

# No room for piecemeal policy changes

Policymakers must understand that the bit by bit tweaks in FDI norms, spread over long years, won't help in the long run



NOT FOR PROFIT  
NIVEDITA MOOKERJI

What's common between a Netherlands-headquartered multinational group and the changing face of India's single-brand retail policy? A lot, it seems. With the government making yet another tweak to the policy, it's a surprise that for more than a decade now, we are still trying to fix the

guidelines for single-brand retail, a category that's unique to the Indian market and one that's hardly controversial. Through the piecemeal tweaks and turns over the years, furnishing major Ikea has been a reference point, but the focus has now shifted to Cupertino-based Apple to see if it finally decides to set up its signature stores in India. In June 2006, during the UPA government, Ikea made headlines by announcing it was studying the Indian market. It wanted to be here in five years, provided the foreign regulations changed. Two years later, in 2008, it pointed out 51 per cent foreign ownership rules were a hurdle for the company's plans. In 2009, the company put off its India plans as the foreign direct investment (FDI) policy was coming in the way. It took another three years for the Manmohan Singh-led government to change the FDI rule. In 2012, the gov-

ernment took a call to relax the FDI rules and allow 100 per cent foreign investment in single-brand retail. The FDI floodgates didn't open up, but the largest furnishing chain in the world kept its word. Soon after the rule change, it made a proposal to invest €1.5 billion in India to open 25 stores spread over some years. However, several conditions, which Ikea and others in the industry called "tough", remained. One of the first conditions to be relaxed was linked to local sourcing. The original condition was mandatory 30 per cent (of the value of the goods sold in India) sourcing from Indian micro, small and medium enterprises (MSMEs) for any single-brand chain with more than 51 per cent foreign holding. This was changed to 30 per cent mandatory local sourcing, while doing away with the MSME condition. That helped Ikea firm up its India plans and work towards set-

ting up its mega stores, similar to those in other parts of the world. Another popular Swedish brand H&M entered India through full-ownership. Other foreign brands such as Marks & Spencer, Zara and many more have entered the country as well but either through local partnerships or through the franchisee route. Despite action in the space, industry asked for further relaxation and got some relief too. For instance, they don't have to start with 30 per cent local sourcing compliance from day one. They also wanted their India procurement for foreign markets to be set off against the 30 per cent sourcing requirement. The current government is expected to allow that, making things simpler for foreign players as most international majors in fashion, textile and furnishing space have been sourcing from India for years to supply goods to foreign markets. However, there are others such as Apple and Rolex, which don't source from India. And that's the tricky part. The policymakers must understand that the bit by bit tweaks in FDI norms, spread over long years, won't help in the

long run, and certainly not everyone. If we need serious foreign investment to flow into India in the single-brand category, the FDI policy should be relaxed completely. For this, the most important step would be to scrap the 30 per cent mandatory local sourcing clause rather than making changes on what, when, and how. If Apple or the manufacturers making its products cannot source from India, there's no relevance of imposing the 30 per cent sourcing norm on it as a condition for setting up its stores. The government might decide to tinker the rules and allow third-party manufacturers to count their export procurement while calculating the 30 per cent local sourcing compliance for a foreign retailer. But such circuitous math often results in regulatory complexities. Even case by case approvals for niche and high-end companies, as was proposed earlier for players like Apple, may not be a good idea for any objective decision. FDI in multi-brand retail has been a sensitive issue because of the fear of job loss among mom-and-pop stores, that make up the largest chunk of Indian trade, and also a big vote bank. Single-brand is much simpler and the government can keep it that way.

## CHINESE WHISPERS

### People's choice

After Rahul Gandhi resigned as the Congress party president, the Gandhi family as well as other leaders, agreed that Rajasthan Chief Minister Ashok Gehlot would be the next party chief. An emissary was sent to Gehlot to convince him to agree to the idea. He, however, turned down the offer and argued that a younger person should be made Congress chief to rebuild the party. He signalled Rajasthan Deputy Chief Minister Sachin Pilot, who is considered one of the frontrunners for the job. On Wednesday, after presenting the Budget in the Rajasthan Assembly, Gehlot left no one in doubt that he planned to stick to his current job. At the press conference held after the Budget presentation, he said people in the villages strongly felt during the Assembly elections last year that "no one else but Ashok Gehlot should become chief minister". "Respecting people's sentiments, Congress President Rahul Gandhi gave me the opportunity," he said.

