Opinion

MONDAY, MAY 27, 2019

EXECUTIVE FAILURE

Former UK PM Theresa May

It is and will always remain a matter of deep regret to me that I have not been able to deliver Brexit

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Does Modi think there is a crisis?

If he doesn't—as he didn't in the last five years—the govt is unlikely to undertake the big reforms India so sorely needs

A HEADY VICTORY, lots of time to savour it, and no big crisis to tackle. That is the situation the BJP finds itself in today, having won a comfortable, and enviable, majority of 303 seats in Parliament; the tally is 350 seats with the allies. By November next year, it should notch up close to 120 seats in the Upper House. The only key state election on the horizon is Maharashtra, which, going by Parliamentary elections, should be a cakewalk. Indeed, no political party has found itself in such an unassailable position in a long, long time.

The worry then is that the government might not be in a big hurry to roll out big reforms that are unpopular. Serious labour reforms would mean taking on the unions as would initiating more privatisation—not simply offloading equity stakes in the market but selling unprofitable companies like Air India or BSNL. So far, state-owned banks have been restructured through mergers but without any layoffs, which means they don't really become more efficient. Selling PSU banks might not be possible till they are in better shape. So, at some point, the workforce needs to be more productive. That, of course, goes for all PSUs. There are also agri-reforms that can be pushed through—more mandis, more electronic trading—though that would reduce the clout of the arhatiyas. Multi-brand retail could be thrown open to foreign participation so as to attract capital, but, so far, the government has refrained from doing this—possibly because it fears small grocers would be hit.

At this point, although the economy is slowing and fewer jobs are being created, it isn't seen as a crisis. The government seemed content to know India was growing more rapidly than other large economies and less worried that the growth wasn't creating jobs. When the NSSO data leaked, NITI Aayog economists defended unemployment being at a 45-year high saying the data wasn't comparable. That may have been so, and given the timing—ahead of the elections—the government's stance was understandable.

> More spending on the poor, like the last time around, won't be possible unless there is a growth-spurt, and that needs a large number of big reforms. Business as usual is no longer an option

But, the reality is that, while e-commerce may be spawning jobs and business opportunities, there is virtually no hiring in banking and financial services—except for very high-skilled jobs, since digital transactions are picking up. Moreover, companies continue to fold up; Jet Airways is a case in point.

It would be worrying if the government is tempted to focus on the many welfare schemes and hold back the big structural reforms for some time. The schemes have won it both goodwill and votes, but the structural reforms must begin now. The spends on building roads and ports will create jobs as will bigger budgets for health and education, which is important and makes for good optics. But, it needs to go way beyond what it did during its first stint, the highlight of which has to be the IBC. The attempts to amend land and labour laws may not have been fruitful, but these need to be taken up again. Moreover, FDI rules must be eased, especially for defence.

While the routine government spending will lift consumption, and schemes such as MGNREGA will benefit the less-affluent sections, it won't be enough to pull the economy out of the rut, far less take it to a new level. Consumption, in the last few years, was boosted by the hikes that followed the Seventh Pay Commission's recommendations and the effects of that are evidently wearing off. At an estimated ₹21.4 lakh crore for FY19, the tax-to-GDP ratio will be flat at 11.2%, not surprising since GDP has been slowing and will clock in just about 6.5% in Q4FY19. The shortfall in direct tax collections in FY19 is of around ₹50,000 crore.

Typically, tax collections have a buoyancy of one, though, in recent years, this multiple has been higher. An estimated GDP growth of even 12% in FY20 will result in tax collections growing at 13-14% or, at best, 15%. The tax collections for FY20 have been pegged at ₹25.5 lakh crore, an increase of 19% and suggesting a buoyancy of 1.7, last seen in 2007-08.

This, then, would always pressure the balance sheet and the fisc, and compel the government to cut back on capex since it can never really prune revenue expenditure. In the last couple of years, it has resorted to large extra-budgetary borrowings to meet expenses—not the best way to manage. It is important to start work on labour reforms right away, and try and push them through by end 2020. States such as Andhra Pradesh, Gujarat, Madhya Pradesh and Rajasthan have amended the laws to make them more flexible for companies to hire and retrench employees. Without easier rules, the organised sector will desist from recruiting in big numbers as will mid-sized businesses, especially export-oriented units. And unless businessmen running leather, gems and jewellery and apparel units are able to hire affordable workforces and utilise them flexibly, they simply cannot compete in the global market. These sectors are big employers and can make a big difference to the job market.

ChinaCFC

Violation of the Montreal Protocol by China portends ill for global consensus on climate action

SLEUTHING SCIENTISTS NOW lay the blame for an unexpected spike in atmospheric concentration of tricholorofluoromethane, or CFC 11, at China's door. CFC-11, which was used in the manufacture of spray foam insulation before it was banned under the 1987 Montreal Protocol, is largely to blame for the hole in the ozone layer in the stratosphere over Southern Hemisphere. Its production was phased out since 2010 under the Protocol, a global treaty to protect the ozone layer. New CFC-11 emissions were reported in May 2018, seemingly originating from East Asia, after analysis of air samples from the monitoring stations in Hawaii. The latest analysis, of samples from South Korea and Japan, found that more than half of the spike in CFC-11 emissions, beginning around 2013, can be pinned to two Chinese provinces—Shandong and Hebei, as per a report in Nature.

