D for disruption

Here's how electric cars and buses are displacing oil consumption

VANDANA GOMBAR

Norway boasts the world's largest sovereign wealth fund, valued at over $1 trillion. In what could be a huge signal for the future, the fund announced last month an intention to gradually move away from investments in oil exploration and production companies, "to make the government's wealth less vulnerable to a permanent drop in oil process".

While the tilt away from upstream companies could bolster investments in renewable energy, that was clearly not the driver of the decision. "It's an investment fund," lawmaker Henrik Asheim was quoted as saying in a Bloomberg News report. "We're doing this only out of risk considerations, not to contribute to more renewable energy. We can do that in other ways."

Electric cars are one of the intersection points for the oil and electricity industries. BloombergNEF has published updated estimates of oil consumption likely to be displaced by electric cars and buses: 352,000 barrels per day in 2019 in four regions — China, US, Europe and Japan — compared to 256,000 barrels per day last year. The equivalent global numbers will only go up as electrification of vehicles gathers pace in countries like India.

In fact, Norway is ahead of almost everyone else in the vehicle electrification game: Electric vehicles accounted for more than half of Norway's car sales in March, with Tesla's Model 3 being a popular choice.

Several countries are rolling out electric vehicle charging infrastructure, and car and bus companies are working on new models of e-vehicles. BYD, the Chinese EV maker backed by Warren Buffett, unveiled what it claimed was the world's longest electric bus recently. The 27-meter contraption can carry 250 passengers and travel 300 kilometers on a single charge. In January, the company announced the production of its 50,000th pure electric bus. Meanwhile, in the US, Proterra is sealing deals for its zero-emission buses.

Germany's Daimler is setting up a 50:50 venture with China's Geely, its largest shareholder, to transform its small-car division into an all-electric brand based in China, with global sales set to commence in 2022. Volkswagen said its light commercial vehicles division would invest $2 billion to advance a transition to self-driving electric vans and mobility services. In India, Ola Electric Mobility, a company backed by ride hailing company Ola, raised ₹400 crore last month to progress on its mission of "sustainable mobility" for all.

Meanwhile, in another example of the intersection of oil and electricity, Royal Dutch Shell said it aims to become the world's biggest power producer. "We believe we can be the largest electricity power company in the world in the early 2030s," Maarten Wetselaar, director of Shell's integrated gas and new energies unit, said in an interview with Bloomberg Television. "We are not interested in the power business because we like what we saw in the last 20 years; we are interested because we think we like what we see in the next 20 years." Given the company's commitment to halve its carbon footprint by 2050, most of the new capacity is expected to be renewable.

Australia's opposition Labor Party said it would set an electric vehicle target for the country, if it is elected in May, and would tighten rules around carbon emissions to cover 250 biggest industrial polluters. These are the kind of announcements that are absent currently from the campaign trail in India, but they may not always be.

The author is editor, global policy for BloombergNEF.
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CUMULATIVE GLOBAL ELECTRIC VEHICLES SALES (2018) in million

TOTAL SALES: 5.2 million

Passenger vehicles ▸ TOTAL: 4.8 mn	
China	2.1
Europe	1.2
North America	1.2
Others	0.3
Electric buses ▸	0.4

Source: BloombergNEF

CHINESE WHISPERS

Bloc vote

The Confederation of All India Traders claims to have been engaged for the past three years in mobilising traders as a distinct "vote bank" in Lok Sabha polls. It claims there are 1.9 million traders in Delhi, which provide employment to 3 million people, and can influence electoral outcomes in all of Delhi's seven Lok Sabha seats. The traders' body says it is planning to launch a "whisper campaign" in Delhi in favour of one particular party. Praveen Khandelwal heads the traders' body. He had contested Assembly polls in Delhi over a decade back on the Bharatiya Janata Party ticket, and is keen to contest again on the party's ticket from the Chandni Chowk Lok Sabha seat. Khandelwal says the confederation has organised 200 meetings to make traders aware of the issues facing them. "This will be the first time that traders will vote as a bloc in Delhi," Khandelwal claimed.

Tough call

In Madhya Pradesh, polling will be conducted in four stages, scheduled for April 29, May 6, May 12 and May 19. Yet the two top contenders — the Bharatiya Janata Party (BJP) and the Congress — did not name their candidates for the Indore seat till about late Tuesday evening. After much dilly dallying, the Congress finally announced Pankaj Sanghvi as its candidate from the Indore seat. The party has lost the seat in each of the last eight elections. In three of these eight occasions, they were candidates from the same family. While Rameshwar Patel fought from the seat once; his son Satyanarayan Patel contested twice. On its part, the BJP is also trying to find a suitable candidate for Indore, apart from the Bhopal and Vidisha constituencies. In Indore, it is yet to decide on a candidate after Sumitra Mahajan, the 16th Speaker of the Lok Sabha, announced she would not contest from the seat. In Bhopal, the party wants a strong candidate to take on Congress veteran Digvijaya Singh. There is speculation the BJP might field Sadhvi Pragya Singh Thakur against Digvijaya Singh from Bhopal.

