

# India's leap in the space

It remains to be seen whether political will sustains subsequent steps crucial to consolidate this momentum



HARSH V PANT & SHOUNAK SET

Prior to the televised 10-minute address in Hindi on the noon of March 27 by the Indian prime minister, few had expected that he would be announcing the beginning of a new space age for India. Prime Minister Narendra Modi declared that India had successfully conducted an anti-satellite missile test, lauded the scientific establishment, emphasised that this was a measure for national security without contravention of any international law and assured that the step wasn't aimed towards any specific state. The exercise, dubbed as "Mission Shakti", represented a Direct Ascent Kinetic Kill, where a ballistic missile from earth without any explosive warhead destroys the targeted satellite

upon impact through friction.

The Indian space programme marks half-century this year, as the Indian Space Research Organisation (ISRO), the sixth largest in the world, was established in 1969. It has carved a niche not only through exemplary cost-effectiveness and innovative societal applications, but by hosting the largest constellation of civilian satellites in the Indo-Pacific region, the success of the Mars Orbiter Mission and creating the world record of launching 104 satellites from a single rocket. ISRO being oriented towards civilian projects, the ASAT test was under the aegis of the Defence Research and Development Organisation (DRDO). Architect of the indigenous missile programme, DRDO had been publicly expressing the intention for an ASAT test since 2012. The test was conducted through adapting India's indigenous Ballistic Missile Defence interceptor vehicle which targeted a functioning Indian satellite at a height of 300 km from the earth in the Low Earth Orbit within three minutes.

Satellites enable features from civilian to military, scientific and commercial — and thereby, outer space is integral to the functioning of modern societies as a diverse range of services

and devices ranging from missiles to mobiles, banking to navigation, meteorology to disaster management are irreversibly dependent upon it. The strategic utility of space was evident from the early years of the Cold War where both the USA and the erstwhile Soviet Union had historically demonstrated a wide array of space weapons including anti-satellite missiles. As the Space Age dawned with the advent of Sputnik in 1957, research and development in various types of anti-satellite systems can be traced on both sides of the Iron Curtain from this time. However, the 1980s marked the crest with President Ronald Reagan's Strategic Defence Initiative and was followed by a prolonged trough.

Ending decades of stability, China conducted an ASAT test in 2007 and the USA responded a year later. Since then the USA, China and Russia have accelerated their military space activities in varying degrees and the arrival of new technologies like hypersonic glide vehicles and nano-satellites further complicates the picture. While there hasn't been any conflict in space itself and establishing weapons in space is proscribed as per the Outer Space Treaty of 1967, strategic applications of space technology are neverthe-

less widespread. Deploying a weapon system in space denotes weaponisation of space and is in contravention of the Outer Space Treaty; in contrast militarisation of space entails using space for military purposes and is legitimate.

Incidentally subsequent proposals to restrict arms race in space has been languishing in the United Nations Conference on Disarmament since the 1980s owing to opposition primarily from the United States. The European Union, Russia and China have, in the recent past, put forward various proposals ostensibly to prevent weaponisation of outer space; but platitudes notwithstanding consensus remains elusive. India has consistently opposed weaponisation of space and upholds space as a common heritage of mankind — it was the Chinese ASAT test (2007) that aggravated India's security concerns and catalysed the establishment of an Integrated Space Cell within the ministry of defence. Outer space being integral to key strategic and civilian functions, securing assets in space has emerged a crucial priority; and India now joins the select quartet of countries in the world possessing the ability to project hard-power in space along with the USA, Russia and China.

The tests seem to be driven by considerations of security, demonstrating technological prowess, and by the rightful Indian insistence on having a voice at the high table of global politics; a recurring theme of Indian diplomacy. As the Ministry of External Affairs underlined, "India expects to play a role in the future in the drafting of interna-

tional law on prevention of an arms race in outer space...in its capacity as a major space faring nation with proven space technology." The selection of the target at the Low Earth Orbit aimed to prevent space debris since space pollution is a universal concern. Further the assertion of upholding international conventions signalled India's desire to be perceived as a responsible global player — the Chinese ASAT test of 2007, for instance, had been condemned globally for lack of transparency and generating the largest amount of space debris in history.

The unequivocal assertion about the military nature of the tests is welcome for a country where enduring amnesia about the role of force in international relations circumscribes its emergence as a great power. Space assets had been harnessed for ISR (intelligence, surveillance and reconnaissance) functions — cross-border raids and aerial strikes like that of post-Uri and Balakot, being facilitated through satellite reconnaissance and remote sensing, for example — but the ASAT test establishes a new aspect to the deterrence matrix. Yet space power cannot be optimally utilised in the absence of an Integrated Space Command and a cohesive space doctrine. The test conclusively establishes India as a preeminent space power, but it remains to be seen whether political will sustains subsequent steps crucial to consolidate this momentum.

