Food for thought

A new report shows Indians are not spending much on eating out, and even less when it comes to high-end restaurants

NOT FOR PROFIT

NIVEDITA MOOKERJI

The country's food services sector, pegged at more than ₹4 trillion, grew at 11 per cent in the past three years and is projected to reach close to ₹6 trillion by 2022. That's a sunny outlook by a leading industry association, but there are pointers in its 300-page latest report that show Indians are perhaps not spending much on eating out, and even less when it comes to high-end restaurants.

There are at least five reasons to believe that the country's food services market could be much more vibrant than it is now. First, take a look at the fine dining numbers. According to the research based on interaction with 3,200 consumers across 24 cities, fine dining has emerged as the least preferred choice with only 2 per cent respondents opting for it, while affordable casual dining restaurants were at the top with 48 per cent. Even premium casual dining restaurants are hardly popular with only 5 per cent making it their preferred destination.

The National Restaurant Association of India (NRAI) report, that has also taken into account data collected from around 130 restaurant CEOs, shows that fine dining average spend stands at ₹1,408 per trip, against ₹719 per trip in the case of affordable casual dining and ₹1,182 per trip for premium casual dining. While the average number of trips a month for fine dining is at 3.5, that for premium casual is 3.4 and affordable casual at 3.9. Fine dining restaurants at a market size of ₹2,872 crore makes up for a marginal share of the total pie.

The second reason why Indian eating out has a lot of catching up to do is how much more others like China and Brazil have grown. Against the estimated size of India's food service market at $61 billion in 2018-19, that in China was $815 billion and Brazil $228 billion.

The third indicator is the pattern of spend while eating out. The preferred mode of payment when consuming non-home cooked food is cash. The research points at 90 per cent of the respondents paying by cash, while 7 per cent pay by cards, 2 per cent by mobile/digital wallet, and 1 per cent by meal voucher and Sodexo. While digital has been a buzzword in recent years, especially after demonetisation, there's marginal evidence of technology being used in payments. According to a school of thought, the quality and volume of spend on eating out could improve once the use of cash goes down.

The fourth reason why restaurants need catching up is the rush of investments going into the food tech space with many turning unicorns. In FY19, food tech companies attracted investments worth around $1.5 billion from venture capitalists and private equity players as against $64 million for brick and mortar restaurants. In the previous year, the difference was less with food tech getting $395 million investment and restaurants $104 million. Till FY14, restaurants dominated as tech food firms were yet to storm the market. As real estate is a major headache to deal with for restaurants and consumers preferring to order from home at a cheaper price with a lot more variety, tech food space will only grow.

The fifth reason is the policy hurdle that restaurants face. In India, you need anything from 12 to 17 licences to run a restaurant, against four each in China and Singapore. In Singapore, you need a food shop licence, liquor licence, importing food licence and halal certificate. In China, you need a sanitation licence, environment licence, fire licence and sales licence.

Check out the long list of permissions needed in India from across central and state agencies. You get the food safety licence from the regulator FSSAI. For health/trade licence, several rounds of the state health department and municipal corporation will have to be made. Then, there's an eating house licence, which also happens to be the most controversial one, with the industry demanding its removal for a long time. This is mandatory only for Delhi and the issuing authority is the police commissioner-licensing. Weights and measures permission from the Legal Metrology Department and signage licence from the municipal authorities in some states are among the other tricky approvals. In addition, there are clearances from the excise commissioner for liquor licence, approval of restaurants from the department of tourism, music licence from the Copyright Societies, environment nod from the state pollution control board, no-objection from the Fire Department, lift licence from the concerned authorities… and it goes on.

CHINESE WHISPERS

Rally minus candidate

Bahujan Samaj Party (BSP) supremo Mayawati, along with the Samajwadi Party (SP) president and former Uttar Pradesh chief minister, Akhilesh Yadav,held a joint rally in Ghosi on Wednesday. Nothing out of the ordinary — the two parties have held quite a few rallies together in recent weeks — apart from the fact that the candidate for the seat was conspicuous by his absence. If speculation is to be believed, Atul Rai, the BSP candidate from the seat in Mau district, might have just flown the coop. He has been absconding since an FIR was registered against him on May 1 by a college student, who alleged that he had assaulted her. A policeman said there were chances of Rai fleeing to another country and that the police had issued a lookout notice for him. Notwithstanding a looming arrest, leaders of both the SP and BSP urged people gathered at the rally to vote for the alliance candidate.

