Two key tasks for Sitharaman

The IBC needs serious reform; competition law requires a review

WITHOUT CONTEMPT

SOMASEKHAR SUNDARESAN

Even as the new minister takes charge at North Block and gets busy with the Union Budget, having charge over both the finance and corporate affairs ministries, there is a bunch of homework to attend to right after. Transition management is as vital in these ministries as it would be for the Congress party if its president walks away having conceded defeat.

Of course, the Union Budget speech too (usually the prospectus of the government in power on the economic front, and not just tax policy) could make mention of some of these. It has forever been tempting to write in small pointers to big reforms in Union Budget speeches. At times, the announcements in these speeches lead to nothing concrete — for example, the focus on creating a corporate bond market. At other times, they lead to glorious reform, even if by stealth. The Insolvency and Bankruptcy Code (IBC), 2016, the biggest achievement of the past government found its seed in a tiny paragraph in a Union Budget speech about the need for an insolvency regime that helps small scale industries.

Regardless of the speech, two areas stand out for serious attention and intervention.

First, the IBC, much-lauded as a "game changer", needs serious reform. Its crudities and inequities have been declared by the Supreme Court to be tolerable, with its constitutional validity being upheld. However, inherent in these facts, is a crying need to reform the law and its administration cutting across both ministries. Ballooning bad loans in the financial sector is the finance ministry's headache while the administration of the IBC is that of the corporate affairs ministry.

The amendment to the law to empower the Reserve Bank of India to direct banks on how to use the IBC and to initiate proceedings under the IBC in a blanket manner was inherently problematic. A regulator was made to stop playing referee and instead start participating in the game. Enforcement choices that the regulated banks were to make, could now be directed by the regulator. This in itself is a bad policy choice.

Using this power, the RBI took a blanket approach to banks' enforcement of security interests, without differentiating between factors affecting the industries to which different borrowers belonged. Such a blanket approach, without dealing with the conditions involved in each industry was held to be arbitrary and constitutionally invalid. The same enforcement action, if it had been initiated on commercial grounds by the banks, would have been totally valid, and would not have had to conform to the state's standard of decision-making — of being reasonable and non-arbitrary. Banks were perceived to be reluctant to undertake blanket enforcement and the RBI stepped in to decide on their behalf and tripped in the court. A classic example of a crude inequity that would not have been one if it had been merely a case of a bank enforcing against a borrower. The elevation of enforcement decisions to a policy choice was unwise and must be corrected.

Second, competition law is being reviewed by multiple working groups and a reform committee. Serious effort is being put in and the introduction of competition law, was in itself, reform by stealth — brought into play in the teeth of serious opposition to regulating the conduct of businesses. While numerous recommendations for changes would come about, what to pick and what to drop would in itself, present a strange problem of plenty. Some vital policy choices would need to be made here.

A number of procedural processes already embedded in subordinate legislation in competition law too would need serious review and reform. It must be remembered that for every business that is affected by a vibrant competition law regime, there can be many other businesses that hurt from the absence of a vibrant competition law regime. Every business competitor is a protectee of the law, and when anti-competitive behaviour is indulged in, the competitors too can hurt, not just the clients in the market.

Turf battles between regulators are also hurting competition law — those regulated in a sector develop a natural comfort zone with the sectoral regulator, and a competition regulator asking questions leads to playing the sectoral regulator against the competition regulator. The lack of role coherence can lead to unintended consequences in court and, as a result, any competitor in a business sector that is "regulated" in any remote manner can hope to get some relief or the other against the competition regulator.

The author is an advocate and independent counsel. Tweets @SomasekharS

CHINESE WHISPERS

Eid bonhomie

SOURCE: TWITTER

Minister for Minority Affairs Mukhtar Abbas Naqvi *(pictured with HRD Minister Ramesh Pokhriyal)* and Bharatiya Janata Party (BJP)'s Bihar leader Syed Shahnawaz Hussain hosted Eid lunches at their residences in the national capital on Wednesday. Senior BJP leaders and union ministers, among others, attended. Attendance at both their lunches was better than what it was during the Eid festivities last summer. Party sources said BJP Chief Amit Shah's reprimand of Union minister and party leader Giriraj Singh on Tuesday for ridiculing Bihar Chief Minister Nitish Kumar and others for attending an 'iftar' in Patna was also a signal to party leaders to attend Naqvi and Hussain's Eid lunches. While Naqvi has found a place in the union cabinet and is a Rajya Sabha member, Hussain is a party spokesperson.