'Shocking' controversy

Chhattisgarh Congress MLA Kawasi Lakhma kicked up a storm after telling his audience at an election rally at Korar, Kanker district, that voters would get an electric shock if they pressed the second button on the electronic voting machine (EVM). Members of the state unit of the Bharatiya Janata Party lost no time attacking the 61-year-old, five-time MLA, threatening to take up the matter with the Election Commission. Lakhma is considered a Congress stalwart from the region and is the excise, commerce and industry minister. Polls are being held in three phases in Chhattisgarh.

Exports: Still a long way to go

The jury is out on whether the March performance can be sustained

SUBHAYAN CHAKRABORTY

India's exports made a smart recovery in March by growing in double digits to touch a new high of $331 billion in 2018-19, and almost all of India's value-added product segments showed impressive growth. This is creditable as it comes amidst a slowdown in global trade and fragile word economy.

The March performance, however, can't hide the fact that Indian exports have underperformed the commerce department's internal target of $350 billion for the full year. This performance has, at least, the dubious virtue of consistency. Exports have consistently been unable to meet the commerce department's annual trade growth forecast. In the last fiscal year, total exports stood at $302.84 billion, below the government's target of $310 billion, and $275.85 billion the year before, when the target was $ 300 billion.

What's causing this slowdown? A combination of externalities such as global trade wars and slowing growth, continuing glitches in accessing offsets under the goods and services tax (GST) regime, which has created a liquidity crunch for smaller exporters, and the growing competitiveness of smaller countries.

At the same time, the government's move to control burgeoning imports by repeatedly raising import tariffs throughout 2018 have in certain cases raised the cost of raw materials. New Delhi has put restrictive measures on inbound goods six times over the year covering more than 500 goods across textiles, telecom equipment and components as well as electronics.

"We have received complaints from user industries that the import duty hikes have affected them negatively. But overall, our priorities lie with the plan to cut down on non-essential exports by the end of the year," a senior commerce department official said.

Almost no major sector has been untouched by one or several of these factors. Prime among these was engineering goods. Despite earning one-fourth of total foreign exchange, engineering exports have stagnated for the past two years. In 2017-18, this segment earned $92 billion in foreign exchange, but only managed to rake in $83 billion in the current financial year.

TAKE TWO

"Apart from a severe liquidity crunch impacting small and medium firms, the rising cost of domestic steel and rubber has also impacted the sector," Ravi Sehgal, chairman of the Engineering Exports Promotion Council, said.

Higher prices charged by domestic steel producers have hit the manufacturing capabilities of user industries. Competition has forced Indian steelmakers to lower prices of prime steel in world markets but, hedged by anti-dumping duties, they have not felt the need to do the same in the domestic market, Sehgal pointed out. India's engineering exports have also suffered collateral damage of the global trade war between the US and China, which has affected global trade growth.

Trade growth slowed down to about 4 per cent in 2018 from 5.25 per cent in 2017, according to the Organization for Economic Co-operation and Development. On the other hand, trade experts pointed out that India managed to little inroads into Chinese markets despite sanctions against the US since barriers to trade remain high, especially those of a non-tariff nature. India has rights to export rice and fruit to China, but the offtake hasn't increased much.

The second-largest export category of gems and jewellery has been hobbled with increased scrutiny in the wake of multi-million dollar scams involving diamantaire Nirav Modi, his uncle Mehul Choksi and a leading government-owned bank. Gems and jewellery exports returned to the growth charts in June after months of contraction. The primary reason for the slowdown was volatility in gold imports, which had remained in negative territory for six consecutive months till June.

But it is apparel exports, the third largest forex earner, that is the cause of critical concern. This sector has been the victim of a decline in overseas demand, particularly from major markets such as the United Arab Emirates. The sharp decline has been greater than the increase in exports to the US and European Union, India's largest markets.

In 2018-19, total apparel exports stood at $16.15 billion, virtually unchanged from $16.72 billion in 2017-18. After starting the calendar year on a high, both export values as well as shipments have consistently fallen in this labour-intensive sector. Indeed, the slowdown in demand from the major markets of West Asia had been highlighted by an ICRA report in March. The investment information agency had warned of a contraction in the sector, which it said was expected to continue into the next financial year as well.