When the rate of decline in atmospheric CFC-11 dropped in 2013—the concentration was falling by 0.8% per year till 2012—it sparked global concern. The unexpected break in falling of CFC-11 levels, scientists surmised, could only be explained by a new source of emission. The problem is actually worse than it looks because, if China is manufacturing spray foam, it is a long-term disaster since the CFC is largely trapped in the foam and gets released slowly over the years. There are immense geopolitical consequences of the Chinese violation, though the government insists it is cracking down on illegal production. Given countries have worked so far on bringing down CFC levels under the Protocol working largely on mutual trust, China's breach is not likely to go down lightly with other countries. The US, led by a climate-sceptic president, could see the violation as the perfect precedent for walking away from global climate agreements, damaging the global consensus on climate action further (it has already walked out of the Paris climate agreement).

FROM PLATE TO PLOUGH

TO START WITH, A AGRI-MARKETING REFORMS COUNCIL, ON THE LINES OF THE GST COUNCIL, MUST BE SET UP FOR BETTER COORDINATION WITH STATES ON IMPLEMENTING REFORMS

Modi must now sow agri-marketing reforms

ASHOK GULATI
Infosys chair professor of economic, Icrier

KUDOS TO PRIME minister Narendra Modi, Amit Shah and their charged battery of karyakartas (party workers) for this historic victory in the parliamentary elections! This is the biggest feat of democracy on earth, convincingly won by the BJP/NDA. We should all feel proud of our democracy, despite some bitter speeches during election campaign by various parties.

Political pundits will remain busy analysing why economic factors ranging from demonetisation, teething problems of GST implementation, slow growth of industry with limited new jobs, and even rural distress, did not dampen the electoral showing of the BJP/NDA. But one thing seems clear, that Indians like a 'strong' prime minister and not a meek one. In some sense, it is more a victory of the Modi brand, as the whole election pitch of the BJP/NDA centred around Narendra Modi.

Now, with the historic win in the pocket, what is it that PM Modi can deliver to the nation? First and foremost, perhaps the need is for humility and going back to his 2014 election slogan of 'sabka saath, sabka vikas'. In his 'thank you' speech, the PM did mention that he will forget the bitterness of the election campaign, and will work with all states and parties without any ill will and animosity. That is reassuring.

Second, he has to hit the ground running on the economy. The macro-economy is facing headwinds. Industry is getting deeper into the doldrums, and agriculture has been limping. He has no time to rest as expectations from him have soared even higher. We focus here on the agri-food sector. And within that, we discuss only agri-marketing, which is a low-hanging fruit. Later pieces will focus on other aspects of agriculture.

In 2016, PM Modi gave a clarion call to double farmers' real incomes by 2022-23. At the time, the time-frame to do it was seven years and required rate of growth was 10.4% per annum. Three years have already passed by, and one does not see any acceleration in farmers' incomes compared to its trend line of 3.7% during 2002-03 to 2015-16. So, in the remaining four years, PM Modi has to get farmers real incomes moving up by 13-15% per annum. To my professional understanding, this is almost impossible with the set of policies that he has followed in the last five years. Agri-marketing reforms, therefore, should be the top priority in reforming agriculture.

PM Modi has to ensure that his Model Agricultural Produce and Livestocks Marketing Act of 2017 is followed and implemented by all the states, in letter and spirit. Just sending a letter to states will not get it implemented. Such a letter was also sent by late PM Vajpayee in 2003, and it remained basically on paper. Recent attempts by chief minister Devendra Fadnavis to implement it in Mahrashtra showed how difficult it could be in the face of strong opposition by mandi commission agents and other vested interests.

If PM Modi is serious about reforming agriculture, he needs to quickly set up an Agri-Marketing Reforms Council (AMRC), on the lines of the GST Council, to carry out agri-marketing reforms in states in a synchronised manner. It is a low-hanging fruit and can be harvested in the next 6-12 months if he hits the ground running right now. This AMRC will also have to review and prune the Essential Commodities Act of 1955, the Livestock marketing, the Warehouse Receipt System, the Agri-Futures markets, etc. The agri-vision for New India should be based on building competitive and inclusive value-chains for several products, on the lines of the AMUL story for milk. Food processors, organised retailers, agri-exporters, need to be encouraged for direct buying from farmers' groups bypassing the mandi system. Optimally, AMRC should be led by a strong agriculture minister at the Centre in association with some chief ministers of key agri-states, and the experience gained in GST reforms should be fully tapped. For that, PM Modi needs to have a heavy-weight agri-minister, who is well respected for his holistic understanding of these issues and can also carry his voice in the Cabinet. Whom he gives this responsibility will have to be seen when he announces his new Cabinet. The configuration of last Cabinet may not yield desired results.

