The irresistible charm of electric mobility

Solar was to India's 2014 Budget what electric vehicles is to the 2019 Budget

VANDANA GOMBAR

An ambitious target that envisions "India as a global hub of manufacturing of electric vehicles" has been announced by Finance Minister Nirmala Sitharaman. The Economic Survey earlier proclaimed boldly: "It may not be unrealistic to visualise one of the Indian cities emerging as the Detroit of EVs in the future."

The word "leapfrog" is used often for electric mobility in India. Just as many people's first phone was wireless, so can their first vehicle be electric, is the thinking behind those who want a radical shift in our commute patterns.

NITI Aayog has already been pushing for electrifying all three-wheelers by 2023, and all two-wheelers by 2025, and has run into expected opposition from industry incumbents. An earlier proposal to have all cars electric by 2030 was watered down in the face of resistance from various groups.

On the other side of the fence, younger companies are impatient to electrify mobility in India. In an interview with BloombergNEF, Anand Shah, co-founder of Ola Electric, outlined plans to focus on electric two-wheelers and three-wheelers to ferry passengers or packages. "In our view, they are the low-hanging fruit," he said, as he talked about relying on a model where the vehicle battery is promptly swapped rather than patiently charged. The company secured $250 million from SoftBank earlier this month, and is being dubbed as India's latest unicorn.

CHANGING PRIORITIES

India Budget speech mentions

	2014	2019
Electric vehicles	0	**14**
Solar	11	**4**
Wind	5	**0**
Water	20+	**20+**
Pollution	0	**1**

Source: India Budget 2019

It would be challenging for India to create a competitive advantage in EV manufacturing. For one thing, it is not the easiest place to conduct business. India ranks 77 in the World Bank's ease of doing business rankings and can only provide capital subsidy or other support in a limited manner.

Its largest competitor would be China, which has had quite a head start in this race. There are 486 electric vehicle manufacturers registered in China, according to a Bloomberg News report in April. The country is the world's largest manufacturer and buyer of EVs and also has the world's largest network of public charging stations. Additionally, China accounts for 75 per cent of the world's lithium cell manufacturing capacity.

Fans of Tesla would know that the company chose to set up a manufacturing plant in China, which happens to be the company's biggest market after the US. Production is expected to start by the end of this year.

Meanwhile, there are some encouraging signs of impending changes in the transport sector in India:

■ 10,000 charging stations target: Energy Efficiency Services Ltd (EESL), the company that bulk-procured LED lights and brought down their prices, plans to set up 10,000 EV charging stations in the next two years. Other companies that have announced their intentions to set up charging stations include NTPC and Bharat Heavy Electricals Ltd. EESL has also procured EVs from Tata and Mahindra for government offices. As of May 2019, about 1,000 vehicles were already running, and another 2,500 were in the process of being delivered.

■ What range anxiety? A few hours ago, Hyundai India launched an electric SUV in the country that can travel 452 kilometers on a single charge. However, with a price of Rs25.30 lakhs (approximately $37,000), it remains to be seen whether sufficient market traction will develop. Many more electric car launches are in the pipeline.

■ Solar with EVs: Solar module manufacturer Waaree Energies has been selling customised flexible solar modules for use on the roofs of railway coaches, in addition to trucks, buses, and yachts. The marriage of solar with EVs makes for a compelling business case.

The author is the Editor – Global Policy for BloombergNEF. She can be reached at vgombar@bloomberg.net

Mining in the deep end

With leases expiring in March, and little time left for fresh auction, iron ore and manganese miners are staring at mayhem

KUNAL BOSE

The non-captive merchant iron ore and manganese ore miners that meet as much as 45 per cent of the requirement of critical raw materials of the steel industry in the eastern sector are staring at mayhem as their leases expire on March 31, 2020.

Production shutdown at a number of mines in Odisha and Jharkhand, leading to massive unemployment and social unrest that are fodder to extremist movement will inevitably coincide with the start of the next financial year. There is no way the two states will be able to complete the arduous process of completing the auction of mines, whose leases under the law are to expire in March. In the exceptional event that new lessees emerge from the auction, it will take them a long time to get all the sanctions and then install machinery and equipment to start mining.

The genesis of the impending crisis is found in the January 2015 amendment of the 1957 Mines and Minerals (Development and Regulation) Act. The amended Act, for the first time, made a distinction between merchant, captive and government-owned mines. Earlier, the three groups of mines received identical treatment in all respects, including the terms of leases. Now, merchant miners say they have got a raw deal: Their leases will be valid till March 2020, whereas the lease tenure of captive mines will be up to March 2030, with the right of first refusal when fresh auctions are held. The most favoured are mining agencies belonging to the centre and states. They are allowed extension of leases for 20 years beyond the stipulated period of 50 years. There is, however, no economic justification for treating the three sets of owners differently on validity period of mining leases. Perhaps, the authors of the amended Act did not foresee the chaos that will inevitably follow the expiry of merchant mining leases in March 2020.

