Opinion

TUESDAY, JUNE 25, 2019

ON A NON-NUCLEAR IRAN

President of the US, Donald Trump

When they agree to that, they're going to have a wealthy country. They're going to be so happy, and I'm going to be their best friend. I hope that happens

RationalExpectations

SUNIL JAIN

sunil.jain@expressindia.com

@thesuniljain

Ensuring Modi fails to reform

Over 75% of gas gets 40% market price but govt says prices freed! Scrap Soviet-era controls if investments to grow rapidly

NOTHING EXEMPLIFIES THE gap between the reforms that the government claims have been done and what the industry perceives than the case of natural gas pricing. The government claims that market pricing is allowed for both oil and gas, but industry players insist this is not correct. Indeed, the issue came up several times last week, in the meetings held by both finance minister Nirmala Sitharaman and prime minister Narendra Modi.

In 2016, it is true, the government did raise the prices of natural gas to near-market levels, but with a catch: this applied only to new gas discoveries and that too gas which is produced in deep-water or ultra-deep water or in high-pressure-high-temperature areas. While such gas is to get paid \$9.32 per mmBtu, gas from older fields—or from fields that are not in deep/ultra/high-pressure areas—is to get \$3.69. This means over three-fourths of the country's current gas production doesn't get the market price but gets a price that is just around 40% of it.

So, when politicians/bureaucrats claim they have freed up prices, they are really talking about new players who have their gas fields in tough geologies. Similarly, while the government gives higher prices for extra recoveries beyond the average—this is called Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR)—this, too, has many caveats and it is only for projects going forward; while there are companies that pumped in chemicals etc from the day they began production so as to get EOR from day one, these companies cannot avail of this extra incentive.

But what politicians/bureaucrats miss is that if older oilcos, like ONGC, that produce the bulk of India's natural gas, don't get the market price, where will they find the money to invest to explore in new areas? Indeed, if producers get market prices, these additional incentives are not even required. And imagine the problem this causes. Firm A can be be producing X units of gas that are to be sold at \$3.69 and Y units (from a new discovery but in the same field) which get \$9.32—who is going to keep records of whether Firm A is depressing X and inflating Y, and even if it isn't, who is going to believe it when the CAG or someone else makes this accusation?

> In oil, ONGC gets \$10 less per barrel, so it can't invest to get more oil/gas. Bureaucrats justify policy as they need to ensure low-cost power/fertiliser/diesel. So without full market reforms, Modi's promises will always fall short

It is almost as bad in the case of oil where, despite supposed pricing freedom, as a report from the Petroleum Pricing and Analysis Cell (PPAC) points out, ONGC gets around \$10 per barrel less than what it could get if it was selling to refineries that were more sophisticated than the PSUs to whom it supplies—a more sophisticated refinery extracts more value from the crude and so can afford to pay more. Indeed, Cairn India has been asking the government for permission to export its crude oil for several years only so that it can get a higher price than that paid by local refineries. In the case of oil, producers have 'pricing freedom', but not 'marketing freedom' which, though they sound the same, are really quite different. In this case, Cairn is free to get a market price from refiners it sells to, but since the government tells it which firms it can market to, and how much to each, the buyers manage to get a discount on a genuine market price.

Of course, before blaming oil sector bureaucrats for coming out with this half-hearted freeing of prices, it is important to understand their compulsions. Most of the gas that is sold at \$3.69 per unit is sold to power and fertiliser firms. So if prices are raised by 2.5 times, both power and fertiliser costs will go up significantly; the same applies to both petrol and diesel, if producers are given market prices for their crude. So, unless the Soviet-era price controls are removed—and this is a political call—there is little the bureaucrats can really do. If they are to allow oil/gas prices to go up but the political establishment is not willing to allow prices of fertiliser or electricity, or petrol and diesel, to go up, who is going to pay the difference?

It is because of this need to keep prices low for one group of people that the bureaucracy then comes up with the solutions it does. If prime minister Modi was to say that he wanted market pricing so that correct investment decisions could be taken across the board, and that he would, if need be, pay a direct subsidy to those who needed to be subsidised, then the bureaucracy could take the right decisions.

India has a lot more oil and gas than most reckon and, at a recent conference, BP's India head Sashi Mukundan said their analysis of data suggested India could produce 100 tcf of gas, or nearly double the present estimate of how much gas India can produce. And, he said, if Indian oilcos used better recovery techniques—IOR and EOR—this alone would give another 4 billion barrels of oil, a figure that is roughly the current estimate of how much oil India can extract. At this level, India's 2040 import-intensity for gas will fall to around 50% and for oil by 3-4 percentage points. All of this, however, presupposes a policy environment that is not full of caveats and subject to the interpretation of sundry bureaucrats; and that's apart from the various issues with the taxman like taxing of royalty payments to the government.

