Opinion

MONDAY, APRIL 1, 2019

CHINESE DESIGN

US secretary of state Mike Pompeo

Their (China's) efforts to build ports around the world aren't because they want to be good shipbuilders and stewards of waterways, but rather they have a national security element to each and every one of them

RationalExpectations

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Nyay becomes *anyay* as it ignores real issues

Apart from being too expensive, Rahul Gandhi's income scheme—like Modi's—will ensure real solutions are not implemented

MUCH OF THE criticism of Congress party president Rahul Gandhi's Nyuntam Aay Yojana (Nyay)—which promises to give country's lowest fifth households ₹6,000 per month—not surprisingly, has centred around its lack of affordability. At ₹360,000 crore, or 1.7% of GDP, it costs slightly more than what the government spends on subsidies like those on food, fertiliser, LPG and several others today. So, if the subsidy bill is to be doubled, since the Congress is clear other subsidies are not going to be cut, there is a clear problem of where the money is going to come from. One Congress official suggested, on TV, that taxes would have to be raised, but raising tax levels and collecting them are two different things; collecting extra taxes equalling 1.7% of GDP can take several years. Besides this, there is, right now, no system of identifying the bottom fifth of households in terms of income.

Equally problematic, as *FE* has pointed out earlier, is the issue of what this does to the relative position of various income groups and the backlash this will cause. Households in the lowest income group (decile 1) earned ₹193,255 per year, according to Price's ICE 360º all-India survey for 2015-16; the actual survey throws up a lower number, but this has been blown up to align it with GDP data. Households in the second decile, D2, earned ₹250,298 while it was ₹279,788 for D3 households, ₹321,871 for D4 households, etc (*see table*).

Now give ₹72,000 per year to D1 and D2 households. On average, D1's income rises to ₹265,255 and D2's to ₹322,298. As a result, households in D1 continue to remain D1, but D2 households now go up the income chain to D4 while D3 moves to D2 and D4 moves to D3.

Both Rahul Gandhi's plan as well as prime minister Narendra Modi's income-supplement scheme for farmers—₹6,000 per year—are aimed at alleviating a problem of low income that, right now, is not getting resolved in the normal course of economic growth. In the case of Modi's schemes, for instance, though he has done well to spend more on creating irrigation facilities, the problem is of not being able to create free markets—both at home as well as by way of unrestricted exports—so that farmers get a better price. With Modi failing to free up markets over the last five years—at least in states ruled by the BJP—this compounded the problem caused by depressed global prices. So, instead of coming up with a solution, Modi came up with the ₹6,000-scheme. Should Modi get re-elected, the question is whether he will attempt reforms to genuinely free agriculture markets or simply settle for trying to raise this sum in order to keep farmers happy. Second-guessing politicians, especially those of Modi's calibre, is not a good idea, but if the past five years are any indicator, freeing markets may be given the go-by. The problems of massive sugarcane dues—right now, over ₹28,000 crore—is primarily due to bad government policy, but instead of trying to fix this, like previous governments, Modi, too, has been content with coming up with new sugar 'packages' from time to time.

Much the same could happen with Rahul Gandhi's plan, especially if it gets the party the required votes in the polls over the next couple of months; after the farm loan waiver worked so well for the party in 2008, both the Congress and other parties have tried this very tactic several times in subsequent assembly elections.

It's education that matters
(Even in low income groups, it is the lesser educated that earn the least)
Avg household income, ₹ per annum

Population Decile	Education Level: Illiterate to Primary	Education Level: Matric to Graduation+	Avg for Decile
D1*	176,297	225,227	**193,255**
D2	226,100	285,738	**250,298**
D3	246,930	319,849	**279,788**
D4	278,183	370,461	**321,871**
D5	297,715	395,233	**347,383**
D6	313,023	444,076	**383,045**
D7	353,068	521,119	**455,313**
D8	388,611	595,044	**523,607**
D9	449,544	738,151	**660,005**
D10	588,732	1,148,297	**1,025,302**
Average	314,669	611,731	**484,981**

*Lowest 10% of population in terms of per capita income
Source: Price, ICE 360° survey, 2015-16

If the government gets used to the idea of dole being a substitute for good policy, chances are real reforms will never take place. Data from Price's ICE-360º survey clearly show that, even in the lowest income groups, the problem is related to no- or low-levels of literacy. In the lowest decile, households headed by those who have studied till just primary school—this includes illiterates—have an annual income of ₹176,297 as compared to ₹225,227 for those where the household-heads have studied till anywhere between matric and graduation. Indeed, in D1, households headed by illiterates earn ₹91,498 and this more than doubles to ₹193,060 if the educational qualification is primary school and to ₹242,234 if a graduate degree is received.

In the second decile, households headed by illiterate people earn ₹125,594 as compared to nearly double that—₹243,848—if the level of education is even primary school and to ₹315,303 in case a graduate-level education is completed. For illiterate-to-primary households, as a group, the income was ₹226,100 as compared to ₹285,738 when the education levels are from matriculation to graduation.