Steelmakers with financial muscle to make bids for iron ore mines at hefty premiums are pressuring the government to hold auction of mines belonging to non-captive owners that are to expire in nine months. After all, auctions will give them a chance to bid for 24 working and 208 non-working iron ore mines. Moreover, seven working and 14 non-working manganese ore mines are also to come under hammer as the present owners will have their mining rights extinguished in March 2020.

TAKE TWO

Unlike their counterparts abroad, big Indian steelmakers are obsessive about ownership of iron ore and manganese ore mines, knowing full well that the skill sets required for running the two businesses are different. In any case, captive mine owners in India will not claim that their mine work matches the best in the trade, their focus being on making steel and steel products.

Yes, the world's largest steelmaker ArcelorMittal has a significant portfolio of mining assets that principally include iron ore and coking coal. Iron ore production of 58.5 million tonnes (mt) in 2018 gives an idea of how big a miner ArcelorMittal is. In comparison, India's largest miner NMDC's ore output in 2018-19 was 32.4 mt. None of the mines owned by ArcelorMittal is captive to any of its steel mills. Mining is a separate profit centre for the company. When iron ore and coal are shipped to its own plants, these are done mostly at market prices and to a small extent on a cost plus basis. Unlike ArcelorMittal, captive mine owners here provide scanty information about their mining activities.

OUT OF BUSINESS

Mining leases of minerals expiring on March 31, 2020 are set to affect the industry in Odisha and Jharkhand

Mineral	Working	Non-working	Total
Iron ore	24	208	232
Manganese	7	14	21
Bauxite	6	8	14
Limestone	2	21	23
Chromite	4	0	4
Others	5	30	2
Total	48	281	329

Source: CCEC meeting of Ministry of Mines

Surprisingly, some steelmakers' campaign for expediting auction of mines that are to run their course in nine months is not tempered by their recent disappointing experience of only half the earmarked non-coal mineral blocks being actually auctioned and the follow-up sanctions needed to start mining not coming through. What is particularly upsetting is that for the 34 auctioned greenfield mineral blocks, not even one mining licence is executed. The Supreme Court gave a ruling that the new lessees of auctioned mines that were operational earlier would automatically get the environment and forest clearances transferred to them from earlier lessees. But as it would happen, the new lessees of the three 'C' category mines in Karnataka are kept waiting for the clearances to come to them.

Clarity is in absence in the government as to how to go about auctioning the merchant mines whose tenure ends in March 2020, particularly the functioning ones. For example, at a recent coordination-cum-empowered committee (CCEC) meeting of the mines ministry, it was mentioned that the concerned states were advised to start auctioning mines expeditiously "so that the incoming miners have time to take preparatory steps to make the mines functional." But the law clearly states that auction can happen only "on the expiry of lease period." A spokesperson for an Odisha-based major mining group says by proposing auction before lease expiry, the CCEC is walking into a minefield. The existing lessees may take recourse to law to "stop prospective bidders from carrying out due diligence which will inevitably interfere with mining work," he says. Any anarchy in mining in Odisha and Jharkhand will shrink iron ore supply by at least 60 mt, resulting in foreign ore filling the vacuum.

The miners have a strong case as under the minerals concessions rules, 2016, lessees are allowed seven months to remove excavated minerals and plant and machinery. Besides the legal issues, there is the issue of the iron ore stocks of 127 mt, mostly fines that the mines in Odisha (85 mt) and Jharkhand (42 mt) are saddled with. The mines are unable to liquidate the stocks for two reasons. First, local steel mills will buy ore that has higher iron (fe) content than found in mountains of unsold stocks at pitheads. Second, because of the 30 per cent export duty on iron ore with 58 per cent plus fe content, there is no demand for the stocks in the global market. The question then is: Will the prospective new lessees be willing to buy the pithead stocks?

CHINESE WHISPERS

'Anything can happen' in MP

Amid the high-voltage drama in Karnataka, Bharatiya Janata Party (BJP) has instructed its MLAs in Madhya Pradesh to ensure 100 per cent attendance in the state assembly during the ongoing session. Senior party leaders have said if a member wants leave, he/she will have to inform in advance and furnish valid reason for absence. Former chief minister of the state and senior leader Shivraj Singh Chouhan met party MLAs recently and reportedly told them that the Congress government and its ministers are "not serious about the affairs of the state" and that "anything can happen" in the coming days.

