Big and bigger

Some of the biggest names in Indian business are shedding their reticence and letting in global firms into their parlours

ACROSS THE BOARD

SHAILESH DOBHAL

Call it the season of big-bang partnerships. The country's biggest firm by revenue, Reliance Industries (RIL) sold a fifth of its oil-to-chemical division to soon-to-be the world's biggest firm Saudi Aramco for a whopping $15 billion. It also announced the hunt for strategic partners for its telecom and retail ventures. Well, given the stress in both the sectors and the scale of RIL's ambitions, potential partners can only be deep-pocketed foreign firms.

Bharti Airtel recently sought permission to up the foreign investment limit for itself to 100 per cent, with reports that long-time partner Singtel is upping its stake in the country's second-biggest telco's holding firm Bharti Telecom to over 50 per cent. Though denied by the firm, there were other reports that said Japanese investment behemoth SoftBank too may be looking at some kind of partnership with Bharti Airtel.

Then there is the country's original retail king, Kishore Biyani, letting world's biggest etailer Amazon get a toehold into his sanctum sanctorum. Amazon is subscribing to a sliver of quasi-equity in one of Biyani's core firms, Future Coupons, which holds the strings to his listed retail business. And paying top dollars, double the current market valuation of the group's flagship Future Retail.

After gobbling the country's biggest ecommerce company Flipkart for $16 billion last year, the world's largest retailer Walmart has reportedly opened talks with the $110-billion salt-to-software Tata Group for collaborating with it in big box retail. After bringing in an 11 per cent financial partner in American Invesco Oppenheimer Developing Markets Fund, Zee Group is on the lookout for a strategic partner, with speculation focusing on global names like Comcast and Sony doing the rounds.

It seems nothing pressures the corporate mind like a debt overhang. In order to become net-debt free in the next two-years and improve returns for millions of its shareholders, the traditionally insular RIL is now openly serenading global biggies in its core business — refining and petrochemicals — and sunrise areas — retailing and telecom. Though Chairman Mukesh Ambani had articulated a partner-driven approach a few years ago too, but barring the now decade-old BP deal for oil and gas exploration, RIL had remained a solo player, even choosing to incubate new businesses in retail and telecom all alone. It is only now that the firm is walking that famous "new Reliance" talk by Ambani at the annual meeting of the firm's shareholders a few years back.

The case is very different for television biggie Zee, which is saddled with over ₹11,000 crore debt, and bringing in a partner is an existential necessity for both the firm and promoter Subhash Chandra. The firm started out as global media Moghul Rupert Murdoch's India partner, split from it and became one of the biggest in the business in India. Its size in that sense rules out most Indian firms as potential collaborators, and willy-nilly only a foreign firm can come to its rescue.

That the march of foreigners is happening across sectors, and that the most successful Indian firms are setting the trend, make the current partnerships qualitatively different from earlier times. Unlike the rent seeking partnership of the yore, where the foreigner needed the Indian player to navigate the treacherous regulatory, political and bureaucratic labyrinth in India or a technology-starved Indian firm needed the foreigner's patent crumbs to survive, the current partnerships are between near-equals, leaders in their respective geography or segment. In that sense, these "big bang" tie-ups are reflective of the coming of age of Indian industry, which for long was buffeted by a closed economy and learned to face global competition only in the last two decades or so. True that some of these partnerships may very well turn sour, others may result in the foreigner taking over the Indian one or it may unravel in other ways, but this paring of Goliaths is a trend that is likely to endure.

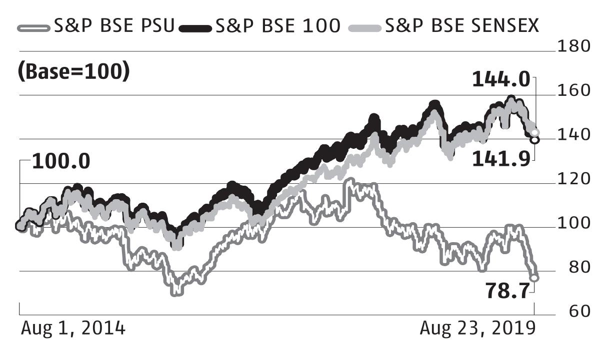
Selling less while raising more

Clearer commercial focus and tighter financial discipline may yield a steady stream of dividends

OCCASIONAL ASIDE

AMIT TANDON

EXHIBIT 1: BSE PSU VS SENSEX VS BSE 100



Source: BSE, up to July 31

EXHIBIT 2: PSU ETF RETURNS

	1-Month	3-Month	1-Year	3-Year
S&P BSE Bharat 22 TRI	-12.32	-8.39	-4.24	-
Category returns	-7.02	-5.4	-2.93	-
Rank within category	107	102	70	-
Number of funds in category	107	107	94	-
CPSE ETF	-3.85	-17.17	-14.34	-14.1
Category returns	-1.95	-12.09	-8.14	10.26
Rank within category	3	3	3	3
Number of funds in category	3	3	3	3

Data as on August 2, 2019

Raising money from sale of public sector undertakings (PSUs) is now a critical item in meeting fiscal targets. This government has raised ₹2.71 trillion or 84.3 per cent of the targeted ₹3.21 trillion since 2014-15, meeting its divestment targets in the last two years. The tenacity with which the government is pursuing this one number is admirable.