> China is transitioning from a price-support and public procurement model to a per-acre cash pay-out model. India should learn from the Chinese experience

It may be noted that the only sustainable and efficient way to get the remunerative prices for farmers is through these structural reforms in agri-marketing. The path of higher and higher MSPs, based on cost A2+FL as announced for 23 commodities has serious limitations as it bypasses the demand side of the equation. We can already see much higher stocks of grains in the government system, with Food Corporation of India and NAFED, than the buffer stock norms of those commodities. This only reflects that inefficiency will keep increasing. In this context, lessons from China may be of some use. China, after 2008, significantly increased MSPs for key commodities such as rice, wheat, corn and cotton. Its list of MSP commodities is much smaller than ours (we have 23 commodities under MSP). Its stocks of grains with government system touched almost 300 million tonnes, leading to massive inefficiency. From 2016 onwards, it set out to reform the agri-pricing support system. First, MSP support for corn was given up, then cotton procurement was reduced, and, now, even wheat MSP has been reduced. Interestingly—simultaneously—it moved from price support operations to direct income support on a per-acre basis. In 2016-17, China gave direct income support of $21 billion to its farmers. In that sense, PM Modi's move toward PM-Kisan for direct income support is a step in the right direction.

If PM Modi can do this shift from price policy to income policy, and reform the current agri-marketing system, it will be a fundamental structural reform in agriculture with high pay-offs in the years to come.

A CEO council on climate?

Big Business has launched yet another initiative to curb carbon emissions. Things just might be different this time

NATHANIEL BULLARD
Bloomberg

EARLIER THIS MONTH, the CEOs of 13 Fortune 500 companies, along with a handful of environmental groups, issued a call to enact federal legislation to fight the impacts of climate change. Their initiative suggests a carbon-pricing policy that would "meet the climate challenge at the lowest possible cost." This CEO Climate Dialogue—top-down, policy-driven and designed to garner bipartisan support—adds to a wide field of big businesses, financial institutions, and state and local governments advocating limits on greenhouse gas emissions.

If this all sounds like a movie you've seen before, that's because it is.

Twelve years ago, a similar group (featuring some of the same players) formed the US Climate Action Partnership, a large corporate push for legislation to cap carbon dioxide emissions. USCAP was also about big business; it was about carbon pricing; it was about bipartisanship. And it went nowhere.

The cynic in me says that regardless of political or actual climate, any grand plan that includes mentions of "climate," "carbon," "price," "tax," "limit," "regulation," "essential" or "policy" is probably a nonstarter. Grand plans didn't work before, and they probably won't work now. But much has changed since 2007, and what's different makes me less cynical about big-business-led efforts to decarbonise themselves and, by extent, the economy.

To get to my less cynical perspective, we need a bit of history. As Kevin Book of Clearview Energy Partners told me:

The economic basis for the climate story in 2007 is a completely different story to today. Then, saving hydrocarbons and reducing emissions were aligned. We were short hydrocarbons in the world, and the ideas of conserving hydrocarbons and reducing emissions were totally aligned.

Book is right—oil was expensive and scarce; so was gas. Coal-fired power was still seen as the basis of the US electricity mix as it was cheap and the fuel domestically sourced. Coal fueled half of all power generation. Emissions were rising as a result. This expectation that coal would remain the cheapest power source was at work during the leveraged buyout of TXU Corp, the largest LBO at the time.

One of TXU's major concessions in the deal was to cut the number of its planned new coal plants to three from 11—significant enough to earn the endorsement of two large nongovernmental organizations, Environmental Defense and the Natural Resources Defense Council. In announcing the deal, TXU also said it sought "to join the United States Climate Action Partnership." Fewer coal plants would mean that TXU had fewer lower-cost generators to compete against higher-cost gas-fired plants, but it also meant, in theory, that its existing coal plants would stay competitive in the power market. At the time, natural gas futures were a little more than a year past a spike beyond $15 per million British thermal units, and a bit less than a year from another run-up to almost $14 per mmBtu.

But just as USCAP was being proposed, two things happened: The economy slowed (and then went into recession) and an enormous amount of natural gas supply entered the market. Renewable power generation grew enormously, and the economy became more energy-efficient. U.S. greenhouse gas emissions would, it turns out, reach their peak in 2007.

USCAP's medium-term greenhouse gas emissions target was 90% to 100% of current levels within 10 years of enactment. Despite the failure of the group's strategy, that goal was reached anyway.

Here's what happened to natural gas futures after that 2008 peak: They dropped to half their level when the TXU buyout was announced. TXU, heavily indebted and facing those "relentlessly unfavorable natural gas prices" that made its coal fleet uneconomical, filed for bankruptcy in 2014.

With cheap gas came far more gas-fired power generation in the US Renewables surged, too, while the coal fleet stopped growing in 2011 and has been shrinking ever since. Those changes have been massive contributors to the US's falling emissions. Sum up those net additions since 2007 by technology or fuel, and the change looks pretty stark. Wind, solar and gas make up the vast bulk of all growth—at the expense of coal and oil.

