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Champion leadership

India Inc can take lessons from the Kohli-Dhoni equation

HUMAN FACTOR

SHYAMAL MAJUMDAR

Cricket team captains usually prefer to field within the 30-yard circle during the crucial stages of a limited-overs match. That's because it helps them to be in command and in advising bowlers and close-in fielders. But Virat Kohli has gone off the beaten track. Match after match, he fields closer to the boundary line during the last few overs. This helps in two ways: One, in making good use of his superb throwing arm and agility; and two, it allows the wicket-keeper to advise the bowlers on the length they should bowl at. Kohli's logic is simple: The wicketkeeper, specially of the calibre and experience of M S Dhoni, has the best angles from behind the stumps. All through, both keep their eye contact intact — the captain is thus kept in the loop about what's going on and what to expect. The trust, friendship and mutual respect between the two have helped bust the myth that a captain has to behave like an emperor, or else he would be seen as abdicating his role.

On the contrary, this is leadership at its best. Kohli's actions show a supremely confident leader who knows exactly how to get the best out of his teammates and contribute to the overall objective. Kohli has time and again made it clear that he would go to any length to make sure that the team benefits from the watchful eyes of an elite Indian captain, who is possibly the finest of all time in limited overs' cricket because of his ability of not losing his cool in the tightest of situations. In several interviews, Kohli has acknowledged that he turns to Dhoni whenever he feels the need to, and nine out of 10 times he gets the right suggestions from his former skipper. It is a blessing, Kohli has said, to have a player as experienced as Dhoni in the side specially in the initial years of his captaincy. Dhoni has reciprocated in full measure, describing Kohli as a "legend already" and has made sure that he keeps himself out of the spotlight that's rightfully the captain's slot.

As a leader, one of the things that's most important is to know your team needs to see you as confident. And one of the places you can show your greatest strength is in how you speak about or behave with the person who held your job before you. Great leaders have no problems looking to whoever held their jobs before them for ideas and inspiration. They don't need to tear anyone down because they are sure of themselves.

To be sure, assuming command from a legendary captain or a CEO is a more complicated process than a standard leadership transition. Employees or players will wonder how the replacement can ever measure up, and they will compare the new boss to the old. It is to Kohli's credit that while being a role model himself through his performance, he has given the respect that Dhoni deserves.

The interesting thing is that both are as different as chalk and cheese. While Kohli is visibly aggressive, Dhoni is one of the most reserved captains India has seen. That doesn't matter much. Actually that's the way it should be. One of the biggest mistakes a board can make when selecting a replacement is to try to find a carbon copy of the legendary CEO. That's virtually impossible. In any case, people in any organisation are pretty savvy, and if they see you trying to copy somebody else, they'll think you're disingenuous.

Kohli's biggest leadership skill is this: He knows how to extract the best out of his predecessor and learn the tricks of the trade before Dhoni departs. And for that, he knows he doesn't need to be his ex-captain's mirror image.

The moral of the story is simple: Leaders must know how to build relationships and understand that a conglomerate's collective IQ far outweighs any individual IQ, and however smart they are, they can't know everything. When Satya Nadella took over as Microsoft CEO, he had a clear sense of how to use what he called Bill Gates' "searchlight intelligence". Gates did oblige by helping apply analytical rigour to the stream of new product ideas that popped up regularly in a roughly 100,000-person company. Also, Nadella said he wanted to cash in on Gates' unique ability to energise employees.

Replace Nadella with Kohli, and Gates with Dhoni, and you know why India's current cricket captain is a champion leader.

Will banks get their remuneration policy right?

By focusing on pay, the regulator is signalling where its priorities lie

OCCASIONAL ASIDE

AMIT TANDON

The Reserve Bank of India (RBI) put out a discussion paper on compensation practices in banks. Although this would have been in the works for a while, I have no doubt that media reports on the amount of its CEO's bonus that ICICI Bank proposes to claw back — despite there being no confirmation on the exact figure — hastened the publication of this report. For far too long, under its current guidelines, the RBI has signed off on a bank CEO salary, ignoring ESOPs, which have become the largest component of any bankers pay packet (Exhibit 1). RBI, belatedly many will argue, is correcting this anomaly, and using this opportunity to review its current guidelines.

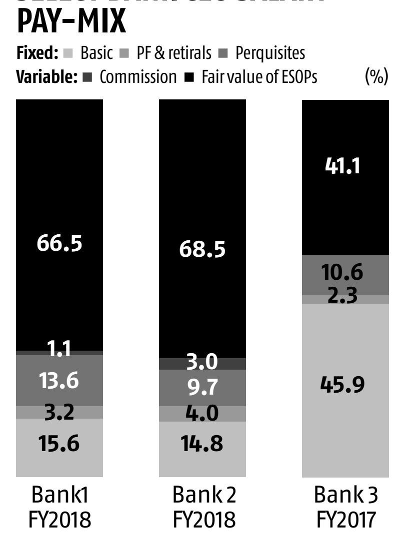
While this discussion concentrates on CEO compensation, the paper also focuses on compensation for those in risk, control and compliance functions.

