Distant thunder and Sher Khan

There has to be a dialogue of alternatives, which would help generate ideas for action

THE WISE LEADER

R GOPALAKRISHNAN

I responded to an event organiser's request for an unconventional biodata about myself by sending something like, "Born in Bengal Presidency during the reign of Lord Wavell at about the time of the gruesome Calcutta riots... studied in the same school as Rabindranath Tagore and Jagdish Chandra Bose..." The organiser immediately asked for the standard CV.

Bengali literature and cinema were an early influence on me: for example, *Pather Panchali*, *Jalsaghar* and, relevant to this article, *Ashani Sanket* (pronounced in Bengali as *Awshani Shongket*). *Ashani Sanket* means signals of thunder, shortened as distant thunder. Satyajit Ray made the story authored by 3Bs, Bibhuti Bhushan Bandopadhyay, into an award-winning film.

The film was set in 1940s Bengal which was being mishandled by the government into an unnecessary famine. A Brahmin and his wife led an idyllic life in a village, where they were respected for their service to the community. The first sign of an impending crisis arose when a visitor devoured a hearty rice meal after reporting that in his neighbouring village, there was a shortage of rice. Very quickly, the shortage spread like wildfire and panic set in. The organised life of the village underwent unexpected turmoil.

Until May this year, the public narrative was oozing with molasses of hyper confidence — economic papers were blushing pink and the television screens cracked due to noisy declamations of pride: India was the world's fastest growing... roast the Khan Market crowd... reject every report of unfavorable social/economic news... troll writers of 'open letters' on governance and economy... and confidently depict India as the don't-dare-touch-me gorilla. The election results and general mood both rose in defiance of gravity, as share traders drove up the Sensex. Political sages benignly smiled their Mona Lisa smile, silently affirming the impending Ram *rajya*.

However, "the visitor from the neighbouring village" appeared at least 18 months ago. "What distant thunder?" was the initial injured scowl on the pugnacious faces of the *bhakts*. However for those who track India's economic and social developments, the distant thunder was getting louder and closer. Major players in aviation, telecom, infrastructure and automobile were on the ropes. Bank NPAs were bubbling.

More recently, two officers from the prized civil services resigned as a matter of conscience and, promptly, a saffron apparatchik ordered them to go to Pakistan. Last week a former DG of Police wrote an oped, deprecating the investigative agencies as stooges of those in power. Recalling stories about rare, principled officers the DG concluded with a patriotic wake-up call to the civil service: "Let us break out of our slumber and stand erect in the service of our nation". Five business leaders called out the truth about the economy, and reportedly receiving friendly advice to refrain. A former Prime Minister was scoffed at for suggesting that fractious political differences be set aside to work together on the worrisome economy. The Weekend Ruminations column of this newspaper exhorted the key personages in the government "...to engage directly and actively to prevent the current downturn from morphing into a 1980s-level growth rate".

Why do those in power generally not engage with critics with appropriate urgency? Because they mistake *Ashani Sanket* as dissent or political opposition designed to stall progress. But there has to be a dialogue of alternatives, which would help generate ideas for action. India desperately needs three remedies: first, economists and businessmen should speak up constructively without dropping voice or glancing around furtively. Second, policy makers should be more amenable to alternative viewpoints for, after all, all criticism cannot be bad. Third, we need all upright citizens to behave like Vibhishana of Lanka and Sher Khan of Malerkotla.

We all know the story that Vibhishana expressed disagreement with the mighty Ravana regarding the proposed execution of Hanuman. Less known is Sher Khan, who strongly expressed Malerkotla's disagreement with the Council of Punjab chieftains in 1750 when they decided to incarcerate Guru Gobind Singh's minor sons. Sher Khan walked out in protest.

During my recent visit to Punjab, I learnt that Malerkotla, near Patiala, is the only place in all of undivided Punjab where Hindus, Sikhs and Muslims have coexisted peacefully since 1750s, right through partition and till today. To me, that is nationalism.

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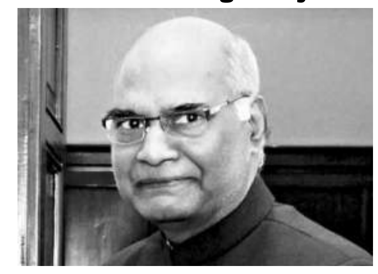
CHINESE WHISPERS

Switzerland through Bollywood



If you are a Hindi movie buff, you will probably not require Google Maps. Watch Bollywood movies and you will figure out the topography of picturesque Switzerland, President Ram Nath Kovind (*pictured*) said on Thursday. Kovind, who is visiting the country, addressed a group of students and faculty at the University of Berne. While speaking on the topic "India-Switzerland new age partnership", the president said, "Bollywood has taken Switzerland to every nook and corner of India. Whether it is the snow-clad Jungfrau or the ITU Monument in front of Einstein Museum in Berne, the Indian movie industry has captured it all ... The scenes from Indian movies can be as effective as Google Maps in understanding the topography of Switzerland."