The principal cause of this is the rise of price warrior exporters Bangladesh and Vietnam. Both countries have now established themselves as the next largest nations for exporting apparel, according to the World Trade Organization. Bangladesh, in particular, responded swiftly after the introduction of the GST regime in India. "A substantial drop in the import duty was observed after implementation of the GST that has encouraged cheaper imports. For Bangladesh, there is a full exemption of basic customs duty, so Chinese fabric is easily coming to India duty-free through Bangladesh in the form of garments," explains Sanjay Jain, chairman, Confederation of Indian Textile Industries. For example, the domestic fabric industry based in Surat has seen massive job losses after an estimated 400,000 of the 650,000 powerloom machines closed as Chinese fabrics, more than 50 per cent cheaper, flooded the market.

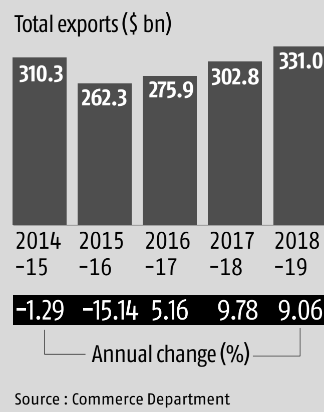
India's tried and tested fallback option to boost export figures and counter trade deficits has also been under strain. Outbound shipments of processed petroleum have remained muted for the better part of the year as a global crash in crude oil prices wiped off India's receipts from the sales of petrochemicals and refined crude. Global crude prices started falling from early November and a supply glut is expected to stay in place as both the United States and Russia announced plans earlier this month of ramping up production in coming months.

Exporters remain cautious about prospects for the next year. "Economies across Asia, especially China and South East Asia, have been showing signs of sluggishness with contraction in manufacturing owing to to slowdown in the global trade and fragile world economy. But almost all value-added product segment of exports have shown impressive growth," Federation of Indian Export Organisations President Ganesh Kumar Gupta, says.

But he warns that government support on the issue of augmenting credit flows, an outright exemption from GST and budgetary support for marketing and exports related infrastructure are just some of the urgent measures that are needed to sustain even current levels of growth.

EXPORT GROWTH RATE DIPS IN 2018-19

Total exports ($ bn)



Source : Commerce Department

MAJOR SECTORS SEE VOLATILITY

Largest forex earning sectors	Total exports in '18-19 (Apr-Feb) $ Bn
Mineral fuels and processed petrochemicals	43.08
Gems and Jewellery	36.66
Textiles and allied products	33.21
Machinery	26.09
Agricultural items	25.11
Base metals	23.05
Transport Equipment	22.07
Pharmaceutical products	12.92
Organic Chemicals	8.43
Electronics	7.51

* Sectoral data for entire year expected to be released in May

INSIGHT

The infra quotient in manifestos

While some directions are laid out, the crucial issue of funding is left unaddressed

VINAYAK CHATTERJEE

What can we expect for the infrastructure sector under a new government?

Party manifestos are hardly the best place to look for the most accurate understanding of what any government will do — they tend to be big on promises, and are tailored to grab the attention of the *aam aadmi*. Still, it is heartening that both the Bharatiya Janata Party (BJP) and the Congress have treated the sector as important enough to merit a separate section in their respective manifestos. The BJP is the only one of the two to specify an investment number — ₹1 trillion of capital investment by 2024 in infrastructure. It promises to construct an extra 60,000 km of national highways over the next five years. In railways, it promises full conversion to broad gauge and electrification of the existing rail network, and completion of the dedicated freight corridor by 2022. It envisages the connection of every gram sabha to an optical fiber network by 2022.

The BJP is also targeting what it calls "next generation infrastructure" which will cover gas and piped water supply to all households, doubling the number of airports and setting-up wayside amenities along national highways. It promises a National Urban Mobility Mission to provide technology-based urban mobility solutions and promises to incentivise the use of public transport.

The Congress too, promises to increase the length of national highways and speed up the pace of construction, as well as the modernisation of all outdated railway infrastructure. It makes an explicit commitment to formulate a policy on clean energy, and also to increase the share of solar and wind energy in the total energy supply. It seeks to encourage investment in off-grid renewable power generation "with ownership and revenues vesting in local bodies". In the long run, it says, it aims to substitute LPG in homes by electricity and solar energy. Incidentally, the BJP too, aims to more than double current renewable energy capacity by 2022.