Compensation for bank CEOs (and senior personnel) came under public scrutiny after the 2007 financial crisis. The crisis was characterised by excessive risk taking by banks which, among other factors, was attributed to compensation and flawed incentive structures that prioritised deal flows over better credit calls. The massive bail-outs of financial institutions and unconventional monetary and fiscal policies to prevent a possible collapse of the world financial system was accompanied by a public outcry to curb bankers pay. In 2009, the Financial Stability Board (FSB) in the UK came out with a set of nine principles that called for financial institutions to have a remuneration designed by a remuneration committee that works closely with risk management and focuses on the long term and liquidity. It mooted aligning compensation of the 'risk' and 'compliance' teams with their functional goals. It propagated a greater alignment of pay and performance with a substantial portion as variable, including ESOPs, and a large portion of the variable pay itself being deferred.

The Basel Committee on Banking Supervision supplemented its own report on performance and risk alignment that banks should consider while developing their methodologies, and supervisors, when reviewing and assessing banks' compensation practices. It was, in its own words, "technical and not prescriptive". Although the US Federal Reserve voiced its differences with the FSB report, RBI echoed its proposals, and suggested "formulation of suitable compensation policy by banks, constitution of a Remuneration Committee, alignment of compensation with prudent risk taking, capping of variable compensation as a percentage of fixed pay, deferral of part of variable compensation, incorporation of malus/claw-back clause, adequate disclosure norms and supervisory oversight".

The current discussion paper gives a more granular guidance to compensation and expects 50 per cent of the salary should be non-cash variable pay (earlier no limit) and the aggregate variable pay should be capped at 200 per cent of fixed and should include ESOPs (earlier variable pay was capped at 70 per cent but excluded ESOPs). Variable pay will have a compulsory deferred mechanism and a new provision regarding clawback in case of divergence in NPA/provisioning beyond a prescribed threshold (new suggestion).

SELECT BANK CEO SALARY PAY-MIX



Note: Commission for Bank 3 in 2017 was nil
Source: iiascompayre.com

Given the pay cap on the ESOPs, will private banks be able to attract and retain talent? This question is not new. It is being asked since 2016 when the Supreme Court expanded the definition of public servants under the Prevention of Corruption Act, to include private bankers. My answer is yes. People join a profession and strive to reach the top. Sure, a handful do leave for some adjacencies, but they are hired in these for their banking knowledge and skills. And with IRDA and Sebi exercising oversight over their respective markets, you should expect more such notices across the financial sector. Bankers, on average are better paid — more on this later, and banking will continue to attract talented beginners and I don't see this changing.

Given how hierarchical banking is, and with overall remuneration levels being linked to fixed pay, I do expect the fixed component to move up across the board. This should help make compensation more balanced throughout the banks. And this helps bring to fore the most basic of questions: What amount of compensation is appropriate? In FY18, 36 per cent of private bank CEOs earned above ₹10 crore — just 19 per cent of CEOs of the BSE 500 companies cross this threshold. In contrast, private sector bank CEO pay averages at 66 times the median employees, lower than 88 times for the BSE 500 and less than half for the construction sector at 144 times. These two matrices, while giving different answers, point to the fact that salaries in banking are, on average, higher than other sectors.

Given the end-objective of curbing excessive risk-taking, the Remuneration Committee should also explore issuing restrictions on the exercise of stock options — restricting executives from exercising options for two to three years from their last day at work. A supplementary benefit is that this gets the CEO to focus on succession planning, the most important of all decisions.

The suggestions will no doubt receive some push-back from those arguing that you need to run horses for courses. Critics already chafe that government cannot fix compensation through such interventions — it will only make things worse. Look no further than recent regulations that have restricted the tenure of the CEO of a Market Infrastructure Institutions to two terms, with a 'fresh search' at the end of the first term. An unintended consequence is that the remuneration committee cannot hold out more than a five-year term for potential candidates, narrowing the field. But by focusing on pay, the regulator is signalling where its priorities lie.

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CHINESE WHISPERS

Book my vote

With the Lok Sabha election drawing near, it is also the time for politicians to use all possible methods to influence the electorate, including releasing books either authored by them or a compilation of their speeches. On Friday, Finance Minister Arun Jaitley is scheduled to release *Sabka Saath Sabka Vikas*, a compilation of selected speeches of Prime Minister Narendra Modi, along with Union information and broadcasting minister Rajyvardhan Rathore. March 8 is International Women's Day and the Trinamool Congress has taken the opportunity to organise a discussion on their party chief and West Bengal Chief Minister Mamata Banerjee's new book *India in Distress*. Both the events are scheduled to be held in New Delhi.