When cricket won

There was an uproar in the Rajya Sabha on Tuesday over the political crisis in Karnataka, with Congress members storming the well of the House and raising slogans, leading to an adjournment of the proceedings. The Trinamool Congress and the Left parties protested the Narendra Modi government's plans of disinvesting public sector undertakings. Deputy Chairman Harivansh adjourned the House for the day within three minutes of it reconvening at 2 pm because of unabated protests. "I am convinced the Congress and Trinamool Congress disrupted the Rajya Sabha and had it adjourned for the day because they wanted to watch the cricket. No other explanation is in sight," said nominated MP Swapan Dasgupta. Opposition members, however, said they would continue disruption on the issue of disinvestment on Wednesday also.

Room No 53

Even with their dwindling presence in Parliament since 2009, the Left parties, particularly the Communist Party of India (Marxist), have religiously raised issues of public interest. Both during the years of the UPA 2 government and the previous term of the Narendra Modi regime, the CPI(M) routinely held press conferences in room number 53 of Parliament House when Parliament was in session, to demand answers from the government of the day on social and economic issues. With CPI(M) General Secretary Sitaram Yechury no longer an MP, the CPI's D Raja set to retire, and no articulate successor in sight, the Trinamool Congress's Derek O'Brien has sought to fill the breach. O'Brien held a press conference in the same room on Tuesday on electoral funding and promised a weekly press conference on a burning issue. Unlike the frugal refreshments the Left parties offered journalists, the Trinamool served fried chicken and fish.

INSIGHT

Endgame for Indian logistics?

NEELESH MUNDRA & HANISH YADAV

Thanks to India's rapid economic growth, our middle class has grown, fueling growth in personal consumption, e-commerce, and data consumption. Meanwhile, the government is investing in infrastructure and may have eased the regulatory environment especially through roll out of a unified tax structure under GST. Looking back, these trends have created an exciting period of expansion for the Indian logistics industry over the past decade. Looking ahead, we believe three trends will define the sector for the next decade.

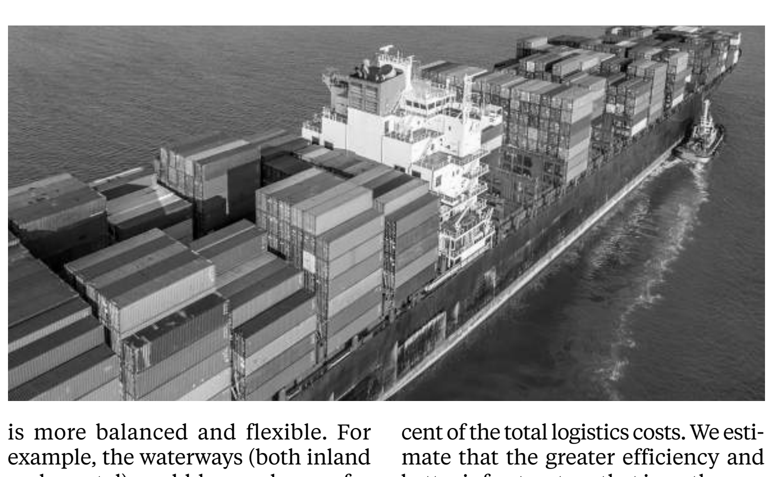
Disintermediation is the process of cutting out the intermediaries from the process of matching demand from users of logistics services, such as businesses, with suppliers. The use of digital technologies and analytics has already started to change the rules of the game. For example, digital freight aggregators do not need to use brokers; they can connect shippers straight to truck owners. New logistics players connect manufacturers directly to retail stores, cutting out dealers and distributors. This de-layering of the value chain will cut costs; it will also require these middlemen either to reconsider their business model or go bust.

Platformisation is when shippers can access all the services they need through a single platform. Initially, many digital platforms simply matched supply and demand for long-haul and last-mile deliveries. Now they are moving towards complete digitisation of both the shipper's and fleet owner's journeys — from track and trace and digitised bookkeeping to digital payments, order booking, spares purchases, and even fleet maintenance.

An implication of this trend is that with the right platform, logistics providers do not need to own all the assets needed to provide quality service at competitive costs. Experience in other countries, such as China, has shown that it is a winner-takes-all market. That's because massive scale is required to build procurement efficiencies and hence pass on the benefit to the end user. This idea is already gaining traction in India, where fast-growing players in specific sectors are using their clout to add services. It is likely, then, that there will be a shake-out among the dozens of freight aggregators and even food-delivery players.

Multi-modal logistics refers to the use of more than one kind of transportation to deliver the goods while improving efficiency and cutting costs. India is investing in large-scale infrastructure projects, and many of these should be finished by 2030 — for example, the dedicated rail freight corridors connecting the eastern mineral-rich states and western ports to production and consumption centers clustered in the north. These projects, when completed, will allow freight trains to more than double their capacity (to 13,000 tonne per rake load versus 5,400 tonne now) while running almost three times as fast (70 km/hour versus 26 km/h) and at prices competitive with trucking. In addition, the Sagarmala and Bharatmala projects will have similar effects on ports and highways.