During this period, no route to raise money has been off the table; the government has used buybacks (Oil India, National Hydroelectric Power, IRCON etc.), offers for sale (NALCO, National Fertiliser, Neyveli Lignite etc), piggybacking on PSU IPOs (Cochin Shipyard, GIC, New India etc), off-market transactions (HPCL-ONGC), strategic divestment (PFC-REC, Dredging Corporation), sale of SUUTI shares, sale through ETF's (CPSE ETF and Bharat 22) and even sale of enemy shares. Nor is any amount too small; the Dredging Corporation of India employees brought in ₹9.3 million through an OFS.

Despite the impressive amounts gathered from their sale, there are infirmities that all the public sector. These come in the way of a more robust fund-raise. Some alternate sets of data point to this.

One, the trailing BSE PSU Index (Exhibit 1). ₹100 invested in the PSU index five years ago in August 2014 would return ₹88.0 today. A similar amount invested in the BSE Sensex would have returned ₹146.7 and in the BSE100 ₹147.0.

Two, this is reflected in the price performance of PSU ETFs. The CPSE ETF, which tracks 11 central PSUs, has raised ₹48,500 crore. And Bharat-22, its dizzygotic twin, with 19 public sector companies and three SUUTI shares — Axis Bank, ITC and Larson & Toubro, has garnered ₹26,400 crore. Their performance lags as seen in Exhibit 2.

Three, governance is no longer an amorphous idea; it can now be measured on the IFC-BSE-IiAS Corporate Governance Scorecard. Excluding banks there are 16 PSUs in the BSE-100 index. Their average and median score out of 100 is 52.3. Our research shows companies that scored above 60 had a median return of 39 per cent over two years, (7 per cent over one), while those with lower scores, generated a 3 per cent return (negative 16 per cent). This is a pointer that poor governance lies at the heart of middling performance.

If the government wants to continue to mobilise resources from divestments, it needs to ask itself three questions: First, if there is clarity regarding the objectives in running PSUs. Second, is the current ministry-PSU linkage the best structure to ensure PSUs function efficiently, and three, is the divestment giving the government most bang for its bucks.

There is limited clarity regarding the objectives and purpose. Oscillating between achieving the greatest good for the greatest number versus running a profitable business muddles decision-making at the PSU level and confuses investors. It is perfectly legitimate to have national political-level objectives (development of a backward region), but these should be separated from those that control national resources (ONGC, Coal India), or building national champions (SBI). The government is better served pursuing just one goal. With clearer commercial focus and tighter financial discipline, the treasury can hope for a steady stream of dividends and of realising a fair price from the sale of shares and even entire businesses. This money is then available for its broader (social) objectives. The alternative of running a febrile business which consistently needs funds to be injected, does not serve the divestment agenda.

Oversight of a PSU is a small part of a ministry's responsibilities. Shortish tenures leave bureaucrats insufficient time to read the industry trends, let alone understand business nuances. An added downside is a very short institutional memory. Responsibilities towards the company give the appearance of being chores and need safe decisions: Why else will PSU boards be dominated by former bureaucrats — which compound the problem of limited skills and to a less robust board oversight. Then there is the mistaken belief in Delhi that Sebi's rules apply only to the private sector. Consequently, PSUs generally weigh in favour of their parent ministry; conversely market discipline is frequently breached. And while market discipline may not ensure business success, but its absence will ensure failure. Suffice to say, the ministries have exhibited extremely uninspiring stewardship over our PSUs.

Finally, divestment is a specialised job. Deciding between IPOs, offers for sales, follow-on offerings, bulk deals, QIPs is not an easy task. Add to this the complexity of deciding which company is ripe for sale. Will selling HPCL to ONGC be more value accretive than merging the two and then selling the combined entity? Should the general insurance companies be merged, and shares in the holding company be sold or should one sell shares in the operating business? Different market cycles will give a different answer. Unfortunately, the decision is likely to be driven by the fear of the Central Bureau of Investigation or the Vigilance Commissioner, rather than what markets dictate.

There are ownership models that address the challenges that plague Indian PSUs. They address governance issues and structures, a path towards gradual disengagement from non-core investments, beneficial asset monetisation and generating returns for the state. Temasek (Singapore), Khazanah (Malaysia), Solidium (Finland), Forsta AP-fonden (Sweden), ADIA and Mubadala (Abu Dhabi, UAE), are some successful models. All of them involve at the core, putting in place a governance structure where ownership shifts from individual ministries to a government holding company or a fund and furthering their governments agenda. Parenthetically, the report of the Committee to Review Governance of Boards of Banks in India aka the PJ Nayak Committee had a similar recommendation for government owned banks. Such structures will bring the desired focus, accountability, specialisation and sense of ownership to the task at hand. These are some examples of successful transitions and structures importantly within the 'state', that we should consider emulating.