### Disaster averted

The nomination of Marumalarchi Dravida Munnetra Kazhagam (MDMK) leader Vaiko for the Rajya Sabha elections, despite a court order convicting him in a decade-old sedition case, has defused a potentially hazardous situation in Tamil Nadu. Of the three seats allocated for the DMK alliance, one was promised to Vaiko, but the Dravida Munnetra Kazhagam (DMK) had filed a fourth nomination — for N R Elango — on Monday much to the consternation of MDMK leaders. The DMK had justified the fourth nomination on the ground that if Vaiko's was rejected — because of the conviction — Elango's nomination would be considered. On their part, MDMK members contended that if the nomination was allocated to the MDMK, Vaiko's replacement should also come from the party. Indeed, if Vaiko's nomination wasn't accepted, the ensuing discontentment had the potential to derail the alliance between the two parties.

### Birla makes a strong debut

Those who underestimated Om Birla (pictured) and doubted his ability to discharge the onerous task of being the Speaker of the Lok Sabha must have been surprised by the two-time Bharatiya Janata

Party (BJP) MP's debut in Parliament. On Wednesday, as Finance Minister Nirmala Sitharaman replied during the Budget debate, Birla castigated not just Opposition members who interrupted her from time to time, but also those of the ruling party. Birla refused to allow Trinamool's Saugata Roy, who got up from his seat frequently, to seek clarification at the end of Sitharaman's response, but permitted Trinamool leader Sudip Bandyopadhyay to ask the question on Roy's behalf. As BJP's Ramesh Bidhuri rose to interrupt Roy time and again, Birla left the former speechless saying that while he wished Bidhuri would become a minister soon, since he was not one at the moment, he would do well to take his seat rather than speak out of turn.

# Samsung dials change for growth

After losing market share in TV and handset markets, the Korean giant is setting out a new challenging strategy to recover lost ground

ARNAB DUTTA

The country's largest consumer electronics firm Samsung Electronics is in the process of downsizing. As many as 500 employees are being shown the door as part of its biggest rationalisation drive in years. The move, though, is not being done in isolation, nor is this the first time staff have been let go.

The Korean major had undertaken a similar exercise in 2015-16, when it fired hundreds, revamped the portfolio and introduced new faces at the top following heightened competition from Indian firms such as Micromax, Intex and Lava. In fact, the firm has reshuffled its top deck twice since.

The latest retrenchment exercise is part of a broad-based plan to bring its business on track amid fierce competition that it has been facing from all corners for over two years now, this time from Chinese competitors.

Samsung's strive back to the top began a year ago, when D J Koh, the global president and chief executive of its IT and mobile communications business, set out a game plan to counter the heightening competition in the India market. Since then the firm has undertaken a complete overhaul of its local portfolio, ramped up manufacturing capacity, expanded offline retail reach and shifted its market focus. Koh had warned that there was no room for status quo in a market that was fast changing.

To counter the growing challenge from Chinese rivals, namely Xiaomi, Vivo and Oppo, Samsung retired two of

its key smartphone series — Galaxy J and On — and focused on both offline and online channels last year. Replacing them is the all-new Galaxy A and Galaxy M series, respectively.

The electronics major, already the largest in-house manufacturer of handsets in India, expanded its Noida facility; once finished, Samsung claims it will be the largest manufacturing hub for handsets in the world. It claims to have hired over a 1,000 people at the new plant and lined up investments to the tune of ₹4,950 crore.

The firm's offline retail reach grew to 1,80,000 in 2019, from 1,50,000 earlier. And is now focused on introducing innovations in the mid-segment — deviating from its previous stand of introducing them at the top tier of the market.

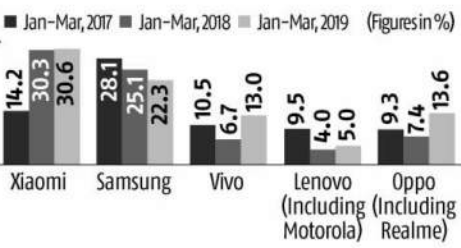
According to Ranjivjit Singh, chief marketing officer at Samsung India, both the M and A series have reaped rich dividends for the firm in 2019. While between March and May, two million M series phones have been sold, Samsung has already raked in over \$1 billion (₹7,000 crore) in sales from A series, the company claims.

"We took some bets, launched some initiatives that played out very well for us. This gives us the confidence that 2019 will be a record year", Singh said. Samsung's latest success, he claimed, is due to its renewed approach. The company now has its ears to the ground. In today's market, listening, understanding and quickly delivering the consumers' needs are crucial, he added.