The CPI(M) too, has a separate section on infrastructure. In contrast to both BJP and Congress, the CPI(M)'s manifesto explicitly commits, not surprisingly, to reversing the role of the private sector in infrastructure and the idea of public private partnerships as a whole. Instead it promises to increase public investment in infrastructure with "adequate" plan outlays for power, communications, railways, roads, ports and airports.

The CPI(M) promises to make the Rehabilitation and Resettlement Act of 2013 universally applicable to all laws requiring land acquisition, as well as to more rigorously define "public purpose". While the BJP does not really talk about land acquisition, the Congress does so but does not get into specifics, only promising that 'distortions that have crept into the text and the implementation' of the Land Acquisition Act and the Forest Rights Act will be removed to restore the "original purpose" of the two acts.

The Trinamool also promises to take a fresh look at land acquisition policy. It promises to create land banks by the government which would comprise land owned by central and state government departments. It promises to use such land for industrialisation and creating logistics hubs. It too, promises a clean energy policy.

Overall, what is the main message? It seems that there are no breakthrough ideas this time, other than possibly the BJP's special programme, "Nal se Jal", to provide piped water supply to every household in the country by 2024.

Two, that the main national parties are quite predictable and similar in their promising a big push toward infrastructure with a focus on areas such as clean energy, utilities connect to households, investment in information and digital infrastructure, village electrification and roads construction.

What is lacking is a clearer articulation of each parties' understanding of the critical challenges facing infrastructure today — whether it is the overhang of unfinished projects, regulatory bottlenecks, liquidity shortfall, power-sector woes and issues surrounding approvals.

However, the elephant-in-the-infra-room question is the fiscal headroom available to continue to use public expenditure as the pump-primer of infra investments. This now poses a serious challenge. With the pressures looming large on account of promises made on universal basic income/direct benefit transfers and the expected high spends to relieve agrarian distress and fund social sector schemes (particularly health), the fiscal space for infra remains even more severely constrained than ever before.

The BJP's articulation of ₹100 trillion in five years, means an annual investment target of ₹20 trillion in infrastructure every year. That is well-nigh impossible from public expenditure alone even if buttressed with multilateral/bilateral development funding and access to other off-budget pools of capital.

For any government in power, there is really no alternative than to urgently take steps to revive private capital in the country's development through the rejuvenation of PPP (public private partnership) processes. The Left, clearly, does not like the idea, while the others do not appear to have a clear strategy or intent, on this aspect.

The stark reality of the humongous funding requirement will willy-nilly be among the first set of challenges facing the new government — and it will have to bite the bullet on issues like reviving PPP (BOT, hybrid annuity et al) models, as well as initiatives like asset recycling, public assets monetisation and ringfenced cesses.

But these issues may well be outside the purview of a general-appeal manifesto.

The author is chairman, Feedback Infra

LETTERS

Assess the needs

Your front page report "Nestle drops plan to pay royalty in perpetuity to Swiss parent" by Viveat Susan and Arnab Dutta (April 16) celebrates the final recognition of the rights of minority shareholders — especially in case of subsidiaries of foreign giants — something that was long overdue. The role played by the proxy advisory firms in bringing about — or rather forcing — this change, must be appreciated.

Having said that, let me hasten to add that there's perhaps justification in payment of royalty if the Indian subsidiary is enjoying benefits of ongoing technology transfer leading to product upgradation. For example, improved fuel efficiency and passenger safety in case of automobiles or even process improvements in case of cement manufacturing leading to better environmental safety factors. But stretching the same logic to, say, chocolates may indeed be too much of a stretch.

The solution, therefore, lies in selective assessment of the need for whatever gains the subsidiary derives from the parent against payment of royalty. Outright generic refusal of royalty payments in all cases is also not correct. This is where corporate governance norms of each company would be put to an acid test. Additionally, of course, there will be need for some guidance from regulatory authorities.

Krishan Kalra Gurugram

Need pragmatism

This refers to "Let's find a new way to deal with bad loans" (April 15) by Tamal Bandyopadhyay. It has been rightly mentioned that the Supreme Court ruling on the February 2018 Reserve Bank of India directive has provided RBI an opportunity to take a fresh look at the bad asset resolution process. It is widely believed that the February 2018 circular was too stringent and failed to distinguish a "genuine defaulter" from a "wilful defaulter". It is also believed that the matter would not have reached the door of the Supreme Court had the RBI appreciated the difficulties faced by the power sector. Whatever be the truth, any bad asset resolution process must take into account the cause of stress, particularly, when the cause encompasses the entire sector.

The columnist had aptly concluded that the key to the insolvency process is the revival of companies and the recovery of bank dues is an offshoot. It is hoped that the RBI would take a pragmatic approach in appreciating sectoral concerns without diluting its stand to punish wilful defaulters, when a fresh directive on bad asset resolution process is issued.