This shift, even if begun today, will bear fruit in the medium to long term. Meanwhile there is undoubted fiscal pressure to raise funds. There are assets including Balco and Hindustan Zinc, that can be sold immediately — to Vedanta or even the public. Shareholding with SUUTI can also be monetised relatively quickly. These and other such ideas will serve for the short term. For the long term, unless we bring about transformative change, the pipes will choke.

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CHINESE WHISPERS

Tharoor takes on critics

The Kerala unit of the Congress had issued a show-cause notice to the party's Lok Sabha MP Shashi Tharoor for his laudatory comments on Prime Minister Narendra Modi, but soon discovered that the parliamentarian had turned the tables on them. Last week, Tharoor had joined party colleagues Jairam Ramesh and Abhishek Manu Singhvi to state that Modi should be praised for doing the "right things". In his reply, Tharoor took on his critics. He said he had intervened more than 50 times in Parliament and had spoken against 17 Bills with "courage and conviction". "Can any of my critics from Kerala say they have done so?" Tharoor said. Party leaders Ramesh Chennithala, K Muraleedharan, Benny Behannan, and T N Pratapan were among those who had criticised Tharoor. A three-time MP from Thiruvananthapuram, Tharoor thanked Indian Union Muslim League leader and former minister M K Muneer and Muslim Youth League President Sayyid Munavvar Ali Shihab Thangal for their support. However, a rumour campaign has started in the Congress that some of its leaders could switch to the Bharatiya Janata Party because the Modi government is thought to be facing a talent crunch.

Happy birthday everyone

Kakra village in Madhya Pradesh's Shivpuri district is unique in a way. Almost all the residents of this village have the same birthday, January 1, on their Aadhaar cards. Kakra is a tribal-dominated village and most residents don't have any documents they can present as proof of age. So officials tasked with enrolling Aadhaar aspirants gave them the same date and month of birth. According to the Unique Identification Authority of India guidelines, if an individual is unable to produce proof of birth at the time of registration, he/she can still register for it without documents. If they are able to furnish proof at some point, they can get the date of birth added to their Aadhaar data. The authorities say that despite the option to update, there has hardly been any instance of someone visiting an Aadhaar centre to avail of it.

Aadhaar for food

The Aadhaar has made lives easy for people in many ways. It has also helped the Pashupatinath temple administrators in Mandsaur district, Madhya Pradesh, to separate local devotees from outsiders. The temple administration provides free meals to devotees and was struggling to cope with the flow of visitors. The meal facility is for people who arrive from other cities and not for locals. The temple administration has made it mandatory for visitors to declare their Aadhaar number to avail of free food. The temple committee manager, Rahul Runwal, said the number of devotees who wanted to eat had come down by 50 per cent since the new system was introduced.

INSIGHT

The science of ambient marketing

AMBI PARAMESWARAN

When you get back from an international trip and step out of the airport, the first thing to assault you is probably the unique odour that seems to permeate any public space in India. Is it the lack of toilets or is it the fact that our toilets are badly maintained or should we lay the blame on the lack of water in our toilets? But I am seeing or should I say smelling that this is slowly changing. The rapid growth of products aimed at masking the smell of our toilets has been astounding to say the least. In the years gone by, the only brand that used to be seen in Indian toilets was the Odonil bar. And they used to have a peculiar smell of their own. In the last five years, there has been a rapid growth in the adoption of air purifying brands and products. Odonil itself has been transformed. There have been numerous new brands, Indian and International, such as Ambi Pur and Godrej Aer that have managed to create smaller-sized products tailor-made for smaller spaces such as toilets and elevators.

If we are seeing innovative products at the middle or the bottom end of the market, we are also seeing the introduction of curated products labelled "home fragrances". These are often packaged in exquisitely styled dispenser systems including reed diffusers and oil vaporisers. An ad extolls the virtues thus: "The rejuvenating scents of tangerine, lavender and coral blue are sure to leave your home with a tranquil charm".

Riding the odour bandwagon are other miscellaneous products such as a "scented" vest that is skin friendly and anti-bacterial. Microbiologist Christopher Callewaert of Ghent University has even made it his mission to understand the various types of body odours, as reported in *The Week* magazine. He and his colleagues have studied thousands of consumers and have categorised the body odour into specific typologies such as Fishy, Faecal-like, Oniony, Floral and even a bit Soapy. Callewaert says, "... triggers that cause the corynebacterial to flourish include... wearing certain clothes that have their own microbiome and their own bacterial community". So may be the "scented vest" has a future.

Getting back to the odour that hits us as we enter a premise, it has been an area of concern for real estate companies. In an article published in *Financial Times* (June 16, 2018), the writer observes that today, there is the new art of blending custom fragrances for buildings and this has become a delicate science that can bring subtle benefits to the sellers. Smell has for long been a powerful tool for selling property. In what is called "Open Days" when prospective visitors are welcome to take the tour of a home, it is customary to do some fresh baking before the prospective buyers walk in. A freshly baked cookie smell is expected to trigger the saliva glands of a visitor and help him reach for his cheque book that much faster.