These projects, and others in the works, could transform India's modal-mix from one that is now dominated by moving goods by road, to one that is more balanced and flexible. For example, the waterways (both inland and coastal) could be used more for slow-moving bulk cargo; high-speed dedicated rail for long-distance freight movement; and the roads for last-mile delivery. This in itself could cut overall logistics costs by 3 per cent per cent of GDP.



Few Indian logistics providers are ready to harness this potential, due to either lack of strategic intent or capability to move cargo between different kinds of transport. Those who invest in the necessary infrastructure, such as logistics parks, which allow aggregation, disbursement and trans-shipment of cargo from one mode to another will have a significant competitive advantage.

Combined, these three trends will translate into greater growth for Indian logistics, which could reach as much as $500 billion in revenues by 2030, compared to $200 billion now. The result is also likely to be lower costs for the national economy; logistics accounts for about 13 to 14 per cent of GDP once you include direct and indirect costs to companies. Efficiency gains are also likely to come from lower indirect costs, such as better inventory management, and less theft and damage. According to our estimates, these now account for almost 30 per cent of the total logistics costs. We estimate that the greater efficiency and better infrastructure that is on the way means that this logistics cost could decline to 10 per cent of GDP by 2030.

In terms of the structure of the industry, there could be significant consolidation as new business models emerge. Traditional logistics companies that have built businesses around warehousing operations and owning fleets of trucks may need to re-consider their operating models. It's possible a whole new set of technology-first players will emerge and scale up fast. There could be newer opportunities, for example, in targeting inefficiencies, such as trucks with empty spaces; digitisation of logistics transaction flows across modes; automated distribution centers to support same-day deliveries; and eventually last-mile deliveries using crowd-sourced platforms that are more efficient and cost effective.

The evolution of the India's logistics sector is overdue. The journey is likely to be difficult, and there will be pain along the way. But we believe that as this chaotic industry becomes more organised and efficient, the gains will be greater.

Mundra is a partner at McKinsey & Company, based in Mumbai; Yadav is an associate partner based in Gurugram

LETTERS

Bell the cat

Apropos the editorial "Taxing the super-rich" (July 9), Finance Minister Nirmala Sitharaman's proposal to significantly increase the marginal tax rate for those earning more than Rs 2 crore may be sound in principle but fails on the grounds of fairness and equity. To begin with, Rs 2 crore per annum is too low a threshold in the present context, especially when our corporate sector has to attract talent at globally comparable salaries. Second, her target perhaps was the promoters of family-owned and managed enterprises. But the FM's failure to distinguish them from the professionals has led to a situation that might encourage (a) the return of 'white envelopes' with huge amounts of cash and consequently, tax evasion and generation of black money and (b) more executives becoming NRIs.

The hardest — and most unfairly — hit are the salaried CXOs earning decent packages related to their performance. Self-employed professionals wouldn't worry because they, most of the time, take recourse to "showing" huge expenses by including every possible spend — house rent and maintenance, personal staff, travel, eating out et all — as official. Perhaps upping the withholding tax and some sort of ceiling on salaries of promoters would've been a better solution.

Of course — as you have so elegantly argued — a long-term solution lies in "a system where a large number of people pay a moderate rate of tax". The present government has the desired majority to bite the bullet and bring agricultural income in the tax net. But will the government muster up the political will to take this unpopular step?

Krishan Kalra Gurugram

Don't worry, be happy

This refers to your news item "Bengaluru to London: Deutsche Bank layoffs leave many careers' hopeless" (July 9). In a global economy, such massive job losses are becoming a regular feature. Lifelong job security has become non-existent, except perhaps in government jobs. While every job loss is traumatic, in the case of layoffs, it is even more so.

One needs to quickly regroup and move forward. The mistake that most commit is in looking for a job similar to the one that was lost. It is here that one needs to be flexible. There are a number of part-time and freelance opportunities available in various industries, which one can locate by referring to job portals. Depending on one's financial position, one may even consider reskilling oneself to make a mid-life career change. As Helen Keller succinctly put it, "When one door of happiness closes another opens but often we look so long at the closed door that we do not see the one which has opened for us."

V Jayaraman Chennai

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE

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More protectionism

Budget continues the mistake of raising tariffs

The Union Budget for 2019-20 continued the recent tradition of having a long section in which import tariffs were arbitrarily changed. Finance Minister Nirmala Sitharaman was quite clear about the motive behind these changes: "On the Customs side, my proposals are driven with the objectives of securing our borders, achieving higher domestic value addition through Make in India, reducing import dependence, protection to the MSME sector, promoting clean energy, curbing non-essential imports, and correcting inversions." This is an explicit statement of import substitution as a strategy for growth, carried out through the blunt instrument of customs duties.