Betting on experience

With the final list of candidates for the coming Lok Sabha election to be announced this week, both the Communist Party of India-Marxist led Left Democratic Front (LDF) and the Congress-led United Democratic Front (UDF) in Kerala are banking on experienced leaders including sitting members of Parliament and the state Assembly rather than experiment with new faces. The possible list of LDF, which will be announced officially on Friday, is expected to have around six sitting MPs and two to three sitting MLAs. The speculated list likely from the Congress, to be announced officially on Saturday, is expected to have names like Mullappally Ramachandran, V M Sudheeran and former chief minister Oommen Chandy. The Bharatiya Janata Party is also looking for experienced candidates and the wishlist, according to reports, includes bringing back Mizoram Governor Kummanam Rajasekharan to contest sitting MP Shashi Tharoor in Thiruvananthapuram.

Whose statue next?

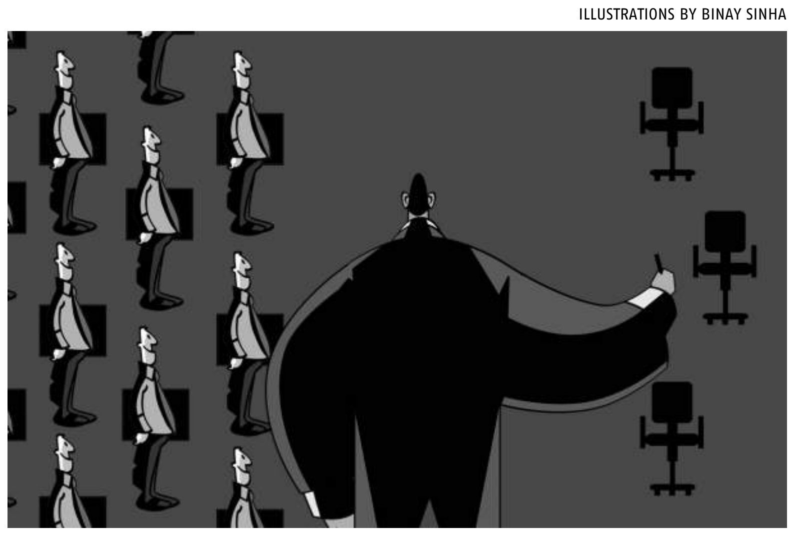
Three years back, in a major beautification drive, the Bidhannagar civic board in Kolkata had installed statues of "legendary Bengalis" — the likes of Rabindranath Tagore and Ishwarchandra Vidyasagar — at prominent road intersections in Salt Lake City. Now a billboard has popped up near College More in Bidhannagar that depicts pictures of "Famous Bengali Legends" including Rabindranath Tagore, Ishwarchandra Vidyasagar and state Chief Minister Mamata Banerjee. Skeptics are wondering if Banerjee's statue would also materialise in one of the many traffic islands in Bidhannagar one fine morning. Did someone mention Mayawati?

INSIGHT

The job crisis and solutions

It would not be wise to be optimistic about the future without preparing in a real sense for job creation

ILLUSTRATIONS BY BINAY SINHA



GANESH NATARAJAN

Whichever way one looks at it, the creation of new jobs has been a problem — not just in India but worldwide over the last few years. Sluggish economic growth, the huge onslaught of automation in the manufacturing as well as the services sectors and the rise of assistive, augmentative and autonomous artificial intelligence (AI) have all taken a toll on existing jobs and reduced job creation. And while we keep comforting ourselves that every new technology revolution has threatened to take away jobs but ended up creating multiple new ones, it would not be wise to be optimistic about the future without preparing in a real sense for job creation. What are the possibilities for new job creation at the scale our country needs to keep a million people a month engaged as they enter the workforce?

A recent discussion with some industry leaders at NASSCOM pointed the way to three avenues — India could become a technology production and support hub for the world and create millions of jobs in building hardware, telecommunication equipment and even mobile phones. Innovation-driven entrepreneurship could also lead to large scaled enterprises that use their mastery of new digital processes like supply chain optimisation and even augmented AI to serve global customers with large numbers of people assisted by technology. A case in point is Shenzhen in China where many electronics production facilities, earlier fully manual, are now staffed by hundreds of robots managed by fewer employees. And across the spectrum of manufacturing and services, there will be opportunities for millions of micro-enterprises to operate from special manufacturing and services zones, each employing a few dozen well-trained people with low-cost automation and robots to produce world-class products and services as well as artifact, clothes and other goods for personal and home use.