Sanjeev Kumar Singh Jabalpur

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HAMBONE

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Green shoots for exports

Policy reform must support a sustainable recovery

The new trade data throws up some interesting developments with Indian exports and imports. For one, boosted by a weaker rupee, exports grew at about 11 per cent year-on-year in March 2019 — the highest such growth for several months. Twenty of the 30 overall product lines saw an increase in exports, including chemicals, pharmaceuticals, and, of course, petroleum products. This late surge means that 2018-19 exports, in dollar terms, come in as being marginally higher than in 2013-14, after long years of stagnation. However, exports measured as a proportion of GDP have not kept pace. The trade deficit in March 2019 was $10.9 billion, which is $1.3 billion more than in the previous month; although exports grew in 2018-19, imports grew even more sharply, and thus the trade deficit for 2018-19 was over $176 billion, compared to just over $161 billion in the previous year.

There was one particularly interesting point about the March trade data, as highlighted by analysts. When oil and gold were stripped out of the trade statistics, the remaining "core" trade balance showed a surplus and not a deficit for the first time since February 2014. While it is perhaps too soon to declare a five-year-long trend of anaemic core exports over, it is worth noting that there appears to be some sign of life in the sector. Exporter organisations claim that this has come at a time when many Southeast Asian competitor economies are dealing with sluggish export growth, and so this is to be doubly celebrated. However, this is not purely an exports story. The government's effort to crack down on imports of electronic goods, often through the use of tariffs, has also borne some fruit according to these numbers, given that electronic goods imports went down for the second successive month. There are also questions to be asked about the state of domestic demand, given that imports grew only 1.4 per cent year-on-year. The Reserve Bank of India will no doubt take that into account as another relevant data point.

It is, however, too soon to celebrate about a new and healthy balance of payments. The basic vulnerabilities of India's economy on the external account have not been addressed. As and when crude oil imports increase once again (the share of crude oil rose to $11.75 billion in March, driven by a rise in Indian demand and increases in global crude prices), there is no doubt that the balance of payments will be correspondingly stressed. A strong revival of domestic demand would also serve the same purpose, raising both the oil and non-oil import bill sufficiently to make it difficult to finance. The only way to ensure that India, which imports over 80 per cent of its crude oil, is not subject to these vagaries is to ensure that growth in Indian exports is sustainable, and backed by procedures and reforms that ensure its stability and competitiveness. Reform of processes around the goods and services tax is one obvious path for the next government to consider if it wishes to turn these green shoots of an exports revival into a sustainable recovery.

A test case

Lateral entries into the civil service should be welcomed

Globalisation has made the business of governance an increasingly complex activity, demanding specialist skills and knowledge like never before. The government's lateral entry scheme, enabling applicants in the private sector to apply for 10 joint secretary posts in different departments, is a sensible first step towards accessing a wider talent pool. So far, nine candidates have been selected by the Union Public Service Commission (UPSC), the government's recruiting arm, for ministries ranging from civil aviation, agriculture, finance and shipping to the "new age" ministries of renewable energy and environment, forests and climate change.

This direct induction of private sector experts into the ranks of the civil service, with specified posts and salary scales and perks can be considered a continuum of sorts of successive governments' attempts to introduce external expertise in governance. Those exercises, however, have been mostly outside the institutional framework of the civil services — in the former Planning Commission, for example; in its replacement, the NITI Aayog; in the office of the chief economic advisor; and in myriad ministerial advisory posts. This latest move marks a great leap forward in the institutional outlook of the UPSC. A similar attempt by the external affairs ministry some years ago to offer short-term contracts to external candidates was turned down in favour of allowing civil servants from other ministries to apply for vacancies.

Inducting private sector experts into line functions involves a host of institutional challenges, however. Chief among them is the quality of people who are hired. External experts have to meet a specified education qualification norm and those shortlisted undergo UPSC interviews before signing on. It is unclear whether this is an optimal way of inducting external experts. The second challenge is how far the government can leverage their expertise. Doing so requires the creation of an enabling environment for these experts to function, an exercise that will demand a high degree of cooperation from the bureaucracy. This is easier said than done, not least because of the inevitable tensions between generalists and specialists. Besides, career bureaucrats anywhere in the world display an instinctive tribalism that raises the bar for outsiders to function with any degree of efficiency. The manner in which the IAS, for example, has pressured the government to appoint one of their own central bank governor is a case in point. Those who sign up as external experts also discover that such basics as access to files and to ministerial meetings can become matters of high politics. Much, therefore, depends on how far the political executive is willing to facilitate the functioning of these external experts.