Where's the party?

Former finance minister P Chidambaram (*pictured*) will spend his 74th birthday in Tihar Jail because the Delhi High Court on Thursday directed the CBI to file its status report on his bail plea in the INX Media corruption case within a week. Chidambaram, who is in judicial custody till September 19 in the case, will turn 74 on September 16 and the high court has set September 23 as the next date to hear his bail plea. Chidambaram will be produced before the trial court in the case on September 19. Other important political birthdays this month are that of Prime Minister Narendra Modi, on September 17, which the Bharatiya Janata Party will celebrate as "*seva parva*" and that of former Prime Minister Manmohan Singh on September 26.

Raining trouble

So it's not just you and I who feel we are powerless and are not being heard. Often the powerful also feel the same way. After days of uninterrupted showers inundating parts of Madhya Pradesh, some ministers in Bhopal have taken to social media to complain about their agony. Tribal Development Minister Omkar Singh Markam complained that even after repeated requests the "concerned authorities" did not heed his cry for help. Independent MLA Surendra Singh tweeted, "Heavy rain has flooded my bungalow and I am also troubled by mosquitoes. I have complained but no one responded."

Networked Bharat

Vast networking programmes are overshadowing traditional infrastructure projects

INFRA TALK

VINAYAK CHATTERJEE

The warp and weft of India's infrastructure-delivery fabric is being woven together at a hectic pace, overshadowing single-location, lumpy investments of yesteryears. And this decade and the next will see infrastructure companies and construction companies make the unexpected move from building large capex, location-based, standalone projects such as highways, bridges, power plants, ports and airports to linking up utilities delivery. The action has clearly shifted to a wave of investments in providing connectivity and delivering utilities to the masses.

Take the case of the Bharatmala Pariyojana. The earlier generation of highway projects focused on trunk roads. Bharatmala's aim is to build connections to district headquarters, industrial and logistics hubs, and ports. In fact, of the 34,800 km of roads envisaged under phase 1 of the programme, only 10,000 km will be on trunk routes. The rest of the investment will be on connecting the 'spokes'.

And while roads are the most obvious example of this new 'network' paradigm in Indian infrastructure, other programmes emphasise the point — water, electricity, fibre-connectivity, gas, regional airports, and EV charging stations.

The Ministry of Jal Shakti was formed by merging the Ministry of Drinking Water and Sanitation, with the Ministry of Water Resources, River Development and Ganga Rejuvenation on May 31, 2019. And through Jal Shakti, the government has promised its biggest-ever delivery to the aam aadmi — 100 per cent piped-water to all households by 2024. Nal se Jal (rechristened Har Ghar Jal in Budget 2019-20) is a hugely ambitious programme. A NITI Aayog report last year pointed out that "three-fourths of the households in the country do not have drinking water at their premises". Given that as per the census of 2011, there were around 23 crore households in the country, and assuming that this statistic has not changed at all, Nal se Jal will have to cover 19 crore households.

Towards the end of April 2018, Prime Minister Narendra Modi announced that the electrification of all 640,000 villages in India had been completed. Immediately thereafter was announced the scheme of electrifying all of India's households, and the Saubhagya initiative got off the ground. According to *saubhagya.gov.in*, a government site which tracks household

electrification, around 31.5 million households were still left to be electrified. Much of the target has since been achieved — a record of sorts.

The Bharat Net project, launched in 2011, is the national optical fibre network to provide connectivity to all 250,000 gram panchayats. Implementation is currently underway across most states in India.

Equally impactful, City Gas Distribution is set to transform the lives of millions of Indians. Starting from April 2020, and up to 2029, winners of the various GA (geographical area) bids have promised to deliver over 2 million piped gas connections per year, a total of 3,500 CNG stations across the country, and 58,000 km of pipelines. The latest round of bidding in city gas will result in close to 70 per cent of the population being covered by piped gas over the ensuing years.

As part of the government's drive to accelerate adoption of electric vehicles and to create the necessary infrastructure, the ministry of power had issued guidelines and standards for charging stations in December 2018. The Department of Heavy Industry has invited proposals from urban local bodies, municipal corporations, PSUs (state/central) and public/private entities that are interested in developing EV charging infrastructure in different states and cities. The proposal's eligibility covers cities that have million-plus population, according to the 2011 census.

Then there are the airport projects under the UDAN Regional Connectivity Scheme of the Ministry of Civil Aviation that seeks to operationalise 100 fresh remote and regional airports. The aim is to put air travel within the reach of those living outside large cities.

The benefits are obvious. There is a range of research that shows the huge economic benefits that accrue from simply enhancing connectivity between nodes in the grid, for example, when remote areas are provided easier connectivity (both physical and electronic) to core economic hubs. Transaction costs fall. Retailers can penetrate much deeper into rural India than they hitherto could. Conversely, companies, who would earlier not have invested in such areas because of the infrastructure problems, can now do so, thus creating jobs. Electricity connections open up a world of possibilities. And piped water in homes removes centuries of deprivation.