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# Airports infrastructure in take-off mode

The business enters a new paradigm with the entry of the Adani and Tata groups

SURAJEET DAS GUPTA

With nearly half the country's airline passenger market under their control, south India-based GMR and GVK groups dominate the airport infrastructure business. The rest of it is shared between state-owned Airport Authority of India (AAI), the states and some private-public partnership projects.

Over the past few months, this business has suddenly perked up with two significant new private players with very different strategies making their entry. First came the Adani group, which a few weeks ago emerged winners in the bidding for six airports that were put up for privatisation, leaving GMR and government-backed National Investment and Infrastructure Fund far behind. From virtually nowhere (it used to run the Mundra airport in Gujarat), this west-based group has emerged as a big contender in the business. Then last week, the Tata group, decided to pick up a 20 per cent stake in GMR Airports, the company

through which the group controls its stakes in Delhi (in which it has 64 per cent stake), Hyderabad (63 per cent) and Goa (wholly-owned).

The deal gives the Tata group a toehold in a business that has eluded it for almost two decades, this time as investors. For GMR, which had approached the Tatas after Mitsubishi did not agree with the terms of the sale, the deal will bring them much-needed cash to reduce their group debt of ₹20,000 crore by around ₹8,000 crore. It will also provide them with an investor with the brand name to attract fresh capital and wherewithal to bid more aggressively for global and domestic airports.

To put the new battle lines in perspective, the Adani group, by winning the six brownfield airports, would control over 11 per cent of the domestic passenger market and just below 10 per cent of international passengers. The six airports — Jaipur, Lucknow Ahmedabad and Guwahati, Thiruvananthapuram and Mangaluru — are expected to see domestic passenger growth of 15 per cent to 25 per cent a year.

To be sure, the Adanis has a lot of catching up to do. That is because GMR is not stopping its relentless drive for winning new airports and expanding old ones. It has won Goa and Vizag, both of which are greenfield projects, and is the highest bidder in brownfield Nagpur. With these airports in their bag, the group will continue to lord it over the Indian airport infrastructure business with 33-34 per cent of passenger share.

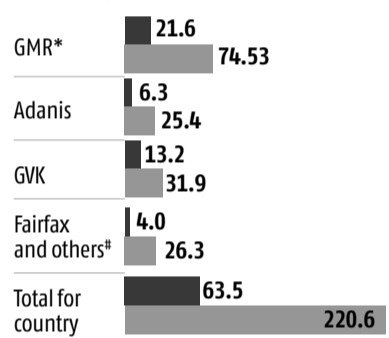
The group is winning global airports — Cebu in the Philippines, Crete in Greece, with annual capacities of 30 million. It is also doubling capacity in Delhi (119 million in phases from 65 million currently) and almost tripling it in Hyderabad (34 million from 12 million). A source close to the company points out: "With the Tatas as investors, GMR will have a strong financial partner to support them in investing in expansion of airports as well as capital for greenfield projects. GMR on the other hand has the expertise to run airports and is already the fourth largest airport operator in the world. It's a win-win for both"

Old rival GVK, meanwhile, is also getting its act together. It may have had to sell Bengaluru airport to investors led by Fairfax to overcome a cash crunch but it still has an over 20 per cent share of international passenger and 14 per cent of domestic traffic from Mumbai. And it recently reportedly halted an attempt by

## TICKETS TO RIDE

■ International passengers (mn) between Apr 2018–Feb 2019

■ Domestic passengers (mn) between Apr 2018–Feb 2019



\*With Tatas as investors; # (Bangalore); Note: GMR figures have taken into consideration Delhi, Hyderabad, Goa, Vizag and Nagpur Adanis include the six airports which they have bid and won. Source: AAI

the Adani group to get a toehold in Mumbai airport by invoking the first right of refusal and acquiring the stakes of its partners led by Airports Company South Africa and increasing its stake to 74 per cent from 50.5 per cent earlier. GVK has also won the concessionaire bid for the new Navi Mumbai airport, which will have a capacity to handle over 60 million passengers a year.

It is the new kid on the block, the Adani group, that could face the most

challenges. The winning bid was based on an inflation-linked per-passenger fee offered to the Airports Authority of India. On average, the difference between the bid by Adani and the second-highest bidder varied from 20 to 155 per cent. Many say the high bid is the price for market share. Competitors, however, say that the bids are unsustainable. "While aero revenues are controlled by the regulator and fixed for five years, the airport operator will pay more every year per passenger as the fee is pegged to inflation annually. The model looks unsustainable as the operator will be dependent merely on huge annual increases in non-aero revenues to make up for the increase in costs," says one of the competitors who decided to bid low.