The future fortunes of coal in power generation is something I write about often, mostly because coal has been the backbone of so many electricity systems for so long. That status made any concession around coal a big deal in 2007. Coal is mentioned 22 times in USCAP's 2009 *A Blueprint for Legislative Action;* it isn't mentioned once in any of the CEO Climate Dialogue's documents.

Even BHP Group's chief financial officer, Peter Beaven, said at the mining giant's recent annual general meeting that coal used for power generation is being "phased out, potentially sooner than expected." That statement is even more interesting when you note that BHP is bullish on materials used in renewable energy and electric vehicles.

A lot has changed in the 12 years since USCAP was announced. Hydrocarbons are cheap and abundant, but renewable energy is even cheaper in many places, and getting cheaper still. Scarcity isn't an issue. But climate change looms far larger than it did in 2007. As Book told me: *Today, the societal focus isn't on the climate itself, but climate bolted onto a much more potent substrate: the Green New Deal. The Green New Deal doesn't exist except as a mobilisation and a movement, but it appeals societally on a human rather than a geologic time scale: 10 years.*

I don't think today's politics will allow for a top-down, centralised, price-based measure to limit carbon emissions. It was hard 12 years ago; it's hard now. It's still important to look back and appreciate all that has changed in energy supply, demand and technology. It's probably more important as we look ahead via thoughtful explorations of what a massive mobilisation to decarbonize might look like. Put the pieces of the history and the future together, and maybe we have hope that it will be different this time around.

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LETTERS TO THE EDITOR

Modi wave sweeps away Opposition

The runaway victory for the BJP in Karnataka could prove to be ominous for the H D Kumaraswamy-led coalition government. The saffron party decimated the joint might of the Congress-JD(S) coalition by bagging a whopping 25 of the 28 Lok Sabha seats it contested. The bigwigs, including Mallikarjun Kharge, M Veerappa Moily, K H Muniyappa and H D Deve Gowda were simply swept away by the Modi tsunami. No praise is too high for BJP-backed Independent candidate Sumalatha Ambareesh who overcame severe odds and bagged the prestigious Mandya seat at the expense of JD(S)-Congress candidate, Nikhil Kumaraswamy.
— NJ Ravi Chander, Bengaluru

Congress must reform

Election results for Lok Sabha were on expected lines ever since Sonia Gandhi forced dynastic tradition in her party by making her politically-incapable son the Congress president. Evidently, politics in parties with dynastic tradition is like a political industry where it is quite natural that owner of the political industry will hand over the party to his or her legal heir, irrespective of capability. Congress is not the only such party. There are many regional parties like Rashtriya Janta Dal in Bihar, where less educated or even illiterate legal heirs of party-founder took charge of the party. Sonia Gandhi could crown Rahul Gandhi as symbolic president of the party with all financial powers, but should create a post of Working President to carry on actual political work in the party. Also, she should have declared an acceptable intellectual as prime ministerial candidate from Congress. Though even such steps could not prevent BJP coming to power with a landslide victory in the strong Modi-wave, any such hypothetical step from Sonia Gandhi could have definitely provided the country healthy roots of democratic form of governance with the ideal two-party-system that could provide a platform in case of anti-incumbency.
— Madhu Agrawal, Delhi