But the challenges in these 'last mile' connectivity projects are enormous as well. Nal se Jal will require extraordinary levels of handling by the centre, given that water is a state subject. Similar challenges exist in city gas projects where the cooperation of municipalities and state governments in areas such as land acquisition and approvals is absolutely critical.

In fact, the biggest obstacle to the new networked infrastructure model is the "right-of-way" they need, over and above the managerial challenge of daily operations with scattered and disaggregated labour forces.

And what about funding? Public finances are currently stressed. Institutional funding to networking infrastructure requires a completely different set of evaluation and servicing parameters.

These challenges are indeed daunting, but if Indian infrastructure has to deliver utilities to the end-user, it is a challenge that will have to be grappled with. After all, infrastructure is ultimately about enhancing the quality of life.

The author is chairman, Feedback Infra

INSIGHT

Bring rigour in economic policymaking

DHIRAJ NAYYAR

Who misses the Planning Commission? Hardly anyone, barring a handful of nostalgists. Its two most important roles — formulating five-year plans for India and approving the spending plans of its 29 states — were either irrelevant or counter-productive in the post 1991 economy and polity whose orientation had become more market-based and more federal. Remarkably, almost every state continued to operate its own mini-Planning Commission — the State Planning Board — even while frowning on the national one. Perhaps there was, and is, a felt need for some sort of strategic planning, not so much in terms of the allocation of resources but in the domain of policy. Clear, predictable and well thought-out policies are critical for a high-growth economy.

The Modi government has done remarkably well in shaking up a moribund state machinery to enable efficient delivery (particularly in the last mile) of government goods and services, particularly to those who need them the most. The Prime Minister personally ensures the setting of ambitious targets and then monitors those targets. Failure is not an option. His government has deployed the best available technological solutions and managerial processes to ensure that government schemes are executed better than ever before. In fact, whenever a subject (other than the delivery of goods and services) is taken up on project mode or mission mode with clear targets and monitoring, such as improving India's ranking in the World Bank's Ease of Doing Business survey, the outcomes are very positive.

Executing schemes or projects is only one part of the government's work. An equally important part is the making of economic policies. Success in policymaking requires a different approach from success in project execution. Currently, the process of policymaking is not always put through the kind of rigour that project execution is. It must.

Policy is what determines the environment in which a particular sector of the economy operates. It is fundamental to whether a sector will thrive or be subdued. Policies, once implemented, tend to last for the medium term, at least five to 10 years, before they are revised. So errors can be costly. Because of the long-term nature of policies, strategic goals of the economy as a whole need to be incorporated. Needless to say, policies can have unintended consequences which need to be foreseen.

Since most policies are sectoral, they are drafted by line ministries. Often, the imagination of line ministries is constrained either because of their necessarily narrow remits, or budget constraints, or limited manpower or the limited tenures of their key officials. Line ministries, usually manned by career bureaucrats, can be nudged and pushed to deliver on execution of projects and schemes. But policies are not about targets and monitoring, not exclusively anyway. In theory, ministries consult experts and relevant stakeholders but those consultations are usually perfunctory. Other ministries and the NITI Aayog are usually asked for opinions at a late stage once the policy has been fully drafted. Only minor changes are made at this stage or in case of major objections, the policy is junked altogether.

A different, committee-based approach may be considered which involves some of the key advisory bodies of the government from the start. It will bring a broader vision and checks and balances. The NITI Aayog could be given an important role with seats on the table for its vice-chairman/members (depending on sectoral expertise)/CEO. Similarly, the chief economic advisor, who has a macro view of the economy, could be closely involved as could the economic advisory council — its chairman and members.

It is not necessary to have representatives from each of these institutions on all committees. It is possible to pick and choose depending on the nature of the policy. If policies cut across ministries, one of these experts can be a "neutral" chairperson. None of these persons is a career government official. Nor do they have to protect any turf. The excellent new policy regime for oil exploration was formulated by a committee of the NITI Aayog, line ministry and finance ministry officials. There are other examples. The practice can become the norm.

And then this needs to trickle down to the states. For that, states need to invest in building their own NITI-like policy commissions and possibly institute an office of chief economic advisor or economic advisory council to the chief minister. Many policy reforms in critical sectors like agriculture, land, labour, education and health have to be done at the state level. The career bureaucracy needs to be supported by expert advice in the making of progressive policy.

The implementation of policy, like that of projects, will still be in the hands of the career bureaucracy. It is much easier to implement a sound, well thought-out policy. It is also more rewarding.

The author is chief economist, Vedanta

LETTERS

Traffic education must

This refers to the editorial "Safety on road" (September 12). In addition to the points raised, I am of the opinion that nothing much has been done about educating the children on traffic rules. Once I asked a couple of traffic men on the difference between yellow line and white line on the road, or a firm line and broken line, single line or double line, they could not answer. I am sure half of India cannot answer these.