The Budget raised tariffs on a variety of imports — from cashews to marble slabs to furniture parts to auto components. An observer might well ask how this set of goods was identified. There is likely only one answer: In response to requests or complaints from domestic producers. The problem is that this is a clear invitation to all other domestic industries and sectors to step up lobbying for similar protection. In the process, the voice of the consumer, who in the end pays these tariffs, will be forgotten. India does not have a happy history of import substitution, and it is a mystery why it is staging a comeback within living memory of the liberalisation of 1991. Raising tariffs purely to protect industries merely leads to high-cost and uncompetitive production, and depresses the broader standard of living.

It is true that some countries profited in the past from tariff walls. But that was a time when it was conceivable for developing countries to grow exports even as domestic industry was protected. In today's world of global supply chains, that happy outcome is even less likely than it was earlier. Global value chains require the ability to shift production and intermediate goods across frontiers easily and quickly, amid a stable trade policy. A country that shifts its trade policy arbitrarily, or shows itself vulnerable to sudden tariff impositions, thanks to domestic lobbying, will not be able to embed itself in global value chains. The goal of raising India's share in world trade above its current abysmal level of about 2 per cent is not being well served by this policy.

Import substitution of the sort on display in the Budget has as its policy sibling industrial policy, in which the government picks "winners" among possible sectors and directs investment to those sectors. The government has clearly decided that consumer electronics and electric vehicles (EVs) are two such sectors. The finance minister said that "considering our large consumer base, we aim to leapfrog and envision India as a global hub of manufacturing of Electric Vehicles". Customs duty on certain components of electric vehicles was lowered to this end. Creating a "Detroit for EVs" in India, to paraphrase the Economic Survey, might well be a worthy aim.

But concessional imports, mega battery manufacturing plants (another Budget idea), or special subsidies is not the way to go about it. Set direct emissions targets, improve business competitiveness, create charging infrastructure — and production will take off on its own. As it stands, why would anyone trust lower duties on EV components if the government has shown itself willing to raise tariffs on a whim?

Tight-fisted on water

The meagre increase in budgetary allocation for Jal Shakti is a surprise

Only a marginal increase in the budgetary allocation for the water resources sector came as a surprise, given that some recent moves of the government displayed a strong resolve to mitigate the country's water woes. Prime Minister Narendra Modi himself pleaded in his "Mann ki Baat" address, just days ahead of the Budget, to make water conservation a mass movement on the lines of the Swachh Bharat cleanliness campaign. But the meagre increase in budgetary allocation for such a vital task makes it doubtful whether the government intends to walk the talk. Though Finance Minister Nirmala Sitharaman has indicated that additional resources of the Compensatory Afforestation Fund could be diverted to water development programmes, this move seems contentious and may even be challenged in court by environment activists.

The extraordinary water scarcity experienced in recent months in many parts of the country was attributable partly to the scanty pre-monsoon rain, but the genesis of India's unremitting water crisis lies in the indiscriminate splurge and mismanagement of water. Since the monsoon is now underway and good showers in July and August have been predicted, it is the best time to start conserving rainwater. The Jal Shakti Abhiyan, targeted at harvesting rainwater in over 1,590 water-stressed blocks of 256 critically water-starved districts, should, therefore, get going without any further delay or resource constraint.

The point to ponder is that India is not an innately water-deficit country, though per capita water availability is on the decline due to the rise in population and inappropriate management of this renewable natural resource. India's average annual precipitation (rain plus snowfall) of 120 cm is markedly higher than the global average of around 100 cm. However, the bulk of this water is allowed to flow into the seas. Only a small proportion is utilised for agriculture, industry, and domestic purposes. Worse still, just a fraction of it, merely 8 per cent, is saved in surface water bodies and underground aquifers for subsequent use. No wonder, therefore, that about 600 million people face perpetual water crunch in India. Some 21 cities, including metros such as Delhi, Bengaluru, Hyderabad, and Chennai, are anticipated to run out of groundwater in the next few years.

Clearly, every drop of rainwater needs to be conserved *in situ* and used prudently. Fortunately, the Jal Shakti ministry's proposed water management drive intends to do that by creating rainwater-gathering infrastructure, wherever necessary, and rejuvenating the existing ponds, reservoirs, and other water bodies that are defunct due to neglect. However, not many result-oriented steps are being taken to curb wasteful use of water in agriculture, industry, and domestic sectors. The lack of proper pricing of water is a key reason for this extravagance. The National Water Policy of 2012 categorically states that water is an "economic good" and needs to be priced appropriately to promote its efficient use. Sadly, this stipulation has remained unattended. Unless such issues are suitably addressed and the water conservation programmes are adequately funded, the water crisis is unlikely to abate.