Nor is the oil and gas sector the only one where this subsidy overhang is causing a big policy problem. In order to give extra returns to so-called small savers, the government mandates high returns on PPF/EPFO type of savings; this ensures banks keep deposit rates high and results in lending rates remaining high despite RBI's repo rate cuts. Similarly, the need to subsidise households and farmers means industry/exports has to pay 2-3 times the cost of power, and that hurts their global competitiveness; as a result, imports rise and exports stagnate. You can blame the bureaucracy, but eventually it is a political call that Modi needs to make.

FinalFRONTIER

Investors are excited about India's space start-ups; India must take this forward by enabling the latter to grow

INDIA HAS DEMONSTRATED its space prowess in many ways recently—and the sheen of the public sector achievement in space is rubbing off on the private sector. A *Mint* report says Indian space start-ups, many of them working on nanosats, are now finding their way into investors' portfolios. Bengaluru-based Bellatrix Aerospace, working on propelling satellites into orbit using non-chemical and electric thrusters, has managed to raise \$3 million funds from private investors. Another company, Mumbai-based Kawa Space, which designs and operates earth observation satellites, has just concluded seed round investment deals. While such investments are rising globally, Indian firms are landing a significant bite of the pie.

With the US already leading the private-sector space-race—think SpaceX and RocketLabs—India should make it easier for its private players to enter and then let market forces guide this nascent sector. With over 17,000 small satellites that could be launched between 2018 and 2030 globally, investors predict high returns in this sector. Moreover, growth of this sector will likely enable utilisation of space's resources; since the Outer Space Treaty forbids sovereigns from exploiting space resources and colonising space, the only way to do it is to let private coroporate citizens stake claim. According to a *Reuters* article, the Union government is working on a Space Activities Bill to clarify the role of private companies and investors in this sector. Another aspect of this growth is defence strategy. India is yet to harness space for strategic and tactical reasons. This is due to the prime motive of Indian space sector being civilian use. Becoming a space power will need India to encourage private sector in space-defence.

GROWTH STRATEGIES

STRATEGIES FOR A 12% GROWTH OVER THE NEXT FIVE YEARS BECOMES COMPLEX, BECAUSE IT COMES AT A TIME WHEN THERE ARE RADICAL SHIFTS IN THE GLOBAL ECONOMIC PARADIGM

New economic paradigm for a \$5-trillion growth

ARINDAM BHATTACHARYA

Senior partner and managing director, Boston Consulting Group *Views are personal*

PRESIDING OVER THE 5th Governing Council meeting of NITI Aayog recently, prime minister Modi set a goal of \$5 trillion for India's GDP by 2024, saying it was a difficult target but achievable. It will need India to grow annually at 12% over the next 5 years. The PM clearly wants to galvanise the nation and is setting the narrative for the new government, which challenges the current signals of economic slowdown.

Achieving such an aspirational growth target calls for pulling all the economic growth levers—investment, consumption, exports, and across all the three sectors of agriculture, manufacturing and services. There is a fair amount of consensus that we have to address our inefficient factor markets as the topmost priority for India to achieve its full potential, especially the constraints imposed by our stressed financial and power markets. Without credit flow to support private investment and cheaper, abundant and good quality electricity to power growth, this GDP target will remain an aspiration.

Formulating the strategies for 12% growth over the next five years becomes more complex because it comes at a time when we are seeing radical shifts taking place in the global economic and value creation paradigm. Let me list six of these shifts that need to be accounted for as we go forward.

First is the shift in global trade. Growth in global trade, particularly merchandise trade, with its multiplier effect has been a crucial part of growth strategies of all developing countries. The trade intensity (ratio of global trade to global GDP) grew from less than 10% at the start of 20th century to over 50% by its end, reflecting the development of global supply chains. However, since the last financial crisis in 2008, trade intensity has stagnated, in particular for merchandise trade from which developing countries have benefited for the last half century. However service trade, especially digitally enabled trade (both service and merchandise) where developed countries are advantaged, is growing much faster, which represents a major structural shift in global trade. While there is a large short-term opportunity in attracting some of the capacity of labour intensive industries that is shifting out of China (if we can make our factor markets and incentive policies more attractive), our growth strategies need to be built in preparation for this paradigm shift taking place in global trading pattern.

The second shift is the emergence of a new 'factor market'—data—which is no longer an 'output' of value added activity to be used to measure its effectiveness (e.g. through MIS), but has become an input into the very design of the activity through growth of IoT. An expert used the analogy that in the 20th century, data was like the 'exhaust' of the car, but in the 21st, it is like the 'fuel', a critical input to make the car drive better. Creating an effective market for data (through digital infrastructure, regulatory regimes, interoperability rules, robust privacy and security laws) is becoming as important for economic growth as creating more efficient traditional factor markets, and those countries that do it better and faster will reap the benefits and build global leadership in many industries.