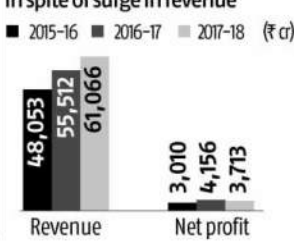
Before launching the A and M series,



## FAR FROM THE TOP



## Bottomline remained a concern in spite of surge in revenue



Source: IDC, Counterpoint Research, RoC & Industry

Samsung conducted an all-round study to understand the needs of the consumers. "With both our employees and agencies, we extensively studied the market", he said. Through ethnographic studies, focus groups, channel feedbacks, hearing online conversations and home visits — Samsung did not leave any source untapped.

Shifting away from its long serving — focus-on-all-groups strategy — Samsung has now identified the millennials as its core target consumers. Its studies revealed, millennials not only own 70 per cent of the smart devices, they also consume over 84 per cent of the data.

According to Asim Warsi, senior vice-president at Samsung India, who has been deeply involved in product planning, catering to the online consumers is way different than consumers buying from physical outlets. "Online consumers are very discerning. And we are constantly learning about them", he said.

The concern about online buyers is not without a rationale. In the past six quarters, share of online purchases in the smartphone market has surged significantly — from close to 30 per cent in early 2018 to 40 per cent in March, 2019. And it is a place where Chinese players have always had an edge.

## INSIGHT

# Blueprint for growth

How South Asia can continue as the world's fastest growing subregion



LEI LEI SONG

Since 2014, South Asia has been the fastest growing subregion in the world, with its eight economies collectively boasting average annual growth of 7.0 per cent. This is higher even than East Asia (6.2 per cent), which includes People's Republic of China; Southeast Asia (4.9 per cent); and the Pacific (4.7 per cent). To carry on this impressive performance beyond the next couple of years, though, will require reforms and investments.

Strong growth in South Asia has been largely driven by the performance of Bangladesh and India, with growth averaging above 7 per cent in the past five years. Domestic demand in terms of consumption and investment has been strong. Major reforms such as the introduction of a goods and service tax in India and measures to make it easier to do business across the subregion have helped promote private investment. In next two years, India is expected to continue to grow above 7 per cent, while Bangladesh's growth is around 8 per cent.

Among the smaller economies of the subregion, economic performance has been more varied. Bhutan and Maldives grew by more than 6 per cent, while Nepal, the second poorest nation in South Asia after Afghanistan, grew a little below 5 per cent on an average

from 2014 to 2018 due to the earthquake in 2016. But buoyed by domestic demand and public infrastructure spending, these three countries are expected to grow at around 6.5 per cent in the next two years.

Pakistan and Sri Lanka, meanwhile, have built up persistent and large current account deficits, as well as borrowing from overseas to finance infrastructure, in recent years. To meet its balance of payment needs, Sri Lanka entered an International Monetary Fund programme in June 2016. Pakistan is poised to follow suit soon. Subsequently, as they rein in domestic demand and continue to address macroeconomic imbalances, both the countries are expected to grow at around 3 per cent in 2019 and 2020.

Afghanistan, as the poorest country in the region as well as in Asia, faces longstanding security and political uncertainties. Its economy depends on foreign aid and defence spending. It has barely topped 2 per cent growth in the past five years. Yet, the Afghanistan government has put in place a self-reliance strategy, involving significant structural reforms, with the goal of achieving 7 per cent growth by 2025.

Overall, there is good reason to believe South Asia's impressive economic growth performance at around 7 per cent will continue over the next couple of years.

First, except for Afghanistan, the political situation is largely stable, with most countries having completed peaceful political transitions to newly elected governments in the past year or so. Second, governments in the region have adopted a grand development agenda and taken reform measures to achieve it. For example, Bhutan has approved a new

five-year plan, while Bangladesh's new government has promised a "highway to development". Maldives is formulating a national development plan while Nepal is working hard to attract foreign direct investment. Third, the global environment, while slowing in major economies, is still positive for developing countries. Major risks are trade tensions and a sharper-than-expected slowdown in major economies. Yet, a slowing global economy would keep oil prices low and global financial conditions accommodative. South Asia is a major importer of oil and relies on external financing for its investment needs. Lower oil prices will help check general price levels and improve the current account in South Asia, where most countries run current account deficits. Fourth, the infrastructure building boom seen in the region in the past decade or so will bear fruit as it continues in the coming years, boosting the region's productivity and competitiveness.

Fifth, South Asia's economic growth is largely driven by domestic demand and less affected by global economic developments. Domestic demand is expected to remain strong due to the large development and investment needs. Maldives is an exception and relies on tourism. A fast-expanding middle class in the region will also support consumption.