Adani says it will require fresh investments very soon because most of the airports need expansion, adding about Rs 10,000 crore to the bill. Plus the group will have to pay a book value of the airports to AAI which will then transfer the assets — again, a cost. CAPA, however, says that they could sweat assets by putting up additional capacity and handle up to 200 million passengers in the six airports annually of around 31 million for 11 months between April 2018 and February 2019.

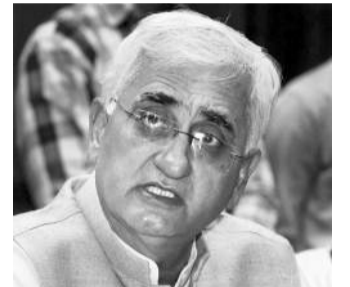
With passenger growth pegged at 14 to 15 per cent, airport infrastructure could be a make or break business for both new players and incumbents.

## CHINESE WHISPERS

### Fading star power in Tamil Nadu

Election campaign and politics in Tamil Nadu were always "star-studded" when M G Ramachandran, J Jayalalitha, and M Karunanidhi held the reins. Even during the last Lok Sabha and assembly elections, actors Namitha and Vadivelu were among the stars who had campaigned for the two major parties — All India Anna Dravida Munnetra Kazhagam and Dravida Munnetra Kazhagam (DMK) respectively. However, this time the number has dwindled. The reason could be that stars may perceive a threat to their career if their rival parties win. For instance, Vadivelu was vocal in his campaigns for the DMK before the assembly elections in which the AIADMK came to power. He has not been seen in films for over a year now. Another reason is many of the stars have plunged into full-time politics, such as Kamal Haasan, Vijayakant, Sarath Kumar, Rajinikanth, to name a few. With barely a few days to go for the Lok Sabha election, it is yet unclear whether stars would campaign for their peers.

### Leader first, pleader next



With nine days to go for the Lok Sabha elections, some senior lawyers, who are also Congress leaders, have sought adjournments in their cases. Senior advocate Salman Khurshid (pictured) has kept the entire month of April for election-related work, and accordingly requested the National Company Law Tribunal to adjourn the case to any date other than in April. The tribunal acceded to his request and gave a date in May.

### Symbols of recognition

The Election Commission (EC) is launching more than 30 election symbols for potential independent candidates in the upcoming general elections. Every independent candidate wants an eye catching symbol so the voters can differentiate easily. The EC has decided not to disapprove them. In the list this time are symbols such as ludo, pen drive, CCTV cameras, laptop, earrings, apple, robot and the like. These are some of the free symbols that are available for the independent candidates. According to the EC, some 200 election symbols will be used during the polls.

# SC judgment is a blow but war on bad loans will continue



## BANKER'S TRUST

TAMAL BANDYOPADHYAY

At the risk of being in contempt of court, I would love to say that Tuesday's Supreme Court judgment in military parlance is akin to a "surgical strike" on the Indian central bank. The judgment is a big blow to the Reserve Bank of India's (RBI) war against rising bad loans in Asia's third largest and the world's fastest growing major economy.

The apex court has set aside the February 12, 2018, circular of the RBI, which among other things directed banks to take the defaulting power, sugar, and shipping companies to the insolvency court. A bunch of power companies, as well as industry bodies such as the Association of Power Producers and Independent Power Producers Association of India, had in August 2018 moved the Supreme Court, challenging the constitutional validity of the circular.

On what grounds has the court squashed the RBI directive? Typically, the courts, even in developed markets, do not interfere with policy decisions of the government and the regulatory bodies in "deference" to their expertise. (Remember the landmark case of Chevron USA, Inc. Vs Natural Resources Defense Council, Inc. in 1984 that led to the coinage of the term "Chevron Deference"?) However, a court can always look into the procedural violation in the implementation of a regulation. And, it can also take a call if it finds that

a particular regulation is violating any constitutional provision.

In this case, the two-judge Bench of Justice Rohinton Fali Nariman and Justice Vineet Saran has found that the circular has violated the spirit of Section 35AA of the Banking Act, amended in May 2017. Under this Section, directions can be issued for "a default" but the regulator, in this case, has bunched up many default cases.

The power companies had, in fact, alleged that the RBI has adopted a "one-size-fits-all" approach without taking into consideration why the power companies could not pay up their debt. They have also based their arguments on the issues of supply side (shortage of coal) and demand (inability to raise the tariff). The RBI, on its part, has maintained that those companies were given ample time to resolve issues but they failed.

The RBI won the first round of the court battle when in August 2018, the Allahabad High Court denied any relief to the power companies, represented by the two industry associations. It, however, suggested that the government could use Section 7 of the Reserve Bank of India Act and "direct" it to modify the order — something which the government threatened to do.

Following the Allahabad High Court judgment, some three dozen companies moved the Supreme Court that transferred all the cases being fought at different high courts (in Chennai and Delhi) to itself and also stayed insolvency proceedings against these companies.