If we insert a chapter on traffic rules for students of classes 6 and 7, teaching them all about road safety, road signs, dos and don'ts with the help of visuals, it will make an impact on their growing minds and temperament. They'll learn about the rules and might follow them of their own accord. Further, the quality of roads needs to improve, the traffic signs on the road need to be visible. Our roads cannot match international standards unless measures are taken to improve their quality and the safety of people.

Pramod Dixit Baroda

Identify the problem

This refers to "EV no answer to air pollution: Chicago prof" (September 11). An interesting comment from Michael Greenstone regarding the insufficiency of electric vehicles (EVs) to bring down air pollution levels prompts one to pause and ponder over the whole issue of air pollution. The article captures that one of the richest nations in the world is also not ready to target complete electrification of its plying vehicles before 2045. It's surprising that our policy makers do not review such details before setting the ambitious target.

What's even more lopsided is the fact that the charging stations would still be managed through non-renewable and polluting sources such as coal. The strategy of tackling air pollution is a complete eyewash with little or no thought on the real causes. Vehicular pollution accounts for a minuscule percentage of air pollution in Delhi when the winter is setting in. Yet, there is no focus on resolving the matter of crop burning. The waste management process in each so-called metropolitan city is nothing short of archaic. It's akin to preparing for an examination when the student is not even aware of the syllabus.

Paresh Uppal Gurugram

Subversion of justice

Attempts being made to help those who committed the murder of Tabrez Ansari in cold blood is subversion of justice. Like the Pehlu Khan case, the Ansari case now does no credit to India's criminal justice system. Something must be terribly wrong if even open-and-shut cases go the way they do without a glimmer of hope for justice to the victims of hate crime. By dropping the murder charges and choosing to slap culpable homicide not amounting to murder, the Jharkhand police has shown utter lack of professionalism and naked partisanship.

The footage of the mob lynching a person clearly establishes the identity

of the killers; yet the ruling dispensation has been far too lenient with them. In both the cases of lynching, heart attack was cited as the cause of death. The logic that the lynching (captured on camera) does not matter because the alleged victims would have been dead anyway due to cardiac arrest. The attribution of heart attacks to stress, drug and injuries is a vain attempt at impartiality. Obfuscation, by mixing up head injuries with heart attack and vice-versa, convinces nobody. The adjectives "light" and "minimal" introduced by the police to describe the brain haemorrhage sustained by Ansari in the mob attack says it all.

By the prosecution's logic, death must occur on the spot for a crime to be treated as murder. The way the lynching cases are going have underlined the need for a special anti-lynching law.

G David Milton Maruthancode

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HAMBONE

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Apple's new bite

It is eyeing TV and gaming as new areas of growth

Apple has tweaked its focus and marketing strategy in its bid to seek new revenue streams and markets. The trillion-dollar company this week announced the launch of many new products, such as several models of the much-anticipated iPhone11 — including a high-end, four-camera Pro version — a redesigned iPad, the Apple Watch 5 and so on. It also revealed details about its new streaming TV and gaming services. The gaming services will be launched on September 19.

It is evident that the company is now pricing many of its offers more competitively, rather than simply targeting high-end customers with premium products. It also seems to be laying renewed emphasis on India as a market, with special prices and rapid rollouts. It has already started diversifying its supply chain with India being a new production hub as iPhones are now being put together in the country. Apple's revenues in the last quarter (April-June 2019) indicated that it was no longer tying its fortunes completely to the iPhone, though that device remains its most iconic product and the largest revenue contributor. Overall, revenues and market capitalisation increased, even though iPhone sales dropped by 12 per cent in the quarter. Revenues from the wearable division (AirPods, Apple Watch, and headphones) increased by 48 per cent, while services revenues rose by 13 per cent. As Apple TV and gaming take off in the next few months, a surge expected from these products.

The streaming services for gaming and TV are very competitively priced with subscriptions set substantially lower than those charged by competitors. It has announced a new video streaming service, Apple TV+, priced at ₹99 a month in India, making it cheaper than the cheapest plan offered by its rivals in India. Apple may have had no choice here, given that it is a newcomer with a far smaller video library, compared to Netflix or Amazon Prime. Apple TV will launch in November, only a week or 10 days before Disney (which has more content than everyone else) also launches its streaming service.

Apple's suite of proprietary games and its new TV content will have to gain enough traction to give it a foothold in these crowded markets. Apart from charging lower subscriptions, it is also offering a bundled deal with 12 months' free subscription. Clearly, it is hoping to convert those users into loyal long-term customers. The basic versions of the devices have also been priced competitively, compared to similar offers from competitors. In some sense, Apple may be playing catch-up here because it is offering several features (such as multi-cameras) that are already available in competing devices.