At an overall level (*see table*), this throws up interesting policy prescriptions. So, even though they are in the D2 income category, illiterate-to-primary households earn roughly similar amounts to matric-to-graduate households that are in the D1 category. Households in the illiterate-to-primary category in the 5th decile earn an amount that is roughly similar to matric-to-graduate households in the second decile.

This gets further accentuated when the education levels are disaggregated. A graduate household in D1 earns ₹242,234 as compared to ₹237,434 for an illiterate household in D8, that is a household in the top 30% of the country in terms of income. Ideally, then, the government should be focusing on ensuring everyone gets a high level of education; after this, the focus has to be on the quality of education, on ensuring there is enough investment in the economy so that everyone can get a job appropriate to the level of skill/education, and later on ensuring that more sophisticated jobs are created so that salaries go up even further. The politics of dole, however, takes the focus away from this.

FightingSTUNTING

Women in informal employment must get the necessary support to improve their own nutrition and that of their infants

CHILDHOOD STUNTING IS one of the key barriers to human development, affecting about 162 million children under five years of age across the world—of this, South Asia (India included) is home to 62 million. As per a *World Bank Blogs* post by Ashi Kathuria, one of the biggest challenge in South Asia is that children don't receive the adequate diet in their first two years—just 12% receive "the minimally acceptable diet". One of the factors behind this is also that exclusive breast-feeding in the first six months of birth has had very slow progress—it improved by just 5 percentage points across South Asia.

Towards curbing childhood stunting, India's progress in improving sanitation access and reducing open defecation is remarkable. But, exclusive breastfeeding remains an area of concern. While just 25% of Indian children receive minimally acceptable diet, universalised breastfeeding could cause child deaths to fall by an estimated 156,000 annually and reduce respiratory infections and diarrhoea by 3,436,560 cases and 3,900,000 cases annually. The need is to ensure that nursing mothers get adequate nutrition themselves and time to fulfil their nursing function. While women in formal employment are guaranteed six months of maternity leave, the bulk of the female workforce is in the informal sector. Women in informal jobs further face vulnerabilities in terms of lower access to resources and services, Kathuria points out. The government must, thus, ensure its schemes on improving infant and maternal health target women in the informal sector, with support for nutrition and nursing at their workplaces. Though, given the nature of informal employment, this could pose a significant challenge, the gain for realising the country's human resource potential are enormous.

FROM PLATE TO PLOUGH

CAN ANY POLITICAL PARTY PROMISE IN ITS MANIFESTO THAT, IN THE NEXT 5 YEARS, INDIA WILL RANK AMONG THE 50 LEAST-HUNGRY COUNTRIES IN THE GLOBAL HUNGER INDEX?

The unfinished agenda of people's welfare

ASHOK GULATI

Infosys chair professor for agriculture at ICRIER

IT IS TIME to celebrate the biggest spectacle of democracy on this planet. Roughly 650 million out of about 900 million eligible voters may exercise their right to choose their political leaders of the Indian Parliament. Like the *Kumbh Mela*, this festival of democracy will also last for about a month and a half. Notwithstanding several shortcomings of democracy, it still appears better than a dictatorship or centralised communist regimes. China may have done better in economic growth, but can Indians accept a one-child norm that China enforced during 1981-2016? Can there be open dissent in China's media about its government policies as we have on Indian media channels? The obvious answer is 'no'. We can accept a lower growth rate of 7% per annum, compared to China's 9-10%, but will not lose our democracy or freedom, no matter how messy it gets.

But the governing political system must lead to policies that improve people's welfare. The first and foremost duty of the state is to provide security to the lives and property of people. Next, it must eliminate poverty, hunger, and malnutrition, so that people's welfare can improve. The entire gamut of policies should work towards that fundamental objective. Our record on this front is mixed, the glass is only half-full. This should be the central point of debate in this election.

Since more than two-thirds of our population is still in rural areas and their main occupation is agriculture, it is the agri-food policies that are crucial to the welfare of the masses. The manifestoes of our political parties should be appraised keeping this in mind.

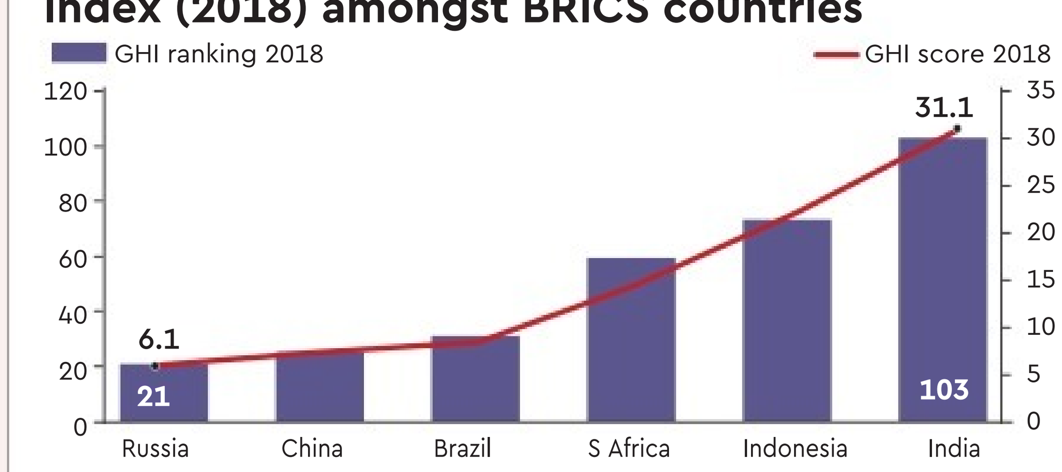
Since the mid-1960s, when India was living from 'ship to mouth' for basic foodgrains, and when people used to queue up for two hours to get two litres of milk, even in Delhi, India has come a long way. Bold, timely and rational policies undertaken by governments of the day, be it Congress, BJP or coalition governments, brought about the Green Revolution (wheat and rice), White Revolution (milk), Red Revolution (meat, especially poultry), Blue Revolution (fisheries), Golden Revolution (fruits and vegetables), Gene Revolution (cotton) and so on. India is today the largest exporter of rice, buffalo meat, and second largest exporter of cotton and, overall, it is a net exporter of agri-produce although, in the last 5 years, agri-export surpluses have come down significantly.