Dear TV serials, not dearer

The Dravida Munnetra Kazhagam–Congress alliance in Tamil Nadu is not in a mood to let go of any issue it can use to attack the state government. With four Assembly seats set to go for a bypoll on May 19, the alliance leaders are trying to mobilise support on the entertainment plank by promising cheaper cable bills. Sometime back, it was Karti Chidambaram, the Congress candidate from the Sivaganga parliamentary constituency, who assured the women attending his rally that they might not have to pay a higher amount for watching television serials if they chose the alliance. DMK President M K Stalin also made the same promise while campaigning for the Aravakuruchi bypolls. Realising that some of these women had to skip their favourite television serials to attend his speech, he asked them how much they were paying for the cable connection (provided by state-run Arasu Cable). Upon learning that the amount was ₹300 per connection, he recalled that the monthly bill during the DMK regime was ₹100 and promised to go back to the same rates if voted to power.

Changing picture

Even as the blame game between the Trinamool and the Bharatiya Janata Party (BJP) — over who is responsible for damaging Ishwar Chandra Vidyasagar's statue in Kolkata — continued on Wednesday, the former tried to wrest the perception advantage from the saffron party. West Bengal Chief Minister Mamata Banerjee and several top Trinamool leaders changed their Facebook and Twitter display picture (DP) with photographs of the 19th century reformer-polymath. The party said that this was a way to protest the desecration of Vidyasagar's bust. The list of those who changed their Twitter DP included Derek O'Brien and Madan Mitra. Inspired by the many *chowkidars*?

Rolling with the punches

Slowing auto sales have failed to dampen investments by tyre manufacturers as they remain optimistic about the future growth of the industry

T E NARASIMHAN

Growth in the tyre industry has been slowing, especially from the second half of 2018-19, on account of a liquidity crunch, lower infrastructure spending because of elections and the general slowdown in auto sales. Full-year growth production came in at just 7-8 per cent against 6-7 per cent in 2017-18. The second half of 2018-19 has been particularly poor (see table).

This slowdown is hardly surprising in an uninspiring year for the original equipment manufacturers (OEMs), which account for 22-52 per cent of production of the tyre industry, depending on the segment. Passenger car sales grew marginally by 2.7 per cent , though commercial vehicles saw healthier growth at 17.55 per cent in 2018-19.

TAKE TWO

In spite of this, tyre manufacturers appear to be upbeat and the industry is planning major investments to the tune of ₹20,000 crore via expansions or greenfield projects. A major chunk of this new investment is coming in faster-growing segments such as truck, bus and specialised tyres.

For instance, Apollo Tyres is planning to invest ₹2,800 crore this year in India, primarily towards the greenfield plant in Andhra Pradesh for Truck Bus Radial (TBR). Recently Apollo doubled its truck-bus radial capacity in Chennai, from 6,000 to 12,000 tyres per day, at an investment of ₹2,700 crore.

MRF has signed an agreement with the Tamil Nadu government to invest ₹3,100 crore for capacity expansion, and it has a greenfield project in Gujarat. RPG group's Ceat is lining up investments of around ₹4,000 crore towards capacity creation at Halol (TBR), Chennai (passenger cars), Ambarnath (off-highway tyres) and Nagpur (two-wheelers). Out of this, ₹1500-1600 crore will be spent this year.

Satish Sharma, President, APMEA (Asia Pacific, Middle East & Africa) at Apollo Tyres, said that the company is investing as it is optimistic about the future growth of the industry.

From July, the industry should see some upward movement on anticipation of a good monsoon. The demand outlook for the Indian tyre industry is very much in sync with the automotive industry.

This apart, all the international tyre majors including Michelin, Yokohama and Maxxis are already in India or are in the process of setting up capacities.

Yokohama, for example, which set up its plant in 2014, has announced plans to more than double the annual production capacity to 15,30,000 tyres from 7,00,000 tyres at an investment of ₹380 crore. This facility is expected to begin production in the fourth quarter of 2019. Taiwanese tyre major Maxxis Group has announced plans to invest around ₹2,600 crore in India, setting up its first manufacturing plant at Sanand, Gujarat, and is expanding it in phases to manufacture 60,000 two-wheeler and 12,000 four-wheeler tyres over a period of time.

This is significant. The tyre industry is a sort of secondary bellwether business, and the upbeat sentiment appears contrary to the prevailing reality. So what's driving this optimism?

"The tyre industry in India is on the cusp of a significant change and is all set to register a bigger mark internationally. There is a distinct shift in tyre manufacturing in Asia, and India is poised to play a larger role in the days to come," said K M Mammen, managing director of MRF Ltd and chairman of Automotive Tyre Manufacturers' Association (ATMA), which represent 11 large tyre makers which account for over 90 per cent of domestic tyre production.