However, its new chip, the Bionic A13, has 8.5 billion transistors — that's a huge update compared to the A12 Bionic, which had 6.9 billion transistors, offering unprecedented power and a much longer battery life. The AI-driven features of that chip will allow the 4-camera Pro model to zoom out and in, take slow selfies, record from all four cameras simultaneously, and process those images or videos. In essence, this would be like a hand-held TV studio, carrying the potential to disrupt the business of visual content creation. The change in direction makes sense as global smartphone sales have been plateauing and new revenue streams are needed. It is to be seen if the changed mindset on pricing allied to the unmatched power of the Apple brand can help the company muscle into these new areas successfully.

Eradicating malnutrition

Business as usual approach hasn't helped

Prime Minister Narendra Modi's recent call in his monthly "*Mann ki Baat*" radio programme to intensify the drive against malnutrition by making it a mass movement is a well-judged and need-driven move to curb this scourge. The incidence of malnourishment remains worryingly high despite perceptible economic progress, decrease in poverty, surplus foodgrains, and an array of government programmes to facilitate access to food. Going by the Food and Nutrition Security Analysis Report 2019 of the United Nations (UN) World Food Programme (based on 2015-16 data), 38.4 per cent of the Indian population suffers from chronic malnutrition. While about 35.7 per cent children are underweight, 58.5 per cent of them are anaemic. Worse still, malnutrition is prevalent among both the poor and the rich, though in the latter case it is manifested in the form of obesity, nutritional imbalance, and attendant health disorders.

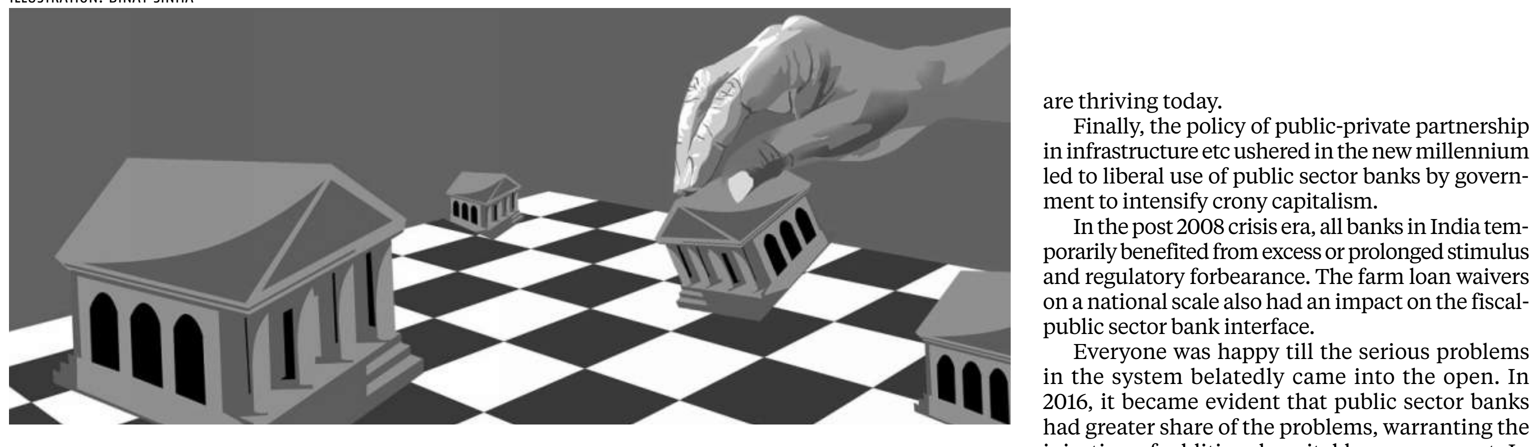
Clearly, the ongoing food security initiatives, including the right-to-food law and the Mahatma Gandhi National Rural Employment Guarantee Act, have not dented undernourishment and disguised hunger to the desired extent, though these have warded off starvation deaths, which were quite common in the past. Retarded growth, low body weight, inadequate brain development, and poor immunity among children are the prominent signs of improper, imbalanced and insufficient nourishment. Low productivity of labour in India is also attributed partly to undernourishment.

A National Nutrition Mission was launched in March last year by the government. It aimed at a 2-3 per cent annual reduction in the rate of low birth weight, stunted growth, undernourishment and anaemia among children, adolescent girls and women. The Mission, subsequently upgraded and renamed Poshan Abhiyaan (nutrition drive), was given even a more daunting task of creating a "*Kuposhan Mukt Bharat*" (malnutrition-free India) by 2022.

With business as usual, this ambitious goal seems hard to attain. Most of the nutrition-oriented schemes are focused narrowly on achieving just one or couple of objectives at a time rather than striking simultaneously at all the facets of this menace. Besides, there is no coordination between them to tap their synergies. The funds earmarked for them often remain underutilised. Moreover, many of them, including the mid-day meal in schools and supplementary feeding in Anganwadis, tend to concentrate just on providing food with least regard to its nutritional aspect.