A consequence of the growth of digital and data is the third major shift in the economic growth paradigm—the emergence of new value pools across industries. For instance, the traditional value pools in the automotive industry (new vehicle sales, components, finance, insurance, parts/service), which is nearly 100% today, can shrink to less than 60% in 15 years as the new pools driven by electrification, digitally-driven data services, ranging from preventive maintenance to restaurant location, and mobility services grow. Whether these new value pools will be captured by Indian or global companies will have an impact on India's longer term growth prospects, and this kind of radical shift is happening across industries, often faster than what regulatory bodies and/or government can react to. This has to change.

> World over, formal manufacturing jobs are declining as the fourth industrial revolution powered by digital technologies accelerates

The fourth shift is equally radical. World over, formal manufacturing jobs are declining as the fourth industrial revolution powered by digital technologies accelerates. However, digital technologies are also powering the emergence of new business models, start-ups and micro-enterprises, and growth of services by driving down costs. One of the major impacts of this shift is the emergence of the rapidly growing gig- economy jobs like the Uber car drivers and last mile delivery boys/girls of e-commerce companies. This poses several policy challenges. First, the nature and types of jobs, and the skills needed are changing. These jobs are not captured in our current laws which can facilitate their regulation and growth. In their absence, these are not captured in formal jobs survey, and are often poorly paying with no social security. In fact, given the growth of such non-formal jobs, many experts maintain that India does not have a jobs problem but a low income problem. The new economic paradigm is needed to facilitate the formalisation and growth of income generation from start-ups, micro-enterprises and of the self-employed.

The fifth shift important for longer term economic planning is the increasing role of IP and talent as a source of value creation in the 21st century, as opposed to primary role, in the 20th, of physical conversion of raw material into final products. This is clearly visible by the complete change-over of top-20 market-cap companies in the world in the last two decades from the resources and manufacturing dominated global firms to digital technology based companies driven more by IP, data, and talent. We have to give at least equal focus to growing industries which develop and leverage IP and talent, as to those that physically convert raw materials.

Lastly, and, to me, one of the most interesting shifts is in the nature of what I call 'economic problem solving'. One of my senior BCG colleagues who had headed a global non-governmental institution recently remarked to me that economic development paradigms lag the development of on-ground cutting-edge solutions to economic and social problems. Today, technology, connectivity, financial flows allow more agility, flexibility and 'micro-solutioning' at local levels, which become critical in developing a world where government institutions are often weak. Our economic development models are still very much geared to large scale, top-down approach. We have to find innovative ways to identify, include and scale these development efforts in our national planning in the 21st century.

Our PM has set the aspiration. It is a bold one, calling for thinking out of the box, breaking the old paradigms of economic growth and development. Our success in doing so will be the difference between it remaining an aspiration and becoming a reality.

India-US trade: Point of no return?

Restoring normalcy in India-US trade relations will need a strong dose of injection of trust

AMITENDU PALIT

Senior research fellow and research lead, Institute of South Asian Studies, NUS *Views are personal*

INDIA'S RELATIONS WITH the US have entered a particularly rocky phase due to differences over trade. The US Secretary of State Mike Pompeo's visit to India as part of his four-nation tour of Asia is expected to focus on progress on clearing trade hurdles in the relationship. While there might not be enough time to reach specifics before Prime Minister Modi and President Trump's likely meeting at G20 in Japan, many quarters feel some encouraging signals from the Secretary of State's visit might revive hopes of future breakthroughs.

India and the US have hardly seen eye to eye on trade. Even then, the current hostilities, are different from those in the past for various reasons. A close look at these reasons reveal why moving ahead would be exceptionally difficult.

First, President Trump's tenure reflects major changes in the US approach to trade, now characterised by disregard for global trade rules, treating all trade relations exclusively and with American interests uppermost, and pulling trade and security interests as close as possible. The impact of these new characteristics in the US trade vision has been substantial for its major trade partners, including India. Nothing makes Indian trade policy czars more uncomfortable than talking trade outside of the WTO. The US emphasis on drafting deals bilaterally, with scant attention to what that might mean for greater collateral obligations at the WTO, is of distinct discomfort to India. It is equally uncomfortable for India to visualise the prospects of paying a 'price' for safeguarding a major strategic relationship, where defence alliance has begun playing a prominent role. For India, which has preferred keeping the two components of the relationship at arm's length, the US determination to pull security and trade interests closer for 'selecting' partners is a tough call to reciprocate.

Second, is the change in India's way of looking at the world. Pushing national economic interests is at the centre of India's current external engagement vision. Such a vision, at best, permits selective opening up after very careful assessment of the impact on domestic economic actors. The US demands for greater tariff liberalisation from India are in sectors like dairy, medical equipment and automobiles. Indian policy-makers and trade negotiators believe impact of tariff cuts on these sectors would be significantly adverse. One might well differ with this view. But, Indian authorities are unlikely to buckle to US pressure on tariff cuts in these areas, unless something really significant is offered in return. A trade-off on lesser terms would be taken as compromising on national economic interests—an impression that could run counter to the narrative that has helped the current government obtain political extension and legitimacy.