A window of opportunity

An opportunity has opened up before the Congress party to consolidate its position in the Madhya Pradesh Assembly where it is surviving on a thin majority (with the help of SP-BSP). Bharatiya Janata Party (BJP) leader G S Damor won the Jhabua-Ratlam Lok Sabha seat defeating Kantilal Bhuria of the Congress. He was sitting MLA from Jhabua (he had defeated Bhuria's son Vikrant in the Assembly polls). He has resigned from that seat and if the Congress manages to win the Jhabua by-election, its total strength in the Assembly will increase to 115. The simple majority mark is 116. In the 2018 Assembly election Congress got 114 and the BJP 109 seats. After Damor's resignation, the BJP's strength has reduced to 108. The Congress is hopeful that winning the bypoll will strengthen the Kamal Nath government in the state.

Akhilesh's experiment

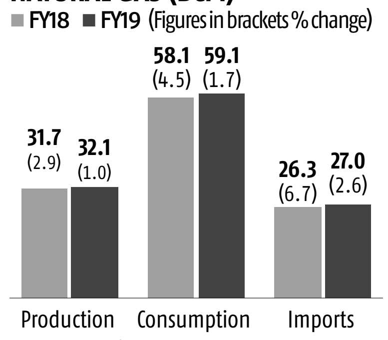
Dumped by Bahujan Samaj Party supremo Mayawati after their alliance came a cropper in the national election, Samajwadi Party leader and former chief minister of Uttar Pradesh Akhilesh Yadav sought to explain away the failure as just an unsuccessful experiment. "I have been a science student. There are trials and sometimes trials fail," the Samajwadi Party leader told his party colleagues. Underplaying what is largely seen as a failure of the Opposition parties to come together against the Bharatiya Janata Party juggernaut, he said the experiment exposed the weaknesses of such an association, but also offered some valuable lessons. Unlike Mayawati, he was not ready to call time on the *gathbandhan*.

A new energy problem for India

Natural gas prices are in long-term decline globally but India's pricing formula is not geared to take advantage of the trend

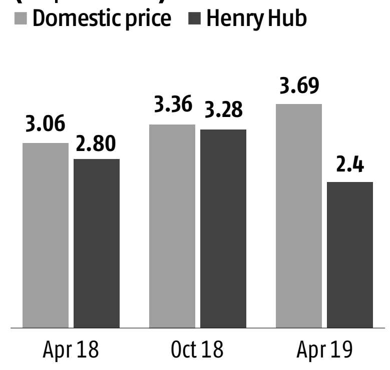
SUBHOMOY BHATTACHARJEE

DOMESTIC PRODUCTION, CONSUMPTION AND IMPORTS OF NATURAL GAS (BCM)



Source: Care Ratings

NATURAL GAS PRICE TREND (US$/MMBTU)



What would you call the antonym for an oil shock? India is all too familiar with supply disruptions and this may explain why it is taking time to figure out how to deal with a surfeit of advantages in the energy sector. In 2019, despite oil and especially natural gas prices moving more south than north, India has yet to take any key action to build on this advantage.

It is not often that India has surfed on such benign waves in the energy seas. In the domestic economy, there is a government just back in power with a stronger mandate; globally, demand for oil and gas is sputtering as the US-China trade war intensifies; and the emergence of more supplies from more nations have kept the lid on price rise for both fuels, especially natural gas. The odds against oil prices rising steeply in 2020 have been tackled in "How much can oil prices impact India's import bill in a post-sanctions era?" *(https://mybs.in/2X678Bx).*

TAKE TWO

One of the first things the new government should do now is revisit the five-year-old formula determining the price of domestic natural gas. It must do so particularly after watching the absurd price movement that is happening now. Where international price of natural gas has slipped close to $4/mmBtu (metric million British thermal unit) from about $9, Indian domestic prices, set every six months, has risen to $3.69/mmBtu, a steep 10 per cent sequential climb.

Indian prices are set on the basis of the weighted average of prices at Henry Hub in the USA, the National Pricing Point in the UK, Canada's Alberta Gas and Russian Gas, the leading gas production points. The formula came into being in October 2014, implemented by oil minister Dharmendra Pradhan, on the basis of the C Rangarajan committee. The prices it takes on is the average of those prevailing half a year ago. Gas prices in 2018 were much higher than now based on expectations of a robust GDP growth rate worldwide.

The drop in global prices is long-term, just as in the case of oil. Major supply capacity has been added in new producing centres like Australia and the USA, while supply is expanding fast from traditional hot spots like Qatar, Mozambique and Russia. This is discounting the gas tanks that sanctions-hit Iran is sitting on.

Indian domestic prices have already begun to impact costs. Prices of compressed natural gas (CNG) for vehicles and piped natural gas (PNG) for cooking in cities, have been revised upward by downstream companies by over seven per cent. By April 2019, prices of CNG have been raised six times within one year. These add to inflation pressures in the economy while the RBI would expect energy prices to soften instead, distorting monetary transmissions. Fuel and light accounts for 6.84 per cent of the weight in the consumer price inflation basket.