Thus, the basic strategy to combat malnutrition would have to be cast afresh with greater stress on scientific approaches. One way to do this is to diversify the supply of foods under the government schemes by including more nutritious items, such as millets (hailed commonly as nutri-cereals), eggs, milk, soybean products, and other nutrient-dense fresh and processed foods. Methods are now known to fortify mass-consumed foods, such as rice, wheat, salt, edible oils, and milk, with essential minerals and vitamins like iron, iodine, zinc, and vitamin A and D. This can help stave off health disorders resulting from deficiencies of these nutrients. Technologies are also available to evolve bio-fortified crops having an inherent capability to synthesise the desired vitamins or minerals. The Golden Rice having a higher Vitamin A content is a typical case in point. It is helping to alleviate blindness in many countries. India, too, can take advantage of such technologies to eradicate malnutrition.

ILLUSTRATION: BINAY SINHA



The legacy issues of public sector banks

Disappearance of public sector banks will be resented by the common man

WHAT NEXT

Y V REDDY

On bank recapitalisation, Finance Minister Nirmala Sitharaman had this to say in her Budget speech: "Having addressed legacy issues, public sector banks are now proposed to be further provided ₹70,000 crore capital to boost credit for a strong impetus for the economy."

But what are the legacy issues? The basic objective of nationalisation of banks in 1969 was to establish supremacy of the prime minister of the day in the Congress Party. That objective was well-served.

The far-reaching consequences of that particular decision unravelled over time. It provided an extra budgetary source of immense and growing magnitude to the government, which was outside parliamentary control and not contemplated in the Constitution. The government also obtained a spread of functionaries in the states who could be used by it for a range of activities, tilting the balance between the Union and the states in favour of the Union government.

As if this was not enough, there was a second round of nationalisation of banks in 1980. Three private sector banks that had grown in size since 1969 were nationalised. The signal was clear: Any private sector bank which tries to grow will be nationalised. That action virtually put an end to growth of private sector banking in India.

With nationalisation in 1969, banking became a bureaucratic system that collected deposits, administered interest rates and disbursed loans as per plan priorities. Also, it became part of the broader public sector system comprising the various governments and the Reserve Bank of India (RBI). This led to the politicisation of public sector banking. The public sector banks were also used for managing fiscal stress, which, to an extent, was shifted to public sector banks and hidden there.

The reforms of 1991 saw a new paradigm in the banking system regarding ownership, regulation and competition. First, the banking industry was opened to privately-owned banks enhancing competition, while public sector banks were expected to compete among themselves.

Second, ownership of public sector banks became mixed, with majority ownership and control by government through statutory provisions. Reduction in the shareholding of the government in public sector banks, however, did not dilute government's role in governance since they are not governed by Company Law, but by relevant nationalisation legislation. Competition between public sector banks was constrained by common rules and procedures governing public sector banks.

Third, prudential regulation and supervision by RBI was gradually oriented to global best practices.

Fourth, the dual control of public sector banks, namely by the government and RBI was not ended, while consolidation of public sector banks took place in an adhoc manner.

Fifth, all political formations remained — and have continued to remain — circumspect in detailing the reforms for public sector banking. Meanwhile, several private sector banks were licensed, and some of them not just survived but are thriving today.

Finally, the policy of public-private partnership in infrastructure etc ushered in the new millennium led to liberal use of public sector banks by government to intensify crony capitalism.

In the post 2008 crisis era, all banks in India temporarily benefited from excess or prolonged stimulus and regulatory forbearance. The farm loan waivers on a national scale also had an impact on the fiscal-public sector bank interface.

Everyone was happy till the serious problems in the system belatedly came into the open. In 2016, it became evident that public sector banks had greater share of the problems, warranting the injection of additional capital by government. In contrast, private sector banks performed better as per standard indicators.

The policy focus since 2016 on problems rather than solutions made matters worse. The prolonged uncertainty about the future of public sector banks has persisted. The popular perception of the efficacy of public sector banks relative to private sector banks has been replaced by scepticism, if not despair.

The political consensus continues to be in favour of continuing with public ownership and control of existing public sector banks. The owner, regulator, the management and the large borrowers blame one another for the sorry state of these banks, while the tax payer pays for the losses. The share of public sector banking is shrinking. That is why there is budgetary support in 2019.

Experiments by governments under several political formations in improving governance and consolidation have not yielded results so far. When capital infusion was undertaken, the conditions imposed for it could not be enforced.

Experience shows that there are inherent limitations to enforcing conditions stipulated at the time of injecting equity. Will the Budget package of 2019 be different? What do we get out of the ₹70,000 crore earmarked for them? Does the assurance of strengthening public sector banks include governance of these banks as well?

