAINS GDP ACCELERATION SINCE FY14 WHEN MONEY SUPPLY IS BEING TIGHTENED AND REAL INTEREST RATES ARE RISING SO FAST AND WHEN THERE IS FISCAL CONSOLIDATION?

# Five years of macro-confusion

RENU KOHLI

New Delhi-based macroeconomist



annual export growth for these five years, the macro puzzle deepens further.

■ If one did a health check of these three critical indicators to assess the stage of the business cycle the economy was operating at—the credit cycle, size and direction of non-performing assets in banks and capacity utilisation of indus-

forming the core (the 2,000-odd listed firms tracked by RBI which was the primary database until the new series) in terms of growth rates since 2013-14? It defies logic that in the last six years, smaller firms have become so much more efficient relative to larger ones and possibly grown in size at a time when

cheap Chinese imports are flooding Indian markets! As the MCA-21 database is not readily available to researchers, no one has been able to offer any conclusive commentary. The professor Goldar-led subcommittee report that recommended using the

MCA-21 data had found only marginal errors in its validation exercise of 500 companies out of a total of 31,636 filing returns in the extensible business reporting language (XBRL). The report was careful to record, "however, for unlisted companies, no alternative information is available in the public domain. Hence, any kind of validation exercise is not feasible there" (page 14).

The report strongly recommended that the ministry of corporate affairs should evolve a validation system to ensure the accuracy of online data reporting through MCA-21, but we simply do not know if MCA has a robust data validation mechanism, especially for the large number of unlisted smaller companies, and what their share in total value addition is. Further, if such estimates are being used to blow up data for the remaining 4.29 lakh odd companies that don't file their returns, it is not certain that such a large sample of unvalidated data is necessarily a robust source for a prudent statistical exercise and inferences about GDP!

What about ASI data that also showed a sharp acceleration in manufacturing GVA growth? Critics have underlined the

**I**N MAY 2014, the NDA government inherited a difficult economy with slowing growth, high inflation and rising NPAs in the banking system. It had barely managed to wriggle out of a difficult balance-of-payments situation triggered by the "taper tantrum" in May 2013. Prime minister Modi had a historical mandate and an economic backdrop to seize the opportunity for recreating another "1991 moment" or bring in "Thatcherian reforms" to lift the economy on a higher growth path. Instead, the new government chose to focus upon faster decision-making by wiring in bureaucrats in the line ministries to the prime minister's office (PMO) as an antidote to the 'policy paralysis' reflected in multiple ministerial committees of the previous UPA government.

But the emphasis upon speed and transparency met with little success in reviving private investment. That could go down in history as the regime's biggest failure. Two of its important reforms, i.e. insolvency and bankruptcy code (IBC) and goods and services tax (GST) were rolled out only in the second half of its tenure; the benefits will accrue only in the years ahead. Yet, the claims to economic success in terms of GDP growth and job creation are extraordinary and possibly unparalleled in India's economic history. These have been equally contested by critics—such counter-claims have recently degenerated into accusations the government has either manipulated data or suppressed it to buttress its own claims.

This, therefore, is an attempt to recapitulate the claims and counter-claims about the important macroeconomic parameters and flag concerns that could cloud future policy space. At the heart of the controversy are the CSO's new national accounts estimates that show the economy grew a healthy average 7.6% during the 5 years of the NDA government—the fastest growing major economy in the world. But the robustness of these estimates was questioned from different aspects of inconsistency, such as:

■ What explains the acceleration in GDP growth since 2013-14 (last year of UPA-2 government) in a macroeconomic setting of increased monetary tightening, rising real interest rates and fiscal consolidation across governments? And if we were to add a mere 1.4% average

**The credit cycle, the NPAs and capacity utilisation point to a decelerating economy**

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## Google and FB powerful editors in India?

In a polarised political environment characterised by general scepticism of many established institutions, news found via search can acquire an attractive veneer of technological objectivity, and news accessed via social media an appealing aura of authenticity

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**GIVEN THAT AN** estimated quarter billion Indians have gone online since the last general election, they just might be. Whereas the news that people get via television, radio, and print is selected by human editors, on the internet, people increasingly rely on search engines and social media that rely on algorithmic curation.