Despite these encouraging prospects, South Asia must not be complacent. To sustain strong growth, the countries of the subregion need to continue to implement announced reform measures and launch a new wave of structural reform, particularly in land, labour, and capital markets. These are critical for removing barriers to private investment and economic diversification. Afghanistan will continue to be an outlier, with permanent peace a precondition for sustainable end inclusive economic development.

Trade and investment regimes should provide an incentive for the subregion to participate in global produc-

tion networks. This is important for upgrading the region's economies at a time when the global trading system is undergoing important changes. The subregion also needs to continue to invest in infrastructure, as there remains a huge shortfall. These moves will help unlock the huge potential of a subregion that can draw on a population of 1.8 billion — a quarter of the world — as well as vast natural resources.

The experiences of Pakistan and Sri Lanka confirm the importance of macroeconomic stability in sustaining economic growth. South Asian countries need to watch for macroeconomic imbalances and take preemptive actions. Current account deficits are desirable. Yet, a fast-rising deficit may indicate an economy is growing above its potential and needs to take precautions.

Moreover, as the least integrated subregion in the world, South Asia can benefit from a more integrated subregional market. Integration helps expand markets beyond national boundaries and promotes more efficient resource allocation across the subregion according to the comparative advantage of each. By enhancing productivity growth, regional cooperation and integration can accelerate economic growth and boost employment.

Continued annual growth of 7 per cent will double the size of South Asian economies in 10 years. This will help significantly reduce the poor population of more than 200 million living below the international poverty line of \$1.9 per day per capita, still unfortunately the largest in the world. To maintain such a growth rate and remain the fastest growing subregion in the world, South Asia cannot afford to rest on its laurels. It will prosper only if the subregion continues economic reforms, maintains macroeconomic stability, and fosters greater cooperation and integration among neighbours.

The author is regional economic advisor for Asian Development Bank

## LETTERS

### Be self-sufficient

This refers to "Govt will exceed divestment target: Rajiv Kumar" (July 10). Although divestment exceeds budgetary targets, it is coming at a time when the economy needs to stress on stability and progress. Increased privatisation will instil a sense of purpose in management with firmly laid budgetary targets and profit orientation. The economy has to move forward in keeping with global trends and long-term budgeting will not be swift considering the changing economic and commercial trends. It will require reallocation and revisions at regular intervals.

However, this does not mean that the government control and functional role should be compromised. A policy laying down the return on available economic resources is equally important. This will generate public funds through efficient private activity. Labour is a contributory and not an isolated function and revised labour laws should ensure greater involvement in corporate growth. Thus, labour laws will have to be less rigid with discretionary powers of management not being compromised while simultaneously preventing misutilisation of powers by either side. This should be in line with corporate requirements and create a participatory bond between labour and management. Labour and management relations should be free of friction, less coercive and more amicable. Coming to taxation, corporate earnings should be less expenditure prone

if they are already in possession of government land. Too much external borrowing may work negatively as their investment in the economy might become more intrusive and interfere with policies. This will compromise our international image.

C Gopinath Nair Kochi

### Relevance of Nehru

This refers to Mahesh Rangarajan's book review "Why Nehru matters" (July 10). The review in itself serves as a self-contained introduction to the personality of Jawaharlal Nehru who dominated the political stage in India for about five decades. No one can deny the credit to Nehru for his efforts to forge a secular state in a divided country and to create a "just state" where injustice was meted out to the weak for centuries. Nehru's own books, such as *Discovery of India* and *Glimpses of World History*, need to be taken out from the history and research category and included in the current syllabus of economics and politics in Indian universities. Parliament secretariat may consider printing and distributing such books for inclusion in the personal libraries of legislators.

M G Warrier Mumbai

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





## The missing ‘R’

Recap will help, but PSBs need wider reforms

Finance Minister Nirmala Sitharaman surprised the market by allocating ₹70,000 crore for the recapitalisation of public sector banks (PSBs) in the Budget. The market was expecting about ₹40,000 crore on this account. Depending on which bank gets how much, the additional infusion is expected to be used as growth capital by the PSBs. As the finance minister noted in her speech, non-performing assets (NPAs) in the banking system have come down, the Insolvency and Bankruptcy Code is enabling recovery, and the flow of bank credit has improved. According to the Reserve Bank of India's latest Financial Stability Report, the bulk of NPAs has been recognised and the cycle appears to have turned. This is good news for the system, though the PSBs might take more time to recover as their gross NPAs are still in excess of 12 per cent.