Those who say that the government has done more work in the last 5 years than Congress did in 55 years only reveal their arrogance and ignorance of India's history. Surely, some governments do better than the previous government in something or the other, but also do worse than others. Comparing the last five years with UPA-2, for example, NDA may have done better in, say, the construction of roads, but much worse in agriculture performance (agri-GDP growing at 2.9% per annum vis-à-vis 4.3% under UPA-2).

Over a longer period, since 1991, the Indian economy has clocked an overall growth of 6.8%, and agri-GDP growth of about 3.15%. And it is likely to continue roughly at this pace unless bolder policy decisions are undertaken to spur this growth further.

While we feel proud of what India has achieved in the food and agriculture sectors, policymakers cannot be complacent. The task of eliminating hunger and malnutrition still remains as an unfinished agenda. The Global Poverty Clock puts India's poverty at about 5.5% in 2018 (there is no number from the government of India on poverty after 2011), but the Global Hunger Index (GHI) puts India at the 103rd rank out of 119 countries covered in the study for 2018. Its hunger score index (31.1) stands at the highest amongst all BRICS countries, almost four times higher than that of China, and is categorised as 'severe' (see graphic). While we are busy in improving and gloating about India's ranking (77th) in the World Bank's ease of doing business index, we don't want to talk about India's hunger index ranking, which is the real indicator of people's welfare. And that reflects inherent elitist biases in our politics and policy-making. Can any political party promise in its manifesto that in the next 5 years, or even 10, India's ranking in the GHI will improve to at least the 50 least-hungry countries, if not 25? That itself will mean a major shift in policies.

India's ranking and score of Global Hunger Index (2018) amongst BRICS countries



Source: 2018 Global Hunger Index

It is in this context we look at what PM Narendra Modi and Congress president Rahul Gandhi have recently announced as direct income support (DIS) schemes to certain sections of society. While PM Modi announced ₹6,000 per year per farm family (owning up to 2 hectares of land) under PM-KISAN, costing roughly ₹75,000 crore in the budget, Rahul Gandhi has promised ₹72,000 per family per year support for the bottom 20% (5 crore) families through NYAY, which may cost ₹3.6 lakh crore. Both these policies, in a way, acknowledge that small and marginal farmers as well as the bottom 20% of the population have not benefited from the current set of policies as they should have.

So, this is now a desperate bid to help them or buy their votes. Both schemes are supposed to be add-ons to the existing subsidy schemes. Both schemes beg the questions of where the resources will come from and how the potential beneficiaries will be identified. There are no fool-proof lists of incomes of people or even land records of farmers. The issues of owner and tenant cultivators remain open. Solutions are not easy. It requires a lot of groundwork before such schemes can be effectively rolled out. But who has the time? It is time to promise the moon and later get off scot-free without fulfilling promises! It is here that the media has a national obligation to put political leaders in face-to-face debates, ask tough questions that matter to people's welfare and to educate voters for better choices.

Beyond the call money rate

The spread of CD over repo is close to 200 bps. Such a large gap indicates that the market needs to be communicated with better and, perhaps, a different indicator (say, risk spreads, etc) should be used

SOUMYA KANTI GHOSH & SOUMYAJIT NEOGI

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GLOBALLY, THERE HAS been a paradigm shift in central banking since December 2018. The Fed has now shifted its stance decisively from rate hikes to keeping hold in 2019 and even a rate cut (as markets have started to believe)! Back home, RBI faces a similar predicament. With $14bn portfolio capital outflows turning into $8bn capital inflows beginning February, RBI has already started to aggressively recoup its reserves. Against this background, it is imperative that we spell out the contours of the current liquidity management framework by RBI and the challenges it faces.

First, a brief recap. In 2007, RBI decided to move from the non-collateralised segment to the collateralised market for borrowing with the specific intent to insulate the banking system from contagion risk in the overnight market and ensure that financial stability becomes the overriding concern in policymaking. The non-bank participants (except primary dealers), were completely phased out from the call/notice money market. Therefore, stability in the call market was ensured, but at the same time the call rate has become insensitive to credit conditions at a system level. Moreover, with this move, the pure credit risk was mapped onto individual banks and hence the price for short-term borrowings became owner-sensitive.