ATMA predicts that the industry would grow 7 to 8 per cent in fiscal 2020, and some segments would grow faster than others, depending on demand. Trucks and bus tyres, for instance, grew by 17 per cent in April to February 2018-19, while passenger car grew just one per cent.

"Post elections, and especially in the second half of the fiscal year, the industry is anticipating an upsurge in demand on account of a push for infrastructure and possible easing of liquidity," said Rajiv Budhraja, director general, ATMA.

The other major growth-driver: Anti-dumping duties on Chinese imports on truck and bus radial tyres, mainly for the replacement market, which accounts for 70 per cent of industry revenues. The fact that Chinese imports dropped a stunning 79 per cent in 2018-19 over the previous fiscal indicates the slack that domestic manufacturers were able to pick up.

This apart, tyre makers are setting their sights on exports. Preliminary figures show that tyre exports have crossed ₹12,000 crore during FY2019, with the US and Germany accounting for over 20 per cent of total exports, up marginally from ₹11,180 crore in FY18.

With investments in road and highways infrastructure going up, truck tyres are expected to grow at 15-20 per cent for the next couple of years. There will be the BS-VI pre-buy spree in the second half of 2019-20, plus there is replacement market for the segment. In this segment, radialisation has reached nearly 50 per cent in 2018-19 from 44 per cent last year.

This optimism also has to be balanced against some major challenges in the year ahead, chiefly on account of a downturn in the commodity cycle that kept the cost of raw materials, principally crude and rubber, low.

Crude oil derivatives such as carbon black, synthetic rubber and nylon tyre cord fabric together make up nearly half the cost of producing a tyre. The rise in the price of crude oil by nearly 35 per cent since January and rubber prices by 12-13 per cent year-on-year certainly squeezed profits for tyre makers, which was visible in the fourth quarter results.

With the US sanctions on Iranian imports kicking in and rubber production falling, prices are expected to increase further, which may put further pressure on the margins.

The exports market is also challenging. Growing nationalism leading to various kinds of import/custom duty, trade quota, volatile currencies are also leading to a challenging international business scenario.

Tyre makers, however, are looking beyond the temporary headwinds at the larger picture "Large infrastructural spend by government along with steady rise in disposable income and low vehicle ownership in India creating huge potential for growth combine to provide a favourable environment for tyre makers," says Anant Goenka, managing director, CEAT.

HOW THEY STACK UP

Tyre production growth in 2018-19 (in %, YoY)

Segment	Growth
Total	7
Truck & bus	15
Passenger car	1
2 Wheeler (scooter)	15
Motorcycle	5
Farm (tractor rear)	5

Vehicles (OEMs) sales	H1 (Apr–Sep) (in %)	H2 (Oct–Mar) (in %)	FY (in %)
M&HCVs	48	−5	15
Passenger vehicles	7	−1	3

INSIGHT

Why you are not driving an electric car

Blame battery technology. The slow pace of advancement means the core components of a green car are still too expensive

ANJANI TRIVEDI

It seems every major carmaker these days is thinking about electric vehicles in some capacity. At one of the world's largest auto shows in Shanghai this year, several manufacturers boasted their snazzy concept cars and talked up imminent launches.

Electric-vehicle sales are rising fast, and battery installation is climbing — largely thanks to China, where battery demand rose more than 175 per cent in the first quarter.

Before getting carried away with images of electric cars racing down roadways and crowding out gas guzzlers, there's a stark reality to consider: Vehicles that appeal to swaths of consumers remain few and far between, and those on the road are still too expensive.

How, despite all the grand aspirations and investment, can this cost barrier persist? One of the main culprits is battery technology.

Batteries comprise about half the cost of an electric car. While batteries have gotten less expensive over the past few years, they're still not cheap enough to put the overall cost of a green car on par with a regular one. In China, the average selling price for batteries at the end of last year was close to $180 per kilowatt hours, down 11 per cent from a year earlier but still higher than experts and analysts' expectations.

Leading battery makers like South Korea's Samsung SDI Co., SK Innovation Co., LG Chem Ltd., China's Contemporary Amperex Technology Co. and Japan's Panasonic Corp. have been pushing toward commercialising next-generation batteries for years. As automakers' orders rise, these companies have been piling in capital to add capacity as well. Yet the technology isn't evolving as quickly as anticipated. Operating margins, on average, have been negative, and free cash flows are volatile.