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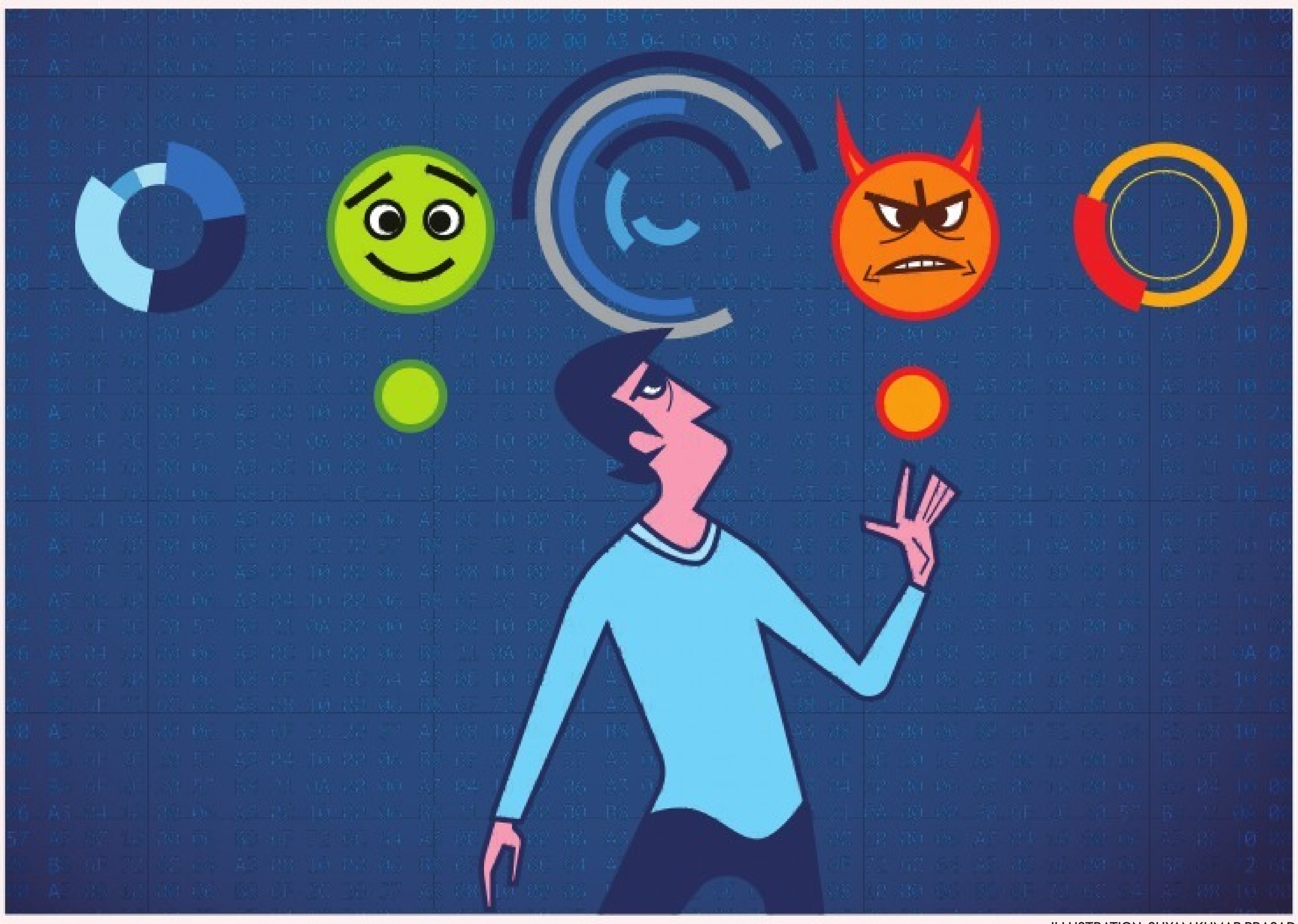

ILLUSTRATION: SHYAM KUMAR PRASAD

RAJAT KATHURIA

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THE EVIL THAT IS DATA

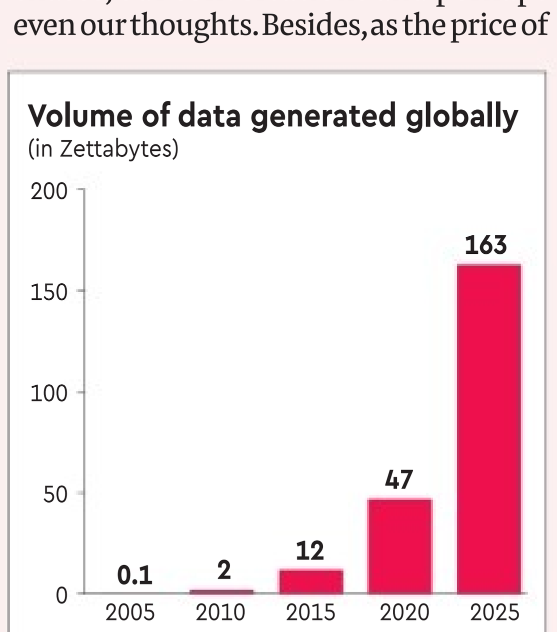
Data, data everywhere: Some to use, some to abuse

In data markets, trust is a vital property and its absence will make it hard to conquer the fear of surveillance capitalism that has gripped the world. Innovation is unlikely to thrive in an atmosphere of doubt and suspicion

AKIN TO WATER, DATA is everywhere now, and akin to water, an overwhelming percentage of it is unfit for consumption. The bigger tragedy with data is that of the amounts that have been readied for consumption (read analytics); bad uses have dominated the good ones in public consciousness. Like Gresham's law for money, there might just emerge an equivalent law for data: bad data drives out the good! Mark Antony might well have anticipated the current discourse on data if he had said—the evil that data does lives on after it, the good is oft interred with its bones.

But believe it or not, data has and will continue to do a lot of good. The good that data does if widely understood can be catalysed through good policy. Data also does a lot of bad and that can be used to drive good policy interventions to preclude abuses and override vested interests.

What has been breathtaking about data in recent times is the quantum of generation. Massive amounts of it gets produced, some voluntarily and most of it involuntary. The former because we choose to provide information about ourselves on social media, of our actions and sometimes even of our reactions to others' posts. Involuntary data gets produced because devices (the ones we wear and the ones we get implanted!) are all eventually connected to the internet, recording our movements, our purchases, our conversations and perhaps even our thoughts. Besides, as the price of connectivity and devices plummets, there will hardly be any public space remaining that does not train cameras on us, all in the name of maintaining public safety. It's as if someone is saying to you in vintage Bollywood style: *Tu jahaan jahaan chalega, mera saaya saath hoga*!