The final order sealed the fate of the RBI's circular that was put up on the Indian central bank's website close to midnight of February 12. Why was it so? The next day, February 13, was a holiday for the markets and the banking sector on account of Maha Shivaratri. By releasing it ahead of a holiday, the RBI wanted to avoid any knee-jerk reaction from the market.

To be sure, the government has all along had a soft corner for these companies; it had tried hard to convince the central bank to go soft on the cir-



**LINE OF CONTROL** While typically, a court does not interfere with the policy decisions of the government and the regulatory bodies, it can always look into the procedural violation in the implementation of a regulation

cular and even threatened to "direct" it using a clause of the RBI Act but without success. Despite the government's nudge, the central bank did not dilute its stand on taking the power sector defaulters to the National Company Law Tribunal (NCLT).

Many say the starting point of the conflict between former RBI governor Urjit Patel and the government was this circular that turned acrimonious in due course and finally led to the exit of Patel in December. The circular had asked banks and other lenders to either execute a resolution plan for big stressed accounts (of ₹2,000 crore or more) or file insolvency petitions against them in the insolvency court. For resolution, 180 days were given, failing which the asset was to be taken to the NCLT for insolvency.

This was only one part of the circular. It had many other directions. For instance, all existing frameworks for addressing stressed assets — such as corporate debt restructuring, strategic debt restructuring and the scheme for sustainable structuring of stressed assets, among others — were withdrawn and the joint lenders' forum, an institutional mechanism that was overseeing them, was dismantled. I guess these won't be revived following this judgment.

By saying that all bad loans should be resolved within 180 days, failing which the account must be referred to the Insolvency and Bankruptcy Code



(IBC) court, the RBI wanted to say that when a borrower fails to pay a bank loan in time, it becomes a defaulter. It also wanted to remove the term "stressed" account from its lexicon that was often an excuse for the banks to postpone the inevitable.

Indeed, the postponement was done, in many cases, by giving fresh loans (evergreening in banking parlance) to help the borrowers service an old loan. The banks were typically reluctant to take a hit on its balance sheet; besides, many also enjoyed a cosy relationship with their borrowers.

The RBI's war against bad loans started with the so-called asset quality review, or AQR, in the second half of 2015 under which the central bank's inspectors swooped on the books of all banks and identified bad assets. The bankers were directed to come clean and provide for all bad assets by March 2017. On top of that, the central bank started forcing banks to disclose the divergence between the RBI's assessment of loan books and the banks' recognition of bad assets in the notes to accounts of their annual financial statements to depict "a true and fair view of the financial position" of each bank.

An ordinance was promulgated in 2017, amending the Banking Regulation Act, 1949, giving powers to the central bank to push the banks hard to deal with bad assets. It authorised the RBI to direct

the banks to invoke the IBC against the loan defaulters. It was necessary to demonstrate to the corporate world that the government was backing the move. Armed with this, the RBI forced banks to push 39 bad accounts into IBC in two phases in 2017 that collectively accounted for at least 40 per cent of the industry's bad assets then. And, the 12 February circular was backed by it which the Supreme Court doesn't approve of. (The 39 cases of 2017 were outside this circular and hence should not be affected.)

Indeed, the judgment will deal a blow to the RBI's war against bad loans and the cleanup drive will lose its steam but it's a temporary setback. The resolution process of these cases will get delayed and those banks that had already provided more than what they were expecting to get following resolution of cases will be disappointed as they won't be able to write back some money and add to their profits. But will they be too happy to give fresh debt to those borrowers that rush to court and stymie any move to recover money lent to them?

Does the RBI need to go back to drawing board and redraft the rules of tackling the defaulters? Not exactly. It was empowered to direct the banks to do things even before the amendment of the Act. All it probably needs is to tell individual banks to act to recover bad loans.

And, every default doesn't necessarily have to be dealt with at the insolvency court. They can be done outside and the trend is catching up.

Following the cleanup drive, the promoters are not taking their empire for granted anymore and the banks are no longer giving them kid-glove treatment. Will this judgment reverse that? I don't think so. A strong banking system is a must as otherwise India will not be able to support its growth story.

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## LETTERS

### A good manifesto

The contents of the Congress party's election manifesto have the potential to appeal to the voters. The kind of promises made in the manifesto underline that the election must be about real issues. Its greatest strength is that as a document, it is truthful and free of hype and hyperbole. In the Congress President Rahul Gandhi's words, nothing in the manifesto is a lie. It is aptly titled "Congress will deliver". The claim that it is the voice of the people and reflects their wishes and it has not been drafted behind closed doors seems to be valid.