Now, fast-forward to the current inflation targeting regime. With inflation targeting and the subsequent decision to allow the call rate to move close to the policy rate, this emphasises that we may have now started to overtly emphasise the non-collateralised segment of the market. This is a classic problem of time inconsistency in monetary policymaking.

Before we further discuss the appropriateness of using call rates as a suitable proxy for liquidity, let us also understand how different is the Fed Fund Target Rate as opposed to India's corridor-based approach, since it has been often used as a benchmark for understanding our framework. In effect, Fed executes policy decisions by conducting open market operations on a regular basis to ensure that overnight rates coincide with the target rate. The process is through regular infusion and absorption of liquidity through trading at the open market trading desk at the Federal Reserve Bank of New York. The process is regular and without announcement, i.e, avoiding announcement effect.

However, in India, as per the monetary policy framework, the central bank does not target any specific rate but rather a band called 'corridor'. The corridor is a three-tier approach—marginal standing facility (MSF) rate and reverse repo rate are the floor and ceiling of the corridor. The corridor is taken as the binding constraint for the daily movement in the weighted average call money rate. Additionally, the share of uncollateralised call money has declined significantly in India and is currently around 10% whereas the share of the non-collateralised segment in the US is around 35%. Clearly, the Indian and US markets are quite different.

Interestingly, US is a unique nation, one which maintains the largest current account deficit, but at the same time is the largest exporter of capital, as US is the reserve international currency (the familiar Triffin Paradox). On a net basis, US is thus the source of global liquidity flows ensuring that liquidity shocks in US stay mostly endogenous. Whereas, for India, or most other EMs, being importers of capital/liquidity, domestic liquidity is typically exposed to exogenous shocks, and that plays a critical role in managing liquidity. This contradiction is clear in the current RBI liquidity management that seeks to balance durable liquidity management along with managing frictional liquidity management. This is a real challenge for any central bank in a regime where capital flows are fickle and volatile.

Coming back to the call rate, we believe RBI could take a holistic assessment of the current liquidity framework. For example, the incremental credit deposit ratio is currently running well over 100% and the spread of CD over repo is close to 200 bps. Such a large gap indicates that the market needs to be communicated with better regarding the contours of current liquidity challenges and, perhaps, a different indicator (say, risk spreads, etc) should be used. After all, banks borrow from the RBI window only against collateral that might be in short supply now. Interestingly, if that is the case, banks that are unable to borrow from the RBI window will have to mobilise competing deposits at a higher cost which again could act as a constraining factor in rate transmissions! In fact, even the CBLO segment being fully collateralised doesn't capture ongoing systemic or unsystematic credit conditions.

Finally, we should also be ready to absorb surplus liquidity from the system without the need for providing collateral in exchange (as off now). In this context, RBI has been planning to introduce a (low) remunerated standing deposit facility (SDF) that till now has not been implemented. The SDF has several potential benefits that could introduce an operational flexibility in sterilisation by RBI and, hence, the exchange rate.

We believe the time is now opportune for the government and RBI to also move ahead towards implementing SDF as it will serve the a three-fold purpose of (a) negating the costs of sterilisation in terms of its non-impact on interest rates and (b) since the SDF comes with the conditionality of no collateral of G-secs, it will free up securities from SLR holdings and, hence, will lead to an increase in demand for bonds and (c) this move will also ensure a lower supply of government bonds through less issuance of cash management bills. Clearly, the liquidity framework needs to keep pace with changing times!

LETTERS TO THE EDITOR

Tackling hate crime

Hate crimes have now emerged as a grave threat to liberal and secular values, defining the very character of open, free and democratic societies. While social media platforms such as Facebook and WhatsApp have been widely used by hate crime peddlers to spread hate messages, no concrete action is yet on the horizon to contain its spread. That Facebook has banned white supremacism is a welcome development. But more needs to be done on the front of framing guidelines through public consultations for screening content. Technological solutions such as Artificial Intelligence and analytics and leveraging them to respond quickly to complaints regarding hate messages could help social media giants curb the menace of hatred online
— M Jeyaram, Madurai

High on sentiment

Although the provisioning continues to remain on the higher side, the significant improvement in the NPL ratio as of FY 2018-end, should instill a greater investor confidence in the banking and financial sector. Lower fresh slippages and better recoveries have reduced the net non-performing loans. Revised investment limits for FPIs in government securities is expected to render a greater influx of foreign funds, compliance to FDI norms and improved weightage on international indices. The hitherto resilient index continues to hover near the higher-end of the range, as the pre-poll rally promises to offset the impact of uncertainty clouding Brexit, restrictive foreign policies and turbulent global cues. With a higher reciprocal tax expected to impact exports, market confidence and ease-of-business sentiment demand that fiscal deficit and inflation be controlled by generating a domestic surplus
— Girish Lalwani, Delhi