Beyond the current dissonance, there is the larger issue of signals to the investors. The NDA government, just before it announced elections in March, had given out licences in 100 cities to companies for setting up infrastructure to supply PNG and CNG. This infrastructure will come up over the next 10 years. The investors would look for clarity on the future gas prices and that can only happen if the prices are freed from administrative control so they do not offer absurd signals like now. For instance, should they depend on future domestic supply or bank only on imported gas? These have major price implications for the consumer. There is no reason why like the oil sector where prices for the Indian basket change daily in response to international prices, there should not be market-based pricing for natural gas.

In 2014, one of the poll planks for the Narendra Modi-led team was to clean up the pricing mess in the gas sector. That, in turn, was a response to the decade long chaos in the sector where gas pricing was set on political call than economic sense. The prices in vogue included all sorts of variables including whether it was drawn from a government or a private sector company, the vintage of the well, its location from the shore down to who was it being sold to. The current pricing formula, most experts agree is a far better choice than the earlier mish-mash.

As the current trend shows, the jump has to be from here to deregulation to make the gas sector take off in India. The government has made some progress. In early 2016, it announced a Hydrocarbon Exploration and Licensing Policy which made a switch from production or profit-sharing model to a revenue-sharing model for existing fields. It also offered pricing freedom for gas discovered from new wells in deepwater, ultra deepwater, and high pressure and high temperature regions. Yet, this freedom too was made conditional with a ceiling on prices. It has followed it up two years later with the announcement of the "Exploration and Licensing Policy for Enhancing Exploration and Production of Oil and Natural Gas", in February 2019. The catch is that the policy promises pricing freedom for future discoveries but the existing seven producing basins will continue with the current price regime. In other words, a dual pricing regime again. Since domestic gas prices continue to be controlled, the oil minister has not been able to follow through on his promise to set up an exchange for gas in India on the lines of those abroad, though it makes eminent sense to have one.

India needs more usage of natural gas as an intermediate step to make the switch from coal to renewables. Power stations built for coal cannot obviously become generators of renewable energy but they can very well become gas-based. Out of India's 350 GW of generation capacity, thermal or coal-based accounts for 223 GW. But those will need fresh investments, which can only be made if the political decisions for the sector, are made now. Of the 100 cities for which Pradhan has handed out licences, the concessionaires are tapping the banks to raise money. An open-ended controlled gas pricing regime will not convince the banks to write those cheques.

INSIGHT

Capitalism with Modi characteristics

DHIRAJ NAYYAR

Those who argue that the economic policies of Prime Minister Narendra Modi are socialist either do not know what socialism is or do not understand what the policies of Modi are. Government spending on schemes to enhance inclusion, and in social sectors like education and health, is very much a part of many successful capitalist economies (think Scandinavia) just as the presence of state-owned companies is not a guarantor of failure in other capitalist economies (think Singapore and China). Capitalism has several variants that have been successful — Anglo-American, North European, East Asian. Unfortunately, several pundits consider only the Anglo-American model as the poster child of capitalism's success. Modi's model is not Thatcherite or Reaganesque. While it may bear similarity to the East Asian model, it is in fact a new variant — capitalism with Modi characteristics.

The three most famous characteristics of the Anglo-American model are large-scale privatisation, light-touch regulation, and a minimal social safety net. The absence of these in the Modi model confuses some free marketeers. The East Asian model put growth first with the state focusing on infrastructure (both physical and social). Redistribution came later. The North European model managed to combine growth and equity but with unique social contracts in relatively homogenous societies. For too long India tried to emulate the Soviet Union (which was also the Chinese model pre-1978). And when it liberalised post 1991, it did so by stealth, without any explicit political conviction or strategic long-term path.

Narendra Modi's minimum government, maximum governance pledge (widely misunderstood as the Anglo-American model) has a clarity of vision and purpose. Actually, it may have helped if it had been framed as maximum governance, minimum government. It is different from the other variants of capitalism because it puts equity up front, both in political rhetoric and in administrative action. At India's level of per capita income (around $2,000 only), it would be politically impossible to eschew inclusion as an explicit plank of government policy. Where the Modi model differs from socialism is that he has injected efficiency into the pursuit of equity. He has used the market principles of competition, technological innovation and accountability to deliver, in a targeted manner, public goods and services to the hitherto excluded without leakages and corruption (the most prominent side effects of a statist system).

The Modi model also has a definitive view of enterprise and it's connect with the government. As far as government-owned enterprises are concerned those which are profitable are not likely to be privatised as long as they are able to compete. However, on loss-making and struggling public sector units a hard budget constraint will be imposed leading to closure or privatisation. Defining the government's relationship with private enterprise is more complex. Rampant crony capitalism in the decade before Modi first took office threatened the legitimacy of the whole post 1991 order. And yet, without private enterprise, there is no possibility of high growth and job creation. The Modi model is different from, say China's, because it is explicitly differentiating between crony capitalists and honest capitalists. There is a distinction between who prospers on inherited wealth and networks of privilege those who rise on merit alone. For the latter, a concerted effort is being made to ease the environment of doing business. In a political economy that is still "profit shy", Modi has fashioned the new capitalists as job creators rather than wealth creators. Of course, while the new generation rises, the crony capitalist order needs to be reined in. It is a tough balancing act to replace the old order with a new one without causing disruption to the economy.