This is now getting a little more evolved. In developed countries, builders are employing specialist perfume designers to create curated smells for a building, so that what reached the nostrils of the prospective buyer is not the smell of cement and sawdust but those of something more interesting, may be sandalwood or lime or more exotic lavender and musk. These are dispersed innocuously through dispenser systems and candles.

London developers have made this into a fine art to the extent that upper-end home owners are curating their own fragrance, to suit their home environment. Floral for one if their home has a floral theme. More animalistic or musk if the home has a stronger masculine flavour. Or lime and lemon, if the home has a lot of indoor plants and such like. I wonder if this is a trend that is waiting to be tapped in India.

In an *HBR* article (March 2015), *Science of Sensory Marketing*, the authors point out that many industries are missing out on the opportunities to connect with the customers' senses. The focus till now has been on building expertise on what is obvious such as shape, colour, touch. New research is emerging to suggest that even the ambient temperature can have an influence on consumer behaviour. A wine glass may change the perception about the wine that is poured into it. The smell of cinnamon can make a café that much more welcoming. University of Michigan's Aradhana Krishna in her book, *Customer Sense: How the 5 Senses Influence Buying Behavior* calls out industries still focused on visual attributes giving little thought to the other sensory effects. For example, will a bank feel that much more solid if it had aromas of wood and leather? Will a boutique feel that much more welcoming if it smelt of lavender and jasmine?

The good news is that we are seeing the emergence of ambient fragrance marketing in India too. And as our toilets start losing their bad odour, hopefully our shops and showrooms will start developing their own unique ambient fragrances.

Smell well to sell well.

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LETTERS

Get down to business

It is not for the first time that someone in the government was announcing hiring large numbers in government jobs. Satya Pal Malik (*pictured*), governor of Jammu & Kashmir, has announced that 50,000 vacant government posts in the state would be filled in the next three months. Well before the 2014 general elections, Narendra Modi had announced that if elected, his government would create 20 million jobs for the youth of the country. Instead, there has been rampant unemployment during his regime owing to the economic slowdown. Take the automobile sector: Nearly, 2 lakh jobs have been cut in the past three months because of the slowdown and this process is being followed in other sectors like aviation, garments, foods — the list is endless. Instead of hollow slogans, the governor should make an effort to bring stability and peace while ensuring that civil liberties are in place in the state as people there are crying for it. The biggest punishment for the people of Jammu & Kashmir is that they don't have the means to communicate with the outside world.

S K Khosla Chandigarh

Provocative comments

The comment by the J&K governor Satya Pal Malik in his maiden official media interaction since August 5 that the longer politicians stay in jail, the higher the political dividends for them is disgraceful. Such a comment trivialises the prolonged detention of political leaders and betrays his disdain for the liberty of an individual guaranteed under the Constitution. Equally outrageous is his belief that mobile phones and internet are essentially weapons of terrorists, and ordinary citizens have little use of them. If so, why not extend such restrictions to the rest of the country? The governor also displayed scant regard for decorum by predicting that people would beat up Congress leaders with shoes for their stand on the changes in Kashmir. This is highly provocative and unbecoming of a person of his stature.

S K Choudhury Bengaluru

A game changer

Close on the heels of Finance Minister Nirmala Sitharaman's announcement of measures to perk up the country's sagging economy, the Union cabinet's move towards increasing foreign direct investment (FDI) into the country could prove to be a game-changer. In a fresh round of FDI reforms, the government relaxed FDI rules in single-brand retail, approved 26 per cent FDI in digital media and offered 100 per cent FDI under the automatic route in coal mining and contract manufacturing. The big stimulus could also help to considerably ease trade tensions between India and the US which has been simmering for some time now.

N J Ravi Chander Bengaluru

Execution will be key

The announcement allowing 100 per cent foreign direct investment in commercial coal mining sounds good. Its translation to execution will be crucial. The government failed to open the industry to competition, despite liberalisation of the economy years ago, because of bureaucratic indecision. The Union cabinet had also approved policies opening coal mining to private miners and partially removing restrictions on the sale of coal produced at the so-called captive mines but these too have not been implemented. It is a paradox that with the world's fifth-largest reserves of the fuel, we imported over 40 per cent more coal during January to April this year compared to last year. That the dip in global price of coal should dictate the pace of our self sufficiency in a vital sector as coal is but a fig leaf over goal clarity.