ILLUSTRATION: BINAY SINHA

Budget's flawed swadeshi objective

Only a more globalised Indian economy can deliver GDP of $5 trillion by 2024, not a protectionist one

It is good to have high ambition and the goal of a $5-trillion Indian economy by 2024 is welcome. What is more, it is achievable. The key ingredients are in place. India is still in its most productive demographic phase, although not for long. It has a comprehensive and relatively sophisticated industrial base and dynamic entrepreneurship. It has sectors such as space and IT, which are world standard. India is advancing rapidly in the use of digital technologies and has large and expanding data resources that could enable rapid progress in new areas such as Artificial Intelligence (AI) and Machine Learning. The sheer size of the Indian market may be leveraged not only to attract significant foreign capital and technology flows, but to also seek advantageous terms of trade and investment. India is in a sweet spot in its growth trajectory. We need a bold economic strategy to leverage these assets while recognising that this is a window of opportunity which will close sooner rather than later.

SHYAM SARAN

The recent Budget has several positive features. There is an emphasis on revival of investment, including foreign investment, building of infrastructure, promotion of exports, deepening of financial markets and job creation. What is worrying is the reappearance of import substitution as a policy objective. The latest Budget has followed two earlier ones in raising tariffs on a range of imports. This has now become a trend. We are in danger of slipping back to the pre-1991 suboptimal strategy of growth based implicitly on import substitution and protected domestic production. There are other worrying signs. After several free trade agreements were concluded in the first decade of the current millennium, sentiment has veered against them. While these may have led to an increase in the overall volume of India's trade, they have also resulted in higher trade deficits. There is criticism that our trade partners have benefited more than we have from these agreements. This is behind India's reluctance to sign on to the proposed Regional Comprehensive Economic Partnership(RCEP), which would make India a partner in a large trading arrangement composed of Japan, China and the Republic of Korea, the 10 ASEAN countries and Australia and New Zealand. It is right for India to seek reciprocal market access and a level playing field for its companies, and this may need a review of the terms of some of the free trade agreements. Switching to an import substitution strategy is not the answer.

The problem with raising tariffs selectively on some products is that it creates vested interests, which are difficult to unknot once they are in place. It may be better to decrease the exchange rate of the Indian rupee, which would achieve the same impact as higher tariff but without sectoral effects favouring some industries over others. Some economists have argued that the rupee is overvalued.

With respect to existing free trade agreements, studies carried out by my colleague V S Seshadri have shown that the Indian industry has looked upon them chiefly to preserve market access for their existing exports rather than instruments for seeking expanded and more diversified market access. Provisions in the agreements, which could be used by Indian exporters to overcome non-tariff barriers or to raise value addition, were not taken advantage of. The agreement with Japan contains a commitment to help India's pharmaceutical industry navigate the complex registration process without which Indian drugs could not enter the Japanese market despite being competitive. It was never used. The overall impression is that Indian industry treated the free trade agreements defensively rather than as opportunities for market expansion. Import substitution is unlikely to change this mindset.

Pursuit of protectionist policies will make Indian industry less, not more competitive. This would go against the declared policy of promoting exports. Our experience of the pre-1991 period provides ample evidence that protectionism breeds low-quality and inferior service because consumer choices are limited. The argument that high tariffs would give Indian industry some time and space to become more competitive is patently false. Even a foreign investor is happy to be able to sell substandard and low-quality goods in the Indian market because of a lack of competition. There is less incentive to bring in high technology goods and services. India would be unable to leverage the size of its market to get high-quality investment. That would be a lost opportunity. A word of caution is also required on the proposal for foreign borrowing through sovereign bonds. These could create expanding liabilities if, as expected, the rupee's value declines over time. Exports have remained stagnant over the past five years and, if they remain sluggish, we could face a balance of payments challenge once again. Since exports today are also dependent on imports of crucial components and intermediates, import substitution may under-cut export promotion.

I served in the Prime Minister's Office during the first two years of Narasimha Rao's government in 1991-92 and witnessed sharp debates over whether it was prudent on India's part to jettison the import substitution and self-reliance strategy pursued since independence. Prominent industrialists warned of the hollowing out of Indian industry, given its inability to compete in international markets. They were proved wrong and India embarked on a high-growth trajectory, thanks to the bold reforms and liberalisation measures that were adopted. Indian industry became more not less competitive and proved more than capable of taking on more established international rivals. It would be a pity if these lessons of the past are unlearned and we regress into an autarkic "swadeshi" mode. This is a recipe for slower, not accelerated growth. This will neither deliver a $5-trillion economy nor sustain India's greater geopolitical salience. India cannot pursue an expanded geopolitical role as a leading power while moving to the margins of the global economy. Globalisation is driven by technology and will advance irrespective of our preferences. The future will lie with countries that stay ahead of the globalisation curve and pursue excellence in all aspects. The hedging of bets that characterises the Budget falls short of expectations.