The focus on job creation, high growth or wealth creation and social welfare makes the Congress party's agenda different from that of the Bharatiya Janata Party. The minimum income scheme promised in the manifesto is a game-changer for the simple reason that the impoverished multitudes are not promised anything better by any other party. When rolled out, it will jump-start the economy and erase India's image as a land of widespread poverty. The promised increase of workdays from 100 to 150 under MGNREGA bolsters the financial safety net for those at the lower strata of the society. A separate kisan budget is the best thing that can happen to the distressed farmers. The promise to change default in loan payment from a criminal offence to a civil offence will win farmers' support.

The promise of quality health care for the poor will go down well with people living at or below the poverty line. The promise to allocate 6 per cent of GDP for education, another big-ticket announcement, will be an investment in unlocking the country's immense economic potential and when implemented will be truly revolutionary. The promise to scrap the archaic and draconian seditious law pertends well for the cause of freedom. All in all, the manifesto can be rated highly for its focus on issues affecting the lives of people.

**G David Milton** Maruthanocde

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## Setback for RBI

Central bank's role in IBC must not be curtailed

**P**rima facie, the Supreme Court's judgment quashing the Reserve Bank of India's (RBI's) February 12, 2018, circular, mandating banks to recognise one-day defaults and invoke the insolvency process for such defaulters, is strictly in tune with the law. The apex court held that in the light of Section 35AA of the Banking Regulation Act, the RBI could not have issued a generic circular mandating reference under the Insolvency and Bankruptcy Code (IBC). The court also held that references under the IBC have to be on case-specific basis and with authorisation of the Central government under the Act. Thankfully, the court did not go into the other issues of the IBC, which is a relief because the country needs it for the credit system to work well.

The judgment is the result of a petition by several private power producers and some textiles, sugar and shipping companies filed in August last year, after the RBI's 180-day deadline for debt resolution had lapsed, arguing that the central bank's "one-size-fits-all" approach did not account for the myriad exogenous factors that impacted their ability to repay their loans. The companies had also argued that they were negotiating with lenders for alternative resolution plans. The estimated debt impacted because of the February 12 circular was around ₹4 trillion across 70 large borrowers, of which over ₹2 trillion was in the power sector. Viewed from the vantage point of the power sector, Tuesday's ruling is valid. Power producers' problems are linked to political decision-making, over which they have no control. The principal cause of their bad debt build-up has been on account of "the huge delay and non-payment by distribution companies". Indeed, discoms, themselves, are reeling from unpaid dues from state government entities — some ₹16,000 crore, according to the latest data from the central government. This issue spirals back to state governments' predilection for vote-bank politics and their reluctance to raise power tariffs for a whole raft of consumers, from farmers to rural households.

The quashing of RBI's circular, however, means that the RBI would have little say in the IBC process, going forward. Given that all other methods of debt resolution did little, the banking regulator's watch over one of the best and most transparent ways to resolve the debt crisis must be strengthened. It also means that as of now there is no RBI-sponsored scheme to restructure stressed accounts. Though the court has said that banks will continue to have an option to refer defaulting borrowers to the IBC in case the resolution plans fail, the quashing of the circular means there is no longer any imperative for banks to complete the resolution process within a specified period. That's worrying because years of ever-greening and delay in recognising bad loans had led to a pile-up of nearly ₹10 trillion in bad loans. The fear of being taken to the bankruptcy court has proved to be necessary and sufficient for a whole lot of borrowers to ditch the old mindset that repaying large loans is the banks' problem. Since it would be wrong to kill this incipient banking discipline, the Central government and the RBI must come up with a plan that is legally tenable, unlike the February 12 circular.

## Last push for tax

March GST higher than expected, direct tax collection jumps

**A** push on tax collection for the financial year 2018-19 at the very last moment appears to have closed some of the gaps between revenue projections and collections. Direct tax collection has fallen short nevertheless. Altogether, ₹11.5 trillion has been collected at last count, which is ₹50,000 crore short of the target of ₹12 trillion. That was the revised target; the original target, of ₹11.5 trillion, has apparently been met. This reflects a sharp increase in the takings during the last few days — as late as March 26, direct tax collection was only ₹10.3 trillion. Sixty per cent of that was corporate tax and the remainder personal income tax. In other words, 10 per cent of the direct tax revenue was collected in the last few days. This could be considered somewhat worrying. It indicates the tax department will have pushed banks for excess collection of tax deducted from interest revenue, for example. Public sector companies and banks are particularly susceptible to such pushing from the government and the tax authorities and may well have collected more advance tax than necessary, which will then have to be refunded or adjusted in the current financial year.

If indeed there has been over-collection of taxes, which would have to be subsequently adjusted, then it is clearly bad practice. The incentive to do so is understandable. It would make it easier to meet fiscal targets in a particular year — at least on paper. However, the fiscal deficit so achieved would obviously be deceptive. It would not correctly reflect the difference between actual revenue and actual expenditure. In addition, it is a great inconvenience for business. Paying excess advance tax locks up scarce capital that businesses would need. The government should not resort to such tactics to make its books look better.