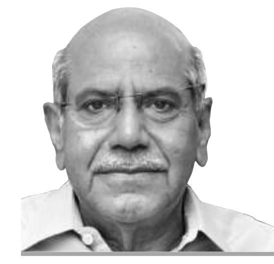
From the point of view of public sector banks, the old questions remain: When will they have a board of directors that commands the trust and respect of the professionals? When will the dual control over them exercised by the government and the RBI end? When will the future of the banks and their professionals be determined by their performance rather than the uniformly applied government policies towards public sector banks?

For the common man, particularly in rural areas, public sector banks command trust and are more accessible. Therefore, he/she would resent the disappearance or marginalisation of these banks. The policies relating to public sector banks have to consider the costs and benefits of alternatives as well. Are there similar problems with regulation and public ownership of non-bank financial institutions?

To sum it up, some legacy issues have been addressed, but several fundamental issues remain that need to be tackled.

The writer is former governor, Reserve Bank of India

Turmoil in Hong Kong and its impact on China



SHYAM SARAN

The political unrest in Hong Kong grinds on, taking on an increasingly violent and anti-China character. The prospect of a brutal and bloody crack-down of the mounting protests by Chinese troops is becoming more proximate. The recent march by protesters holding US flags, to the American consulate, openly urging intervention in their favour, is a provocation that, unanswered, will be a huge loss of face for Beijing and President Xi Jinping. China is now confronted with a choice among equally unpleasant alternatives. The lesser evil in China's playbook will be violent suppression followed by fully incorporating Hong Kong as an entity no different from Shanghai, Guangdong or Shenzhen. It will be ruled by laws drawn from the Chinese Constitution and not its own Basic Law incorporating its colonial legacy of British jurisprudence. This will spell its end as the third most significant international financial market in the world. Its role in China's integration with global markets will diminish. It will exacerbate the growing trade war with the US, intensify political tensions and deliver a serious setback to China's ambitions to assume a global financial status in keeping with its emergence as the world's second largest economy.

While it is true that Hong Kong no longer plays the outsize role it did during the initial phase of China's growth trajectory, it has remained critical to China as its key intermediary in expanding trade, banking and financial connectivity with the rest of the world. With its already well-established trade channels, its sophisticated banking infrastructure and its own highly developed financial and securities markets, Hong Kong provided China with a pre-existing and dense web of interconnections which enabled the globalisation of its economy in measured and less risky increments. Even today, over 60 per cent of total foreign direct investment (FDI) into China goes through Hong Kong. Its banks have raised much needed finance for Chinese state-owned and private companies and served as a base for their expanding international activities. Hong Kong's stock market capitalisation is $5 trillion, only slightly less than China's $6.3 trillion. The total volume of foreign currency deposits in its banks are $850 billion and much of these are held by mainland entities. There are over 1,300 foreign multi-nationals registered in the city, doing business with China but also with the entire Asia-Pacific region. China has used the Hong Kong financial market to enable step by step liberalisation of its own financial sector and for the internationalisation of its currency, the Renminbi(RMB). There is the Hong Kong Stock Connect enabling foreign institutional investors to gain entry into stock markets of Shanghai and Shenzhen. There is now a Bond Connect through which they can invest in China's massive bond market now worth $12 trillion and the third in volume behind the US and Japan. Hong Kong is also the largest RMB offshore market.

More importantly, Hong Kong is unique in being formally part of China but enjoying an autonomous status as a WTO member and enjoying privileges as a market economy which China itself does not. Under the US-Hong Kong Policy Act of 1992, Hong Kong has access to the US market which go beyond what China does. This enables China to acquire, through Hong Kong, high-tech items and services which may be denied to it otherwise. With growing concern in the US and the West over intellectual property leakage to China, Hong Kong is of great value as an entrepot. US withdrawal of the special legislation will be a severe blow to Hong Kong and indirectly to China.

Even if the demonstrations are dealt with without large-scale violence, it is unlikely that Hong Kong will go back to what it was before the latest unrest erupted. Its success as an international financial centre was rooted in the confidence it enjoyed internationally as a safe and well managed regional trade and logistic hub, with a stable currency, a sophisticated banking system and well developed financial market. Its legal system enjoyed credibility and familiarity in a Anglo-Saxon dominated world economy. The prolonged political unrest and violence on its streets, whatever the causes, has gravely undermined confidence in its future. It is unlikely to be restored. China may have held its hand in suppressing the riots to avoid economic damage but in its calculus, the threat to its sovereignty and even greater blows to its prestige makes further restraint unlikely.

This also marks the demise of Deng Xiaoping's advocacy of "one country, two systems" as an innovative instrument to facilitate the gradual integration of formerly detached territories like Hong Kong, Macao and Taiwan into the motherland. In Taiwan, resistance to incorporation into China will persist and grow. There will be stronger voices in China calling for its unification through military means. We may expect rising tensions in the South China Sea region.