Now all the euphoric expectations are coming back down to earth. Given batteries' slow development, cars aren't going as far and can't be charged as quickly as hoped. Analysts are even raising their forecast for batteries' average selling price by as much 20 per cent in the coming years. That's despite the prices of materials like cobalt and lithium dropping (albeit from stratospheric levels) because of lacklustre demand.

Meanwhile, the chemistry is proving difficult. To make cars go farther, manufacturers have been tinkering with battery composition, trying to increase the ratio of energy-dense nickel in the cathode to 80 per cent from 60 per cent, while reducing the amount of cobalt and manganese. This process is highly sensitive, which is why trying to make these batteries affordable, functional and safe has been elusive. Nickel also tends to get very hot and batteries can catch fire, delaying efforts to make them commercially viable.

This isn't to say that electric vehicles have stalled. Goldman Sachs Group Inc. analysts estimate that if "solid progress" in battery technology is made then the cost for existing ones can be reduced by 30 per cent to 40 per cent at most. But even that's unlikely to bring prices to a level at which consumers would "actively purchase" such cars without subsidies, they note.

The hard truth is that, like it or not, environmental regulations in major markets such as China and Europe are forcing carmakers into electric cars at any cost. Stock prices and valuations have dropped sharply over the past year for manufacturers of electric vehicles and their parts. It may be time for investors to accept that the shift to electric will be more gradual than full-throttle.

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OUT OF SYNC

Global battery capacity is ramping up but technology isn't evolving as fast

(Figures in gigawatt hours)

	2017	2018	2019	2020	2021
LG Chem	18	33	75	100	110
Samsung SDI	7	16	23	31	41
SK Innovation	1	5	14	20	35
CATL	17	32	46	65	75
BYD	16	21	30	60	70
Panasonic	20	40	55	65	68

LETTERS

Walking a tightrope

This refers to the editorial "See no evil…" (13 May). To my mind, this editorial has been a little too harsh on the Election Commission (EC). EC is entrusted with the constitutional responsibility of holding free and fair elections in the country, which is a monumental exercise considering the size and diversity of our nation. Amid competitive politics and conflicting political narrative, it is no surprise that the EC finds itself bombarded with a barrage of complaints of alleged violation of the model code of conduct (MCC), quite a few of them being motivated and just made for scoring political brownie points. Clearly, the EC is not mandated to oblige the political parties or to promote their political drama. Yet, it has gone through the complaints and imposed campaign ban on leaders across political parties to discourage and dissuade abusive and provocative speeches. But given the reality of today's polarised politics, the EC will always be found wanting by someone or the other.

As far as Balakot and Pakistan are concerned, they must form a part of political narrative and election campaign as they mark a discernible shift in our security policy and measures to combat cross-border terror. What is required, though, is not to lose perspective while putting forth one's views on these matters. Being related to national security, certain gravity should be maintained while mentioning these issues in election campaigns and any frivolous comments must be avoided by all concerned.

Sanjeev Kumar Singh Jabalpur

Aadhaar-linked voting?

In my view, we should link voting with Aadhaar where all eligible voters can cast their vote online on some portal after authenticating their biometrics with Aadhaar database with the Government of India. I know that in the current atmosphere of Aadhaar-bashing, many people are going to frown at this idea but still I see the merit in proposing this for open debate to improve voter turnout in all elections in India. Apart from being cost effective and easy, this will bring many other tangible benefits to the entire electoral process. There will be huge savings for the entire economy as no EVMs will be required, no polling booths to be established, no security personnel to be deployed, and no government employee to be sent for election duty.

Pankaj Bhatiya Navi Mumbai

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Another bad idea

Govt should not amend IBC to introduce small loan waivers

The Union corporate affairs secretary has been reported as saying that the Insolvency and Bankruptcy Code (IBC) may be amended under a new government after the elections to make things easier for small borrowers. Borrowers who earn less than ₹60,000 a year, have assets worth below ₹20,000 and have outstanding loans of less than ₹35,000 would be eligible for what the secretary himself described as a "loan waiver programme across sectors for small farmers, artisans, micro-enterprises or other individuals". This new scheme adds itself to the plethora of other such waivers on offer or being promised by various political parties in this election. But it may be even more dangerous than the others on offer.