The government was concerned that the goods and services tax, or GST, would come in too far below expectations. In the end, GST collection in March 2019 was the highest for any one month in the 21 months since the new indirect tax regime was rolled out. The Union finance minister has argued this reflects an expansion in "both manufacturing and consumption". However, whether this represents a strong and sustainable take-off in the economy is not certain, since there are not that many other high-frequency indicators that support such a notion. However, this is nevertheless good news that also takes the revenue from the GST in 2018-19 up to ₹11.8 trillion. Earlier, there were concerns that the GST was going to come in ₹1 trillion short, but now it may be only ₹75,000 crore short of original expectations. Altogether, when seen together with the strong March collection of direct taxes, making the fiscal deficit target of 3.4 per cent of gross domestic product appears more likely than earlier. That said, it is clear that the fiscal position is still far less transparent than it should be, as a consequence of the possibility that there is an excess advance tax collection.

ILLUSTRATION: AJAY MOHANTY



## Why elections don't impact markets

Besides the difficulty in predicting election results, there are four other reasons

**W**hat do you think will happen in the elections? This is a question that comes up in every investor meeting these days. I usually start by explaining that elections have no lasting impact on markets: One need only look at the charts that show the Sensex half a year before and after the results day for the last six elections. The markets did not change direction in any. In two, of which more famously in 2004, there was volatility on results day, but soon enough prior trends resumed. In fact, despite investor apprehensions of significant volatility around election results, four of the past six elections did not see any meaningful rise in volatility either. That elections have no lasting impact on markets is an observation, and not the result of analysis: An analytical framework can be debated for accuracy and bias, but an observation is hard to dispute.

Then bring up the unpredictability of electoral outcomes (to show that pre-results positioning on any outcome could be tricky): In prior elections, not only have opinion poll forecasts been very different from the results, the error margin has increased over time. Whereas the error margin was 10 to 20 seats in 1998 and 1999, it widened to nearly a hundred seats in 2014. Contrary to the false sense of certainty that opinion polls seem to provide, psephologists working for political parties, some of them surveying tens of thousands of potential voters every few weeks, and with serious skin in the game, generally talk of a range of seats they may win in a state. Uncomfortable as the width of these ranges may be, these are more realistic.

Outcomes after all depend not just on voter preferences, but also voter turnout. We recently discovered, for example, that in some constituencies of

Bihar, only 30 per cent of registered men turn up to vote, as against 70 per cent of registered women voters. Bihar is rapidly catching up to Kerala in outward migration to West Asian countries, explaining the drop in male turnout; better security provisions around elections explain the rise in the turnout of women. While this has not been studied yet, women are expected to be less caste-loyal when voting than men. Further, some popular leaders and parties account for a substantial share of votes in a particular constituency, even though their aggregate votes are rounding errors at the state level. Imagine a forecaster building a forecasting framework: How would one adjust for such changes?

Let us run through four key reasons why markets should be unaffected by the results of general elections.

First, since 1991, the Centre has whittled down its economic presence, and most major reforms now need to be done at the state level, which have different election cycles. Constitutionally, state governments are empowered with control of land, labour, environment, power distribution, and municipal administration: The issues that matter most to corporations. States altogether employ four times the number of personnel that the central governments do, and collectively spend nearly 90 per cent more than the Centre. Civil servants' reluctance in recent years to leave their positions in state governments and move to the centre for deputations is partly driven by the drop in the discretionary powers of the central government.

Second, differences between the ideologies of political parties in India are generally social and not economic. This is not to say there are no differences: On issues such as fiscal discipline, the National



TESSELLATUM  
NEELKANTH MISHRA

Democratic Alliance (NDA) governments have shown more discipline than others. However, in times of stress even the United Progressive Alliance (UPA) and third front governments have attempted consolidation, and the NDA has also given in to distributing handouts when politically necessary. Most importantly, all political parties have to navigate the rigid bureaucracy when driving institutional change.

Third, the economy and market are not the same. More than half of the revenues of companies in the mainstream indices are not India-linked. This includes export-driven sectors like IT services, pharmaceuticals and automotive companies and component makers. In sectors such as metals and petrochemicals, too, profits are linked to global trends, even though the bulk of the volumes may be consumed locally. These are unlikely to be affected by a change in government. Further, even the revenues that are linked to India are mostly in private banks and consumer firms that have remarkable stability in growth: Steady market share gains of private sector banks that allows them to sustain 20 per cent growth is likely to stay unchanged irrespective of the government in power.