In a new survey of English-language Indian internet users, we find that a third name search engines as their main source of online news, and a quarter social media—in each case, overwhelmingly Google and Facebook respectively. Only 18% named going direct to the websites or apps of news publishers as their main source of online news.

Strikingly, our respondents not only rely on search and social for news. They also say they trust the news that they get there at least as much as news more broadly. For example, 45% say they trust news in search, and 34% for news in social media, compared to just over a third who say they trust news overall.

This is strikingly different from what we have seen in other countries, where people often trust news media more than they trust news found via search engines or social media. In a polarised political environment characterised by general scepticism of many established institutions, news found via search can acquire an attractive veneer of technological objectivity, and news accessed via social media an appealing aura of authenticity.

Worryingly, many Indians do not seem to understand how the platforms

they increasingly rely on for news actually operate. When asked how most of the individual decisions about what news stories to show on Facebook are made, only 26% of our respondents correctly identify algorithms, the automated systems that rank what people see on social media and make decisions about what to display. Many believe human editors and journalists determine what news they see in their news feed.

In a sense, of course, they are right. Even though both Google and Facebook rely on algorithmic curation to serve news every day to millions of Indians, the stories themselves are often written by professional journalists and thus ultimately under the editorial responsibility of top people at major news organisations with significant reach online. Prime minister Modi and a few other major politicians have built significant social media followings that help them circumvent news media and set the agenda, but news media are still crucial for how most people navigate politics.

In this sense, Jaideep Bose, Ravish Kumar, and their colleagues and competitors at other major news media are still the most powerful editors in India, and Google and Facebook have not so much supplanted them as supplemented them.

As people increasingly rely on search engines and social media for

news, the information that reaches them has passed through two sets of gatekeepers: firstly, editors, who decide what to publish, then the algorithms that increasingly shape what we see online.

This is an important change from the single set of gatekeepers that characterise offline media, and means that Google and Facebook play an increasingly important and often challenging role in the Indian media environment.

If a company sets out, as Google does, "to organise the world's information and make it universally accessible and useful", it will confront the fact that the line between information and misinformation can be hard to draw, and that people sometimes actively seek out disinformation. If a company aims to help people "stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them", as Facebook does, it will have to deal with the fact that not all expression is equally benign, and that people sometimes actively share false and misleading content.

Owning, operating, and profiting from the algorithms that more and more Indians rely on to find news gives Google and Facebook great power and great responsibilities—like the human editors who came before them. The 2019 elections will be a decisive test of whether they are ready for it.

fact that CSO uses a single deflator for estimating GVA in manufacturing activities which created an upward bias in a context of significant divergence in input-output prices from 2014-15. Similarly, it is possible using inappropriate sectoral deflators for several service activities, which created an unintended upward bias in the real GVA estimates for years in which divergence between CPI and WPI inflation rates widened. The CSO has never acknowledged this, nor explained why it is not using double-deflation in estimating manufacturing GVA.

What is undeniable though is that both WPI/CPI are inappropriate price deflators. It is a sad commentary that both the industry ministry and CSO have been unable to compile sectoral producer price indices (PPIs) for manufacturing and services; in theory, PPIs are the most appropriate price deflators used internationally. The *Report of the Working Group on Producer Price Index*, August 2017, led by professor Goldar, stated that PPI is regarded as being conceptually more consistent with the System of National Accounts (SNA) as a deflator; it recommended the government compile PPIs with base year of 2011-12. This would certainly remove such anomalies in real GVA estimates. It is hoped the government is making utmost, urgent efforts to compute these PPIs!

In the last couple of years, doubts have also been raised about the estimation of employment and unemployment statistics. The only but significant difference is that the 'doubter' in this case is the government itself! It claims that if growth is accelerating then jobs must have been created, offering in support an additive version of 'job counting' that appears the least scientific. The critics counter by saying that if employment has declined then growth is being overestimated!

Between these claims and counter-claims, very few have cared about potential policy errors. If growth is not as robust as new GDP estimates show, then we are missing out on appropriate monetary-fiscal policy responses. In the same breath, if unemployment is not as stark as the (not yet published) NSSO survey hints, then the government could end up being burdened with unsustainable social expenditures. Hope the new government will invest in an objective assessment of the ground reality!