There is no harm, per se, in addressing the problems that small borrowers face when it comes to personal bankruptcy. People with small-ticket borrowing should not have to deal with an insolvency process that is as rigorous as for large corporate groups. The official also correctly pointed out that it is possible that such small-ticket cases would clog up the IBC system, thereby rendering the resolution of larger and more systemically important cases difficult. These are all issues that must be fixed, perhaps with a more streamlined approach to personal insolvency at low levels of income. However, the notion of a "universal debt relief scheme", which is how the corporate affairs secretary described the plan, is profoundly dangerous. It will undermine the entire basis of financial inclusion — which is to enable individuals to borrow more for entrepreneurship or consumption. The incentives for banks will become perverse. The official claimed that it would cost only ₹20,000 crore, but there is no reason to suppose that it could not balloon beyond that figure. It is also easy to game. A question worth asking is: For individuals who have no clear idea of the importance of their credit history, how much is their credit history worth? If his outstanding loan is considerably below ₹35,000 (the maximum), a borrower may be encouraged to sell their access to the waivable loan to illegal aggregators. As the demonetisation experience shows, there is no clear way for banks to prevent such side transactions.

Another question that must be asked is: Why is a universal debt relief programme being considered at this point? Does the government know something about the state of the MUDRA small-loan programme that is not evident in the publicly available data? There has been an upturn in bad loans in this category of late, but is worse feared in the future? The MUDRA scheme was pushed by the government, over-riding RBI reluctance, and the suspicion is that there has been a political angle to some of the loans given — mostly small amounts that are not worth chasing given the cost, especially in the absence of collateral. A wholesale write-off now would seem like trying to pre-empt criticism of a scheme that clearly has had room for misuse. While there is no question that a better structured way to declare insolvency is required for small borrowers, creating a financial system that reaches out to such borrowers effectively is paramount — and that will require a robust method of ensuring repayment when it is possible. Such a scheme also runs the risk of destroying credit discipline and credit culture, creating problems for the micro-finance institutions via unserviced loans. This might choke a crucial source of credit that is far superior to the moneylender. There is no doubt that there is considerable distress among the poor. But a universal debt waiver will not address that problem properly, the way a direct benefits transfer scheme would.

Bt-brinjal fiasco

India needs to take a hard look at its GM policy

Illegal cultivation of unapproved genetically modified (GM) Bt-brinjal in a village in the Fatehabad district of Haryana cannot be a one-off incident. The farmer concerned has been growing it since 2017 (by sourcing the saplings from the nearby town), so there is reason to believe that other farmers could also be doing so. There cannot be a supply chain of seeds and seedlings for only one or a handful of farmers. Also, different tests on these brinjals have shown the presence of more than one alien pest-protecting genes and not just the Cry1Ac gene derived from the common soil bacterium, Bacillus thuringiensis (Bt), which was used by the seed company Mahyco in developing Bt-brinjal. This is indicative of multiple sources of GM seeds.

Interestingly, Mahyco's Bt-brinjal was duly cleared for general cultivation by the Genetic Engineering Appraisal Committee (GEAC) in 2009 after extensive multi-location field trials. But its seeds were not distributed to the farmers officially due to the indefinite moratorium put on its cultivation by the then environment minister, Jairam Ramesh, under pressure from the anti-GM lobby. Many eminent agricultural scientists, as also the National Academy of Agricultural Sciences (NAAS), had slammed the minister's controversial decision. Though the government had ordered all the seeds of Bt-brinjal to be deposited with the National Bureau of Plant Genetics Resources (NBPGR) for safe custody, this agency denies having received any of it. So the actual fate of the GM seeds held by Mahyco and other institutions involved in conducting field trials remains unknown. The possibility of some of them falling into the hands of the farmers surreptitiously cannot, therefore, be ruled out. There could be another source of the transgenic brinjal seeds as well. The same Bt-brinjal, which was denied permission in India, was approved for commercial cultivation in Bangladesh in 2013 and is widely grown there. Its ingress into India from there is also likely.

Since Bt-brinjal has regularly been sold in the vegetable market, the consumption of this GM product by a large number of people is certain. In fact, the reality that is often disregarded is that the Bt gene entered the human and animal food chain even before Bt-brinjal came on the scene. It actually happened with the introduction of Bt-cotton in 2002. Cotton seeds are routinely fed to farm animals whose milk and meat are part of regular human diet. Besides, many imported food items, especially the processed foods, are believed to have traces of GM ingredients though it is seldom disclosed on the labels. No doubt, the concerns over the possible escape of the GM genes into the wild and impacting the environment, biodiversity and human and animal health are valid, but it is already a fait accompli by now.