Fourth, more than 40 per cent of the free float of the Indian equity market is owned by foreign investors, who have nearly complete freedom to enter and exit. Their views on the market are affected by other assets they can invest in globally, bringing in the impact of trends in global financial markets. The recent surge in the Nifty, for example, which many believe was due to falling chances of an unstable government at the centre, was largely due to a flight to safety by global investors. Two-month flows into India hit a record \$7 billion as investors responded to higher uncertainty in global growth (India is considered a relatively insulated economy), and the fall in sovereign bond yields in the US reduced concerns about the expensive valuation of Indian equities.

A study of the market around elections since 1996 throws up several other market-influencing developments: The Asian and Russian crises, sanctions after the second Pokhran blast, the build-up and bursting of the dot-com bubble, the synchronised upturn in global economy and markets between 2004 and 2008, the recovery from the financial crisis in 2009 and the taper-tantrum in 2013. The current year may have its own share of global stimuli.

There can be pockets of the market that get impacted by elections, like the stocks with smaller market capitalisation and lower trading volumes: (small-caps and mid-caps). These have greater exposure to the Indian economy, have higher domestic ownership (that is, lower foreign ownership), and given the lack of liquidity in trading, can be significantly more volatile due to a change in sentiment.

But for the rest, interesting as it indeed is to discuss political trends and scenarios, it may be prudent to look through the developments around May 23, when election results are to be announced.

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## India needs jobs, not dole

**U**niversal basic income (UBI) has increasingly gained popularity in policy circles globally and it has now entered the political debate in India, with the Congress Party promising to implement some form of UBI. Coming at a time when India has made huge strides in drastically reducing extreme poverty, the championing of UBI, in a way, signals that the state is throwing in the towel on jobs. It is an implicit acknowledgement by policy-makers that the state cannot foster an economy that creates enough jobs to provide a livelihood for the vast majority of the people. Yet, the travesty is that employment generation receives a lot of platitudes and not much more. Yes, scores of new programmes are created but the funding support is modest at best. In contrast, large budgetary allocations for UBI are considered *sine qua non*. The 2019 *State of Working India Report*, published by the Centre for Sustainable Employment at Azim Premji University, proposes a job guarantee scheme for urban India and the associated fiscal support. Ultimately, welfare cannot be a substitute for robust employment generation. Entitlements breed resentment, jobs beget self-respect.

Macroeconomic policy is heavily focused on economic growth, with the implicit assumption that growth will take care of all ills, including the lack of employment opportunities. However, recent global developments and India's own experience suggest that assuming a strong link between economic growth and jobs is unwarranted. For example, the contrasting experiences of United States and Japan—in the United States, the employment-to-population ratio is still depressed, whereas in Japan, whose economy has supposedly stagnated, the ratio is at a record high — suggests that growth and jobs

do not necessarily go hand in hand. In India, the 2018 *State of Working India Report* showed that the acceleration of GDP since the 1980s has been accompanied by a slowdown in job growth. Employment generation cannot be left to the mysterious workings of the market. India needs to tackle job creation on a war footing in order to meet the aspirations of its burgeoning young population and reap the demographic dividend.

Most importantly, all job creation programmes will come to naught if they are not sufficiently funded. However, any meaningful budgetary allocation would face disapproval from economists and policy-makers concerned about fiscal sustainability, inflationary pressures, and balance-of-payments (BOP) risks. Even though conventional theories about budget deficits and government debt are being increasingly questioned in the United States and much of the developed world, in the Indian context, fiscal deficits are almost universally regarded negatively and viewed as a threat to financial and economic stability. Although some of the concerns are legitimate, his-

tory and empirical analysis show that many of the fears are either unfounded or overblown.

India's fiscal policy debates are framed by the Fiscal Responsibility and Budget Management (FRBM), 2003, and the subsequent 2016 review committee under N K Singh, even if the actual budgets routinely deviate from the targets. The framework, which is influenced by the Maastricht Treaty rules governing the eurozone, belies not only global developments over the past decade but also India's own history. India has been running large deficits since the early 1980s. There is a widespread belief that the 1991 BOP crisis was

caused by the run up in debt. However, this belief does not stand up to closer scrutiny. Moreover, in the post-1991 crisis era, central government debt, scaled to GDP, has been far higher than the FRBM target of 40 per cent and the deficit target has been met only a couple of times. Yet, nothing dreadful has happened. In fact, these years have been the best in India's post-independence era — growth has been high, poverty has come down sharply, inflation has been relatively moderate, and there have been no severe BOP pressures. If deficits and debt levels much higher than the FRBM targets have been sustained for so long, then perhaps we need to question the FRBM's notion of unsustainability.

Another factor that looms large in the minds of policy-makers is the specter of downgrades by rating agencies, especially given India's persistent current account deficit and the need to attract capital inflows to fund the deficit. To be sure, rating agencies have a significant influence on capital flows. But their influence tends to be overstated. The greatest threat to capital flows arises during periods of global financial turmoil, when solid ratings provide little cover. Specifically, markets do not appear to discriminate based on the government debt-to-GDP ratio. So, instead of letting rating agencies circumscribe fiscal policy, our policy-makers should take the lead in shifting the Overton window on the fiscal policy debate.