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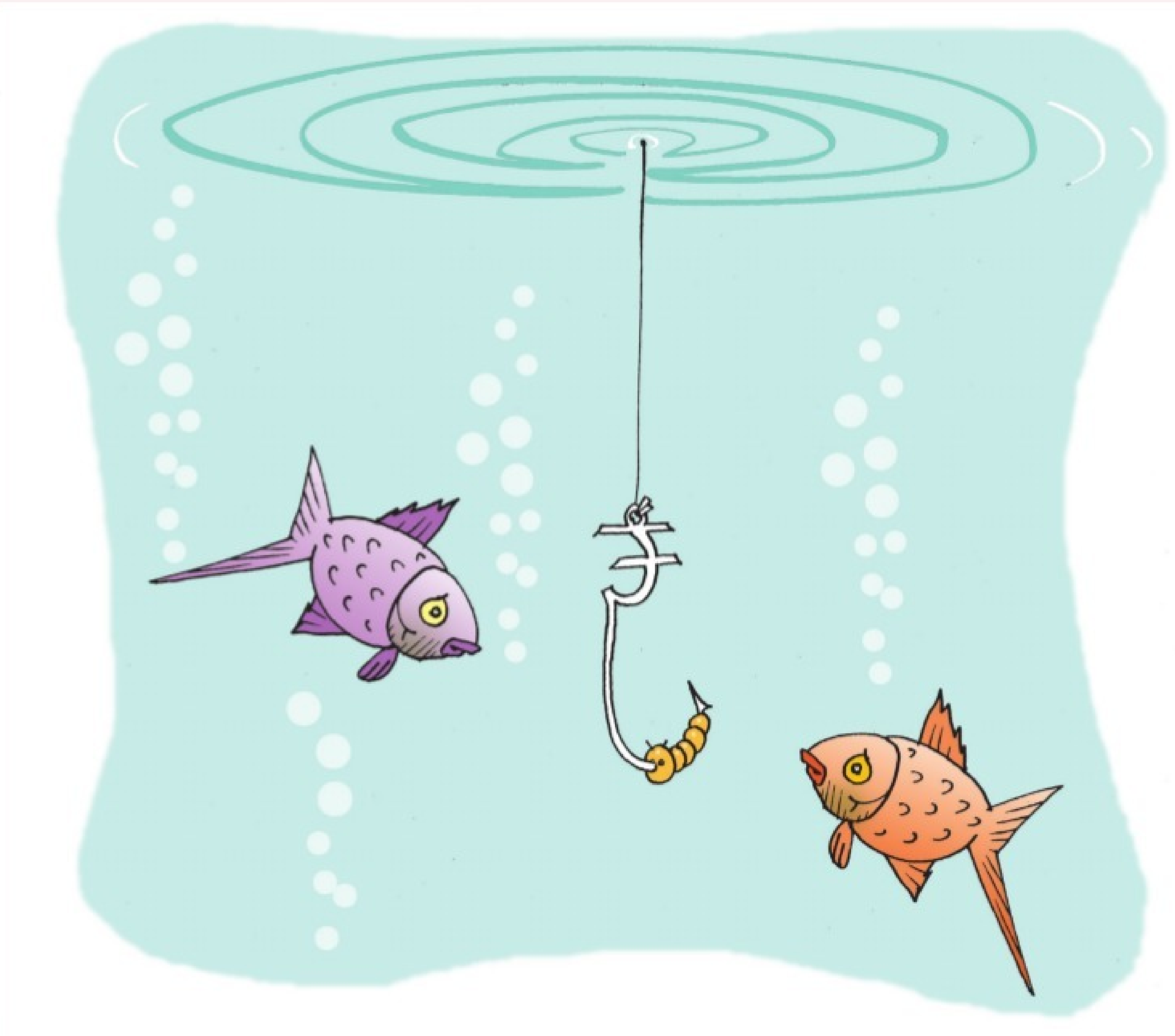

ILLUSTRATION: ROHNIT PBHORE

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Why NYAY will not work

The scheme raises several questions. First, there exists a complete vacuum in terms of how beneficiary amount was computed. Second, the amount proposed is only sufficient to help the poor come above poverty line in rural areas provided all existing schemes remain intact. Third, the absence of a reliable beneficiary identification mechanism creates immense scope for exclusion errors. Finally, not many seem to have considered the challenges regarding scheme administration

THE WAR ON POVERTY by any government must be founded on a strong and well-functioning welfare state that holds the promise of lifting its people out of poverty and ensuring sustainable socio-economic development. Today, India is one of the fastest-growing economies in the world, but all the sections of the population have not equally gained from the prospects of accelerated growth. This necessitates the need for the government to play a central role through actively strengthening its welfare programmes that accrue benefits for the poorest of its poor. Now, more than ever, the government cannot afford to redeem itself of its responsibilities by simply diverting funds towards cash transfers as the centrepiece for tackling poverty. One such populist ploy that has come forth recently is the Nyuntam Aay Yojana (NYAY).

Let us first dissect the scheme from a rational and economics vantage point to assess whether it is really meaningful? In the most simplistic terms, the scheme is proposed to be implemented as a minimum income guarantee scheme wherein every household with an annual income of less than Rs 72,000 would be provided the shortfall in income by the government. This means that, for instance, a household with an annual income of, say, Rs 60,000 would be entitled to receiving Rs 12,000 from the government under this scheme.