R Narayanan Navi Mumbai

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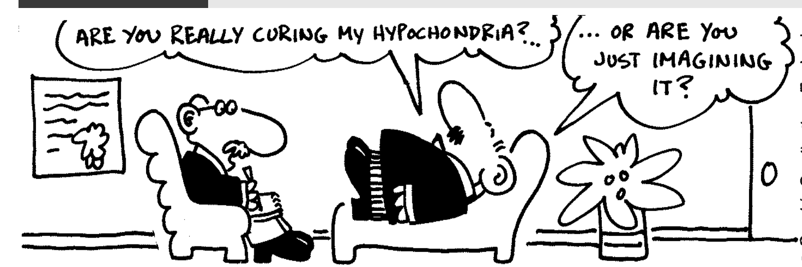
HAMBONE



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An exceptional year

Govt needs to reduce dependence on RBI

The Reserve Bank of India (RBI) has released its Annual Report for 2018-19, which explains its actions over the past year and outlines expectations for the broader economy. The Annual Report comes shortly after reports that the RBI will transfer a considerable amount, over ₹1.7 trillion, to the government's coffers this year. This is thanks to a much larger surplus of ₹1.23 trillion, with excess provisioning making up the remainder. This followed the recommendations of a high-level committee led by former RBI governor Bimal Jalan. The surplus is high partly due to an acceleration in open market operations (OMOs) by the RBI, particularly in the second half of the year, which saw ₹2.5 trillion worth of OMOs. Nevertheless, the Annual Report noted that liquidity remained tight and "system liquidity experienced shortages despite injection in durable liquidity of the order of ₹3 trillion, the highest in any year so far". Some observers believe that liquidity in the banking system is comfortable. India Ratings argues that this is because the net liquidity injection under the liquidity adjustment facility continued in FY19 and the credit offtake remains weak.

Future views on liquidity in the system are crucial as to whether the higher transfer from the RBI will be a one-time event or sustained under the new framework. As to why the RBI felt the need for liquidity injections on a larger scale, the Annual Report was quite clear on the motives: It was largely because of foreign exchange operations and large currency expansion.

The RBI also felt that the last vestiges of remonetisation were dealt within 2018-19, taking the currency-GDP ratio from 10.7 per cent to 11.2 per cent. That meant that system liquidity shifted from surplus to deficit during the year. Therefore, the RBI blamed capital outflows and the expansion in currency in circulation for strong action on liquidity. The government, thus, cannot depend upon a permanently higher level of transfers from the RBI and must reduce its dependence thereon.

It is important to note that the RBI, through the Annual Report, signals its continued vigilance about the need for ample precautionary buffers against external crises. These are more important than even in the "taper tantrum" episode of 2013, because the sensitivity of portfolio flows to global spillovers has increased significantly.

In other respects, the Annual Report might be considered to be surprisingly sanguine, such as on the matter of the growth of the general government deficit. While it highlights the lack of growth impulses domestically and the downside risks from the global economy, it also says that India is going through a "soft patch mutating into a cyclical slowdown" rather than facing a structural problem, though it has highlighted structural issues in areas such as labour, agricultural marketing, and land, and they need to be addressed.

The RBI has also reiterated its stand that reviving consumption demand and private investment is priority in the current year. This means that since inflation is likely to remain under control in the foreseeable future, the central bank will be in a position to bring down the policy rates further.

A positive move

FDI policy should be supplemented with wider reforms

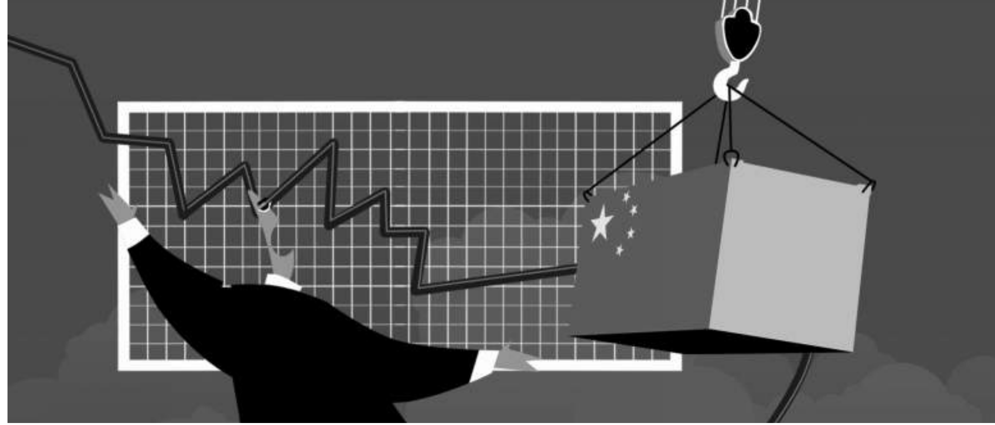
The Union Cabinet on Wednesday liberalised foreign direct investment (FDI) norms in areas such as single-brand retail, contract manufacturing, and the coal sector. Of course, the most-awaited change was in sourcing norms for single-brand retail companies. While the government has not removed the 30 per cent sourcing requirement, compliance has indeed been made easier. For instance, local sourcing can now be met as an average of the first five years. This will give retailers more flexibility in the initial years. Further, goods procured for exports by single-brand retailers will be factored in while calculating the percentage of local sourcing.

Given the possibilities in the retail sector, increasing flexibility should help bring more foreign investment. For instance, a recent report by Deloitte showed that the retail market is likely to grow to $1.2 trillion by 2021, compared to its size of $795 billion in 2017. The share of organised retail, excluding e-commerce, is likely to double from 9 per cent in 2017 to 18 per cent by 2021. Further, the penetration of the internet will help improve the share of online retail. In this context, the government has also changed the e-commerce norms for single-brand retailers. They have been allowed to sell online on condition that they open physical stores within two years of starting online sales. With the easing of norms for single-brand foreign retail, the government should now consider allowing FDI in multi-brand retail. This will not only help bring in a significant amount of investment but will also improve supply chains, and the agriculture sector could become a big beneficiary.