Even if all the suspected GM crops are uprooted and destroyed, the damage, if at all it is there, cannot be undone. The most prudent move now would be to launch a well-designed and transparently-conducted scientific study on randomly selected humans, animals, crop plants and wild flora and fauna to find out if there is any impact that could be attributable directly to the GM genes. The peer-reviewed findings of this study should dictate the country's future GM policy.

ILLUSTRATION: BINAY SINHA

Rate cuts and 'pliant' governors

Two successive rate cuts from the RBI in February and April were not an election gift to the government

Some comments are unwarranted, a reflection of naïve acumen and narrow understanding of the subject. One such comment is in the April 13 issue of *The Economist* magazine that goes like this: "The Indian government has replaced a capable central-bank chief with a pliant insider who has cut rates ahead of an election". Such sweeping statements are oblivious of ground realities and are based on errant data.

As we may be aware, the Reserve Bank of India (RBI) has cut rates successively in February and April. These last two rate cuts were undertaken against the backdrop of "pliant macroeconomic conditions" in terms of benign inflation and rising concerns about slowing growth, not because of a "pliant" governor. It reflected proactive decision-making taken by the Monetary Policy Committee (MPC) (of which the governor is a member) based on hard data-driven evidence. The decision has nothing to do with Indian elections.

SOUMYA KANTI GHOSH

What does the data say? Average Consumer Price Index (CPI) inflation in FY19 was 3.4 per cent (five year average from FY15 to FY19 was 4.5 per cent). Rural CPI inflation was even lower at 3 per cent in FY19 (five-year average at 4.7 per cent). Average food inflation was 0.7 per cent (five-year average at 3.8 per cent) and vegetables prices contracted by 4.4 per cent (five-year average at 1.4 per cent) in FY19. The last time we had an inflation number more than 5 per cent was in January 2018. Average core CPI (a proxy for demand in the economy) was at 5.8 per cent in FY19 (five-year average was at 5.1 per cent). The RBI incidentally had increased the rates in June and August 2018, citing core inflationary pressures. Clearly, if we go by inflation numbers, the decision to cut rates was purely data driven. In fact, a contrarian view that the market currently possesses is that the rates could have been even lower than what they are currently given that inflation has been consistently undershooting in India.

To us, a larger debate is the issue of central bank independence, with reference to India, but not in the overtly biased manner it has been espoused in *The Economist*.

Central bank independence generally relates to three areas, namely personnel matters; financial aspects; and conduct of policy. Personnel independence refers to the extent to which the government distances itself from appointments, term of office and dismissal procedures of top central bank officials and the governing board. It also includes the extent and nature of representation of the government in the governing body of the central bank.

Financial independence relates to the freedom of the central bank to decide the extent to which government expenditure is either directly or indirectly financed via central bank credits. Direct or automatic access of government to central bank credits would naturally imply that monetary policy is subordinate to fiscal policy.

Policy independence of central banks refers to goal independence and instrument independence. Goal independence refers to a situation where the central bank itself can choose the policy priorities for stabilising output or prices at any given point of time, thus setting the goal of monetary policy. Instrument independence implies that the central bank is only free to choose the means / interest rate to achieve the objective set by the government.

Let us examine these issues one by one in the Indian context. The RBI had a long and illustrious history, with 66 per cent of the governors being chosen from the Indian Administrative Service. Some of the past governors (with an IAS background) managed to create a wonderful aura around themselves that is visible even today. Thus, what is important in running an institution is the understanding of ground realities, and hence appointments are mostly ownership-neutral.

Second, in the case of India, the RBI has goal independence as the inflation target, though set by the Finance Ministry (currently 4 per cent + 2 per cent), was actually an input provided by the RBI. The RBI also has instrument independence as the repo rate is decided by the MPC only through voting. Globally, most central banks including the Federal Reserve Bank and the European Central Bank have full instrument independence, but not goal. In effect, the RBI is perhaps the only central bank to have both.

Regarding the third point, it is true that in the Indian context fiscal policy used to override monetary policy. However, beginning 1998, the RBI has stopped printing money to finance deficit of the government (monetisation of the deficit). Since then, the RBI has also stopped participating in the auctions of government papers. However, to be brutally honest, credibility of fiscal policy in India still remains a big issue.

The problem with central banking post 2008 crisis is that persistently low interest rates with easy monetary policy have pushed up asset prices, enriching the rich and pushed down return on savings, possibly hurting pensioners and households who are not rich but rely on interest income on bank savings. This has meant political considerations have inadvertently played a role in central banking.