If the real world doesn't tire of teaching us the perennial truth that life exists not in the edges at 0 or 1, but in the continuum in between, the reality with data is even more profoundly so. Between voluntary and involuntary data generation, there are an entire host of in-between data capturing practices that have emerged and that will evolve as rules and the associated case law becomes established. For example, online (and to an extent offline) purchases generate truckloads of data every second with regard to consumer preferences that are often used without consent. At the same time, admission to various portals requires disclosure of personal information without which access is barred or restricted, giving the user no choice but to comply. And in the vast majority of cases, users just check the boxes without reading the fine print, meaning that 'informed consent' is pretty much an oxymoron in the online universe. Emerging laws are, thus, mandating simpler and clearer communication of privacy policies potentially making online consent more meaningful.

As a result of massive technological breakthroughs, including wearable sensors and e-implants, data collection has exploded. According to *The Economist*, the world's most valuable resource is no longer oil, but data, 90% of which has been created in the last two years, and the vast majority (more than 99%) of which is "dark and untouched." Thus the opening comparison with water.

Additionally, data exhaust and digital trails left by this massive network of devices has become a cause of concern posing both risk to privacy and an opportunity for innovation. The International Data Corporation (IDC) estimates that 12 zettabytes of data were generated in 2015, of which only 0.05% was analysed. The IDC expects 47 zettabytes of data to be produced in 2020. Just to put things in perspective, 1 zettabyte is approximately equal to a thousand exabytes, a billion terabytes or a trillion gigabytes. Alternatively, a zettabyte is also expressed as 10(21) bytes. Storage that was prohibitively expensive only a few years ago, and warranted deleting files to make room for newer ones, will soon become redundant. It is estimated that 90% of the population will have unlimited and free data storage in the next three years.

Combine this data overload with artificial intelligence (AI) and the mix is as potent as Getafix's 'magic potion'. It can be ruinous if misused and gainful if not. Although AI has been around since 1956, its rise to become the hottest field in technology today can be linked to the ability of human beings to generate vast amounts of data, along with ever increasing capacity to store it. Data is the veritable feedstock for AI. What has got people excited about AI is that it can now be applied to so many different domains—health, education, e-commerce, psephology, elections, social media, businesses, public services, agriculture, manufacturing—the list is endless. Data along with AI is a deadly combination that makes the whole infinitely greater than the sum of its individual parts. If one watershed moment for AI was in 1997 when IBM's Deep Blue beat Garry Kasparov, considered as the Greatest of All Time (GOAT) in classical chess, the second watershed may be unfolding right before our eyes.

The rise or fall of AI will depend on how the integrity of the underlying data is maintained. For example, data illegally obtained via Facebook, which allowed Cambridge Analytica (CA) to allegedly influence political behaviour through targeted 'misinformation', rightly stirred a hornets' nest over how the data was obtained. CA was eventually forced to shut down, while Facebook lost billions in market value. Machine learning and AI-based content guidance systems are being created every minute in the fields of advertising, news and its converse 'fake news', among others, to target individuals based on their behaviour and psychographic profile. There are a plethora of examples of the damaging consequences of AI that involve abusing data for power, businesses and even vendetta. These things will happen and in ways that can harm individuals, destroy reputations, damage societies and impair our democracy. Moreover, digital giants are likely to be the norm in this space due to the inherent and profound network effects. The clarion calls for breaking them in the manner that AT&T was broken in the 1990s to curb the monopolists' innate abusive designs are going to be hard to replicate. But let that be another story for another time. The truth is that not all bad uses of data will be or can be nipped in the bud, but incidents such as CA help to create frameworks in which such incidents can be minimised, if not eliminated. Naturally, consumer groups are incensed and are calling for greater online protection and an uncompromised right to privacy as well as checks on misinformation and propaganda.

That the bad consequences of the AI-data combine have so far trumped the good does not imply the latter are small or inconsequential. In fact, over time, these could dwarf the bad as technologies diffuse and mature, and adapt to contexts. We know that AI will help enhance skills, create jobs that never existed earlier, help scientific discoveries, including for new drugs, spawn new businesses and business models, improve citizen services, make delivery quicker and more efficient, and radically change industries like healthcare and transport, making them better and perhaps even safer.

The possibilities are immense, but not credibly quantifiable right now. One estimate values these at $435 billion in 2025, but the forecast error is likely to be very large. Here, one point is worth emphasising. The large benefits will be contingent upon building trust among and between citizens, and the private and public sectors. Trust has been a scarce commodity in the Indian ecosphere and within the AI-data combine its premium will rise exponentially. In data markets, trust is a vital property and its absence will make it hard to conquer the fear of surveillance capitalism that has gripped India (and the world). Innovation is unlikely to thrive in an atmosphere of doubt and suspicion. Thus, the public and private sectors need to build and nurture trust between and among themselves. And data can be the anchor around which this is created. Else, the perennial poetic lament '*Hum ko unse wafa ki hai umeed, jo nahi jaante wafa kya hai*' will continue to hold back our progress.