The intellectual discourse on whether India's economic policies are capitalist or socialist has unsurprisingly put in front the age-old battle between state and markets. The spectrum from capitalism to communism is defined by the relative dominance of markets and the state. The Modi model has an explicit third dimension, possibly the first dimension in his worldview — citizens. In this model, the focus of economic policy is on bringing about a real change in the "ease of living" of the average citizen rather than a conventional focus on the creation of wealth or GDP or size of industry. The state and market must play their respective roles and constantly deliver quality goods and services (public and private) at competitive prices to the citizens of India. On their part, citizens must perform their duties even as they claim their rights. There are no free lunches except for the minority that faces extreme deprivation.

The broad contours of Modi-style capitalism have been drawn out. These will be refined in the next five years. If the "market" principles of efficiency, competition and merit continue to guide public policy, India may finally have its own model of successful capitalism.

The author is chief economist, Vedanta

LETTERS

Learn Hindi

This refers to David Milton's letter "Language formula" (June 5) calling the proposed three-language policy a cultural invasion. What is the ground reality? I am a senior citizen, living in Chennai for over four decades. A few years ago, I had to go to Noida, to work on a software project. To reach my office, I got into a shared auto and mentioned my destination as Sector 57, which the driver could not understand. With my rudimentary knowledge of Hindi, I explained to him as *"pachas aur saat"* and got dropped at my office. With a basic knowledge of Hindi, one can get along anywhere in India, beyond the south.

With assembly elections due in two years, one can understand the hue and cry raised by the Tamil Nadu politicians. But can they assure higher educational and employment opportunities to the youth of the state, within Tamil Nadu? The youth of Tamil Nadu would do well not to play into the hands of their scheming politicians, but learn Hindi, on their own, as it is in their best interests.

V Jayaraman Chennai

Right and wrong

The article by TCA Srinivasa Raghavan "Modi *ji abki baar suit boot ki Sarkar*" (May 31) is excellent for emphasising two fundamental economic principles that pro-capital does not mean pro-capitalist and also that private capital uses capital more efficiently. He has rightly underlined that "all policies — tax, imports, interest rates and exchange rates — must be made private sector friendly".

However, he has made two conceptual mistakes. First, if all these policies are private sector friendly, they will also be public sector friendly. For instance, if the anti-profit apparatus in the GST law is abolished, which is a must, then both the private sector and the public sector companies will benefit. And the welfare provision in the customs law and the GST law must be thrown into the nearest dustbin. The capitalist principle of making profit by the most efficient must be admitted if the economy has to progress and compete with other capitalist countries. That will benefit both the private and the public sector.

Second, the author has gone completely wrong when he calls the public sector an abhishaap. He says that the public sector must go. This indiscriminate statement suffers from the fallacy of reductio ad absurdum. Even a correct principle when pushed to the extreme becomes absurd. Surely the public sector must be reduced whenever it becomes a fiscal and administrative burden like Air India. But there are very many efficient public sector firms called Navratna and good banks like the State Bank of India that cannot be privatised just for the sake of serving a theory. One has to be discriminate and not indiscriminate. The competition between private and public sector is better than abolishing public sector altogether. The author is therefore both right and wrong. But it is a brilliantly written article that sets us thinking hard.

Sukumar Mukhopadhyay via email

TCA Srinivasa Raghavan responds: Sir, as you well know, the public sector is a curse not for reasons of economics but because it has become a vehicle for political corruption and fund raising. It must go from everything except the social sector.

Risky business

This refers to your article "IL&FS fallout: Lessons for rating agencies" (June 5). Credit rating agencies, in the midst of competition, project contradictory ratings of institutions. Investors thus get misled and incur financial losses. Rating parameters among various rating agencies should not be too extreme in nature. The agencies ultimately evade accountability and pass on the responsibility to the corporate. The absence of protection for investors in the event of faulty risk projection in an issuer-based ratings is again an escape route for these agencies. They thus require higher levels of functional supervision, both internally and externally, to ensure efficient and diligent functioning. Although the Securities and Exchange Board of India possesses punitive authority to cancel licences, impose fines for fraud and malpractices in credit rating, the same is not strictly exercised on rating agencies.