Interestingly, detractors of central bank's autonomy often argue that an independent central bank lacks democratic legitimacy. Curiously, such detractors derive strength from Nobel laureate Milton Friedman's statement that money is too important an issue to be left to the whims of central bankers. In this context, heavens will not fall if the RBI and the government move in sync through a consultative process. After all, growth has been specifically mentioned along with inflation in the revised preamble to the RBI Act.

With the clamour for a rate cut in June gaining momentum given the faltering growth and weak inflation, will *The Economist* now interpret any further cut as a post-election gift for the new government? Will be curious to know.

The writer is Group Chief Economic Advisor, SBI. Views are personal

Khan Market Gang and its discontents

Over the weekend, the prime minister sought to distance himself from a "gang" that hangs out at a signature location in India's capital city. What makes him so uncomfortable about this grouping, which he assumes is homogenous and uniformly opposed to him? The interview in *The Indian Express* suggests that he thinks all *habitues* of Khan Market are upscale, liberal westernised elites who disdain him and his brand of politics.

Since most of the people who visit an area that figures among the world's 25 most expensive retail real estate are busy shopping for upscale brands and products or eating or drinking at elite restaurants, it is safe to say any focus on politics is minimal here. No Khan Market eatery remotely resembles College Street's famous Coffee House or a Left Bank Café where subversion and intellectual discourse were once almost mandatory activities. If the prime minister has concluded that Khan Market's clientele are not the kind who "made" him and are unlikely to vote for him, we must assume that Mr Modi or his party colleagues must have conducted a detailed recce to formulate those views.

SWOT

KANIKA DATTA

Still, it is a pity Mr Modi chooses to regard this once-charming market as a blank cheque in his vote bank. Had he applied his characteristic verve to Khan Market as he did to his home state of Gujarat, he would have earned, without question, some robust support from these so-called liberal elites.

The market, once a soporific outpost for post-partition settlers from the north-west frontier, has outstripped Connaught Place as the city's toniest hang-out joint (ironically, this 21st century status would have horrified Khan Abdul Jabbar Khan, the austere brother of the Frontier Gandhi, for whom the market is named).

That dubious prestige, the twin result of a handy location and the explosion of upscale commerce to cater to a post-liberalisation cosmopolitan crowd, has come at a cost. Surrounded by a constant din and lured by astronomical rents, residents have chosen to vacate their homes here and lease them to eateries and shops. The result is a series of new and exciting establishments to visit, sure, but the downsides have multiplied exponentially too.

Today, a visitor will be struck by the traffic jams that have become a permanent fixture on the lanes around Khan Market as cars draw up to disgorge their passengers on to entrances that are choked with cars. Touchingly, the market's administrative association chose to solve the parking shortage by ending the free parking with a paid service, an expedient that is unlikely to discourage Khan Market gang members.

More serious is the fire hazard that Khan Market has become. Most of those enchanting residences with their narrow wooden stairways and wide window bays are chic restaurants today. Few of them appear to have fire escapes or follow any modicum of fire safety standards. The market, like most of Lutyens' Delhi (another of Mr Modi's pet peeves), comes under the purview of the New Delhi Municipal Corporation (NDMC), which has a majority of central government representatives on its administrative council. This body has been markedly desultory in enforcing fire safety norms here, a circumstance that caused a Supreme Court bench to make an acid comment about the rich being exempted from law enforcement.

What's all this got to do with Mr Modi? Simply this. The market is about 3.5 km from his official residence. He has been energetic about renaming roads in the vicinity to suit his political priorities. It lies well within his powers to direct NMDC to solve these basic traffic problems and issues impacting citizens' safety — after all, rich people aren't the only ones who will die if even one place in Khan Market catches fire; many less affluent service providers will perish too, *chowkidars* included.

Perhaps the next time Mr Modi visits his good friend Xi Jinping in China, he should request a visit to Xintiandi. This shopping and entertainment district can be loosely described as Shanghai's Khan Market. Like Khan Market, it boasts some of the priciest real estate in China and the most fashionable commercial establishments. But the resemblance ends there. Bustling with shops and restaurants in narrow historical alleyways, Xintiadi owes its existence to a government-directed urban renewal project that includes the restoration of some of the old houses (a museum tracing the history of Communist Party is located in one of these). Unlike Khan Market, where residents exited by choice, many families were displaced for the Xintiandi renewal project. It is, notably, a car-free zone so visitors can wander freely without being assaulted by car horns, the curses of irate drivers and exhaust fumes.