Third, India-US trade talks are taking place in the context of troubled times for global trade. The trouble goes well beyond overall technological disruptions, and their impact on the character and pattern of global trade. The US-China trade war is an unavoidable context. The former is not limited to unilateral tariffs and counter-responses. It is about long-term global control over future industries that would be at the forefront of Industrial Revolution 4.0. By now, it is clear that the US is looking to curb China's technological dominance in several industries—such as electric vehicles, renewable energy and digital AI-based solutions—which would determine wealth generation in future global economy. Parallel talks by the US with its other trade partners cannot avoid apprehensions of the latter that the US wouldn't want them to get away with what it is denying China.

A fourth further reason, drawing from the above, is India's realisation that what the US would want most is for its data-intensive businesses to have unfettered access to India's digital economy. India realises it sits on a mine of data wealth and, arguably, the best way of harnessing that wealth in national economic interests is to make its first use at home. It is determined to pursue hard data localisation rules. In recent months, multiple critical references by the US to India's data rules have made it clear that more than tariffs, this is where the 'juice' lies for the US. Safeguarding local data for exclusive use by locals, notwithstanding the potential ramifications of such insistence, resonates with the core principles of India's current external engagement policy.

The final fifth reason coming in the way of progress in India-US trade talks is the conspicuous lack of trust between both sides. The US proclivity to resort to unilateral actions notwithstanding done deals, such as for Mexico, hasn't helped in boosting trust in its trade promises. On the other hand, India's stubbornness in refusing to back down on core US demands and the latest defiant act of following up with retaliatory tariffs on a handful of US imports clearly show that India is not in a mood to relent. Barring a strong dose of injection of trust, the India-US trade talks are likely to move to a point of almost no return.

LETTERS TO THE EDITOR

Triple talaq Bill

In tabling the Triple Talaq Bill on the first day of the newly constituted 17th Lok Sabha the Modi government has made its intentions and priorities clear. Why a party that represents Hindu Right displays so much love and concern for Muslim women would make a rewarding study. The government holds the view that the Bill is not about religion or politics, but about justice and equality. But the provisions of the Bill make it amply obvious that it was brought to target Muslim men and not because the BJP or the Modi government is convinced that the practice of divorce by triple talaq is repugnant to the modern world. Invalidating triple talaq is one thing; making the pronouncement of triple talaq a criminal offence and sending the man to jail for pronouncing triple talaq is entirely different. It is a very flawed anomaly that the husband is sent to jail leaving the woman and children to fend for themselves even while the marriage remains valid. It is not known how any man can utter triple talaq to divorce his wife and have his way when the country's top court has declared it unconstitutional and null and void.

— G.David Milton, Marthandam

Dynastic politics

BSP chief Mayawati anointing her brother Anand Kumar as the party's vice-president and nephew Akash Anand as the national coordinator is an indication that Mayawati is keen on making the BSP a family enterprise. With the purveyors of dynastic politics, the Congress and the JD(S), suffering humiliating reverses in the recent Lok Sabha polls one wonders whether Mayawati's ploy will pay off.