Preparing people for new job and entrepreneurship opportunities and challenges will need three areas to be focused on. The first will be to build compelling training content in each area where future opportunities lie. The traditional industrial training institutes and skills institutions will need to focus on new areas for job entrants and re-skilling and up-skilling youth in organisations and even adults looking for new careers. The new generation is no longer content with standard books and videos and truly compelling content will be needed to engage and ensure learning.

The second area of focus would be to deploy technology in the learning process. E-learning has got a bad reputation in its first implementation with single digit percentage course completion rates and the general apathy towards learning without physical or live interventions. Blended learning has been the panacea to this ill with innovators like Fuel 50, CareerWaze and Skills Alpha using contemporary technologies like AI, learning analytics and adaptive learning to customise learning methods and outcomes.

The advantages of platforms like Skills Alpha are three-fold. First, they are able to move the learning and development discussion from training and content consumption to motivated learning and context creation. Second, the use of new technologies like interactive video, augmented and virtual reality and the use of a platform to adapt the content that is served up to the student's learning style makes the whole process pleasant and experiential. Third, the application of cognitive tools, starting with a "bot" and extending to a host of assistive technologies, improves the efficacy of learning and organisation development, resulting in engaged learners and better outcomes.

The third area of focus has to be to build an environment of sustainable livelihood creation in the country that can support better "agency" building in youth and empower them to chart their own destiny with skills as a by-product of this journey. Too often, youth have been stuffed into classrooms for a course chosen by some funder without consideration for motivation or aptitude. Youth will aspire to jobs and stay in them only if they want to, irrespective of the economic strata they come from. There are some successful experiments in this area that have resulted in placement and retention levels at least three times the normal average. This is a critical year — for the world, for India and for all Indians and as new opportunities emerge, we need to focus on making livelihoods happen.

The author is chairman of 5F World, Social Venture Partners India and Pune City Connect

LETTERS

Let the stay order prevail

Your editorial "Protect the Aravalis" (March 7) rightly spells out the grave dangers of the amendment to the Punjab Land Preservation Act (PLPA). Especially in case of the small state of Haryana the "death warrant for the Aravali Hills" is truly a death warrant for the state. Already enjoying the dubious distinction of having "the lowest forest cover in the country at a suicidal 3.59 per cent" losing even one percentage point more would be a heinous crime against the people of the state. What could be a bigger tragedy than deliberately allowing the Thar desert to come closer to us, permitting more dust-laden winds to enter the national capital region and move our air quality index to doomsday levels, obstructing whatever pathetic little ground water recharging is happening at present and usurping the catchment area of our already almost dry lakes? History is witness to many cities 'dying' without water. Does the government want that to happen to the millennium city of Gurugram?

Builders will create more concrete jungles, sell them to people ever hungry for a roof on their heads, become richer and move on to other areas for exploitation. Miners will also find other such avenues. Politicians and bureaucrats will — only for some time of course — continue to survive in their cocoons before moving to their fallback options in the Alps or other such places. But where will the common folk go after having sunk their life's savings in an apartment in Gurugram?

Our last hope — as always — is the mighty Supreme Court, which has quickly stayed enforcement of the sinful amendment to PLPA. Let's pray that the "stay order" stays for good.

Krishan Kalra Gurugram

Need inclusive patriotism

It is now clear that the Bharatiya Janata Party (BJP) is keen on making the upcoming Lok Sabha election all about nationalism and not about *vikas*. The phrases *sabka saath, sabka vikas* and *achhe din* are no more heard. With nothing tangible to show on the economic front, it is understandable that the ruling party is determined to go all out to fight the election on nationalism. Sadly, it does not occur to many that a great nation cannot define itself purely in terms of another country. For all the hype, the impoverished masses may not be swayed to accept virulent nationalism as 'patriotism'. What the country needs is more doses of inclusive patriotism and not of skewed patriotism.

G David Milton Maruthancode

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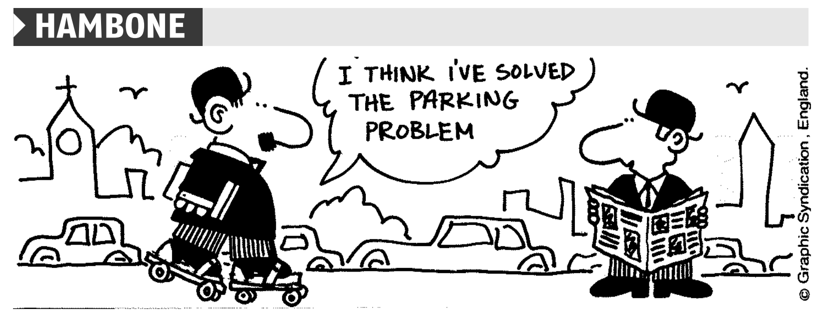
HAMBONE