## LETTERS TO THE EDITOR

### Election scenes in TN

How Tamil Nadu votes in the general election can be crucial for the formation of the next government. If the DMK-Congress alliance wins a fair chunk of the 39 seats up for grabs in the state, it will boost the numbers of today's Opposition to stake their claim for forming the government. If the AIADMK-BJP succeeds in exceeding the single digit, it will partly make up for the losses BJP is bound to suffer in the states where it reached the saturation point in 2014. Perhaps it would be truer to say that the outcome of the Lok Sabha polls nationally, as against the outcome of 18 or 19 by-elections to the state Assembly, will decide the fate of the EPS government. The soon-to-be held election, post-Jayalitha and post-Karunanidhi, will be a reliable barometer of the dynamics of political change and the legitimacy of the incumbent state government

— G David Milton, Maruthancode

### BJP's list of candidates

The BJP ushered in the festival of colours by dropping a bombshell and showing old warhorse LK Advani the door from Gandhinagar. However, all other party heavyweights of the saffron party, including prime minister Narendra Modi, home minister Rajnath Singh and highways minister Nitin Gadkari will fight from the same seats they did in 2014. Smriti Irani has once again been pitted against Congress president Rahul Gandhi from Amethi and it remains to be seen whether she will be able to turn the tables on her arch rival

— Ravi Chander, Bengaluru

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## Lots of scope to cut oil and gas imports

The government ups estimate of oil & gas 'resources' by 50%, and BP India head estimates output can double with the right policy

**D**ESPITE PRIME MINISTER Narendra Modi's plan to cut import dependence in the oil and gas sector by 10 percentage points by 2022, a series of major policy missteps ([goo.gl/6wGgk1](http://goo.gl/6wGgk1)) ensured that import-dependence rose, from 83% in FY13 to 86% in FY18 in the case of oil and from 30% to 45% in the case of gas. Indeed, going by the latest BP Energy Outlook for 2019, this is going to continue to rise further, to around 95% for oil by 2040 and around 60% in the case of gas. Fortunately, as we will see, that number is not carved in stone and can be reduced if India follows good policies, some part of which we saw when the Cabinet cleared a new gas policy last month.

Interestingly, the BP Energy Outlook shows that while China was the biggest contributor to the increase in global use of primary energy in the last 22 years, it will be India in the next 22 years; China, of course, will continue to be the world's largest user of energy, and its share in the global pie is projected to fall from 23% in 2017 to just 22% in 2040. In the last 22 years, between 1995 and 2017, global energy usage rose by 4,946 million tonnes of oil equivalent (mtoe), and 45% of this came from China whose consumption rose from 891 mtoe to 3,132. With India's consumption rising from 252 mtoe to 754 mtoe, it contributed just around a tenth of the total increase.

Over the next 22 years, from 2017 to 2040, while China's consumption will rise by just 885 mtoe, India's will rise 1,174 mtoe; this means that, while China's contribution to the increase in global energy usage will fall to 20%, India's will rise to 26%.

Not all the increase, fortunately for the world which is heating so fast, will come from traditional fuels, and the share of renewable will rise from 4% in 2017 to 15% in 2040, and from 11% to 22% if you include hydroelectricity. In terms of the change in energy usage, while renewables accounted for 17% of the increased demand between 1995 and 2017, they will account for 57% of the change in the next 20 years. In a 'rapid transition' scenario, the share of renewables and hydro rises to 38% by 2040, though the investments required for this are probably so gargantuan that achieving it will take a very big effort.

Despite India's fairly aggressive commitments at Paris, coal will still continue to satisfy the bulk of its energy needs, down from around 54% right now to around 47% by 2040; oil will come down from around 29% to around 23%, and renewables (plus hydro) will rise to around 23-24%. If, despite this fall in the usage of oil, India's import-intensity is projected to rise significantly—to around 95% for oil by 2040 and around 60% in the case of gas—it is because India's production of both oil and gas continues to be poor; since 2000, oil production rose just around 19% while gas rose by an even lower 12%.