An investor-based model for credit rating, can be more cautious about these. The issuer model will provide more transparent and reliable reports in the absence of payment from the rated corporate to the credit rating agency. Hedging of ratings is akin to gambling where commitments and end results are not firmly indicated. The rotation of credit rating agencies similar to that of auditors under the Companies Act will ensure greater transparency and accuracy and prevent collusion. The lowering of rating standards of rating agencies does not serve the purpose. Instead, credit rating should be handled by professionals with expertise attained through functional exposure to domestic and international markets.

C Gopinath Nair Kochi

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HAMBONE

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Handsome growth

Financial & energy firms shine in Q4, but slowdown hits others

The net profit growth of 2,273 companies in the January-March 2019 quarter was an impressive 39.2 per cent year-on-year (YoY), the best in 13 quarters. This is not in sync with macro-slowdown, reflected in the anaemic gross domestic product (GDP) growth of 5.8 per cent in the same quarter. Even for the Nifty 50 index constituents, it was a good quarter. Net profit growth for these 50 index companies was around 20 per cent, the highest in at least three years, though revenue growth was at a 10-quarter low. In Q4 FY19, a better show by some of the banks and energy companies aided the overall growth.

However, a closer look at the data reveals that it was largely due to a low base in the March 2018 quarter when banks, especially private corporate and public sector banks, had clocked big losses. If financial and energy companies were to be excluded, the story changes altogether. The bottom line of 1,869 non-financial and non-energy firms declined 0.1 per cent YoY in the fourth quarter of 2018-19, the lowest in six quarters, as the slowdown in consumer demand impacted manufacturing growth, while lower government investment hurt both the economy and industry. Coupled with an uptick in interest and depreciation cost, it was a double whammy.

Another indicator of the demand pressure became evident from the sample of domestic market-focused companies, which saw core operating profit margin — excluding extraordinary profit or loss — drop below the double-digit mark, the first in at least 17 quarters, indicating pressure on the cost front as well. This sample, which largely comprises manufacturing players, excludes metals, information technology and pharmaceuticals as well as financials and energy. The Q4 numbers suggest a slowdown in private consumption demand, which has been the key driver of economic growth and corporate earnings in the last two years. The discretionary demand — automobiles and consumer durables — has, however, taken a bigger knock than non-discretionary consumption such as food and personal care products. The combined net sales of automobile makers excluding Tata Motors, which is largely a global play, was up just 2 per cent YoY during Q4, growing at the slowest pace in at least three years.

Coming to sectors, automakers' core operating margins were down 280 basis points on average compared with Q4 FY18, while their combined earnings before interest, tax, depreciation and amortisation (EBITDA) was down for the second consecutive quarter. The industry's combined net profit was down 7.4 per cent YoY during the fourth quarter, the worst in at least three years.

Fast moving consumer goods companies did relatively better with a 10.2 per cent YoY growth in net sales but their top line growth was lowest in the last four quarters, and given the cutback in retail spending, this sector would not be able to contribute to India Inc's profits as much as it has in the past. The investment or capex-related sectors such as capital goods, construction and infrastructure reported relatively better growth numbers compared with other companies. The rest of the manufacturer-companies took a knock on their margins and profits, while the telecom sector continued to post massive losses. The stock market has shrugged off weak quarterly numbers for now because of expectations of a rate cut and a stimulus for the economy. Till then, most analysts see a downside risk to the forward earnings estimates for FY20.

Free rider risks

Delhi's plan for women passengers won't solve anything

There is little debate that the National Capital Region is among the most unsafe urban regions for women worldwide. The public policy response to this demands enlightened education campaigns and a heightened investment on security in vigilance. It is a long, hard slog that usually deters most politicians caught in a five-year electoral cycle — including a woman chief minister who ruled Delhi for 15 years. In that respect, the current Delhi Chief Minister Arvind Kejriwal's proposal to make bus and metro travel free for all women as a means of enhancing their safety reflects an astonishing degree of illogic. It is unclear how a woman travelling in a bus or train will be any safer because she has not paid for her ticket. Just as segregating compartments and seats for women has not made women any safer on public transport, a free ticket is unlikely to enhance their security either.

While Mr Kejriwal alluded to the links between urban mobility and gender equality, he is applying the wrong solution to the problem of women's safety, perhaps with an eye to the Assembly elections in 2020. In fact, it is unclear why he has included the Delhi Metro in this proposal: Any woman will testify to its international standards of security, which tend to be accentuated once she steps out of the station precincts into the street. Had Mr Kejriwal chosen to study the metro system with even cursory attention he would have noticed the heightened security bandobast that was put in place right from the start. Had similar arrangements, such as the suggestion to have marshals on all buses (and perhaps at the more remote bus stands) been instituted for the bus service, the ordeal for women using public transport would have lessened. Besides, asymmetric pricing benefits tend to be socially divisive. Even women who say they appreciate the potential savings of free travel have expressed their apprehensions of a widening gender divide and male resentment this policy is likely to engender. As a means of encouraging Indian men to see women as social equals, free pricing is the solution of last resort.