The writer is a former Foreign Secretary and is Senior Fellow CPR

Thumbs down to Facebook's cryptocurrency

Facebook and some of its corporate allies have decided that what the world really needs is another cryptocurrency, and that launching one is the best way to use the vast talents at their disposal. The fact that Facebook thinks so reveals much about what is wrong with 21st century American capitalism.

In some ways, it's a curious time to be launching an alternative currency. In the past, the main complaint about traditional currencies was their instability, with rapid and uncertain inflation making them a poor store of value. But the dollar, the euro, the yen, and the renminbi have all been remarkably stable. If anything, the worry today is about deflation, not inflation.

The world has also made progress on financial transparency, making it more difficult for the banking system to be used to launder money and for other nefarious activities. And technology has enabled us to complete transactions efficiently, moving money from customers' accounts into those of retailers in nanoseconds, with remarkably good fraud protection. The last thing we need is a new vehicle for nurturing illicit activities and laundering the proceeds, which another cryptocurrency will almost certainly turn out to be.

JOSEPH E STIGLITZ

The real problem with our existing currencies and financial arrangements, which serve as a means of payment as well as a store of value, is the lack of competition among and regulation of the companies that control transactions. As a result, consumers — especially in the United States — pay a multiple of what payments should cost, lining the pockets of Visa, Mastercard, American Express, and banks with tens of billions of dollars of "rents" — excessive profits — every year. The Durbin Amendment to the 2010 Dodd-Frank financial-reform legislation curbs the excessive fees charged for debit cards only to a very limited extent, and it did nothing about the much bigger problem of excessive fees associated with credit cards.

Other countries, like Australia, have done a much better job, including by forbidding credit card companies from using contractual provisions to restrain competition, whereas the US Supreme Court, in another of its five-four decisions, seemed to turn a blind eye to such provisions' anti-competitive effects. But even if the US decides to have a non-competitive second-rate financial system, Europe and the rest of the world should say no: It is not anti-American to be pro-competition, as Trump seems to have recently suggested in his criticism of European Commissioner for Competition Margrethe Vestager.

One might well ask: What is Facebook's business model, and why do so many seem so interested in its new venture? It could be that they want a cut of the rents accruing to the platforms through which transactions are processed. The fact that they believe that more competition won't drive down profits to near zero attests to the corporate sector's confidence in its ability to wield market power — and in its political power to ensure that government won't intervene to curb these excesses.

With the US Supreme Court's renewed commitment to undermining American democracy, Facebook and its friends might think they have little to fear. But regulators, entrusted not just with maintaining stability, but also with ensuring competition in the financial sector, should step in. And elsewhere in the world, there is less enthusiasm for America's tech dominance with its anticompetitive practices.

Supposedly, the new Libra currency's value will be fixed in terms of a global basket of currencies and 100 per cent backed — presumably by a mix of government treasuries. So here's another possible source of revenue: Paying no interest on "deposits" (traditional currencies exchanged for Libra), Facebook can reap an arbitrage profit from the interest it receives on those "deposits." But why would anyone give Facebook a zero-interest deposit, when they could put their money in an even safer US Treasury bill, or in a money-market fund? (The recording of capital gains and losses each time a transaction occurs, as the Libra is converted back into local currency, and the taxes due seem to be an important impediment, unless Facebook believes it can ride roughshod over our tax system, as it has over privacy and competition concerns.)

There are two obvious answers to the question of the business model: One is that people who engage in nefarious activities (possibly including America's current president) are willing to pay a pretty penny to have their nefarious activities — corruption, tax avoidance, drug dealing, or terrorism — go undetected. But, having made so much progress in impeding the use of the financial system to facilitate crime, why would anyone — let alone the government or financial regulators — condone such a tool simply because it bears the label "tech"?

If this is Libra's business model, governments should shut it down immediately. At the very least, Libra should be subject to the same transparency regulations that apply to the rest of the financial sector. But then it wouldn't be a cryptocurrency.

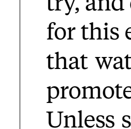
Alternatively, the data Libra transactions provide could be mined, like all the other data that's come into Facebook's possession — reinforcing its market power and profits, and further undermining our security and privacy. Facebook (or Libra) might promise not to do that, but who would believe it?

Then there is the broader question of trust. Every currency is based on confidence that the hard-earned "deposited" into it will be redeemable on demand. The private banking sector has long shown that it is untrustworthy in this respect, which is why new prudential regulations have been necessary.

But, in just a few short years, Facebook has earned a level of distrust that took the banking sector much longer to achieve. Time and again, Facebook's leaders, faced with a choice between money and honoring their promises, have grabbed the money. And nothing could be more about money than creating a new currency. Only a fool would trust Facebook with his or her financial wellbeing. But maybe that's the point: With so much personal data on some 2.4 billion monthly active users, who knows better than Facebook just how many suckers are born every minute?