The good news, however, is that this is not carved in stone and, with the right policies to stimulate exploration—and hence production—India could lower imports significantly, especially in the case of natural gas, an area where Modi's policies were especially negligent till recently since, unlike oil, producers were not allowed to charge market prices even though the agreements the government had signed with them promised this.

Some broad numbers will put the possibilities in perspective. Till a few years ago, the government's estimate was that India had around 28 million tonnes of oil equivalent (mtoe) of 'resources'; this is based on a very broad analysis using 2D and 3D seismic surveys, not actual drilling and exploration. In 2017, with more seismic data, the government raised this by 50%, to 41.9 mtoe of 'resources'. Just around 28% of this—or 12.1 mtoe—was in areas where some level of exploration has taken place. So, with more exploration, there will be more discoveries and this 12.1 mtoe figure could increase further.

With more drilling and exploration, around 15% of this—that is, around 1.9 mtoe—of oil and gas has been firmly established, that is, oilcoils will be able to take this out. Once again, with more drilling and exploration, this 1.9 mtoe figure can be increased. To put this in perspective, for decades after ONGC found Bombay High, no one thought India had another big field, then Cairn Energy found Mangala in Rajasthan; and when everyone thought that was it, Reliance discovered large resources of gas in the Krishna Godavari basin and started producing from there.

This 1.9 mtoe, in turn, comprises 594 metric tonnes of oil (or 4.6 billion barrels) and 1.3 trillion cubic meters (tcm) of gas (or 48.9 trillion cubic feet, tcf). In 1980, the reserves were 2.8 billion barrels of oil and 0.3 tcm of gas. This rose to 5.8 billion barrels of oil by 2010 and 1.1 tcm of gas. In other words, as there is more exploration, both oil and gas reserves rise, and this is despite the amount that is taken out every year; if there has been a dip in recoverable reserves of oil since then, this is because there has been no major discovery since Mangala.

At a recent Petrotech session, however, BP's India head Sashi Mukundan said BP's analysis of data suggested India could produce 100 tcf of gas (that's nearly double the present estimate, see graphic). More important, he said that if Indian oilcoils used better recovery techniques—IOR (Improved Oil Recovery) and EOR (Enhanced Oil Recovery)—to increase the amount of oil that came out from the fields they produced from, this alone would give another 4 billion barrels of oil (that is roughly what the current estimate of oil is). At this level, India's 2040 import-intensity for gas will fall to around 50% and for oil by 3-4 percentage points. Since that represents a significant amount of forex, hopefully the next few governments will ensure the flip-flops of the last five years are not repeated, and that India's policy—and government levies—become as good as those in other countries with comparable geology.

## Digitally Analogous

Google's attempt at recreating an online gaming console can change the whole gaming industry

**WHILE GAMING HAD** moved beyond bad graphics and unrealistic versions, unfortunately, gaming boxes are still reminiscent of the clunky equipment of the early 2000s. The evolution of Sony's PlayStation, Nintendo's Wii and Microsoft's Xbox has been limited to adding more graphics, and functionality, and packed into chunky housing. Google is set to change all this. On Thursday, the company announced that it would soon be rolling out its online gaming system called Stadia, which would turn potentially any device—laptop, mobile, desktop—into a gaming system, without the need of having higher computing or graphics processing power. Instead of a console, Google would carry out all the processing online, with the devices requiring only a fast internet connection. What Google is doing may be nothing new—mobile games like PUBG and Fortnite, have already changed the gaming landscape, with a combined user base of over 300 million—it will undoubtedly make gaming more accessible to the general population. As everybody cannot purchase a \$300 (₹25,000) machine, it would allow more people to access high quality gaming.

With gaming already becoming an Asian Games sport, it is not surprising that attention is turning towards online gaming. More so, when internet speeds and cheap availability is making smartphones a necessity rather than a luxury. As Google forays into gaming, it shall also establish its domain in another area of technology, while also challenging Microsoft's and Sony's monopoly over the field.