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Driving up liabilities

Populism takes hold in state budgets

While the Union Budget is extensively analysed after it is presented, examination of state government budgets tends to be less visible. This is in spite of the fact that state government decisions about expenditure and revenue are no less consequential for the general government deficit and the overall fiscal space. The recent trends have been clear. State governments till 2017-18 were broadly increasing their deficits as a percentage of gross domestic product (GDP), while the Union was reducing its corresponding ratio as required by the announced path of fiscal consolidation. However, an analysis of the state budgets presented for 2018-19 reveals that several smaller states have sought to reduce their deficits in terms of current rupees. Bihar has been an outstanding performer, reducing its deficit from ₹35,000 crore to ₹11,200 crore. The exceptions, however, are consequential. Uttar Pradesh, for example, has increased its deficit by ₹3,000 crore to ₹44,000 crore. Tamil Nadu has increased its deficit by ₹3,300 crore to ₹44,500 crore, and West Bengal by almost ₹6,000 crore to ₹29,700 crore.

It is clear that populist and electoral pressures underlie this trend. West Bengal, for example, although claiming to have created almost a million jobs, has also announced a ₹1-lakh giveaway to 50,000 jobless young people "to promote self-employment". Multiple states have announced transfers to farmers. West Bengal has promised a grant of ₹5,000 to those with one acre of land, as has Jharkhand. Odisha is similarly transferring ₹5,000 to 1.2 million farmers' bank accounts and has also promised ₹12,500 to landless labourers. Telangana has promised ₹10,000 per acre per year. Other forms of rural assistance are also being tried. Andhra Pradesh is spending ₹5,000 crore to pay for farm inputs on behalf of farmers and has also raised unemployment allowance. Congress-ruled Karnataka and Chhattisgarh have to pay for loan waivers, while BJP-ruled Uttar Pradesh has to pay for cow shelters and Assam has promised 10 gram of gold to brides. The Sarbananda Sonowal government has also promised ₹50,000 to 2,000 "personalities from the world of sports and art" in an attempt to shore up its popularity with opinion-makers in the state ahead of the Lok Sabha elections.

The Finance Commission's stringent rules on deficit financing for states have meant that such spending has become more complex to finance. Although states have striven to keep their revenue deficits near zero and their fiscal deficits at 3 per cent of state GDP, there are other financing options available. As a consequence, even states that are reducing their deficits have seen an increase in outstanding liabilities. Interest payments are consuming more revenue yearly. This is a trend that does not bode well for the future. The fiscal deficit cap has also led to states losing out on interest, as they are forced to keep cash surpluses to adhere to deficit targets, which they invest in 14-day intermediate treasury bills. This is a losing proposition, as the cash is borrowed by states at a higher rate. The long-term effects of the state fiscal deficit cap should thus now be questioned. The Fifteenth Finance Commission's terms of reference call for reducing support to "populist" schemes in the states, and it should be restrained in its recommendations.

Solving the farm riddle

Traditional policies have failed to make agriculture attractive

The second advance estimates of national income for the current financial year that were recently released by the Central Statistics Office (CSO) made a sobering read. For 2018-19, the overall growth of gross domestic product (GDP) has been pegged at 7 per cent compared to 7.2 per cent in the first advance estimates. But one of the most worrying aspects was the data on agriculture growth. Growth in gross value added (GVA) in the agriculture, forestry and fishing sector has decelerated from 5.1 per cent in the first quarter of the fiscal to 4.2 per cent in the second, and to just 2.7 per cent in the third. Even a year-on-year comparison looks poor, as agri-GVA grew by 5 per cent in Q3 of FY18. This is in tune with a largely middling performance by the agriculture sector in the past five years.

This has two disturbing consequences. For one, there is widespread farm distress that refuses to abate. Despite economic diversification, the fact is that almost half of India is still involved in the farm sector. Several state governments have declared massive farm loan waivers to reduce the discontent, but that is hardly a long-term solution. As the farm sector continues to struggle each passing quarter, there is considerable worry that the farm unrest could likely sustain. The other implication of this is the expected run rate for agriculture growth will keep climbing to achieve the government's goal of doubling farm incomes by 2022-23. The Expert Committee on Doubling Farmers' Incomes has stated that to achieve this target, agriculture growth rate would have to be 10.4 per cent per annum from a base period of 2015-16. Given the modest growth rates in agri-GDP so far, the actual growth rate required now is estimated to be closer to 15 per cent over the remaining four years. This is almost impossible, as the best five-year growth rate in the past 25 years has been 4.3 per cent in 2009-10 and 2013-14. The growth rate in the past five years has been significantly lower at 2.9 per cent.