The big question, however, is: Will things actually change at the PSBs after the fresh recapitalisation? Essentially, from the PSBs' standpoint, there is progress on recognition, resolution and recapitalisation. But the fourth R — reform — from the government's 4R approach is still missing. If wider reforms are not initiated, the need for recapitalisation will keep resurfacing. To be sure, the asset quality problem did not arise only because of misplaced optimism and excess borrowing by the corporate sector, but also due to the inability of banks, particularly in the public sector, to properly evaluate risk.

In this context, to improve the operational efficiency of the PSBs, the government will need to work on multiple levels. For instance, PSBs need to be freed from dual control of the central bank and the finance ministry. The regulation should be on par with banks in the private sector. Further, it is important to have professional boards in the PSBs, with complete operational independence. This will help make them more accountable.

The PSBs also need a major overhaul in the way the human resource is managed. It is important that wages are market and performance-linked. This will enable the PSBs to attract the right kind of talent. In an environment of growing complexity in business and finance, banks need manpower with specialised skills to manage risks. At the same time, it is important to protect bankers in the public sector from investigating agencies when commercial decisions go wrong. The fear of being unnecessarily pulled into a long-drawn investigation slows decision-making and affects the flow of credit to the productive sectors of the economy.

Clearly, it will not be easy for the government to implement these reforms in the present set up. A meaningful change can perhaps only happen if the government shareholding is brought down significantly — something that does not seem to be on the agenda. Given India's fiscal situation, the government would soon need to take a call on what it intends to do with the PSBs. Budget constraints will not allow the government to keep recapitalising the PSBs, and frequent use of recapitalisation bonds will erode market confidence in India's fiscal management. Since the government now wants to take a part of its borrowing overseas, increasing liability and the weak state of the PSBs can put pressure on both Indian bonds and ratings. Domestically, weak PSBs will impede the efficient allocation of capital and make the goal of increasing India's gross domestic product to \$5 trillion by 2024 more difficult.

## Nothing much for agriculture

Zero-budget farming is yet to establish its economic viability

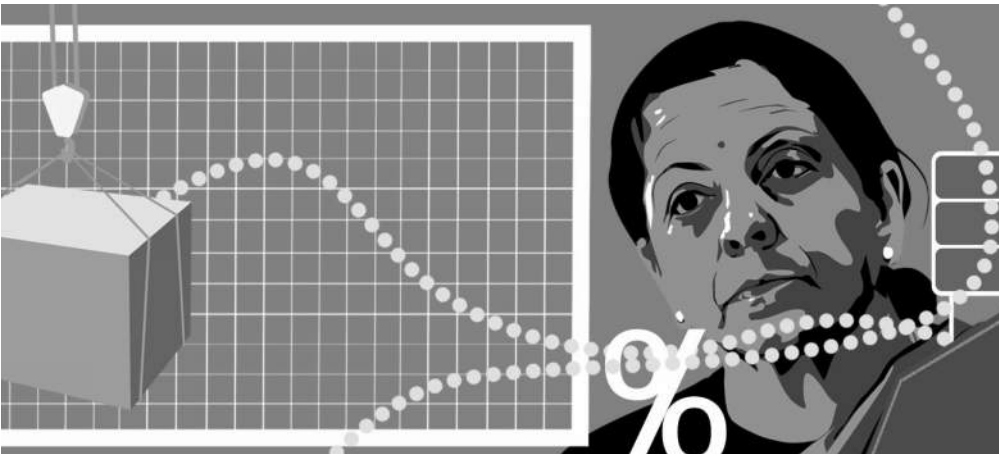
The 2019-20 Budget failed to impress farmers because it lacked any significant announcement for the agriculture sector. Though the Budget proposes building rural infrastructure to woo private investment in farm and allied activities such as dairy, fisheries and agro-processing, there is hardly any fresh proposal directed to tackle distress. Pressing issues like access to remunerative prices, reduction in indebtedness, especially the high-cost loans from the informal sector (moneylenders), stability in domestic and external trade policies, and the much-needed structural reforms in land, marketing and other key areas have mostly been glossed over or mentioned in passing.

The two main takeaways for the farm sector are the promotion of “zero-budget natural farming” to reduce costs and bolster profits and the formation of 10,000 Farmer Producer Organisations (FPOs) to tap the benefits of scale. However, even these are not fully free of glitches, which need to be addressed before any headway can be made. The zero-expense farming, which was commended by the Economic Survey as a lucrative livelihood option for small farmers and has subsequently been presented in the Budget speech as the panacea for farmers' ills, is yet to establish its economic and technical viability on a larger scale.