Set against these arguments is hard economics. The Delhi government has not explained how it will compensate the two services. The only thing that has been speculated upon is that the proposal is expected to cost the Delhi government around ₹700 crore on an annual basis. The Delhi Transport Corporation has seen its working losses rise from ₹942. 89 crore in 2013-14 to ₹1,750 crore in 2018-19. Can it afford free riders? As for the Delhi metro, it raised fares after a long gap of eight years to much controversy. Its operating ratio is in in danger of being skewed again if a large segment of its passengers travel free.

Instead of subsidies, Mr Kejriwal would be better off spending taxpayer money on augmenting Delhi's bus service in terms of quantity and security and working with the central government to train the police force in gender sensitivity to make the national capital safer for women in overall terms. But with less than a year to go for the polls, the easier solution will probably prevail, with all its dubious benefits.

OOKLA 5G MAP

The interactive OoKLA 5G Map tracks 5G rollouts across the globe. Updated weekly from verified public sources and Ookla data. You can follow operators' 5G networks on @Ookla5Gmap

Deployment types: ● Commercial availability **279** ● Limited availability **31** ● Pre-release 63

https://www.speedtest.net/ookla-5G-MAP

5G aspirations and realities

What the government can do for 5G and Digital India

Ah, 5G! The very thought seems to excite so many. What is it? It is a mix of telecom technologies[1] delivering much higher data speeds on more extensive connectivity, using much lower power, with extended battery life, and emitting less radiation, for ways to connect and operate most of the conveniences people use regularly. From smartphones and computers for communications, study, work, research, entertainment, to other devices and machines, such as for managing utilities (electricity and water) at home and the workplace, refrigerators and cooking devices, industrial equipment, transport, and more, so that daily activities are eased considerably. The catch is that 5G is at an early stage in a long process — perhaps a couple of years to manifest in large trials in India, and several more years to be widely available, needing huge investment ($100 billion in India).

SHYAM PONAPPA

Yet, there are compelling reasons for developing India's capabilities. There is the sheer necessity for India to partially meet its requirements, instead of relying entirely on imports. The big draw is the size of the Indian market and prospective demand, the global market, and the possibility of innovation at this early stage. Domestic capabilities are a prerequisite to afford deployment at a level that would otherwise exceed petroleum imports, with unsustainable effects on our balance of payments. Without domestic capacity, energy imports would limit electronics imports. (This highlights India's need for solar power development, a separate and equally high priority.)

However, the sobering financial condition of India's communications industry gives pause. Financial capacity — revenue generation and access to capital, both equity and debt at favourable terms — is required to develop capabilities. After the telecom price wars, even Reliance Jio is reportedly cutting staff. Airtel, meanwhile, having invested heavily in 4G infrastructure, has stated its unwillingness to bid for 5G spectrum unless prices are lower.

The government set up a committee for 5G in September 2017 with a steering group chaired by emeritus professor at Stanford Arogyaswami Paulraj, a pioneer in wireless communications. This committee recommended network deployment as the immediate priority, i.e., rolling out early, efficient and pervasive 5G networks. Technology design and manufacturing capacity were recommended for later phases.

Network deployment needs policy support, especially for a debt-encumbered sector faced with declining revenues per user, and unused, inaccessible spectrum, even as other countries enhance their lead. This is ironic, because India has real strengths in this sector and a large market, with the potential to catapult productivity and prospects. Yet, government policies have not succeeded in coordinating our reservoir of human resources and potential.

India lags in 5G despite the government's stated interest in establishing a lead. Spectrum allocation and large trials were scheduled towards the end of 2019, and auctions in 2020. However, government statements this week target 5G trials by September, and auctions by the end of 2019. As spectrum band choices and allocations for trials have yet to be made, this appears overambitious without radical improvement in resolving many such issues.

Also, India's reserve price for spectrum is seven times Korea's. As sectoral cash flows are weak, there may be takers only at very low prices unless funding is from external sources as for Reliance. A monopolistic outcome would be undesirable in the public interest. Therefore, shared access with Wireless Resource Virtualisation and Network Function Virtualisation may be a much better solution for network deployment and market development.

Inexplicably, government and the public still view communications as a "government cash-cow" instead of as critical infrastructure, while complaining bitterly about poor delivery from low investment. It is obvious that exorbitant government charges (29-32 per cent of revenues plus corporate tax) crowd out investment. The government can change this, or give up on establishing a lead in communications and 5G. Worse, India will continue to lose out on leveraging communications for development.

Initiate a breakthrough

The government can catalyse a breakthrough by doing the following:

a) Reduce borrowing costs and taxes for communications as infrastructure. This aim of the National Telecom Policy 2012 (NTP-2012) has been ignored.

b) Provide adequate spectrum aligned with global allocations. Given India's low fibre penetration and need for digital technology, allow shared access to all spectrum and infrastructure, with charges for usage based on revenue sharing.

c) Clear administrative impasses through coordination and due process without delay. For example, allocate spectrum immediately for 12 months for trials.