What is the outlook for the future? There is likely to be a serious setback to China's quest for integration with the global financial market and the internationalisation of its currency. The Hong Kong crisis will worsen US-China relations and make it more difficult to seek compromises in their ongoing trade war. While it will be difficult to unravel the dense economic and trade ties which bind the US and China together, there is an incipient de-coupling already in progress and this may be accelerated despite its economic costs. China is likely to turn its attention to greater regional integration in Asia-Pacific through trade agreements like the RCEP and through currency arrangements such as the Chiang Mai initiative. The latter is being re-activated to aim at a RMB currency zone among China, Japan, South Korea and the 10 Asean nations. Some analysts are beginning to talk of a world divided into three zones, one dominated by the US dollar, the other by the euro and then a RMB zone dominated by China. These may also constitute the three geopolitical zones of the future competing and collaborating with one another in an essentially multi-polar world.

Where would India find itself in this new scheme of things?

The writer is a former Foreign Secretary and currently a Senior Fellow, CPR.

Symptoms of success

BOOK REVIEW

SHYAMAL MAJUMDAR

Writing 500 pages of interesting stuff on somebody who is as painfully shy as Dilip Shanghvi is no mean achievement, and Soma Das deserves credit for bringing to life the remarkable story of Mr Shangvi's journey from a tiny shop in the bylanes of Dawa Bazar in Calcutta of the seventies to create the world's fourth largest speciality generics maker and India's most valuable pharma company — Sun Pharma.

It is clear even from the book that Mr Shanghvi is a man of few words. After all, his only reaction after becoming the country's richest man in 2015 was that he felt "very uncomfortable". But in some ways perhaps, her subject's obsession to stay away from the limelight has worked to the author's advantage. For, virtually everything about his private life and his days of struggle is unknown.

In that sense, Ms Das was lucky, as she managed to spend some time with the man who also gave her access to friends and company colleagues to an extent that he had never before done. Add meticulous research to that. *The Reluctant Billionaire* is an assimilation of over 150 interviews of employees, former employees, relatives and friends.

The author has been able to capture brilliantly the essence of the man through countless stories, which sets the book apart from many other biographies. Consider this story that demonstrates Mr Shanghvi's business acumen. The senior management of Sun once received an email from the CMD asking them to report a list of products which they had never discussed with doctors, did no promotions the whole year, didn't print a single piece of literature about, and which needed to be phased out. The message, the senior management thought, was clear: The big boss wanted to prune the product basket.

At the meeting, Mr Shanghvi turned over all the pages of the reports that all divisions had submitted, and asked: "So these are the products you wanted to phase out. How much is the turnover of our company?" Someone answered, "₹9,000 crore".

"Sales from all these products (that were on the culling wish list) add up to ₹1,600 crore, that is 16 per cent of our revenue and all that comes without spending a single penny on their marketing and promotion. One way to look at it is that these products sustain your salaries and daily expense of the company." After one of his signature pauses before his stunned audience, Mr Shanghvi asked them to knock on the doors of doctors to tell them these products still exist.

There are examples galore of such interesting anecdotes. For example, the bulk of Mr Shanghvi's big thought discussions took place not in some swanky boardroom, but in a nondescript office in Ville Parle, away from the main office so as not to be disturbed and distracted. On those special days, early in the morning, his executive assistant would pile up medical journals and books containing a list of medicinal drugs with their effects and directions for use. There, the two of them, sitting across the table, pored over every page, discussed the merits and demerits of every product they came across in the therapy verticals Sun was present in or was planning to enter, topping the experience with idlis ordered from Ram Krishna Restaurant for lunch.

It was actually what Mr Shanghvi calls a cafeteria approach. His philosophy was that if a Sun representative goes to a cardiologist, his offering must include whatever the doctor prescribes. He wanted Sun's menu card to be complete for each category of therapy specialists it was working with. That meant not leaving out even minor drugs with inconsequential market sizes.

In the US, however, the "cafeteria" approach was dumped, as Mr Shanghvi was canny enough to realise that the strategy wouldn't work in a mature healthcare market. So Sun moved to a portfolio approach, which meant it had to have an attractive basket of complex generics to entice the wholesalers who controlled nearly 75 per cent of the US generic market. He, however, didn't change his old habit of cherry-picking distressed assets and extracting value rather than making big bang moves.

It is to the author's credit that the acquisition of TDPL, Caraco, Taro and Ranbaxy read like thrillers, and readers would secretly wish that Mr Shanghvi and his team came out as winners, which they did finally.

However, one of the biggest shortcomings of the book is its fleeting reference to the concerns over Sun's corporate governance following a whistle blower's complaint. The author casually says, after the narrative was wrapped up in 2017, Mr Shanghvi 's life saw many ups and downs. As a matter of fact, it was more downs than ups, and the book seems to have found a convenient excuse to maintain a studied silence on it. That's a blemish for an otherwise excellent book.

Nevertheless, if there is one lesson readers would take from the book, it's this: Success in any field comes after much struggle, hard work, heartbreaks, and sacrifice. And you don't have to have it in your genes to become one of India's richest.

THE RELUCTANT BILLIONAIRE
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