India does face a challenge on the BOP front, largely due to the parlous state of the global economy and the plateauing of the benefits of globalisation. Tackling the BOP problem requires crafting a comprehensive set of policies. However, India cannot afford to allow its policy to be constrained by failed dogmas about government deficits and debt.

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## Decrypting the ballot



BOOK REVIEW

SREEKANT KHANDEKAR

I have been voting regularly ever since I turned 21, long before the little smear of ink became a symbol of political responsibility. Since then, as media has grown so too has political awareness. Consequently, people today are more strident than ever even if the factual basis for their opinions is often shaky.

In this politically-charged and factually-threatened environment leading up to the general elections *The Verdict* is perfectly timed. It is grounded in a startling array of facts about Indian elections. There is every reason to be proud of

India's electoral record. Post World War II, during 1945-60, about three dozen countries gained independence. Nearly all failed with democracy. Impoverished India, which often teetered on the verge of starvation after Independence, has stayed the course. You only have to look at the countries nearby to appreciate our unique achievement.

Besides, what a gargantuan exercise an Indian Lok Sabha election is: in 2019, 895 million Indians can vote— of them 130 million for the first time, having turned 18. For perspective, if all these first-timers were a separate nation, they would be the 10th most populous in the world.

The book compels readers to question everything they know about elections. For example, the term "anti-incumbency" (coined by Dorab Sopariwalla, incidentally) is often tossed but is India really anti-incumbency country?

Answer: The period 1952-77 was a pro-incumbency era when in nine out of 10

elections the existing state government was voted back to power. Then, 1977-2002 was the anti-incumbency phase when angry voters threw out seven out of 10 governments. Since 2002, the ruling state government has been re-elected half the time, depending on performance.

The story of women's role in Indian general elections is both cheering and depressing. From a low start in 1962 (the first year for which a gender breakup is available) the percentage of women voting has shot up from 46.7 to 65.5 per cent in 2014, almost catching up with male voters. (Another oddity: More rural women use their franchise than do urban women.) Even better, the authors reckon that eight of 10 women vote independently of their men.

The depressing bit is that in spite of their assertiveness at the ballot box, the percentage of female MPs in the Lok Sabha has crawled up from five per cent in 1952 to 10 per cent now. This places

India at No 146 in terms of women's representation among 193 nations. This is downright shameful considering we've had a prime minister and 16 chief ministers who have been women.

As with the women, so too with the youth. Thanks to demographics, the average age of the voter has been declining: three out of five voters are under 40 years but three out of four MPs are older than that benchmark. This gap between voters and the people who represent them is widening: in 1952 the average age of the MP was 47 years but now that is up to 58 years.

Should we trust predictions? Messrs Roy and Sopariwalla rummage through the records of more than 800 opinion polls since 1980 to conclude that polls have got the winner right three times out of four. As the teacher might say, "Not bad but can do better." The coming elections will generate another rush. Which polls are reliable? The authors give a number of tips, the first of which is that unless the all-India sample is at least 35,000-40,000 respondents, don't bother. Also dismiss polls that don't

clearly state the methodology or the sample size.

I was captivated by *The Verdict*, though I do wish the authors had devoted some space to examining how the mind of the first-time voter has worked in the past. Also, while they have great details on the 65 per cent who vote, a chapter analysing the major reasons why the other 35 per cent do not show up would have been instructive.

Two items will excite the political buff about the 2019 elections:

■ In the 2014 Lok Sabha elections the National Democratic Alliance fetched just 38 per cent of the vote (of which the Bharatiya Janata Party got 31) to capture 62 per cent of the seats. This underlines the fragmentation of vote among parties. It takes a smaller percentage of votes to win than ever before. A ruling party could find that it is more rewarding to divide the opposition than to try and increase the number of people voting for itself.

■ A combination of two factors determines the victor: one, swing and two, the Index of Opposition Unity (IOU). A one per cent vote swing (from one party or alliance to the

competition) in the Lok Sabha can result in 15 seats changing hands.

■ Lastly, are Assembly elections good indicators of voting patterns in the general elections to follow? This is of high interest considering that the Congress won in Madhya Pradesh, Gujarat and Chhattisgarh less than four months ago. In 13 out of 14 cases the winning party in the Assembly elections does at least equally well if the Lok Sabha elections follow within 12 months. One caveat—in two of the three states the Congress margin of victory was slim.

In parting: read *The Verdict*. You will learn heaps that is new; and if nothing else it will help you appear smart at dinner conversations and pep up your social media posts.

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THE VERDICT: Decoding India's Elections

Prannoy Roy and Dorab R Sopariwalla Penguin Random House, 289 pages, ₹599