— Ravi Chander, Bengaluru

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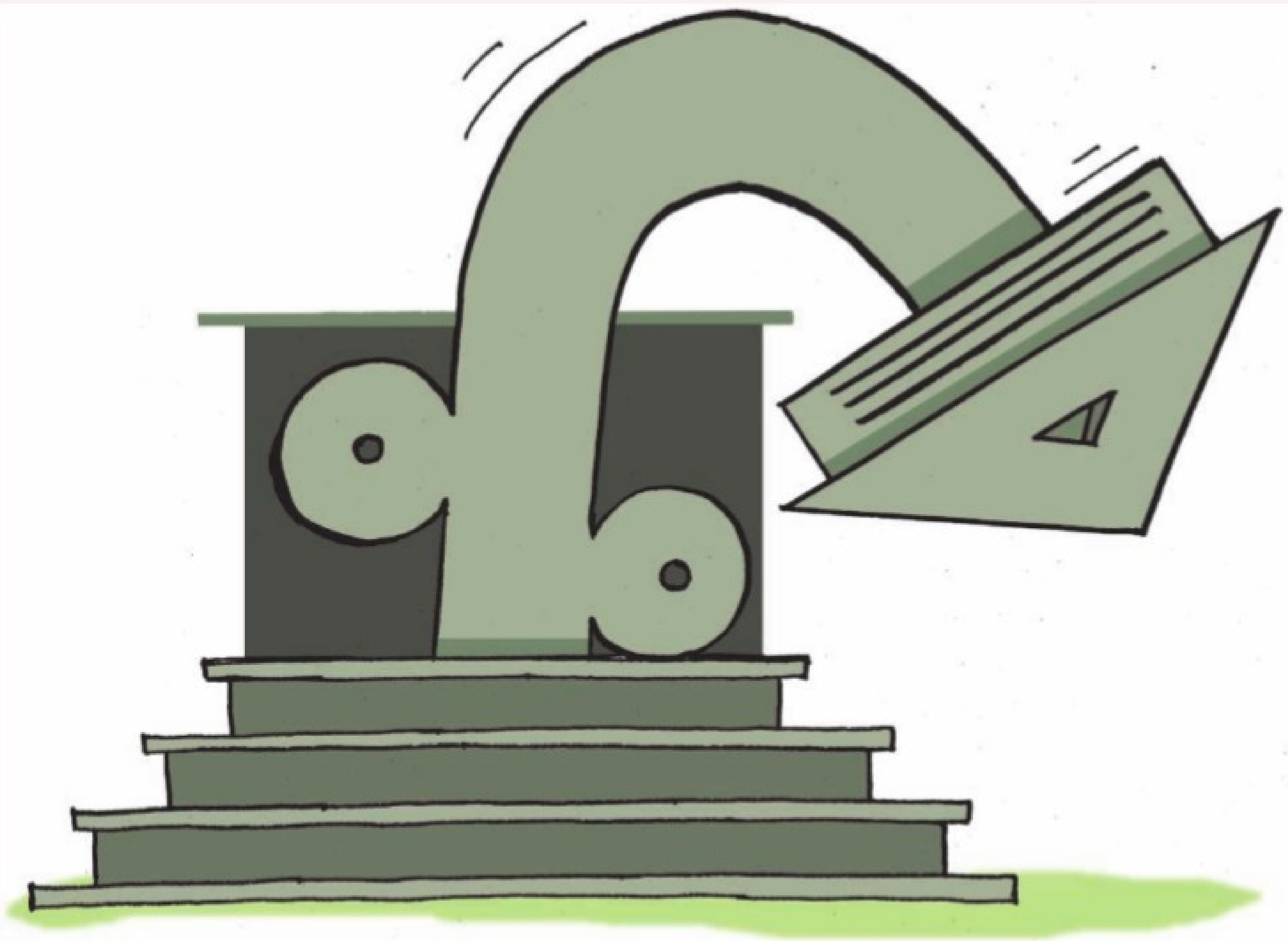

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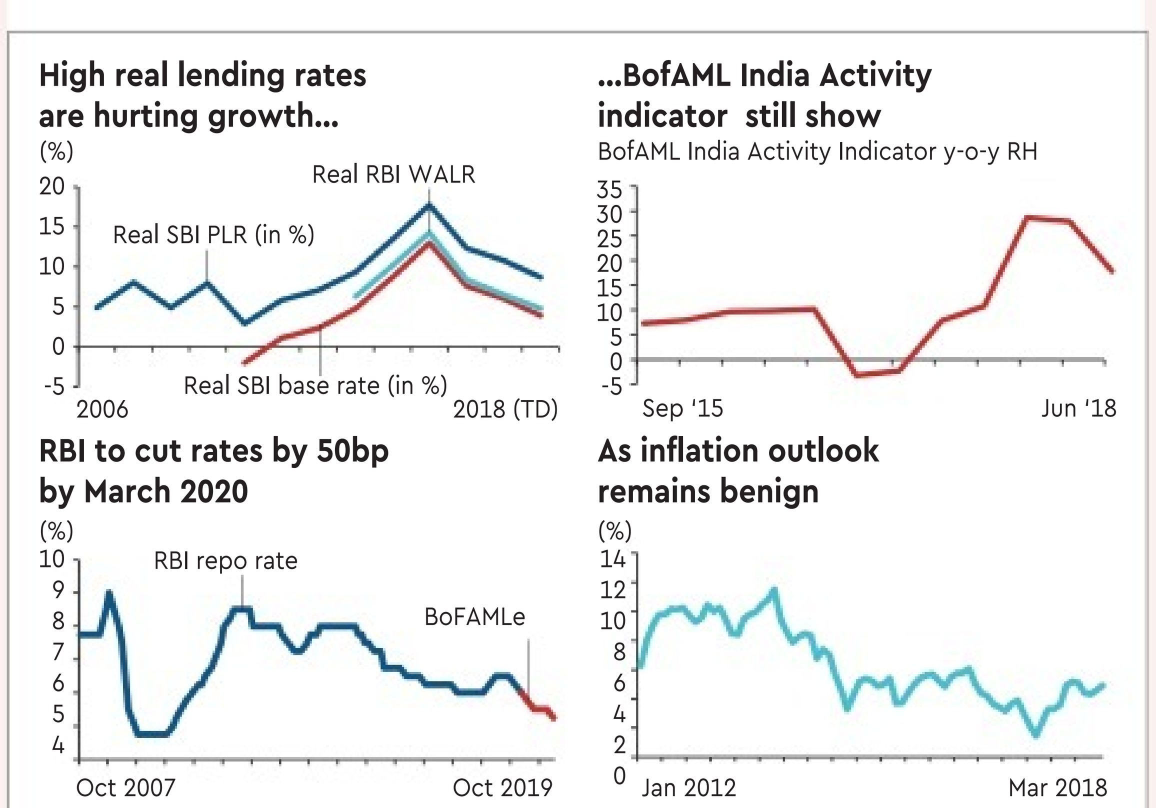
INDRANIL SEN GUPTA & AASTHA GUDWANI