While the decision to allow 100 per cent FDI in commercial coal mining and related investment (earlier it was allowed for captive consumption only) is expected to give a boost to private miners and introduce competition for Coal India, it remains to be seen if global companies would be interested in the sector. The other significant decision was allowing 100 per cent FDI under the automatic route in contract manufacturing. The idea is that it will help India integrate into the global value chain. Since a number of companies are moving out of China because of rising trade tensions with the US, some of them can look at India as an option to relocate. This will also allow foreign retailers to procure goods more easily and meet the local sourcing norm.

While these are welcome developments, FDI policy is only the first step. If India intends to be an important part of the global value chain, it has to think beyond the idea of import substitution and ease trade restriction. Frequent changes in tariffs, as has been the case in recent years, create friction and uncertainty. Global companies may not be willing to work with suppliers located in a country with an unpredictable and unfavourable tariff structure. Further, the other big obstacle in attracting investment in manufacturing is India's inflexible land and labour market. The government should address these issues to incentivise both global and domestic investment, because the absence of wider policy reforms can restrict actual gains.

ILLUSTRATION: BINAY SINHA



Could a US recession end the trade war?

In recent downturns, the US has been more willing than normal to cooperate with China in order to try to spur recovery

The recent inversion of the yield curve in the United States — with the interest rate on 10-year US government bonds currently lower than that on short-term bonds — has raised fears of a possible US recession later this year or in 2020. Yet, paradoxically, a downturn in America could help to improve bilateral economic relations with China and cool the two countries' escalating trade dispute.

Recent history offers grounds for such predictions. True, by reducing import demand, US recessions normally have a negative impact on economies with a high trade-to-GDP ratio, including China. However, in recent downturns, the US also has been more willing than normal to cooperate with China in order to try to spur recovery.

SHANG-JIN WEI

During the last major US recession in 2008-10, for example, China appeared to be the only major economy able and willing to boost global demand. Partly as a result of this, Sino-American ties improved, and the US even advocated giving China a greater voice in international bodies such as the International Monetary Fund and the G20.

Similarly, US-China relations were at a low ebb in mid-2001, following a mid-air collision of a US reconnaissance plane and a Chinese fighter jet over the South China Sea, which resulted in the death of the Chinese pilot and the capture of the American crew. But after the September 11, 2001, terrorist attacks suddenly darkened the US economic outlook, US-China economic ties improved.

Unlike its predecessors, US President Donald Trump's administration may not have international cooperation in its DNA. But, tellingly, Trump initiated the current tariff war when the US economy was somewhat overheated, partly as a result of the aggressive tax cut that he pushed through Congress in late 2017. Frictions with America's trading partners, which many economists believe are damaging both the US and the global economy, may in fact be helping to cool down the US economy. But Trump's stance on China may soften, should a recession materialise.

Two factors could derail this possibility. First, China may be unable or unwilling to provide economic stimulus. The Chinese government's debt-to-GDP ratio is higher today than it was a decade ago, when the authorities rolled out an aggressive stimulus package to offset weakening export demand in the wake of the global financial crisis. That fact would seem to limit the government's capacity to pursue an expansionary fiscal policy in the event of a US recession.

Even so, China's debt-to-GDP ratio is still much lower than that of most other large economies, giving the government some room for additional fiscal stimulus in an economic emergency. Moreover, although the People's Bank of China is more cautious about injecting liquidity at will, the relatively high reserve ratio the PBOC imposes on commercial banks suggests that it would have significant firepower should the need arise.

The second risk factor is the 2017 US corporate tax cut, which enlarges America's trade deficit with China, further damaging bilateral relations.

America's overall trade deficit reflects a shortage of US national savings relative to investment. By causing US government debt to increase by an additional $1-2 trillion over the next decade, the 2017 tax cut will make the government's savings rate substantially more negative. Because it is unlikely to be offset by a decrease in national investment or a large enough increase in private-sector savings, the tax cut has contributed to a higher US trade deficit. The overall deficit this year is projected to be larger than in 2017 or 2018, and this trend is set to continue.

This strongly suggests that the US trade deficit with China will increase. With US politicians and much of the media evidently failing to recognise the connection between Trump's tax cut and the growing US trade deficit, they will most probably think the Chinese are doing something pernicious. For this reason, I have long argued that the US tax cut is a significant structural impediment to reducing America's trade deficit with China (and with many other trading partners), and therefore a likely source of tension over the next few years.

Nonetheless, the US trade deficit (as a share of GDP) typically decreases as the American economy weakens, because import demand tends to fall as well. A US recession may, therefore, somewhat moderate the negative impact of the Trump tax cut on the trade deficit.