It essentially requires farmers to utilise self-prepared seeds and other inputs rather than purchase them from the market. Compost, as a replacement for fertiliser, is prescribed to be made by doping the dung and urine of desi cows with jaggery, pulses flour and soil microbes. The claim that this mode of environment-friendly farming lifts farm yields has not yet been substantiated. Many analysts believe that it can, at best, be another form of organic farming, not a substitute for the modern input-intensive agriculture, which alone can meet India's huge requirement of food, feed, fuel, fibre and other farm products. However, well-structured studies are needed to develop a better understanding of this form of natural farming and its suitability for wider adoption.

The concept of FPOs, though, is a tried and tested business model for farmers that can be a game changer for agriculture, provided some formidable problems besetting this sector are addressed. The total count of registered FPOs is reckoned to have swelled to around 4,000 in the past decade. But a sizable number of them are also known to have shut shops because of inadequate handholding by government. Their main bane is that regardless of being a hybrid of cooperative societies and private companies, they are not treated at par with either of them. Many of the incentives offered to the cooperatives or even to the start-ups are not extended to FPOs. Banks are generally wary of lending them money as they do not have large paid-up capital and also lack physical assets to offer as collateral. The Small Farmers Agribusiness Consortium and the National Bank for Agriculture and Rural Development are the only agencies which support them, but their resources are limited. Several well-judged supportive measures, besides a favourable policy environment, are needed to let these grassroots farmer bodies survive in a competitive market. If that is done, the FPOs can be a boon for the beleaguered farm economy.

ILLUSTRATION: BINAY SINHA



## Budget and macro challenges

There is little in the Budget to provide the necessary growth impetus to take the economy to \$5 trillion

In my column last month (“Confronting macro challenges”, *Business Standard*, June 13, 2019), I had outlined the ominously negative trends in nearly all the usual indicators of India's macroeconomic performance (growth, investment, employment, inflation, external balance and fiscal position) and suggested a broad strategy to counter these trends. It is heartening to see that most of my diagnosis and prescription is reflected in the government's latest Economic Survey, published last week. Unfortunately, I cannot claim the same degree of congruence with Finance Minister (FM) Nirmala Sitharaman's Budget. Let me illustrate with some elements of my recommended strategy: Fiscal policy, trade and exchange rate policy and an investment-promoting reforms thrust.

### Fiscal policy

To begin with the positive, FM merits warm congratulations for holding the line on the Budget's fiscal stance of 3.3 per cent of GDP deficit, marginally lower than the shown number of 3.4 per cent for 2018-19. This despite the many calls from industry — and quite a few fellow economists — for a higher “fiscal stimulus”. With the combined (Centre plus states) deficit around 7 per cent of GDP, and a public sector borrowing rate of about 9 per cent of GDP, she seems to have rightly decided that there was plenty of stimulus already in place and a higher fiscal deficit risked crowding out already flagging private investment and further raising our high government debt-to-GDP ratio.

Of course, the Budget numbers can be, and have been, questioned on the grounds of significantly opti-

mistic assumptions regarding growth in tax revenues (especially GST) and disinvestment receipts, and underfunding of expenditure needs. However, even if the final outcome creeps up to 3.5-3.6 per cent of GDP, it would be a significant improvement on the underlying 4 per cent experienced in 2018-19, once one corrects for the massive recourse to off-budget expenditure/borrowing resorted to late in 2018-19. Unless, of course, the sins of the previous year are repeated again!



### A PIECE OF MY MIND

SHANKAR ACHARYA

this festering near crisis, the closest reference I could find in part A of FM's speech to exports was half a sentence alluding to the importance of global value chains for India (para 37). And in Part B, the motivating para 133 for her customs duty proposals is blatantly protectionist with no mention of exports at all!

In fact, this Budget builds on the unfortunate precedent of the 2018 Arun Jaitley Budget, which seriously reversed a quarter century of sustained customs tariff reductions “towards East Asian levels”. In

### Trade and exchange rate policy

Everybody rightly wants national economic growth to revive swiftly from the latest 5.8 per cent recorded in 2018-19 Q4. The Economic Survey projects recovery to 7 per cent in 2019-20; the FM is reported to be aiming for 8 per cent. The hard truth is that no sizable country has sustained 7 per cent plus economic growth without rapid growth of exports. Our goods exports have been stagnant in dollar values for the past six to seven years, with their share in GDP declining from 17 per cent to 12 per cent last year. This at a time when exports of Bangladesh and Vietnam have been booming. Despite

encouraged to dabble in share trading at age 13 and apparently made a handsome profit of ₹4,000 in the first year. He reluctantly dropped out of Presidency College to intern in his father's business. Coming of age at the turn of independence, his inherited wealth provided the foundation for his own business conglomerate that benefited from the early opportunities to be derived from the mixed economy that Nehru sought to establish.