Authors are India Economists, DSP Merrill Lynch. Views are personal

Five reasons lending rates are set to fall 50bps

We expect lending rates to come off by 50bps cut by March 2020 in contrast to 2018's 30bps hike. Also, Budget 2019 should retain February's 3.4% of GDP fiscal deficit target



Source: BofA Merrill Lynch Global Research estimates, RBI

WE GROW MORE confident of our call that lending rates will come off by 50bps by March 2020. This is critical for recovery as our India Activity Indicator signals weakness for the next 1-2 quarters. What's changing? The RBI MPC changed its stance to accommodative supporting our 50bps rate cut-by-March call. Second, RBI is expectedly infusing durable liquidity of $2-3 billion a month. Our liquidity model estimates that this should fund 16% loan demand in FY20. Third, the reversal of poll/summer rabi harvest cash demand has pushed the money market into reverse repo mode. We expect RBI to allow this till the slack season ends in September to assure the market of sufficient funding in the October-March 'busy' season. It takes six months for ₹1 of RBI liquidity to 'multiply' into ₹5.1 of bank credit. A 0.25% CRR cut should be sufficient to fund credit worthy borrowers should the NBFC concerns worsen. Fourth, yields are coming off with RBI OMO ($19 billon BofAMLe, $5.7 billion done) set to clear the G-Sec market. Finance minister Nirmala Sitharaman will likely retain the Interim Budget's 3.4% of GDP fiscal deficit target in her July 5 Budget. Finally, the MoF/RBI are taking measures to de-stress banks. The MoF will likely use the $14-42 billion of excess RBI capital to be identified by the Jalan report to recapitalise PSU banks. In sum, the MoF/RBI are all set to win the battle of monetary transmission.

1. 125bps of RBI rate cuts signal lower yields/lending rates: Our expected 125bps of RBI rate cuts by March (75bps done) send a powerful signal for lower yields/lending rates. We expect the RBI MPC to cut 25bps on August 7 if rains are normal, pause as inflation goes up on base effects in end-2019, and cut again by 1Q20 . Our US and China economists expect the Fed/PBoC to cut 75bps by early 2020.

2. $35 billion of durable liquidity funds 16% loan demand: We expect RBI to continue to infuse durable liquidity of $2-3 billion a month via OMO and/or FX swaps. Our liquidity model estimates that $35 billion of RBI liquidity ($10.7 billion) will generate sufficient deposits to fund 16% loan growth in FY20. A ₹1 of RBI liquidity 'multiplies' 5x into credit over, say, six months. The primary reason for hardening of lending rates in the past few years was inadequate injection of RBI liquidity fuelling excess loan demand. Although loan growth is picking up, this is being driven by a shift to bank funding from NBFC/commercial paper funding.

3. Reverse repo mode assures liquidity in 'busy' season: RBI's comfort in allowing reverse repo mode in the April-September 'slack' season should assure the market of sufficient liquidity in the October-March 'busy' season. We calculate that a 0.25% CRR cut should fund, say, Rs 1,500 billion of credit-worthy borrowers in case the NBFC situation worsens further.

4. Lower risk free allows lending rate cuts: Yields are coming down with RBI OMO ($19 billion BofAMLe, $5.7 billion done) set to clear the G-Sec market. The Narendra Modi regime has surely demonstrated its commitment to fiscal discipline when it did not compete with the Congress's NYAY plan of 1.9% of GDP even in the heat of polls. We expect finance minister Sitharaman to retain the Interim Budget's 3.4% of GDP fiscal deficit target in the upcoming Budget.

5. De-stressing banks: Jalan committee: Policy measures to de-stress banks will ease lending rates: PSU bank recapitalisation, rationalisation of Bankruptcy Code through the June 7 NPL circular, deferral of tighter-than-Basel III CRAR and IndAs norms. We expect the MoF to recapitalise PSU banks with $14-42 billion of excess RBI capital to be identified by the Jalan committee.

50bps cut positive for rate sensitivity

We expect banks to cut lending rate cuts by 50bps by March 2020 in contrast to 2018's 30bps hike. After all, real lending rates have virtually doubled since 2014. Not surprisingly, our BofAML India Activity Indicator is signalling weakness for 1-2 quarters. Governor Shaktikanta Das's proactive liquidity operations have calmed markets. The real economy, however, is still hurting from the end-2018 liquidity crunch that is pulling GVA growth down to 6.3% (along with base effects) in October 2018-September 2019. If lending rates ease in response to policy initiatives, growth will likely rebound to 7.5% by March.