Xintiandi, in short, is an unabashedly affluent area, a showcase of China's post-Mao ideology of Capitalism with Chinese Characteristics. It doesn't take much to make Khan Market India's Xintiandi, just a little bit of imaginative urban planning. Certainly, none of it is beyond the capabilities of a prime minister who has managed to alter in just five years centuries of lethargy with an awesome clean-up of Varanasi. At any rate, he would feel less alienated from the Khan Market Gang if he chose to work his transformative magic there.

Earth's demographic myth

BOOK REVIEW

RAJIV SHIRALI

The most authoritative — and depressing — projections for world population growth made so far have been by the United Nations: Nine billion people on the planet by the year 2050, ballooning to 11 billion by the end of the century, perhaps leaving only standing room on earth. It is easy to imagine a planet devastated by overexploitation of natural resources. But are these dire predictions valid?

Darrell Bricker, CEO of the research firm Ipsos Public Affairs, and Canadian journalist John Ibbitson paint a contrarian scenario in *Empty Planet*, written after the two travelled all over the world, interviewing slum dwellers in Delhi, university students in Sao Paulo, Brazil, young professionals in Brussels, executives in Nairobi, and a host of others in several more cities. They also met academic demographers who have long questioned the UN's numbers.

Bricker-Ibbitson's thesis is that the UN forecasting model, which incorporates three variables — fertility rates, migration rates and death rates — fails to take into account the massive recent advances in female education rates or the speed of urbanisation, both of which drastically bring down birth rates. They quote Vienna-based demographer Wolfgang Lutz as saying that if the improvement in female education (and hence empowerment) and urbanisation (which makes children a liability — additional mouths to feed, as opposed to assets on a farm) are factored into the equation—the global population will peak at nine billion by 2060, and shrink to seven billion by the year 2100.

Bricker-Ibbitson polled women in 26 countries, asking them how many children they wanted, and the answer everywhere was two —representing a fertility rate below replacement level. They conclude that declines in fertility that occurred over the course of a century in the rich countries are poised to take place in the space of a few decades in the developing world: "Across the planet, birth rates are plunging. That plunge is why the UN forecasts are wrong. That plunge is why the world is going to start getting smaller, much sooner than most people think."

Rich-country population declines — and their social and economic consequences, such as Japan's aging-related recession induced by the declining consumption of the growing elderly population — are well-documented. Bricker-Ibbitson argue however that the prospects are encouraging for the United States and Canada, because both countries have embraced robust (though very different) immigration policies.

What is startling about their conclusions are the imminent population declines in the developing world. Fertility rates are at or below the 2.1 replacement level in China, India, Brazil, Mexico, Malaysia and Thailand, and getting there in a host of other countries as well. The UN has predicted that China's population will peak at over 1.4 billion people around 2030 and then decline to just over one billion by 2100, while India's will reach 1.7 billion by 2060 and then begin to gently decline. Bricker-Ibbitson counter that China's population will not merely decline, it will practically collapse, and India's may never reach 1.7 billion. They use Austrian demographer Wolfgang Lutz's calculations to conclude that at a fertility rate of 1.4 or 1.5 for most of this century, China's population will fall to around 754 million by 2100 (an astounding 630 million fewer people than are alive in China today).

For India, Bricker-Ibbitson's conclusions are less precise. In the Delhi slum of Srinivaspuri the two meet a group of young women who are unanimous that they want only two children, because more would be an unaffordable expense. India's official fertility rate today is 2.4 — above the replacement rate of 2.1. However, Bricker-Ibbitson claim to have been privately told by demographers and government officials in Delhi that it has already dropped below the replacement level. If so, they point out, India's population is unlikely to cross 1.5 billion, and will be back down to 1.2 billion by 2100.

Population declines will have economic impacts — sluggish or non-existent growth, a declining tax base, growing government debt as nations struggle to cope with growing pension burdens — that Bricker-Ibbitson suggest can only be staved off through liberal immigration on the lines of Canada's (close to one per cent of its own population annually). Population declines will have a strategic dimension as well, and here the US seems well-placed to increase the distance between itself and its largest geopolitical competitors, China and Russia, whose fertility rates are much lower than its own.

Empty Planet is not just about population; it is strong on migration, without which, it argues, population growth in most of the developed world would already be coming to a halt: Europe's population would have fallen between the years 2000 and 2015, had it not been for migrants. Bricker-Ibbitson observe that in the rest of the developed world, principally the US and Canada, immigration will become the sole driver of population growth from the 2020s.

Bricker-Ibbitson's startling conclusions, arrived at through painstaking research and good old-fashioned reporting, stand conventional wisdom on its head. The result is a highly readable if somewhat speculative account on a subject that is not necessarily very absorbing.

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