(Richa Sekhani and Isha Suri, both at ICRIER, contributed to the article)

HINDU JUGGERNAUT

What Modi should do next

The ruling party has won a huge victory. If only it governed as well as it campaigns

For the second time in a row, the Bharatiya Janata Party (BJP) led by Narendra Modi has swept an Indian election. The alliance it leads (the NDA) has won 343 of the 545 seats in the lower house of Parliament. The BJP itself has claimed a majority in its own right, of more than 300 seats.

To put the scale of the BJP's success in perspective, the last politician to lead a party to two successive electoral majorities in India was Indira Gandhi, in 1971, at the helm of the Congress party. The Congress, now led by Indira's grandson, clawed back a little ground after its disastrous performance at the previous election, in 2014, in which it won only 44 seats. But with a haul of 52, it remains a distant also-ran in Indian politics. In a country where previously routine anti-incumbency had generated decades of fissiparous politics, the BJP appears to have become the natural party of government, just as the Congress was in the first years after Independence.

Investors cheered the result, sending the main share index to a record high. The BJP's victory holds out the prospect not just of stability, but also of development and reform. Its manifesto pledged lavish investment in infrastructure, including 100 new airports and 50 metro systems. By 2030, the BJP says, India will be the world's third-biggest economy (it now ranks sixth).

Yet the BJP has little to say about the biggest obstacles to growth, such as the poor education of many workers, the lack of clear title to much of India's land and the domination of the banking system by sclerotic state-owned firms. Its activists tend to focus on less practical matters, to say the least. It has long promised to build a temple to the Hindu god Rama in the city of Ayodhya, for example, on the site of a mosque demolished by Hindu zealots in 1992. This time around, for good measure, it pledged to keep women out of a big temple in the southern state of Kerala, in contravention of the Supreme Court's orders. It also wants to revise the Constitution to take away special privileges granted to India's only Muslim-majority state, Jammu & Kashmir. One of the BJP's new MPs is a woman awaiting trial for aiding a terrorist attack that killed six Muslims.

> Modi has governed in perpetual campaign mode, with an emphasis on slogans than outcomes. He needs to show Indians he is not just good at winning elections, but at putting his victories to use

This is the ambiguity on which the BJP thrives. To the world, and to upwardly mobile voters, it presents itself as a modern, reformist party, determined to fulfil India's potential. But it derives equal support from its claim to be a muscular champion of Hinduism, that will not flinch from putting Muslims—and their foreign embodiment, Pakistan—in their place.

In its five years in office, Mr Modi's government did not quite live up to either identity, to the dismay of business and the relief of minorities. It did enact two urgently needed reforms, introducing a uniform national sales tax and streamlining bankruptcy proceedings. But it also appalled businessmen (and economists) by abruptly voiding most banknotes in a quixotic quest to catch tax-dodgers. By the same token, it did not build the temple at Ayodhya or preside over the sort of anti-Muslim pogrom that stained Mr Modi's tenure as chief minister of the state of Gujarat. But it did inflame the Muslim areas of Jammu & Kashmir with brutal policing, launch risky air strikes against Pakistan and wink at alarmingly regular beatings and lynchings of Muslims and low-caste Hindus for various perceived insults to the religion of the majority.

Mr Modi's second term gives him another chance to hasten development and turn India into a genuine global power—goals that appeal to both his enterprising supporters and his religious ones. But, to do so, he will have to focus on the economy. The sectarian concerns the BJP has been stirring up during the election campaign are a harmful distraction. So far, Mr Modi has governed in perpetual campaign mode, with an emphasis on slogans than outcomes. He needs to show Indians that he is not just good at winning elections, but at putting his victories to use.

THE ECONOMIST

The trade war and India opportunity

How can India sustainably access the lucrative yet challenging markets that beckon her

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IT'S THE SEASON OF trade wars, though instances of such economic warfare are hardly new. Indeed, the history of global trade is rife with several instances of aggressive trade wars: be it the Sino-British Opium Wars of the 19th century, the Chicken Wars between the US and Europe in the 1960s, or the 20-year-old Banana Wars between them that ended only in 2012, nationalist sentiments have led nations to impose 'penalising' trade restrictions on unrelenting partners, often themselves bearing the brunt of retaliation or long-term adverse effects of such restrictions.

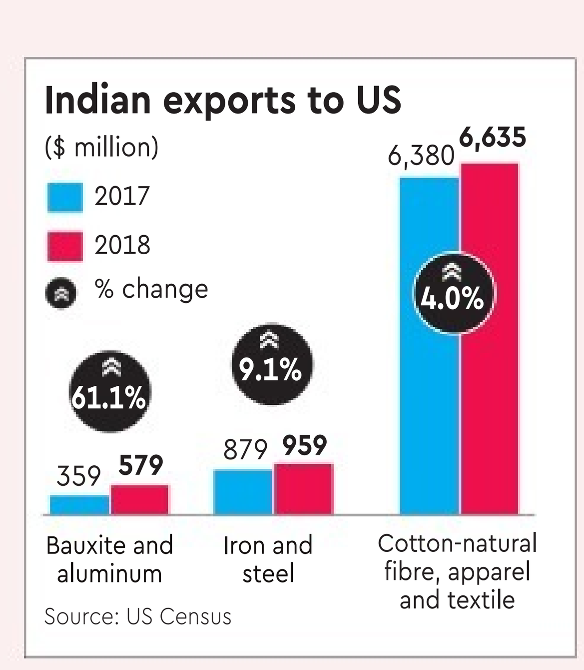
Is this time different?