But it is the basic fundamentals of the scheme that raise questions. The first and foremost question arises regarding the rational basis of taking Rs 72,000 as the threshold for the minimum income guarantee for, say, an average family of five members.

An amount equivalent to Rs 72,000 per year essentially translates into a monthly household income of Rs 6,000 (72,000/12). This, in turn, means that each household member would have a basic income of Rs 1,200 a month (Rs 6,000/5). But on the basis of what rationale does the scheme consider a meagre amount of Rs 1,200 as sufficient enough to lift a person out of poverty?

According to the Economic Survey 2016-17, a universal basic income is premised on "the idea that a just society needs to guarantee to each individual a minimum income which they can count on, and which provides the necessary material foundation for a life with access to basic goods and services." Therefore, it is important to ascertain whether guaranteeing Rs 40 per person per day ensures basic economic welfare to an individual—in terms of the most basic consumption, transportation, education and health expenditure?

> The potential target beneficiaries are largely employed in the informal economy, with no official records of income. There exists no robust mechanism to identify all those who earn less than the threshold

There exists a complete vacuum in terms of how this amount was computed. Whether it was based on NSSO's consumption expenditure, the poverty line estimates of Tendulkar or Rangarajan, or was it arrived at after ascertaining the imputed cost of essential goods and services required by an individual to lead a dignified life, or some other criteria? Besides, were factors such as market price fluctuations, inflation and economic cycles and their impact on purchasing power of the masses kept in mind while arriving at this figure?

The amount of assured income under NYAY seems to be more or less in the range of below poverty line estimates by the Tendulkar and Rangarajan committees formed over a decade ago and, therefore, dated. More importantly, these poverty line estimates have been widely criticised on grounds of underestimating consumption expenditures in terms of calorie intake and on health, education as well as on grounds of its methodology. A more recent committee on poverty held that the consumption basket should contain a food component that satisfies certain minimum nutritional requirements, as well as consumption expenditure on essential non-food item groups (education, clothing, conveyance and house rent), in addition to a residual set of behaviourally determined non-food expenditure. However, the estimates of the committee were based on the assumptions that the welfare state functions well and will provide basic necessities at subsidised prices. Following this assumption, the Rangarajan report recommended a monthly per-capita consumption expenditure of Rs 972 (rural areas) and Rs 1,407 (urban areas) as the poverty lines, respectively, at the all-India level. The amount proposed under the scheme is only sufficient to help the poor come above poverty line in rural areas provided all the existing schemes remain intact, even in terms of financial outlay. Any attempt to rationalise or replace existing schemes to finance NYAY is likely to leave the beneficiaries worse off. Seemingly, proceeding with the scheme without making it workable and meaningful is setting the stage for impeding the nation's socio-economic development.

Thereafter comes the discernible challenge of the minimum income guarantee scheme imposing a serious burden on the fiscal capacity. Accordingly, given the limited fiscal space, NYAY would involve rationalising existing welfare schemes. Reducing welfare benefits in favour of NYAY would need to consider the fact that cash transfers and welfare benefits are not perfect substitutes for each other. This means that a conversion of welfare benefits into cash transfers involves incorporating additional costs borne by the beneficiary, i.e. transaction costs (like banking access, access to markets, etc) and transition costs (cost of learning and adapting to a new system of receiving and managing welfare benefits) of moving to cash.

Thereafter comes the critical aspect of scheme implementation. As a prerequisite for success, NYAY would need to be implemented in a robust manner with a mechanism that ensures that the income is transferred directly to the target beneficiaries, without leakages and exclusion errors. This would necessitate a two-pronged approach through proper target beneficiary identification and sound financial inclusion infrastructure. The scheme seeks to target the bottom 20% of the population comprised of households earning less than Rs 72,000 per annum. The scheme design does not impinge the grass-root realities of the people that it seeks to benefit. These potential target beneficiaries are largely employed in the informal economy as farmers, daily wage labourers, casual labourers, etc, with no official records of income. They survive in tenacious conditions with uncertain incomes and no employment security, and mostly without access to the formal banking system. Therefore, there exists no robust mechanism or reliable data source to identify all the individuals who earn less than Rs 12,000 per annum. The absence of a reliable beneficiary identification mechanism creates immense scope for exclusion errors. In case a large number of poor households are excluded from this scheme, the argument of it being a surgical strike on poverty would no longer hold. Therefore, the mechanism for target beneficiary identification under NYAY is court to failure.

Finally, not many seem to have considered the challenges regarding scheme administration. Assuming that the amount is adequate and the target beneficiaries have been correctly identified, how would the money reach the poor? Transferring funds to their bank accounts would require that every beneficiary of the household must have a bank account, a biometric and a linked mobile number. Until complete financial inclusion is achieved, implementing NYAY through digitised payment modes seems far from feasible.