Having broken through the glass ceiling of the civil services, it would also make sense for the government to widen the ambit of its search for regulatory heads. At present, with the exception of the Reserve Bank of India for a brief period, the selection of sectoral regulators or tribunal heads appears to be earmarked for retired bureaucrats and public sector company chiefs. There is no logic for the government to circumscribe itself in this manner. There is a wealth of talent in the Indian private sector and the diaspora that the government could access to improve the quality of policy decision-making. In the larger context, therefore, lateral entries into the civil service would be a good test case.

ILLUSTRATION: BINAY SINHA

Creating a place for poetry in business

Entrepreneurs now require fewer mandays, fewer documents and fewer trees annually to start a business

The political adage of campaigning in poetry but governing in prose means election season often involves dangerous populist promises. Populist politicians often suggest Scandinavian social democracies as inspiration but forget that the World Bank's Ease of Doing Business scale ranks Denmark third of 190 countries, Norway seventh and Sweden 12th. Their dense social safety nets are underwritten by remarkably free economies while India's universe of regulatory cholesterol —over 60,000 compliance rules, 3,600-plus filings and over 5,000 changes every year —is asphyxiating. But relatively unnoticed recent changes by the Ministry of Corporate Affairs (MCA) substantially reduce regulatory cholesterol for the 0.1 million new companies incorporated in India every year by saving 0.6 million mandays, 4 million documents and 1,000 trees.

MANISH SABHARWAL & SUMITA KALE

Most people equate Ease of doing business reform as deregulation, but simplification, rationalisation and digitisation are underappreciated policy interventions in catalysing formal entrepreneurship. An MCA announcement at the end of March introduced a new form called AGILE that makes starting a new business much simpler — incorporation of a company now automatically registers it under GST, ESIC (Employees State Insurance Corporation) and EPFO (Employees Provident Fund Organisation). This was followed up by an early April announcement that did away with the tedious requirement of affidavits by each subscriber to the Memorandum of Association (MoA) and first directors on ₹100 Stamp Paper with notary public certification. We estimate these changes combine to cut new company incorporation time by half (from 12 to 6 days), reduce documents needed (from 56 to 19).

These reforms build on the past; the MCA 21 programme of a decade ago began electronic submission of documents and forms, and payments. Yet, though the process went online in 2006, the maze of forms and departments a company had to interact with individually continued to bog the system down. Anyone who wanted to start a business had to go through more than a dozen steps while applying for the mandatory Director Identification Number (DIN), Digital Signature Certificate (DSC), name reservation, incorporation of company, PAN, TAN etc. In October 2016, there was a small breakthrough with SPICe, the father of AGILE. The Simplified Proforma for Incorporating Company Electronically (SPICe) was a single form that completed five steps in one online submission — DIN for up to three directors, name, incorporation of new company, PAN and TAN. The MCA and Central Board of Direct Taxes (CBDT) were linked at the backend. With the stabilisation of GST, the MCA has now gone further to give us AGILE, an e-linked form to SPICe, bringing further simplification, as the backend at six departments have now been integrated. For a new company, this means that instead of interacting separately with MCA, CBDT for PAN, CBDT for TAN, CBIC, ESIC, EPFO, there is one form and one set of documents to be submitted online. These changes are hardly inconsequential; plugging these savings estimates in procedures and time taken in starting a new business, takes India's ranking on starting a new business parameter of the World Bank Ease of Doing Business up from 137 to 105 (all other factors remaining the same). India's overall ranking goes up to 75 from 77 — this may seem small but shows how plumbing changes can cumulate to big impact.

The gains will be larger if we look at the big picture of the formalisation of the economy. It is much more difficult now for companies to stay under the radar. A high compliance burden leads to a culture of evasion. Not just tax collections, this affects environment, health and safety standards and much more. A key victim of an informal setup is the employee who has a job but may not have adequate wages, and is not covered under pension or insurance schemes. Formal enterprises are more productive than informal ones because they have higher access to credit, talent and knowledge. For a country whose GDP is approaching $3 trillion in nominal terms — we no longer have to embarrassingly convert our output in purchasing parity terms — lowering regulatory cholesterol means our multi-decade sense of humour about the rule of law — our 63 million enterprises translating into only 1 million social security payers — is set to change.

These reforms enable the next phase. India needs a unique enterprise number; a company currently has to register for more than two dozen numbers — each with a different government department, and each asking for its own set of documents. A single identity will make for easier compliance, less potential for evasion and make it much easier to set up thumb rules and heuristics to bring up automatic red flags when a company's profile and activity do not match the information in its returns. We need to adopt the India Stack — paperless, presenceless and cashless — for all regulation. And we must redefine digitisation from uploading forms into a website to creating open API's (Application Program Interfaces) that will enable Straight Through Processing.