What can the MoF/RBI do to defuse fears of a NBFC 'crisis'? Provide sufficient liquidity to ensure that (1) healthy NBFCs are able to raise funds, and (2) banks are able to fund credit-worthy borrowers impacted by failing NBFCs, if any. In case, say, NBFC failures impact ₹1,500 billion of credit-worthy borrowers, RBI should inject an additional ₹300 billion/$4 billion, given the credit multiplier of 5.1, by a 0.25% CRR cut.

RBI liquidity/reserve money drives M3/deposit growth, not deposit rates. Can banks step up deposit growth to fund higher loan demand without raising deposit rates? Deposit growth, essentially, is driven by reserve money/durable liquidity injected by RBI. Our liquidity model estimates that M3/deposit growth will pick up to about 13% from 9.7% if RBI injects $35 billion via OMO/FX purchases/CRR cuts in FY20.

But how will RBI liquidity generate bank deposits and credit? Suppose it buys ₹100 of G-Secs from a bank. The bank will prefer to lend the ₹100 to borrower X rather than keep it idle. As X needs only ₹10 in cash, she will put the remaining ₹90 into the bank as CASA. The bank then lends this ₹90 to another borrower Y. As Y only needs ₹9 in cash, he puts ₹81 in his bank account. A ₹100 of RBI liquidity has thus already generated ₹171 of deposits and ₹190 of credit in these two rounds.

But won't deposit/lending rate cuts, driven by RBI rate cuts, dampen deposit growth? Not really, in our view, as the 1881 Negotiable Instruments Act restricts the power to issue cheques to banks. Bank deposits are actually neutral to any redistribution of household investment between fixed deposits, mutual funds and real estate/gold purchases by cheque as monies simply flow to the current account of the MF/seller.

(Excerpted from BofAML India's Economic Viewpoint report '5 reasons lending rates set to fall 50bp' dated June 14, 2019.)

Rx: Data analytics

ARNO TELLMANN

Head, Novartis Global Drug Development, India. Views are personal

Pharma will benefit a great deal from analysing electronic health records, biomedical signal data, imaging data, etc

HAVING LIVED IN India ten years ago, I was very happy when I got the opportunity to come back albeit in a different role this time. India has come to be a second home to me and my family. Among the many things we like about this country is its culture steeped in centuries of history and legends. I find the legends part especially fascinating.

There was this one particular story that caught my attention—the churning of the ocean, when the devas and asuras got together in their quest for the nectar of immortality. Believe it or not, today's pharma companies are staring into an ocean of another kind—an ocean of data that's all around us. The big question is can we churn this ocean to extract insights that may not yield immortality but at least help us find new ways to improve and extend lives? Well, the exploration has begun.

Data in pharma industry includes electronic health records, biomedical signal data, patient statistics, imaging data, discovery related literature, experimental data, genomic data, proteomic data, and records on clinical studies. Development of drugs involves generation of lot of data such as clinical trial data, trial operational data and finally business involves competitor data, sales and other medium of business data.

However, this abundant data is of no use if we don't mine it to extract insights. The value of data can only be realised if we leverage data technologies such Artificial Intelligence (AI). AI has become the game changer, transforming many industries over the last two decades. The technology companies today completely rely on data for garnering insights and making products driven by AI for competitive advantage, improving customer experience and entering new markets. Can it work its miracle in the pharma industry as well?

AI can dramatically shorten clinical trails through faster enrollment, identifying right patient for right trial, better monitoring and remote monitoring, better patient experience and invention of digital biomarkers and end-points

Pharma companies are now looking for ways to apply AI to fasten the overall drug development process. AI can dramatically shorten clinical trails through faster enrollment, identifying right patient for right trial, better monitoring and remote monitoring, better patient experience and invention of digital biomarkers and end-points. It could also help us discover new treatments. There are 1060 drug like molecules which need to be examined to find all possible drug targets and it seems impossible right now. AI has the potential to fasten molecular and material research to explore these molecules.

However, similar to the churning of the ocean, analysing data also poses challenges of epic proportions. To begin with, we need to bring together the huge volume of data on one platform that makes it possible to apply AI tools on the data. While it may sound simple, it's actually a Herculean task given that in the past we did not have a mechanism to sort data. Secondly, we need to train our people on data technologies so that they can make sense of the data. Thirdly, we need bring this system to such speed that it can give us real time insights just like Google Maps. If the system foresees challenge in a clinical trial it should be able to warn us much in advance so that we do not invest time, effort and resources on something that is more likely to lead to a dead-end.

Churning of data is something that definitely all pharma companies need to invest in. And as with the legend, this too would need the combined efforts of one and all—patients, employees of pharma companies, data scientists, regulatory authorities, and governments. Only together, we can make it happen!