ILLUSTRATION: ROHINIT PHORE

**SHUNMUGAM**  
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# Commodities in investment portfolios: The index way

Investing in index-based products eliminates issues around delivery, lot size, etc, associated with physical commodities, while providing the benefits of price movements of the underlying commodities

**T**HE HISTORY OF indices dates back to the early 18th century, when the Anglican bishop William Fleetwood wanted to examine if the £5 net worth cap for a candidate to remain in a college should be kept at that level (fixed during the 15th century) or does it need to be updated, using a set of commodities of daily consumption. Notably, more than his findings, which had indicated that the same should be increased to £30, commodity prices in an index format were considered to decide on a financial policy. The index, as a statistical tool to monitor the impact of economic events, was not only devised at first using commodities that tended to dominate consumption and trading, but was also applied to assist in decision-making. A century later, the popular journal "The Economist" had devised and started publishing commodity-price index in 1864.

As the economy got financialised and

investment in stocks took off later in the 19th century, the index as a tool to measure the overall health of the stock markets took off, with Charles H Dow and his companion Edward Jones unveiling the first stock index in 1884—the Dow Jones Average, through which the selected 12 top stocks traded. Later, when it got published on a daily basis during 1896, it became an index of 32 stocks and is now a 30-stock index—a simple yet a widely watched indicator of the health of the US stock markets till date. This was followed by the calculation of the S&P 500 and within themselves these two indices also caught fire as portfolio management tools for managing investor funds in a more transparent manner as they are calculated and published on a real-time basis and hence their performance is easily measurable. Within themselves, these two indices today are used to manage a portfolio of \$13.7 trillion in assets and are used as a benchmark for investment

assets of \$8.8 trillion—the S&P Global 2018 Investor Fact Book.

Although commodity-based indices have been used for the last three centuries or so in tracking the economic health and to assist in policy decision-making, investing in commodity indexes has been a recent phenomenon, dating back to 1991, following the introduction of the Goldman Sachs Commodity Index (now S&P GSCI) and the Dow Jones AIG Commodity Index (now the Bloomberg Commodity Index, or BCOM) in 1998. While these indices, in themselves, track the prices of the respective underlying commodity futures contracts, they also have futures contracts traded to be settled on these indices with an annual turnover of \$30 billion (2018). Comprising of liquidly-traded commodities from global benchmark exchanges, these commodity indices also continue to dominate as benchmarks in index-based investments in the commodities world, with about \$90 billion assets under management (AUM) tracking the portfolio of the index basket. Investing in commodities picked up momentum in the 2000s, particularly through index-based products providing exposure to financial contracts in commodities from various exchanges through one index in a transparent manner without the risks associated with physicals. Barclays (2019) indicated that the global AUM in commodities stood at \$282 billion by the end of 2018, and a substantial part being managed through commodity indices.

The introduction of trading in index-based derivatives had also played a significant role in the development of international commodity derivative markets, bringing more liquidity and efficiency through providing widespread access to commodities for diversified investors as demonstrated by the international as well as Indian stock markets. The introduction of index-based derivative products in equities in 2001 on domestic exchanges has led to remarkable growth in both the cash and derivative segments, thereby contributing to the overall development of the market during the past two decades. The total turnover of equity markets stands at more than 10 times the country's GDP (in 2017-18), with a phenomenal growth of index-based

**Commodity index-based investment vehicles include exchange-traded derivatives such as index futures, swaps and options or various index-linked funds including ETFs or ETNs, index funds and mutual funds**

derivative segment from about Rs 103 crore in 2001-02 to Rs 5.68 lakh crore in terms of average daily turnover.

Drawing lessons from global experiences, investing in commodity index-based products would provide potential portfolio diversification opportunities for domestic investors due to a very low or negative association with traditional assets, as is evident from the negative correlation of iCOMDEX with NIFTY 50 (-0.78) and Treasury securities (-0.81 with 91DTB) market during January 2012 to February 2019. Commodity derivatives will continue to be a part of the portfolio of players who know and understand the fundamentals of commodities that they take exposure to. Further, index based ETFs would help other institutional participants to a basket of commodities setting off the physical commodity risks. With trading in commodity indices being allowed post SEBI approval, and institutions and current participants effectively arbitraging the underlying and the index, commodity index derivatives will become an efficient tool in portfolio management for all institutional participants.