A NEW ERA

Japan in just one word

SANDEEP GOYAL

The author is former chairman of Dentsu India and has worked for 25 years with Japanese business

The Heisei period is ending; on Monday morning, Japan's Cabinet will most likely endorse the new Era name

REMEMBER JAWAHARLAL NEHRU'S "Long years ago we made a tryst with destiny..." speech on August 15, 1947? End of one era. Beginning of another. Remember the fall of the Berlin Wall on November 9, 1989? Again the end of one era. Beginning of another. Well, we are today again on the unique cusp of history: On Monday, April 1, the Japanese government will announce the era name that will be used for the new Emperor's reign that begins on May 1 as the current Emperor Akihito abdicates in favour of his son, Crown Prince Naruhito. End of one era. Beginning of another.

When, in 1989, Emperor Akihito ascended the throne, the name given for the era under his reign was 'Heisei', which is now in its 31st year. Before that, the Emperor's father, the war-time Emperor Hirohito, held the throne for 62 years—an era that was named 'Showa'. Every emperor's reign, or *gengo*, has a name, which is used alongside the Western calendar to count the years. The naming of an era is somewhat similar to the naming of a new-born child. It will carry hopes and expectations ... dreams for the future of Japan.

The *gengo* name appears on coins, newspapers, driving licences and all official paperwork as a way of marking time. Under the system, which spans several centuries, 2019 is known as Heisei 31, or the 31st year of Akihito's reign.

Eras, their names and their happenings, each have a distinct flavour. At the beginning of the Meiji era in the late 19th century, Japan began to adopt a capitalist system and opened up to the world. The Meiji (enlightened rule) era of 1868-1912 is, therefore, remembered as a period of West-inspired modernisation. The Showa (enlightened harmony) era, which began in 1926, is closely associated with Japan's economic rise, but also with its role in the Second World War. So, there are always mixed feelings when Showa is mentioned. The Heisei era, too, has its own set of imagery.

> Heiwa (peace) and Ankyu (peaceful and permanent) are potential candidates for the new era name, but no one really knows

Foremost, of course, what comes to mind is the end of the bubble economy; as also the loss of economic supremacy in Asia to China. And, of course, there are memories of the 1995 terrorist attack on the Tokyo subway (the sarin gas incident) and the disastrous earthquake, tsunami and nuclear accidents of March 2011.

The Era Name Act stipulates that a name must be written with two Chinese characters, it must have a positive meaning, and it must be easy to read and write, and not be a phrase that is commonly used. It is also unlikely to start with the first character of any of the last four eras, in the current case: Heisei, Showa, Taisho and Meiji. Beyond that, the selection process is highly confidential. The process has been in progress for a year now. Expert panels have discussed, deliberated and debated many options and suggestions. Japan's Cabinet, on Monday morning, will most likely endorse the final recommended name. To guard against leaks, even Cabinet members will reportedly hand over their phones and smart watches before the meeting, and must stay in the decision-making room until the official proclamation is made. On Monday morning in Tokyo, the Chief Cabinet Secretary, Yoshihide Suga, will enter a room, pause, bow, gather his thoughts, and then hold up a work of handwritten calligraphy—written in traditional *sumi* ink on decorated *shikishi* paper. Millions of people across Japan will pause, too, and digest the meaning of the two *kanji* characters, and history would have been made.

Heiwa (peace) and Ankyu (peaceful and permanent) are potential candidates for the era name, but no one really knows. Well, Monday morning will witness the historic revelation: The new era's name will be a veritable 'reset'. Japan will surely hope it will be a reset for new 'hope'.

INDIA AND ASEAN

Both regions have much to gain

Appropriate reduction of non-tariff barriers to enhance trade and investment would be the 'drum beat' for this strategic partnership

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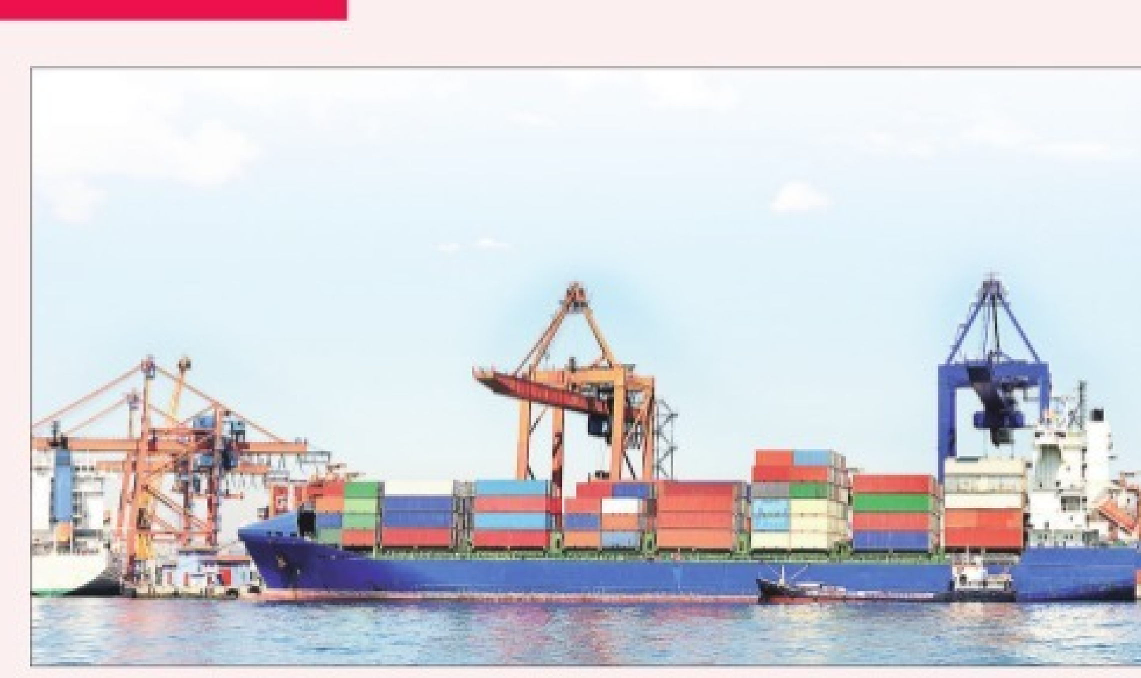