So what is the way to tackle the unrest in the agriculture sector? It has to be accepted that traditional policies have failed to make farming remunerative. The experience of the recent past shows that even though farm output is increasing, farmers' income growth is nowhere near the level required to improve their living standards. Governments, both past and present, have resorted to knee-jerk reactions such as announcing farm loan waivers and higher minimum support prices. Both are unsustainable and distort the market. The current government has in the interim Budget presented earlier this year unveiled a scheme of direct income transfers as well. In this, it has followed several state governments such as Telangana and Odisha. But there are question marks over its implications on the fisc at a time when none of the other subsidies has been touched. For example, a committee headed by Shanta Kumar had suggested deregulation of fertilisers and payment of subsidy to farmers through direct benefit transfers should happen together. Nothing has been heard about implementing the suggestions. The only way forward is to seek bold agriculture market reforms to reduce the distortions created due to interventionist and restrictive policies that depress producer prices below international market levels.

ILLUSTRATION: BINAY SINHA

Getting the Indian consumer to rescue us

The country needs transformative change to create a vibrant consumer market and drive economic growth

Let's not blame economists, politicians, bureaucrats for our economic travails like not enough jobs, losses of public sector, collapse of the banking and infrastructure building companies and the agrarian crisis.

And let us also not lament that our economic travails are because we as a country are caught in a vicious cycle of business folk who focus on trading and rent-seeking on land (real estate), spectrum (telecom), and labour (IT services) rather than on technical innovation. Or blame the chorus of economists and financial policy-makers, educated and with full-time jobs abroad who come for short sinecures that embellish their resumes and who spend their time chanting "FDI! FDI!" like our ancestors chanted "Ram!Ram!" when faced with similar difficult times.

AJIT BALAKRISHNAN

The fact is that once we peep behind the curtains of the above -described dramas, a new truth emerges — that Indian domestic consumer and institutional markets are very small, and the tiny sliver of the relatively well-to-do consumers and decision-makers are consistently technology-averse which makes it next to impossible for innovation driven businesses to achieve scale.

How thin is this sliver? According to a study by the National Council of Applied Economic Research (NCAER), *How India Earns Spends and Saves*, just about 80 million Indian households earn enough to be able to spend on anything beyond the basics. NCAER says this group, made up of managerial, technical, professional classes of households earn a household income of about ₹13,000 per month. The rest of India, made up of farmers, fishermen, workers in transportation and informal workshops and those who work as hawkers and street vendors, make do with a monthly household income of about ₹4,000 to ₹5,000, which does not leave them much to spend on even essential consumer durables. What this means is not that there is no market for products in India, but that entrepreneurs must do radical technical innovation to make products sophisticated enough to satisfy these parsimonious potential customers, and at half or third of world prices for the Indian mass market to be able to afford these products.

Which brings us to India's next mega public policy challenge: Using military procurement to drive and stimulate technical innovation. Prof Mariana Mazzucato of the University College London is the one who opened our eyes to the extent to which technical innovation is dependent on military procurement. In her seminal book, *The Entrepreneurial State: Debunking Public Vs. Private Sector Myths*, she takes the example of the iPhone which in everyone's eyes is the work of one solitary genius — Steve Jobs, and his one solitary company, Apple. She points out that, to start with cellular technology itself is a product of US military investments, as is the multi-touch mobile phone screen that we all adore, not to mention the micro-hard drive that lets us carry around with us a thousands of images and music, the Lithium Ion batteries that lets us carry our mobile phones for hours without recharge and the GPS (Global Positioning System) that lets us navigate using mobile phone-based maps. She describes the similar role that the US military has played in creating and sustaining US leadership in aviation and space technologies, pharmaceuticals and biotechnology, and more recently, in nanotechnology.

But this role of the military to create early stage demand and sustain innovators is nothing new: Early demand for steel, for example in the 8th century AD, was driven by need to make swords and daggers.

India's mobile industry is an example of tremendous lost opportunity: Indian government policy resulted in Indian mobile phone operators outsourcing the technology and management of mobile networks to foreign players like IBM; these foreign players created no opportunities for potential Indian network equipment or device manufacturers to be weaned. India now imports $80 billion dollars of mobile phones; this demand could have created a vibrant and world scale electronic manufacturing capability in India. Similarly, in the Personal Computer era, many Indian companies tried creating innovative products in PC hardware and related software, but a complete lack of early stage support from Indian defence procurement forced the industry to embrace the body shopping mode of Information Technology services.

While there are deep political economy reasons why all the above has come to pass in India, there is a glimmer of hope offered by Dr Raghunath Mashelkar and Ravi Pandit in their recent book, *Leapfrogging to Pole Vaulting, Creating the Magic of Radical Yet Sustainable Transformation*. Their notion of "pole vaulting" consists of a system of four levers each working synergistically with the other levers. The first lever is technology and here they suggest that we approach technology with the belief that nothing is impossible to achieve. The second lever is public policy, but they caution that governments must choose carefully when to intervene and when not to. The third lever, social engagement, is best achieved when products or services are created that appeal and are useful for a great mass of people, particularly those at the bottom of the pyramid. And the final lever is the economic model underlying the effort; here they point out the critical importance of pricing the product or services at a level where it is considered value-for-money by all stakeholders. The many examples in the book provide inspiration and hope that a transformative change is not out of our reach. A vibrant Indian consumer market will then be the engine that drives our economy.