Investing through indices consisting of a basket of commodities representing a common theme also provides an opportunity for investors to track those themes. A clear case in point is the TR-MCX iCOMDEX Base Metals Index, which largely represents the global economic growth and is also known to move along the lines of the Chinese economic indicators. For example, China growth expectations and the base metals index show a correlation of 76%, indicating the strength of relationship. Further, investing in index-based products eliminates issues around delivery, lot size, etc, associated with physical commodities, while providing the benefits of price movements of the underlying commodities. In addition, segment-wise commodity indices including precious metals, base metals, energy and agricultural commodities, etc, are similar to sectoral indices in equity markets, where investors can choose to invest in portfolios tracking specific segment of commodities such as bullion index, energy index, etc, apart from the iCOMDEX composite index. These segment-wise commodity indexes, being least correlated with other assets and with each other, are proven to deliver diversification benefits for portfolio investors, in addition to their inherent advantage as inflation-hedge.

Commodity index-based investment vehicles include exchange-traded derivatives such as index futures, swaps and options or various index-linked funds including exchange-traded funds or notes (ETFs or ETNs), index funds and mutual funds. ETFs, ETNs and index funds remain passive investments, while mutual funds use active investment strategies. Among index-based investment products, ETFs are the most popular instruments among global investors, particularly institutional investors and fund managers.

Commodity-based mutual funds also typically use commodity index-based derivative instruments to build the exposure to commodities along with other traditional assets and provide investment opportunity for a varied set of investors reaching out to even small investors that are constrained to do commodity-based investments—not only due to their limited financial resources, but also due to lack of required knowledge and technical know-how. PIMCO CommoditiesPLUS Strategy Fund is one of the major commodity index-based mutual funds with investment strategy tracking the Credit Suisse Commodity Benchmark having assets of \$3.1 billion as on March 13, 2019.

● CRUMBLING

## Bridge collapses are common in Mumbai

Bureaucrats, safety inspectors and contractors all blame one another

**T**HE TEEMING COMMUTER trains in Mumbai have received a modest overhaul in recent years. Coaches have been redesigned to offer better ventilation; hard, angular seats have been replaced with more comfortable ones; and a plan to air-condition the heaving carriages is under way. But as soon as the 8-million-odd passengers who ride the trains every day arrive at their destination, they face infrastructure that is as neglected as ever, in the form of the pedestrian bridges by which they cross tracks or busy roads near the stations.

On March 14, a big part of one such overpass collapsed outside Shivaji Terminus, one of the city's busiest stations, killing six people and injuring 31. The toll could have been worse: the plunging debris did not harm any passengers in vehicles below as a red light happened to be holding traffic back at the fateful moment.

"It was terrible," says a taxi driver who witnessed the tragedy. Yet there have been many accidents like it. In 2017, 22 commuters were crushed to death in a stampede on another railway footbridge. It was barely six feet wide, yet carried over 100,000 people every rush hour. More than 30 lives have been lost in other accidents involving overpasses over the past two years.

Last year, an audit found that 18 of the 296 bridges in the city were dangerous. That is probably an underestimate. The bridge that failed on March 14 had been judged safe by inspectors, who thought it needed only "minor repairs."

The BJP, which is part of the coalition that runs the municipal government, disingenuously called the tragedy "a natural calamity." The city's administrators gave an inkling of their attitude when they first claimed that the railway was responsible for maintaining the bridge, before conceding that they were in charge. They then pointed the finger at the inspector, from an external audit firm. He, in turn, claimed that wet paint and newly-laid tiles had prevented him from inspecting the bridge properly. He has been arrested. The construction firm behind the refurbishment in question has also been accused of "substandard repair work." The city government had blacklisted it in 2017, accusing it of inflating bills and using adulterated material to build roads. Yet it was inexplicably still left in charge of maintaining the overpass.