More important, the Chinese government has itself cut taxes aggressively since the end of 2018, reducing value-added tax (from 17 per cent to 16 per cent and then to 13 per cent), lowering the corporate income-tax rate, and decreasing the social-security contribution rate for employers.

Because these recent tax cuts are unlikely to be offset by lower investment or a sufficiently large increase in private savings, China's national savings rate will most probably decrease. As a result, the country's overall trade surplus — which reflects its excess of savings over investment —probably will be far smaller in 2020, and may even slide into deficit in one or two quarters. Although China will almost certainly still run a bilateral trade surplus with America next year because of the effect of the US tax cut, the imbalance will be much smaller than otherwise would have been the case.

While a US recession would be bad news for the global economy in terms of a direct demand channel, it could help to normalise the troubled relations between America and China. If the world's two largest economies get along better, businesses and investors everywhere will breathe a sigh of relief. This may turn out to be a silver lining in the next US recession.

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Rebuilding ordnance factories

In a bold move, the government has floated a proposal to corporatise the Kolkata-headquartered Ordnance Factory Board (OFB), under which there are 41 factories with a combined manpower strength of over 82,000. The government's decision has not gone down well with trade unions. They went on a 30-day strike from August 20, relenting only after several rounds of discussion with senior defence ministry officials. The possibility of another strike can't be ruled out as the proposal under consideration threatens the very governance structure of the organisation.

Should the government back down or stay on course with its decision? The balance of evidence suggests that the Ministry of Defence (MoD) needs to stay firm on its decision as corporatisation is not only in OFB's interest and important for its long-term survival, but also for the country's defence preparedness and self-reliance.

LAXMAN KUMAR BEHERA

OFB, which traces its origin to 1802 during the British Raj, is the oldest and one of the largest departmentally-run commercial organisation of the government of India. With a turnover of over ₹12,800 crore, it has historically enjoyed a monopoly over a wide variety of products ranging from tanks and armoured vehicles to small arms, ammunition, and various troop comfort items. However, owing to a number of factors, the organisation has performed below its optimum level.

Being a government department, the OFB is prohibited from making profits from sales to the armed forces. This has taken away from it a major incentive to improve the organisational and production efficiency. Moreover, it is frequently allowed to pass on all costs of production to customers. This cost-plus approach to production, which is widely discarded as inefficient, adds extra cost to the MoD's budget.

The biggest problem for the OFB has, however, been its limited decision-making power. As a subordinate department of the MoD, OFB's major decisions pertaining to finance, human resources, research and development (R&D), modernisation of factories, and formation of joint ventures and subsidiaries, are taken outside the organisation. The bureaucratic nature of the decision-making of the external agencies and their inclination towards rules and regulations rather than outcomes have left little incentive for the OFB to stand on its own and assume accountability for its functioning. OFB's woes have further been compounded by its distant location, far away from the Delhi's power corridors, and frequent change in key leadership. In the past 10 years alone, the organisation has seen 15 chairmen. With such a rapid turnover at the top, the organisation has been left with little strategic vision and direction.

The OFB, on its part, has also done little to improve its performance that could match its rich history of over 200 years and vast asset base. The organisation can hardly boast of any worthwhile product of its own. Nearly 80 per cent of its turnover comes from imported technologies.

The lack of focus on innovation, along with delayed execution of orders, low labour productivity, and meagre exports, has frustrated its key stakeholders, especially the Indian Army, which accounts for nearly 80 per cent of its supplies. The Indian Army is also concerned about the poor quality of OFB products. The Comptroller and Auditor General of India had once observed that some of the OFB products were passed on to customers with defects that could be visible to the naked eye. Being frustrated with the repeated performance shortfalls, the MoD has, in recent years, tried to move away from procuring products from the OFB. It has already declared 275-odd items produced by the OFB as non-core items, effectively demolishing the organisation's monopoly over these products.

The below-optimal performance of the OFB has also led the organisation to forgo it pivotal position in Indian defence production. Indian private sector companies having defence industrial licences are now producing more than the OFB. The growth of the private sector, which is likely to be accelerated under the Make in India initiative, will further push the OFB on the margins of defence production unless reformative steps are taken at the earliest.

The idea of corporatisation of the OFB has been under consideration for a long time. It was first suggested by the Nair Committee in 2000. It was reiterated by the Kelkar Committee in 2005, which had made a strong pitch for corporatisation of the organisation. However, successive governments lacked the political will and/or courage to implement this vital piece of reform measure.

The corporatisation of the OFB will turn it into a defence public sector undertaking (DPSU) under the administrative control of the MoD. This is far from privatisation of the organisation as rumours suggest. As a DPSU and with 100 per cent equity stake by the central government, the OFB will have far greater autonomy in decision-making. It will be managed by its own board of directors. Subject to broad guidelines of the government, it can make its own financial/investment plans, form joint ventures/subsidiaries and articulate R&D road map without much interference from external agencies. More importantly, as a corporate entity with a stable leadership, it will be in a far better position to respond to market dynamics and face competition, especially from the private sector, effectively.