Birla wore his immense wealth lightly. Naturally dignified and low-key, his exquisite manners were a notable contrast to the more *arriviste* entrepreneurs in and around Dalhousie Square (now known as B B D Bag), Calcutta's central business district. He had the nous to spot opportunities embedded in economic policy — for example, as Kunal Bose recounts in his obituary, partial cement decontrol encouraged him to set up a cement business.

As an entrepreneur, Birla was a man of his era, competing in essentially commodity-oriented businesses — cement, tyre cord, textiles and tea — that dominated a largely protected domestic market. There were some forays overseas but none in the tough, competitive meccas of capitalism: the US or Europe. Like most of India's large enterprises, Birla's zone of comfort remained India and his managerial style, though courtly and courteous, essentially centralised and detail-oriented.

An Iacocca, abrasive and brilliant, would have been unthinkable in the Birla empire — or in any of India's large family-owned conglomerates even today. His gift for marketing strategy alone helped him survive at Ford — Henry Ford II, who eventually



### SWOT

KANIKA DATTA

## Birla & Iacocca: Two lives, two systems

Two icons of the business world died within a day of each other last week: Lee Iacocca at age 94 on July 2 and Basant Kumar Birla at 98 on July 3. The dutifully respectful obituaries that followed on both offer an interesting study in contrasts not just of their personalities but of the economic systems they represented.

Birla, scion of a storied entrepreneurial family, embodied the Indian business tradition; Iacocca, maverick representative of professional C-suite talent, the Great American Dream.

Birla was the epitome of the Indian entrepreneur who built a vast empire on the foundations of inherited wealth, which his grandson now stands to inherit. Iacocca, son of first-generation Italian immigrants, had a hardscrabble childhood. The family “business” was a hot dog stand. Yet Iacocca rose to become one of America's most iconic professional managers whose techniques in turning around two of Motown's Big Three carmakers have been subjects of B-school studies in management and marketing.

Birla came from a family with traditional business roots and close links with the independence movement. His famous father G D Birla was among the first crop of Indian businesspeople who made the leap from commodity trading to corporate institutional business, shrewdly building on the opportunities of the world wars and learning the ropes of the managing agency system that British entrepreneurs leveraged to create their empire-girdling enterprises.

BK, as he was popularly known, was born well-shod into a world of enterprise and wealth and groomed to business from an early age. According to an obituary in this paper by Kunal Bose, he was

Bitcoin Opera” — the tale of the founding father of bitcoins, a mysterious man called Satoshi Nakamoto whose identity even today is not known. The saga then segues into the story of Ross Ulbricht, the protagonist of the “The Silk Road,” who set up an anonymous market that allowed the sale of drugs, porn, guns and ammunition but was finally caught red-handed by the FBI and is now serving a double life sentence.

There are lots of such interesting little tales and sub-narratives hidden within the covers of the book — the Mt Gox heist, the story of the birth of dogecoin, launched as a spoof on the cryptocurrency, the genesis of cryptokitties, a blockchain-based game where the cost of the kitties went up to as much as \$1,70,000, et al. The use of stick figures and illustrations to explain the sub-prime crisis or technical aspects like Byzantine fault Tolerance adds an interesting facet to the book.

powers cryptocurrencies.

The author, Rachna Singh, a senior Indian Revenue Service officer, has simplified the varied aspects of bitcoins for the untutored reader. She takes the lay reader on what she describes as a “Homeric journey to unravel the nuanced complexity” of a bitcoin. Despite writing about a subject that is predominantly technical and financial, she keeps the literary elan, characteristic of her writing, intact.

The bitcoin saga begins with the sub-prime crisis of 2008, which witnessed a loss of trust in financial institutions such as banks, and then narrates the rather compelling tale of the Cypherpunks, a group of privacy proponents, who did away with third-party institutions and created a decentralised system of electronic payment.

Then comes the rather absorbing story-within-a-story, “The Phantom of the

this Budget also, the current FM has increased duties on some chemicals, plastics, paper products, ceramics, steel and metals, electronic goods and automobile components. Ministers and officials do not seem to appreciate the well-established trade and development lessons of the last 70 years, which demonstrate that (a) higher customs duties hurt exports, and (b) also damage the competitiveness and efficiency of domestic industry. How can we foster FM-commended global value chains when our import tariffs go up and down like a yo-yo?