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The emerging factor in Indian markets

Where are Indian markets headed in 2019? The stock answer is that it all depends on the election outcome. That might be an oversimplification. Markets move in packs and India's fate is tied to that of emerging markets (EM). If EMs fall off the investment map, India is unlikely to produce high asset returns even with a favourable election outcome. On the flip side, a sustained EM rally could set a floor for our local markets even if the political outturn disappoints

After a weak first nine months, EMs picked up in November last year. There was a rally across asset classes—bonds, equities and currencies—that spilled over to the new year. An index computed by HDFC Bank of EM currencies (a proxy for overall asset market performance) rose by 4 per cent against the dollar between November 2018 and January 2019 after dropping by 5 per cent in the first nine months. However, in February the rally began to peter out.

ABHEEK BARUA

The brief EM bull-run was aided by a couple of things. For one thing, the US Federal Reserve (the Fed) softened its stance in October as inflation fears gave way to apprehensions instead of a sharp slowdown in the American economy in 2019. The Fed's pussy-footing meant that financial markets went from 'pricing in' three interest rate hikes to none in 2019. This revived the so-called carry trades with investors borrowing at low interest rates in developed markets to invest in higher yielding EM assets, driving their stock, bond and currencies up. For oil importers in the EM world, softness and stability in oil prices also lent a helping hand.

Sceptics argue that the moderation in February shows that the EM rally was a flash in the pan as investors temporarily had overlooked both the macro-fundamentals and risks of EMs. The American investment bank, BofA-Merrill Lynch that surveyed fund managers earlier this year drew a parallel between this EM boom and the Bitcoin rally in December 2017 that had been followed by a precipitous decline of 80 per cent.

There is a strong counterargument that the February moderation was a mere current "correction" that set the stage for another sustained rally. I would go with this view. This hinges on both attractive valuations in EM stock markets and their enduring interest rate advantage over developed markets. Both should invite fresh capital inflows. The benchmark MSCI EM stock index, for instance, is trading at a price-earnings multiple of around 11 (using one year forward earnings) compared to the aggregate MSCI world index of 14.5.

Besides macro-balances — current account and the fiscal gaps — of a number of EMs have shown remarkable improvement since the taper tantrum of 2013 that butchered these markets. A number of them have also risen to the challenge of shrinking global trade. Domestic consumption has improved dramatically even for traditional exporters like Malaysia as demographic profiles have improved. The bottom-line is that with the US slowing down, EM growth will beat that of the developed world hands down and that is reason enough to chase their markets.

Where does India stand in all this? India's markets decoupled from the EM pack from mid-December after a brief pop in November. In January 2019, EM stocks and bonds attracted an estimated $51.1 billion of foreign capital, the highest level in the past 12 months. However, there was an outflow of $0.8 billion from Indian debt and equity markets.

Political uncertainty is certainly a factor in this decoupling. Equally importantly, it is difficult to make a strong investment case for the Indian stock markets based on valuations. While projected profit growth of around 20 per cent for Indian companies is strong, the high price-earnings (P-E) multiple of over 17 (China is at 10; Brazil at 11) takes the sheen off a bit. Fiscal slippage on the back of the pre-election 'populist' spending binges and the problem with NBFCs seem to have increased the credit risk for Indian bonds.

Going forward, the future of the Indian markets will depend on three things. First, the election results. While markets have baked in a probability of a coalition government, the exact nature of this coalition is critical. If there is a stable coalition that shuns budgetary extravagance, investors could make a grab for India once again.

Markets do not decouple from their peers permanently and as domestic uncertainty abates, India will climb back on the EM bandwagon. Then it is a question of whether this gathers speed or its wheels come unstuck.

The relatively high valuations of Indian equities will continue to niggle. However, investors tend to rationalise things like overvaluation if sentiment turns in favour of a market. If indeed they see shrinking global trade and the risk of a sharp deceleration in China as the top two global risks then India offers a high degree of insulation. India ranks poorly on almost all measures of global integration like the OECD-WTO Global Value Chains (GVC) Participation index. That is a big positive if the global trade engine sputters. Again a slew of studies (the widely quoted IMF study, *China's Slowdown and Global Financial Market Volatility: Is World Growth Losing Out? 2016*, is an example) shows that India would be the least affected in the Asian region if China's growth were to fall sharply.