Time to relook India's trade policy

Modi 2.0 has its task cut out with regard to reforming trade policy

GEETHANJALI NATARAJ, GUNJAS SINGH & SHIVANG GUPTA

Nataraj is professor of Economics, Indian Institute of Public Administration, Delhi, where Singh and Gupta are interns

THE GENERALIZED SYSTEM of Preferences (GSP) is a US trade programme designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories. It is a unilateral and non-reciprocal agreement extended by the US to support a large number of developing countries.

Under this scheme, India was allowed duty concessions on over 3,000 imported products to the US valued at $5.7 billion since 1976, making India the largest beneficiary of GSP. To qualify as a beneficiary developing country (BDC) or a least-developed beneficiary developing country (LDBDC), a country has to meet the required criteria as per 19 USC 2462(b)(2) code, a US law. It includes for a country to not be communist, to support free international trade of vital commodities, to not aid or abet anyone wanted for international terrorism, to ensure worker rights, to abolish child labour and to respect workers' rights.

In March 2019, Donald Trump announced the US's intentions to end India's BDC treatment, following a 60-day notice period. This was put on hold due to general elections in India. With effect from June 5, 2019, India no longer receives preferential treatment as a BDC under GSP. Trump put forward his concerns that as India has not assured the US that it will provide equitable and reasonable access to its markets, it would be appropriate to terminate India's designation as a BDC. In fact, 11 more countries are under review for termination from GSP.

India has been maintaining a trade surplus with the US for quite some time, which has not gone down well with the Trump administration. India's trade surplus in merchandise goods with the US stood at $23 billion at the end of 2017. As per US regulations, a beneficiary country must meet 15 discretionary and mandatory eligibility criteria established by Congress to qualify for GSP. These include providing the US with equitable and reasonable market access, combating child labour, respecting internationally-recognised worker rights, and providing adequate and effective intellectual property rights protection. The US believes that India has failed to provide reasonable access to its markets and hence failed to meet the mandatory criteria, making India ineligible for GSP.

According to a report by the US Chamber of Commerce, India remains a challenging market for intellectual-property-intensive investments, even as the bilateral trade relationship continues to improve. The US is keen on getting reasonable access to Indian markets primarily for its three industries—pharmaceuticals, telecom and the dairy industry. It has expressed concerns over the new Draft Pharmaceutical Policy proposed by the Department of Pharmaceuticals, and India's new telecommunication security requirements. The US commerce secretary Wilbur Ross during his visit to India in May 2019 to attend the 11th Trade Winds Business Forum and Mission had listed out alleged unfair trade practices by India, including on data localisation, price control on medical devices and the higher tariffs on telecommunication equipment. So while patented medicines are excluded from price controls, the draft policy explicitly reserves the right to issue compulsory licences, which does not go very well with foreign pharma companies. On the other hand, in the telecom sector, high tariffs on imported telecom devices have been due to the new security requirements by India. This raises potential WTO-compliance concerns, which may act as a dangerous precedent for governments that may be inclined to use national security claims to undermine global trade. As far as dairy industry is concerned, India had imposed tariffs on imported dairy products from the US during the AB Vajpayee government as India required that dairy products be derived from animals that have never consumed feeds containing internal organs, blood meal, or tissues of ruminant origin. This criterion is non-negotiable to India and had also rejected the 'labelling solution' of a red-dot sticker on grounds of protecting cultural and religious sentiments of Indians.

In 2018, India's total exports to the US were $51.4 billion, with $6.35 billion in exports under GSP—India gained duty concessions of only $190 million in 2017 under GSP, which is rather a small amount relative to the value of exported goods traded with the US. Products that had GSP benefits of more than 3% are most likely to be hit due to GSP. Major sectors that will be impacted include imitation jewellery, leather industry, pharma, chemical and plastics, and processed agri-goods.

According to the ministry of commerce and industry, exclusion of India from GSP and ending the preferential trade status would have a moderate impact on exports, as the trade concession on exports is a small fraction of the total exported volume.

At the same time, India has argued that GSP benefits are "unilateral and non-reciprocal in nature extended to developing countries" and that it is wrong for the US to use it for its own trade benefits. Despite Trump's decision to stop India's preferential treatment, India will continue building strong ties with the US, both economic and people-to-people. Before this official announcement, India was considering raising import duties on more than 20 US goods, but it wasn't done. Commerce minister Piyush Goyal has said that India accepts the decision gracefully and won't push the US for benefits further. "We will work to make exports more competitive," he said.

Irrespective of GSP, it is imperative that India needs a strong export culture and needs to be more competitive to survive and get greater access to markets across the world. India needs to focus on diversification of exports and look for new countries and innovative products to ensure that its exports do not decline and its trade deficit remains manageable. However, the government did take retaliatory action and the first response from the new government has been announced—retaliatory tariffs on 29 products. This list was drawn up after the US imposed tariffs on steel and aluminium. This is only the beginning of the multiple challenges India is likely to face on the trade policy front. Large-scale trade reforms are the need of the hour and Modi 2.0 has its task cut out with regard to reforming India's trade policy.