A far better and more effective instrument for promoting both exports and import-competing domestic production would be to reduce the current over-valuation of the rupee. It is no accident that our export growth and industrial expansion were most robust between 1992 and 2010, when government and the Reserve Bank collaborated closely to monitor and prevent prolonged periods of such overvaluation.

A significant proposal in this Budget is for the government to issue sovereign bonds, denominated in foreign currencies, to help fund the Centre's budget deficits. Global experience across developing nations suggests that it would increase our vulnerability to external uncertainties and reduce our economic sovereignty. That is why this old proposal, repeatedly examined in the finance ministry over the last three decades, has always been rejected — until now. Another negative would be that such foreign borrowing (to finance domestic governmental needs) would tend to further strengthen the rupee, thus damaging exports and import-competing domestic production. It is ironic (and sad) that a swadeshi government is so keen to borrow in foreign currencies, on commercial terms, to fund its rupee expenditures.

### Investment-promoting reforms thrust

Given the lack of headroom for fiscal stimulus and the likely weakness of expansionary monetary policy in the current context of fiscal dominance and widespread balance sheet stress across companies and financial intermediaries (banks and non-banks), I had argued last month that “the best way to trigger higher private investment and growth is to launch a much-needed set of economic reforms”, including “measures to overhaul labour laws and regulations to make them simpler and incentivise fresh employment in the organised sector; initiatives for easier land acquisitions for non-farm uses; a big push on agricultural marketing reforms and an overhaul of the costly and distortionary public foodgrain procurement and distribution system...”.

Alas, there is no such “big bang” reforms package in this Budget. Yes, there are quite a few small improvements proposed across a wide range of sectors and areas, but nothing that would cumulate to a game-changing boost to “animal spirits” that would spur markedly higher levels of private investment and growth. It's nice to pose the target of a \$5-trillion economy by 2024 and an implied 8 per cent plus average sustained growth. But reaching such targets requires the hard work of devising and implementing the right policies in a coherent and coordinated way. Without these, our growth may muddle along at the current, unsatisfactory 6 per cent rate, with little prospect of creating the many millions of vitally necessary, decent jobs. Unfortunately, this Budget does little to provide the necessary growth impetus.

*The writer is Honorary Professor at ICRIER and former Chief Economic Adviser to the Government of India. Views are personal.*

## The layman's guide to Bitcoin



### BOOK REVIEW

MAN MOHAN

This year, the bitcoin has turned 10. This year, the bitcoin also has a new sibling currency to contend with, the global crypto coin Libra, launched by social media giant Facebook. This year has also seen bitcoin breaking out of the grip of bears and entering the bull territory after almost 18 months of hibernation.

What better timing for the release of this exciting book, which tells the story of the genesis, growth and evolution of bitcoins and blockchain technology that

versational tone and for the most part reads like a bestseller rather than an academic treatise.

Most of us regard bitcoins as a mode of payment or investment. But Ms Singh points the reader to new vistas of blockchain applications. The book details the salutary impact of blockchain technology in sectors like health, agriculture, elections, gaming, and record-keeping.

The potential and promise to improve and simplify the voting processes marred by allegations of ballot fixing, the ability to ensure that identity theft by hacking the Aadhaar portal is a thing of the past, the capacity to disburse money and tokens to Syrian refugees, a technology that enables front-row seats to an IPL match or a Coldplay concert — these are some of the inherent benefits that the blockchain offers.

The author, however, honestly admits that despite the great potential, implementation of this technology will be an uphill task. Scalability, internal strife among the coder community, government policies aimed at controlling a dis-

ruptive technology and, of course, ignorance are some of the factors that will be the death knell of a futuristic and promising technology.

The book leaves the reader to mull over the double-edged sword of blockchain technology: Whether it will be a benevolent Titan or a Frankenstein's monster, only time can tell.

*The Bitcoin Saga* is a veritable Bible for cryptocurrency enthusiasts or newbie converts who want to understand all aspects of bitcoins. Those expecting a to-do manual on bitcoin trading would, however, be dismayed. The author offers no apology for this “deliberate oversight”.

The aim of the book, clearly, is to bring the subject of bitcoins with its technical, financial and social complexities to the table of the common reader. The book keeps its promise of doing just that.

### THE BITCOIN SAGA: A MIXED MONTAGE

Rachna Singh

Bloomsbury, 228 pages; ₹499