Thus, if politics and peer performance work in India's favour, the relatively high valuations of Indian stocks could be seen as insurance premium that protects against global trade and China risks. The prospect of a bull market in India post-elections might be quite bright after all.

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Aryan myths

BOOK REVIEW

AAKAR PATEL

A few hundred years ago, European travellers to India noticed that Indian words had something in common with their own languages. The words for integers and mother and father, for instance, and tooth ("daant") and such other basic words seemed similar.

Servants of the East India Company concluded that Sanskrit was part of a wider school of linked languages descended from a common origin. A little after this period came a wave of German nationalism. This was powered by the writing many hundreds years before of the Roman historian Tacitus. His work, *Germania*, showed the tribes of people north of Gaul that the Romans knew as Germany as being fiercely independent animists whose individualism was to be admired. A hero of theirs from the Roman era, Arminius or Hermann, was resurrected as a national symbol of a Germany that was pure of race unlike the mongrel nations of southern Europe.

In India, the word Arya had been used in various ways, most often to denote nobleness of behaviour. It became linked to the mother language that was thought to originate some place in the Caucasus and then it was linked further to a sort of monolithic community, the Aryans.

In the 1920s, the remains of the Indus Valley Civilisation were discovered in what is today Pakistan. The bricks of the ancient site in Harappa, which is in Pakistani Punjab, had previously been removed and used to build the railway until their antiquity was noticed.

The placing of that Harappan civilisation's culture to before the *Rig Veda* (which was written around 1,500 BCE) threw a spanner in the works. People who were thrilled by the discovery of the Indo-European and "Aryan" link had been convinced that the *Vedas* were the origin of Indian culture. They attempted, unsuccessfully, to connect the *Rig Veda* to the Harappan culture.

The "scientific" field of archaeology and linguistics was dominated in India for a long time by well-meaning but amateur civil servants who were interested in the vast land they were administering.

A theory was developed in which Aryan invaders coming from somewhere in the north or north-west overwhelmed the original culture of the Indus Valley inhabitants.

This division manifested itself in the caste system and produced the concept of upper and lower society, in the minds of some. In the minds of others, it explained the north-south divide of India.

Around the same period also came the Hindu revival movement which we are still living with (the Rashtriya Swayamsevak Sangh was founded in 1925, three years after the discoveries at Harappa). The view they developed was that there was no Aryan invasion and no division between ancient and more recent inhabitants — all were Hindus. Both Madhav Golwalkar, the second head of the RSS, and Vinayak Savarkar, author of the tract *Hindutva*, believed that the "Hindus" were original and any evidence of a pre-Vedic people in India could be explained away.

Then in 1965, Nirad C Chaudhuri wrote a book — *The Continent of Circe* — attempting to explain why and how Indians had fallen so far from the Aryan family tree so as to be part of the conquered peoples (I think he blamed the weather).

The two ideas then prevailing — one of an invasion and overthrow of a civilisation by another, and the other of total continuity from antiquity under Vedic Hinduism — have long been discarded by the scientific community, which includes historians, linguists, archaeologists and geneticists. This book is a collection of essays by experts from various fields that bring together most of the latest thinking and discoveries in these subjects.

The likely explanations of who we are and where we came from are today emerging with more clarity, especially because of genetics. For example, DNA taken from a village in Haryana named Rakhigarhi from 4,500 years ago has shown that the male individual it came from did not share the gene commonly associated with the Aryan pastoralists. That individual was closer to what we might refer to as being Dravidian. The Aryan invasion was actually a migration that came after the Harappan civilisation was already established. The migration of these Vedic peoples was not limited to India and traces of their language and their existence are to be found as far as Syria.

They were pastoral, meaning that they were semi-nomadic and lived with milche cattle (one of the essays here says that the word Âryâvarta means the "turning of the Arya"). The people of the Indus Valley/Harappa culture, on the other hand, lived in advanced cities that had such things as drainage. The Aryans had the horse and chariot occupy a dominant position in their culture, which the Harappans did not. They also apparently had social intercourse with the town dwellers. The Harappan people lived mainly on the Indus plain. The pastoralists moved onwards to the Gangetic plain.

Modern South Asians are a product of a mixing of all these peoples and races and of communities more ancient that came here from many directions, some passing through and some staying back. All of us, Indians and Pakistanis, Hindus and Muslims and Sikhs and Christians and agnostics and tribals, have something in our gene that goes back to the people of the Harappan age, as well as, of course, to the first migrations of humans out of Africa.

This book and the recent studies will dismay the Hindutva supporter who sees in India and its Vedic period as something pure. The reality is that our origins are messy and we are of mixed race.

WHICH OF US ARE ARYANS? Rethinking the Concept of Our Origins
Romila Thapar, Michael Witzel, Jaya Menon, Kai Friese and Razib Khan
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