INDIA-ASEAN RELATIONS HAVE undergone a tectonic shift in the ongoing structural move in the global order. One finds growing resonance and positivity between the two with a foreseeable impact on the regional economy, trade and geopolitical stability. This can be achieved by tapping and complementing each other's vast and growing markets, which will augur well for both.

Opportunity to boost trade linkages: Both India and ASEAN share common growth drivers such as favourable demographics, increasing domestic demand, proliferation of technology, urbanisation, skilled workforce, and most importantly led by governments that are collaborating to ensure trade in the region reaches new heights, with minimal barriers.

There is no denying that the ASEAN India Free Trade Agreement (AIFTA), which was signed between ASEAN and India in 2015, has led to a progressive market access, and a more conducive investment ecosystem among the member nations. Both India and ASEAN have set-up joint committees to monitor implementation of trade agreements and identify non-tariff measures which can be further liberalised.

Apart from this, India and ASEAN countries have mutually decided to gradually abolish tariffs on 80% of tariff lines accounting for 75% of trade. Further liberalisation in non-tariff measures would be important for India and ASEAN to realise the goal of $200 billion trade by 2022. AIFTA and abolishing of tariffs on a vast number of product lines is expected to give great boost to bilateral trade.

There is no denying that AIFTA will facilitate better integration of supply chains in the machinery, electrical and electronics sectors and transport, which could be further enhanced by services trade and investment. However, it will be imperative to accelerate business to business connections, information flow, establish institutions for mutual recognition of standards in the bilateral services agreements and abolish other non-tariff barriers to realise full trade potential and product integration between India and member ASEAN countries. This optimism is reflected in the significantly higher levels of trade flows between India and ASEAN with ASEAN being India's fourth-largest trading partner.

Enhancing air connectivity along with maritime and road linkages can further create opportunities for employment and growth for India and ASEAN. Further, it will be beneficial to establish efficient regional value chains (RVCs) which will strengthen economic cooperation by expanding market access among ASEAN member countries. Well integrated regional value chains will lead to reduced cost of manufacturing and trading for the member countries.

Mutually-beneficial engagement: Encouraging greater connections and collaboration between India and ASEAN in the areas of infrastructure, innovation and start-ups and digital economy would be mutually beneficial. This would create a multitude of touch points between the two and can potentially take this inherently vibrant relationship to the next level.

Logistics is likely to play a prominent role in the growth of trade between India and ASEAN in the coming years. As a result, the focus of governments and businesses have shifted towards integrating logistics after the implementation of various forward looking initiatives, like the ASEAN-India Commemorative Summit, ASEAN-India Plan of Action (2016-2020), Master Plan on ASEAN Connectivity (MPAC) 2025.

Regional Value Chains (RVCs) have played an important role in laying the foundation for improving manufacturing and production processes in ASEAN countries as they seek to become an integral part of Global Value Chains (GVCs). Mature RCVs in India and ASEAN such as IT/ITeS and apparel sector, respectively, which have now become part of GVCs, can potentially benefit both India and the ASEAN.

Building efficient institutional connectivity: It will be mutually beneficial to develop efficient transportation and infrastructure to enhance economic exchanges between India and ASEAN countries. Establishing trade facilitation measures will help to reduce the volume of documentation which obstructs the movement of goods and services between India and ASEAN. This requires abolishing non-tariff barriers and other restrictive institutional processes.

Growth in innovative ways: India and ASEAN have identified innovation as a priority, and are working towards understanding how to build connectivity so start-ups have access to markets in both regions. Technology plays a very important role in integrating logistics which further gets enhanced by the adoption of technology solutions such as e-commerce and app-based crowd sourced logistics platforms, leading the supply chain activities from insourcing to outsourcing, rail and freight transportation. Companies are now deploying new age technologies like big data analytics, machine learning, blockchain and robotics to develop a much more efficient and smart logistics, reducing time and costs.

The way forward: Greater political, economic and diplomatic engagements between India and ASEAN will pave the way for better trade ties with member ASEAN countries and also prepare them for global uncertainties.

While India and ASEAN together transcend on their respective and joined paths to economic and social prosperity, leveraging institutional mechanisms for an appropriate reduction of non-tariff barriers to enhance trade and investment would be the 'drum beat' for this strategic partnership.