Many countries have completed 5G spectrum assignments and are already deploying 5G. These include Korea, Switzerland, Finland, UK, USA, Canada, Australia, Germany, Russia, Italy, and Japan.[2]

There are nearly 300 5G deployments, as shown on an interactive map on Ookla's site (Chart 1).

In this context, Huawei's role in India is contentious. One issue is of non-discriminatory trading terms, or fairness in competition. If an entity such as Huawei achieves global dominance through government support, it competes on terms that cannot be matched because of cost of funds and scale advantages. Such entities can establish dominance in any country against competitors who do not enjoy similar support. Second, while Huawei may be doing nothing different from Nokia or Ericsson, the fact that it is supported by a neighbour with apparently hegemonic behaviour, China, suggests that dependence or entanglement are inadvisable.

To succeed with Digital India and 5G, government can begin by classifying communications as infrastructure, and adopting the approach taken for 5 GHz Wi-Fi. Take pointers from the US FCC, ETSI, and so on; use spectrum and network sharing to leverage equipment and spectrum fully; support local technology champions such as a fabless chip design unit and a network equipment manufacturer in Bangalore, and a wireless equipment manufacturer in Delhi; and focus only on delivery with sustainable revenue generation.

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1: 5G technologies include Multi-User – MIMO (MU-MIMO) to improve reception, small cells for better performance and reduced radiation, WiGig and other high-speed wireless technologies, Software Defined Networks with Network Function Virtualisation, Wireless Resource Virtualisation, and a fibre backbone.

2: Page 8: https://img.lightreading.com/5g/downloads/webinar-breaking-the-wireless-barriers-to-mobilize-5g-nr-mmwave.pdf

Joint audits don't add up

In its final report on statutory audits in April this year, the Competition and Markets Authority of the UK suggested mandatory joint audits to increase choice in the market and thereby drive up audit quality. Though these are just recommendations and are yet to be accepted and legislated, the issue has become a hot topic in the Indian auditing fraternity.

The reasons are obvious. The audit profession is in the spotlight for all the wrong reasons, the latest trigger being the IL&FS fiasco and the alleged involvement of the auditing firms in the scandal. While a detailed investigation into the role of auditors is required, it may not be prudent to accept the suggestion from several quarters that India should take the cue from the UK committee's report and make joint auditing mandatory. Here's why.

POWER POINT

SHYAMAL MAJUMDAR

France is the only large economy that has mandatory joint audit requirements. Most of the large economies that had such a system, such as Canada, Sweden, Denmark and South Africa, have abolished the law, primarily because of increased cost and no apparent beneficial impact on audit quality. Further, the leading economies of the world such as the US, China and the EU have not mandated joint audit.

There have been several cases where the quality of audit has been questioned even in a joint audit scenario. For example, public sector companies and banks in India are subject to joint audits. But these banks have faced several questions around non-performing assets and some high-profile frauds. Even in countries where joint audits are permissible, companies rarely opt for it, because they increase costs to both companies and auditors and present challenges in coordinating between two audit firms and between the auditors and the audited entity.

The moot point is that any audit reform should be driven by the objective of enhancing audit quality. There is no basis to believe that joint audits enhance quality. In fact, they create an incentive where managements could try to leverage one firm against another in seeking a preferred outcome.

Several studies have analysed the effect of joint audit regulations on audit quality. Holm and Thinggaard in 2011 examined whether joint audit impacts audit quality. Their sample comprised non-financial companies listed on the Copenhagen Stock Exchange at the time of joint audit abolishment. Their final sample for the audit quality tests included 117 companies. They found insignificant coefficients on their audit quality measures (abnormal accruals), suggesting that joint audits are not better able to constrain earnings management than single audits.

Mandatory joint audits also lead to higher audit fees. According to estimates, joint audits lead to 20 per cent additional cost as compared to the single auditor approach. The implication on effectiveness is also not encouraging. Joint audits may in fact lead to lack of accountability as some issues may fail to be considered by any of the auditors, following the division of the work.

Besides, mandating joint audit in combination with mandatory firm rotation would result in problems particularly in the case of specialised industries since it would be difficult for companies to appoint specialist auditors with sufficient expertise and capability to handle the audit because of their low availability.

There are other reasons, too. In a joint audit scenario, each auditor has joint liabilities. This results in practical challenges in splitting of work evenly, reviewing each other's work papers, joint meetings, resolving disagreements and evaluation of joint auditors' objectivity, competence and independence. Owing to the differences in the audit firms in terms of size, resources, expertise and technology, there are practical challenges in sharing of risks and fees.