The writer is University Professor at Columbia University, co-winner of the 2001 Nobel Memorial Prize, former chairman of the President's Council of Economic Advisers, and former Chief Economist of the World Bank. His most recent book is People, Power, and Profits: Progressive Capitalism for an Age of Discontent. *©Project Syndicate, 2019.*

Why Nehru matters



BOOK REVIEW

MAHESH RANGARAJAN

Jawaharlal Nehru is not a man for all seasons, at least not in India 2019. But it was striking in the course of the election campaign, given the way his legacy was reviled by critics and defended by admirers, that his mark on the Indian polity, society and culture is undeniable. It is a pity that few in the public realm have bothered to delve deep enough into his vast corpus of writings, speeches and letters to do justice to his many-faceted public persona.

This gap is being remedied to a great extent since 2011 with the regular publication, at the rate of one volume a month of *The Selected Works of Jawaharlal Nehru*. Each volume is about 750 pages long and till October 1962, the rate at which he spoke or wrote remained remarkable. Each letter, no matter from whom, was answered within three days.

But only the scholar or the student of history will pore over these tomes. For intelligent lay person, there is the gift of a fine volume of Nehruana by a leading scholar of Indian languages, of Hindi literature in particular, Professor Purushottam Agrawal.

The volume has two parts, texts by Nehru and writings about him. It is here that another Nehru emerges, a freedom fighter inspired by his mentor, Mahatma Gandhi (with whom he differed on much) and a state builder which he became from 1946 as Vice-chair of the Executive Council of the Viceroy and then as Prime Minister of independent India for 17 years.

When Andre Malraux, the Gaullist Minister of Culture of France, was asked what his greatest challenge was, he named not one but two. Forging a secular state in a religious society was one. Creating a just state by just means was the other. It is fascinating more than half a century on, these two themes run through the selection put together by Prof Agrawal.

This leads to a more revealing insight: The deep roots in and familiarity with Indian traditions. Many know that in the course of the early 1920s, Nehru immersed himself in the Kisan or peasant movement in Awadh. It was in one such meeting that he asked a crowd who Bharat Mata was. It was in response to their queries that he asserted that the country was made up not only of rivers, mountains and other physical features but of its very people.

What is more important is the varieties of the Indian self that Nehru was at ease with. He read and studied the *Rama Charit Manas* of Goswami Tulsidas in Agra jail with the litterateur Ram Naresh Tripathi by his side. His *Discovery of India*, written in long hand in Aurangabad Fort drew from fellow political prisoners including Maualana Azad who was versed in a dozen languages. The tributes to Nehru by a Ramanandi sage, Bhagavadacharya and by no less than Rashtra Kavi Nam Dhari Singh Dinkar show a man familiar with the many worlds of Hindi as much as of Hinduism.

This may be a discovery for many, given how Nehru is now often seen as a Westernised elitist ill at ease in a vernacular India. The tributes in the volume stand out for their clarity and warm appreciation. Sardar Patel and Maulana Azad were of an older generation, with an association with Gandhiji that was deeper and longer. Both record Nehru's central contribution in giving democracy a firm base.

The excerpts from his own works draw home a message he repeated to all who cared to listen: There was no such thing as a Nehruvian. He was, as he said in an interview to Russi Karanjia (of the magazine *Blitz*), included in the book, a follower of Gandhiji. But he was adapting approaches in the face of new challenges.

This explains why the fascination with modern technology and calls for a "scientific temper" went with respect for faiths, cultures and traditions. India was not and never tried to be like, say, Mao's China. There is a remarkable letter in 1949 from *Shankar's Weekly* to children where he asks they enter forests not with a gun in hand or intent to harm animals. Were they to do so, they would not only conquer fear but find animals and birds to be their friends and neighbours. Change the terms and he could be writing not about humans and animals but the diversity of cultures within, the comity of nations without.

Nehru's tragedy was not his achievements but the standard he was held to then as now. His first major election campaign was in 1937: As Congress President he was the lead speaker in the provinces of British India. He played the same role in 1946. In independent India, he led his party to a two-thirds majority in three successive general elections.

But as much as his political record (including controversial choices), or his economic performance, he was also instrumental in trying to forge a new democratic ethos in a society marked by privilege.

This is a timely volume. The introduction does a fine job of locating Nehru in the context of his times. It is as much a reminder that, in some ways, he remains one for all times and places. None perhaps more than own.

The reviewer teaches History and Environmental Studies at Ashoka University

WHO IS BHARAT MATA? ON HISTORY, CULTURE AND THE IDEA OF INDIA
Purushottam Agrawal (Ed)
Speaking Tiger, pages 474, ₹699