Lastly, with its existing turnover, the corporatised OFB would easily qualify for a Navratna status, which will provide even greater flexibility in financial decision-making. Corporatisation is the only way the OFB can reclaim its lost glory and rebuild itself as a strong force in defence manufacturing.

The writer is a defence economist and a research fellow at Institute for Defence Studies and Analyses

The angst of a liberal Muslim

BOOK REVIEW

ARCHIS MOHAN

In *Who Killed Liberal Islam*, Hasan Suroor argues that left-wing Muslim intellectuals paraded as the liberal heart of the community, the Muslims who write op-ed pieces and appear on TV to denounce Sharia, have "done more damage to the cause of Muslim liberalism than good."

The book is a lament at the near-absence of liberal Islam. It is also a story of the author's personal awakening to the fact that the voice of Muslim liberals, as endangered a species as they are, counts for so little among their co-religionists. One has to wonder why this should be the case — but then, Hindu liberals suffer similar delusions.

Mr Suroor argues while Islam is not resistant to reform, it has to be gradual. To imagine Islam will ever be secular is, however, a fantasy. He points to the failures of the secularisation projects in Turkey and Iran and the continued attraction of Wahhabism.

Islam is ubiquitous and a majority Islamic nation is unable to appreciate tolerance and pluralism, he writes. The author also says historical facts do not support the construct that Islam is, or ever was, a religion of peace.

If the author expresses hope in Islam's ability to reform in the beginning of the book, by the end of it, he sounds despondent that the religion, despite being the fastest-growing in the world, is beyond redemption. He says the Islamic world has not contributed anything of note in science or literature in the past several decades.

He says Muslim communities in non-Islamic countries like Britain and India remain the most backward educationally and economically. As the author argues, the reason for it in India could be the discrimination that Muslims face, as the Rajinder Sachar committee documented in 2006.

But how is it, Mr Suroor wonders, that Hindus do better in the face of similar discrimination than Muslims in Britain? He says victimhood, perceived or otherwise, of Muslims only partially explains this, the truth being that they cocoon themselves from the outside world because plural societies challenge Muslim beliefs at every turn.

The author bemoans that a religion, once considered modern, has lost its ability to question. He says in the Arab world, its glitzy malls sell everything else under the sun but books, which is ironic since Islam lays great stress on reading and acquiring knowledge, "even if it means going to China".

He complains that Indian Muslims have refused to learn from their mistakes, particularly in reforming Sharia. While many Islamic countries have reformed Sharia explicitly in relation to women's rights, Indian Muslims see any suggestion as a conspiracy to meddle in their religious affairs. "Keep your hands off until the initiative comes from within the community, but 70 years after independence there is no sign of it from the community," Mr Suroor writes.

Neither do Indian Muslims make common cause with minorities in Islamic countries to protest evil deeds done to them, says the author and points to the example of Asia Bibi. A Pakistani Christian, she was sentenced to death in 2010 on blasphemy charges. In 2018, a court exonerated her after a long legal battle, but lynch mobs were at her doorstep threatening to kill her again. Mr Suroor regrets there was not a word from Indian Muslims when, as victims of majoritarian prejudices, the least they could do was to show solidarity.

Mr Suroor, a former journalist, describes himself as a liberal Muslim who once was a part of the "cabal of self-styled modernisers" among Indian Muslims. He says he eventually realised how "delusional" he had been in believing that a deeply religious and socially conservative community would embrace a faith-baiting liberal.

The author says that poet Javed Akhtar and actor Naseeruddin Shah, two of the names to which the media gives space on Muslim issues, can never hope to become the voice of Indian Muslims. He says Indian Muslims need scholars like Sir Syed Ahmed Khan, Zakir Hussain, Maulana Abul Kalam Azad and the Ali brothers — Mohammad Ali and Shaukat Ali — who wore their beards and prayer caps with pride, but brought about gradual reforms. He appeals to liberals among Muslims and secular Hindus to look for and encourage such voices.

Although Mr Suroor argues his case convincingly, he writes with the empathy of an outsider, and the book is likely to find more readership among the kind of liberal Muslims whom he painstakingly berates, and among Sangh Parivar intellectuals who can sharpen their Muslim-baiting arguments. However, the author offers lessons, quite unwittingly, to the liberals among Hindus whose predicament is similar to that of their Muslim counterparts.

The continued political success of the Sangh Parivar is threatening to make the voice of Hindu liberals redundant at least in the electoral space. Among Hindu liberals, which Prime Minister Narendra Modi has taken to call the "Khan Market gang", there is still no honest introspection to explain the political success of the Sangh.

Alleged rigging of EVMs, and large sections of Hindus turning rabidly intolerant of Muslims, are the two preferred theories to explain the post 2014-election results. Few, if any, Indian liberals, who either occupy leadership roles in the Congress and some opposition parties, are willing to concede that the problem could lie closer home. That their ilk, in politics as also other spheres of India's social life, are unable to "communicate" with the common people of this country. That they are too urbane to counter the perceived earthiness of a Narendra Modi.

WHO KILLED LIBERAL ISLAM
Hasan Suroor
Rupa, ₹595, 234 pages