Joint audits also lead to an increase in the workload because of duplication of audit work. Many tasks must be performed by each of the joint auditor, such as attending meetings with key members of management, audit procedures on high risk accounts, etc. A significant time of the audit partner and manager is spent in co-ordination (meetings, reviews of working papers, exchange of information etc) in a joint audit scenario. In addition, joint audits may bring additional complexity as the audited entity must choose and must communicate with two auditors instead of one. It is also possible that in the conduct of the joint audit, the work performed by one of the auditors will be subject only to a limited and superficial review by the other joint auditor and would not bring any added value.

Mandatory joint audits also do not enhance independence or objectivity, as both auditors are subject to and must comply with the same independence requirements. They just cannot counter the demand of large, complex global companies for audit firms with extensive geographical coverage and expertise to be able to perform high quality audits

These are the reasons perhaps why an expert group set up by the ministry of corporate affairs under the chairmanship of Ashok Chawla, former finance secretary, considered the issue in 2017 and recommended that there should not be mandatory joint audit and the decision must be left to the companies and their boards.

Power play and Indian cricket

BOOK REVIEW

TCA SRINIVASA RAGHAVAN

India has won the World Cup twice, in 1983 and 2011. It has also won the T20 championship once in 2007 — after resisting the format for several years rather as a former chairman of the State Bank of India had resisted ATMs in the 1980s. For the last few years, India has been at or near the top of all the cricket charts. Finally, commercially, too, it is to world cricket what China is to world trade: A very rich bully.

Mihir Bose, a highly respected journalist and author, tries to explain what has brought about this ascendancy *The Nine Waves: The Extraordinary Story of Indian Cricket*. After all, as historian Prashant Kidambi shows in his forthcoming book about the first Indian tour of England in 1911, that team was treated as a bunch of wannabe natives. It lost every match it played, of course.

Mr Bose, who had earlier written *The History of Indian Cricket*, revisits that history and comes up with a new theory: Indian cricket has seen nine waves each taller than the previous one and each scaling a new peak. He doesn't quite tell us what constitutes a "wave" but no matter. The book is so rich in detail that even the most ardent follower of the game will be left wonderstruck.

So, although normally I give away cricket books after reading them, I am going to keep this one. It's the sort of book you keep dipping into for the anecdotes such as the one about the daughter of the Bombay jeweller who, after he had scored a century in 1932, went to see Lala Amarnath with a bagful of diamonds and asked if he would elope with her. Mr Amarnath declined. He told Mr Bose in an interview that she was not "his type".

Nehru does his bit

Jawaharlal Nehru was a great man, with a Modi-like eye on symbolism. That's why every year there was his photograph in Indian newspapers in pads for the yearly Parliamentarian match. Nehru thought cricket was a good idea.

But therein hangs a tale. It seems the Brits — Winston Churchill and Clement Attlee — were keen that India should retain the British king as its constitutional head. Bose says even some sort of ancient Indian title for him was suggested. Sardar Patel, however, didn't want India to be a part of this British club and there was a lot of debate about it in 1948.

Then, typically, for reasons best known to himself, Nehru took a unilateral decision: We are in. Mr Bose suggests that Edwina Mountbatten might have had something to do with it. By all accounts, Nehru seems to have had soft corner for her. The future of Indian cricket, however, must have been the last thing on Nehru's mind.

His decision was momentous as the Imperial Cricket Conference (as the ICC was called then), decided to make India a permanent member, a privilege from which many things flowed and followed. At the very least, India could now dine at the High Table. Today, it rules the ICC, which no longer sits in London but in Dubai!

Mr Bose asks an interesting question in this regard. It is supremely fit for discussion after a few drinks: Would hockey, in which India was unparalleled then, prospered if Nehru had decided to accept Patel's recommendation not to be a member of the Commonwealth?

This can only be answered properly if the drink is scotch — and never, it goes without saying, that strange Indian bureaucratic drink called IMFL.

More Nehru

Broadly this book can be read in two parts: Pre-2001 and post 2001. The reason: Before 2001, cricket lore and controversies were not covered as extensively as they are now. So, there are many stories Mr Bose tells which, if not new, are at least not known very widely or remembered.

Chandu Borde was almost made captain in 1961 only to find that Mansoor Ali Khan Pataudi had been chosen. The story goes, says Mr Bose, that Pataudi's mother, the Begum of Bhopal, asked Nehru to make her son the captain who did his bit.

As with all such stories this one, too, has been in the air on and off but never authenticated, not even by Borde who ruefully told Mr Bose that he had borrowed money from Bapu Nadkarni to celebrate. Borde, I learnt for the first time, was Christian, though why that should have been mentioned beats me.

For the rest of the stories, you will have to read the book, which is needlessly expensive.

THE NINE WAVES: The Extraordinary Story of Indian Cricket
Mihir Bose
Aleph, 561 pages, ₹999