Contrary to myth, India does not have a jobs problem but a wages problem; everybody who wants a job has a job, they just don't have the wages they want or need. This is because too many Indians work in unproductive geographies (Karnataka produces the same GDP as UP with a third of the people), unproductive firms (only 19,500 of our 63 million enterprises have a paid up capital of more than ₹10 crore), unproductive sectors (half our labour force that works in agriculture only generates 14 per cent of GDP), and unproductive skills (this year the bottom 10 per cent engineers will make less salary than the top 10 per cent ITI graduates). An important solution is more formal firms that have the productivity to pay the wage premium. But formalisation needs the lower regulatory cholesterol that comes from simplification, rationalisation and digitisation. The MCA announcement didn't make as much news as the poetry of the Nyay scheme, but the prose of changes to the infrastructure of opportunity rarely do.

The writers are with Teamlease Services and Avantis Regtech, respectively

Could this giant get clay feet?

At the end of 2018, Germany narrowly escaped a technical recession as it came very close to registering two consecutive quarters of negative growth. Then at the end of January 2019, Berlin slashed its economic forecast from 1.8 per cent to just 1 per cent for 2019. And a few days ago, the German government revised again its 2019 forecast cutting it by half, from 1 per cent to 0.5 per cent. In the present global context it would take very little additional headwind for Europe's number one economy to slide into recession by year-end.

Like all other major economies, Germany is confronted to the negative impact of a synchronised global slowdown, of the rise of protectionism and of the very disturbing uncertainties associated with Brexit. However, a number of structural challenges are emerging which might set the stage for rocky years ahead for the German economy.

CLAUDE SMADJA

The infrastructure network so crucial for economic efficiency is now showing increasing wear and tear due to the lack of sufficient infrastructure investment and increasing traffic. According to a study from the University of Duisburg-Essen, traffic jams caused more than $68 billion loss in 2018 due to wasted working time and delivery delays, while — according to another study — the investment gap at the municipal level excluding regional and national projects stands at $180 billion. Eleven per cent of the country's highway bridges are officially in "unsatisfactory condition". Digital connectivity lags seriously behind. Germany ranks 76th in the world in terms of mobile phone penetration. While the present coalition has pledged an infrastructure investment push, it remains to be seen how much will be accomplished in the context of shrinking revenues due to the economic slowdown in a country which strives for budget surpluses.

Germany's banking system, while considered to be in a stable and solid situation with very low rates of non-performing loans and good levels of capitalization, is also confronting a major challenge of profitability. This is not only due to the long period of very low interest rates —more than half of bank loans are on mortgages — but also because of high cost structures and the great fragmentation of the sector. Deutsche Bank, the only German bank of international dimensions, has suffered years of losses and continues to be hampered by an intractable cost structure. The bank is looking at a merger with Commerzbank as a solution to its problems and to be able to compete globally. But the move could result in a loss of revenue of $1.7 billion and it is facing strong resistance from the unions concerned about the loss of jobs.

Depending on how long interest rates will remains at their ultra-low levels — and this will be the case for at least the whole of 2019 — the situation could result in a lessening of the ability of the banks to finance the activities of the mittelstand — the small and medium enterprises — which have been a key driver of Germany's economic dynamism.

Adding to the present woes is the crisis of international trade, particularly important for a country whose growth model is largely dependent on exports which represent close to 40 per cent of GDP. German industry is not only suffering from the slowdown of the Chinese economy — a very significant market in the last few years — but is also under the threat of President Trump raising tariffs on European cars, as German cars account for more than 45 per cent of all European auto exports to the US. Despite the recent wage increases, domestic consumption is not able to compensate for the possible loss of steam of exports as German consumers are wary about the future and keep saving to prepare for lower retirements benefits due to the inversion of the demographic curve.

Last but not least, the German auto industry — a key pillar of the economy employing 800, 000 people— already hampered by huge penalties and class action suits as a result of the "Dieselgate", the manipulation of emission standards, is struggling to catch up in the global race for the electric car. German automakers are at risk of missing their target of one million electric cars on the road by 2020 and most probably will not be able to achieve the emissions targets also set for 2020.

The difficult economic year that Germany is facing will test the cohesion of the CDU/SPD coalition in Berlin in a context where the Alternative for Germany — the far right party — is the number one opposition force in the Bundestag with a lot of "nuisance capability" and the rise of populist voices has not been tamed. Chancellor Angela Merkel is gradually losing her ability to shape her country's trajectory after the poor performance of her Party, the CDU, at the last elections.