"There is no inter-agency coordination and the entire system is designed for kickbacks," gripes Sayli Udas-Mankar of Observer Research Foundation, a local think tank. Vital information about the materials used to build older bridges is often missing. Contracts are awarded to the lowest bidder, regardless of the quality of their work. "The process is flawed. If you pay peanuts, you will get monkeys. And our lives are at stake," says Rajiv Mishra, an urban planner, who used to cross the defunct bridge four times a day.

The city is conducting fresh inspections of some 150 bridges. On March 22, a local court started hearing a petition demanding that the city government do more to strengthen the rickety ones. Opposition leaders have called for more radical action. They want the city and state governments to ditch a multi-billion-dollar bullet train project until they can get the basics right.

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THE ECONOMIST



## HOFSTEDE'S CULTURAL DIMENSIONS

# Understanding cultures and people

These dimensions have become a global standard for understanding cultural differences

**VIDYA HATTANGADI**

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six dimensions are as follows:  
**Power Distance Index (PDI):** Hofstede's PDI measures the extent to which inequality and power are tolerated. High PDI indicates a culture accepts inequity and power differences, and encourages bureaucracy. It also shows high respect for rank and authority. Low PDI indicates that a culture encourages organisational structures that are flat and appreciates decentralised decision-making responsibility, encourages participative style of management, and places emphasis on power distribution. For example, Germany scored 35 on the cultural scale of Hofstede's analysis, compared to Arab countries where the power distance is very high (80) and Austria where it is very low with a score of 11.

**Individualism versus Collectivism (IDV):** This dimension considers individualistic versus collective approach of a society. A person's self-image is defined as 'I' in a loosely-knit social framework. Each individual in a family is expected to take care of only himself/herself. As opposed to this, in collectivism, families are tightly-knit in society in which individuals expect their relatives or members of a particular group to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of 'I' or 'we'. The Japanese are known as a collectivist society (scoring 46), whereas the US can clearly be seen as an individualistic society (scoring 91).



**Masculinity versus Femininity (MAS):** This dimension is also referred to as 'tough versus tender', and considers the preference of society for achievement, attitude towards sexual equality, behaviour, etc. The masculine side of this dimension represents a preference in a society for achievement, heroism, assertiveness and material rewards for success; such a society, at large, is more competitive. As opposite to this trait, in a feministic trait, preference is given to cooperation, modesty, caring for the weak and quality of life. Such a society, at large, is more nurturing. In the business context, MAS is sometimes also related to as 'tough versus tender' cultures. Japan is considered to be a very masculine country, whereas the Scandinavian coun-

tries such as Norway and Sweden are considered highly feminine.  
**Uncertainty Avoidance Index (UAI):** This index considers the extent to which uncertainty and ambiguity are tolerated. This dimension considers how unknown situations and unexpected events are dealt with in a country. High UAI indicates lower tolerance for uncertainty, ambiguity and risk-taking. The unknown is minimised through strict rules and regulations. Greece, Portugal, Italy, Spain, Belgium, Poland, Japan, France, Argentina, Chile, Turkey and South Korea score high on this dimension. Low UAI indicates higher tolerance for uncertainty, ambiguity and risk-taking. The unknown is more openly accepted. Singapore, Denmark, Sweden,

China, the UK, India, Malaysia and the US score low on the uncertainty dimension.  
**Long-Term Orientation versus Short-Term Orientation (LTO):** Different cultures have different expectations or assign different meanings to what time is. Some cultures perceive time to be scarce, while others believe time to be infinite. Some view time management as a skill, while others find it unimportant. Every society maintains a link with its own past while dealing with the challenges of the present and preparing for the future. Long-term orientated countries focus on the future. China and Japan are known for their long-term orientation. Short-term oriented countries focus on present and past more than the future. Morocco, for example, is a short-term oriented country.  
**Indulgence versus Restraint (IND):** It's a relatively new dimension of the model. This dimension is defined as the extent to which people try to control their desires and impulses, based on the way they were raised. Relatively weak control is called 'indulgence' and relatively strong control is called 'restraint'. Cultures can, therefore, be described as 'indulgent' or 'restrained'. Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. The best example is the US. Restraint stands for a society that suppresses gratification of needs and regulates them by means of strict social norms. The examples are Russia, and Eastern European countries such as Belarus, Bulgaria, Czech Republic and Hungary.