A rapidly changing geopolitical scenario, with associated changes in international relations and national trade policies, has put commodity markets on the frontline of US-led trade war. The immediate and continued effect of US-led trade wars has been a spur in commodity price volatility across the spectrum. As the Iran turmoil led to augmented energy price volatility, it added to the existing cocktail of commodity price volatility. Prices of aluminium in global markets have plunged over 30% from their highest levels in April 2018. The industrial metal is often viewed as a proxy for prospects of global growth, and the signal being sent in recent weeks suggests rising pessimism about growth with escalating trade war concerns.

Meanwhile, lead prices have sunk 34% between February 2018 and May 2019 on persistent worries of the impact of US-China trade tensions on global economic growth and the sinking Chinese auto demand. The same reasons have made gold shine. Prices of the yellow metal, a favoured safe haven asset in times of uncertainties, rose to $1,307/oz in May 2019 from a low of $1,176/oz in August 2018, and back to $1,275 levels as of now.

The India opportunity?

While volatility in commodity markets is not unusual, the magnitude and impact of the current trade war has added an extra measure of uncertainty. Even as China and the US have been engaged in a trade war involving imposition of and retaliation with tariffs, the brunt (or opportunities) of the economic wars has spilt over to many other countries, including India. As Sino-US skirmishes are leading to reduction of imports from each other and both nations are looking forward to other countries as destinations of their exports and sources of imports erecting the high-tariff wall amongst them, India is emerging as a candidate for such substitutions. China's share in total US trade dropped to 15.7% in 2018 from 16.4% in 2017. Simultaneously, total trade between India and the US increased to $87.5 billion in 2018 from $74.3 billion in 2017, raising India's share in total US trade to 2.1% in 2018 from 1.9% in the previous year. The trend continues in 2019, too, as seen in trade data.



Commodity opportunity, too?

For some Asian countries, including India, American tariffs on imports of Chinese metals have given a boost to exports of some commodities, such as aluminium and steel. As the US imposed tariffs on Chinese steel and aluminium, India's bauxite and aluminium exports saw an increase of 61.1% in 2018 over 2017, while iron and steel exports to the US surged 9.1% during the same period (see table).

Interestingly, China, the world's largest aluminium producer, retaliated with a 25% duty on US aluminium scrap. As the US, the EU and other developed markets have stringent standards for scrap imports, the global aluminium scrap supply is getting diverted towards India and other emerging markets. The diversion is being abetted by the 2.5% duty on scrap imports in India, as against 6% on primary aluminium. Indeed, scrap imports to India from the US alone have grown by 142% during April -November 2018 over the corresponding period of 2017, while the total scrap import shipments increased by 20% during the same period. Likewise, the tariff-hit Chinese steel, it is feared, can be dumped (if not being done already) into a vibrant consumption centre like India, either directly from China or by routing through Vietnam or Cambodia.

Meanwhile, China has turned to India for meeting its demand for cotton. In March 2019, Indian traders signed contracts to ship 800,000 cotton bales to China as demand surged from the world's biggest consumer. Following the US-China trade war, India's cotton textile exports to China surged to 69% between April 2018 and February 2019, to $1.55 billion, compared to the same period the previous year.

Key for India

From the perspective of the global value chain, the impact of trade wars resulting from retaliatory tariffs depends on whether tariffs are temporary or here to stay. If they are imposed for a prolonged period and deemed permanent, they could be affecting investment decisions and reorientation of supply chains. Hopes are already being raised that some industries or supply chains may relocate to India, especially if the country continues improving 'ease of doing business' and focuses on 'Make in India'. India's large pool of engineers, a young labour force, wages that are half that of China's and significant domestic consumption are factors that are attracting global manufacturing giants to make such shifts.

Nevertheless, India needs to diversify the trade basket and continue exploring new markets such as Africa and Latin America to expand overseas shipments. One reason India's external sector could weather the global economic storm of last decade was India's diversified trade partners and absence of concentration, a policy that needs to be continued even now. Other innovations—activation of the rupee-rial payment mechanism established six years ago (but ended in 2015) to deal with western sanctions on Iran—also holds promise, if politically feasible.

Finally, one needs to remember that the space ceded by warring nations that India aspires to occupy is available only to the extent of India's own capabilities. This includes the ability to ramp up production with high efficiency and lean supply chains, competitive goods produced with well-managed price risks in an efficient market place that can enable Indian industry to sustain the trade momentum. Only through such sustained productivity increase can India aspire to sustainably access the lucrative yet challenging markets that beckon her.