One bright spot in this picture is the development of Germany's startup ecosystem in the last few years, with Berlin now on its way to becoming Europe's Number One startups platform with new companies flourishing in the e-commerce, AI and machine learning, fintech, healthcare, and blockchain sectors.

The German economy has overcome other crises in the past and might quite well prove able to address the structural and cyclical challenges it is now facing with the same efficiency that has made it the envy of the country's neighbours and competitors. But Europe's economic giant, the fourth largest economy in the world, has today to review and adjust the model on which its success has been based so far.

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Contestations over statism

BOOK REVIEW

C P BHAMBHRI

This book is an assessment of the evolution of India's political parties since independence. Though there

Their approach is a data-intensive study based on a survey. On this basis, they say voters with higher exposure to media, and voters who were more educated, young and upper class were more likely to have voted for the Bharatiya Janata Party (BJP). The overall message is that politics is not only an activity for "who gets what and how" but a fundamental social and ideological struggle for shaping modern India.

Ten chapters are devoted to discussing the issues political parties faced over the past 70 years in their attempts to transform India's inherited hierarchical social order. The sequence of the chapters, however, is a little odd, creating a degree of repetition throughout the book. For instance, Chapter 2 on the 2014 national elections should have come later because the winning party, which exists by, for and of conservative Brahmanical Hindutva, is an ideological opposite of the essentially liberal and secular character of other major all-India and regional parties thus far.

Over different chapters, the authors refer to the ideological conflicts between Hindu traditionalists and modern pluralists. But the polarising impact of the party of Hindutva, the BJP and its institutional mentor, the Rashtriya Swayamsevak Sangh, has been presented in a somewhat diffuse narrative. It is difficult to accept the author's contention when they ask, "Is there truly an ideological divide in India, or is it merely an artefact of the BJP's electoral politics?"

No less untenable is their observation that "...it is virtually impossible to determine whether the BJP created the social divisions or whether those social divisions are what enabled the BJP to win votes". The historical record unambiguously shows how the British Raj divided Indian society on the basis of religion to maintain its power. The Jan Sangh, BJP's predecessor, built on this policy to consolidate the notion of Hindu identity as a political platform. Indeed, the authors point out that Hindu social conservatives abandoned the Congress and joined the Hindu traditionalist parties to safeguard the hierarchical traditional social order. In spite of this evidence, the authors are unable to draw the clear conclusion that BJP is a polariser and promoter of Hindus exclusively, and that this has been a major marker of modern-day political contestations.

To be sure, affirmative action also caused a cleavage between traditionalists and progressives. On the basis of their survey findings the authors suggest that the upper castes were not major opponents of reservations. "If prejudice were the only explanations for the upper caste respondent's higher level of opposition to reservations, then we should have seen even greater support for abolishing reservations among the upper-caste respondents," they write. This is a questionable conclusion because there were other factors at work in supporting reservation.

One significant finding, however, concerns the nuances of upper caste prejudice. Upper caste prejudice against Dalits was relatively more common than it was among OBC and Muslim respondents. However, "upper-caste, OBC and Dalit respondents all showed prejudice against Muslims". The issue of reservation for Muslims generates so much hostility that even secular parties hesitate to respond to the genuine predicament of this community for fear of being labelled "appeasers". Electoral logic, thus, determines political decisions on many basic issues of historical significance.

The faulty chapter scheme also interrupts the authors' discussion on ideological conflicts. Chapter 5, for instance, abruptly discusses the myth of vote-buying based on the 2017 UP Assembly elections. Without contextualising the election, which was held soon after demonetisation virtually eliminated campaign resources for opposition parties, the authors conclude that "ideology, not clientalism, is what ties voters to parties in India". They reach this conclusion despite their statement that voters "look to the state for the provision of material benefits", and "notwithstanding the weak evidence in favour of clientalism, voters can indeed still be swayed by policy benefits directed toward them".

The authors have identified four phases in the evolution of the party system — 1952-67, 1967-1984, 1984-2014 and 2014— to trace the shifting position of parties and the role of state in reordering inherited traditional social relations. They have rightly concluded that the divisions in the politics of recognition are deep and wide especially on the issue of reservations for the other backward castes.

The theme of this book —that Indian party politics is deeply ideological — opens many new windows to understanding a complex story. But because the authors have limited the scope of their enquiry, they have missed the opportunity for a deeper analysis of the other fundamental ideological disputes that are taking place in India.

IDEOLOGY AND IDENTITY: The Changing Party Systems of India
Pradeep K Chibber and Rahul Verma
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