Is data the new oil?

Mukesh Ambani is neither the first nor the only one to say so. Many have said it before. He made the line popular in India along with Jio

NOT FOR PROFIT

NIVEDITA MOOKERJI

Last week, a headline on data caught much attention. While anything that deals with data is of significant interest now as our lives revolve around the resource in multiple forms, this one had another pull factor. It had a combination of Mark Zuckerberg and Mukesh Ambani, making it a runaway hit. “Facebook counters Ambani, says data is not oil”, headlines across newspapers and websites screamed. Well, it was only half true, as a colleague on the beat pointed out rather angrily. She's right.

This is what really happened. A visiting Facebook executive said in a speech that data was not new oil and countries like India should allow free flow of data across borders instead of attempting to hoard it as a finite commodity. Facebook Vice President (Global Affairs and Communications) Nick Clegg, who was earlier UK's deputy prime minister, also said, “there are many in India and around the world who think of data as the new oil, and, that, like oil, having a great reserve of it held within national boundaries, will lead to surefire prosperity. But this analogy is mistaken.” Since Reliance Chairman Mukesh Ambani had, not too long ago, made the statement, data is the new oil in relation to Jio, connecting that with Facebook's contrarian position on the same subject seemed logical. But, Facebook's Clegg did not mention Ambani in his speech last week, though it's anybody's guess whether he had the RIL boss in mind while referring to data and oil. When he was quizzed on the matter later, Clegg shrugged off the controversy saying that “nobody has a copyright” on the subject of whether data is the new oil or not.

There may not be a copyright on that line, but what the angry colleague was trying to explain and what is relevant in the current context is that Ambani is neither the first nor the only one to say data is the new oil. Many have said it before Ambani did in 2017. It's another matter that Ambani made the line popular in India, along with Jio. Similarly, many others have said what Clegg stated in New Delhi last week. That is, data is not new oil. Clegg was trying to argue that while oil is a finite commodity, data is not.

It was, in fact, way back in 2006 that mathematician Clive Humby had coined the phrase “data is the new oil”, analysts who have dug deep into the subject believe. Humby's also credited for setting up UK supermarket chain Tesco's Clubcard — the loyalty card scheme that operates across countries. This is what he had to say at a summit in Kellogg School of Management: “Data is the new oil. It's valuable, but if unrefined, it cannot really be used. It has to be changed into gas, plastic, chemicals, etc to create a valuable entity that drives profitable activity; so must data be broken down, analysed for it to have value.”

Many other prominent people have commented on the subject thereafter. Meglena Kuneva as European Consumer Commissioner in 2009 had said: “Personal data is the new oil of the internet and the new currency of the digital world.” In 2011, Peter Sondergaard of Gartner described information as the oil of the 21st century, and analytics as the combustion engine. In 2012, Bill Diggins as CEO of Diggit gave it another tweak. “We're able to view just everything that they do. And that's really where data is going today. Data is the new oil,” Diggins had said. The following year, Ginni Rometty as IBM CEO said in a speech to the Council on Foreign Relations: “I want you to think about data as the next natural resource.”

Then in 2016, Piero Scaruffi, author of *A History of Silicon Valley*, pointed towards the difference between oil and data — the product of oil does not generate more oil, whereas the product of data will generate more data... By this time, businesses and data analysts had started moving away from the narrative of data is the new oil and were focusing more on data as a free-flowing boundary-less resource as opposed to a walled garden.

2016 onwards, there's been a series of write-ups, lectures and analysis trying to establish why data is the new oil is a “ludicrous proposition”. Even the last meeting of the World Economic Forum at Davos had a session on why data is not the new oil. While both oil and data generate value, the comparison stops there, the new age entrepreneurs seem to argue. Their fear, and Facebook's is no different, is that treating data like oil has resulted in governments hoarding data.

While the jury's still out on whether or not data is the new oil, my take, it's fifty-fifty.

Apple sings a catchier tune

With cheaper iPhones and a cut-price OTT platform, Apple hopes to reverse flagging sales, but its services may still be premium for India

SURAJEET DAS GUPTA

Apple Inc has always positioned itself at the premium end of the market. But last week, the $265 billion Silicon Valley giant surprised consumers by doing two things differently. First, it declared a war on video streaming platforms by announcing the launch of Apple+ globally at a lower than usual subscription rate.

At just ₹99 a month in India, it will be cheaper than Netflix's ₹199 a month on digital and ₹650 a month on TV, or even Amazon's ₹130 a month.

Second, Apple is opening up its over-the-top (OTT) channel to a larger audience — not restricted to Apple device users alone, as it has done with its music app iTunes. Yet to keep potential Apple device buyers happy, it has not only dropped the price of its entry-level iPhones, but is also offering free OTT service for a year.

TAKE TWO

ANALYSIS BEHIND THE HEADLINES

The addressable market that Apple is aiming at is as big— if not bigger— than other OTT biggies. It includes smart and non-smart TV users as well as non-Apple smartphone and digital consumers who are not on iOS. To this end, it has tied up with TV giant Samsung — which is ironic given the fierce court case the two fought over patents just two years ago— and for new smart TVs with Sony and LG, which will be powered by the Apple+ app.

It has also signed a deal with its competitors who sell Amazon Fire Stick, which helps convert non-smart TVs into smart TV, by offering it as one of the choices on its platform.

Will these moves make Apple a serious OTT player to reckon with — especially given the 35-odd players competing aggressively for consumer attention? According to Consumer Electronics and Appliances Manufacturers Association, in 2018, 15.5 million TV sets were sold and half of them were smart TVs. And with 95 per cent of Indian homes having single TVs, the addressable TV household that Apple could potentially tap is about 4 per cent of the 197 million households that have a smart TV. This of, course, does not include millions of others who could convert their non-smart TVs into smart via the Fire Stick or via the browser on their smart TVs.

Similarly, there are over 500 million smartphone users (including around 11 million Apple device owners) who can view the OTT channel though either their browser or mobile app, if they have an Apple device. In many ways, it's the market that most OTT players also want or are already tapping for viewers and subscribers .

Opinion is divided on whether Apple could disrupt the market. Companies such as Netflix believe that the Indian market is vast and there are opportunities for everyone to grow. A CEO of one of the country's largest broadcaster and a key OTT player says: “Apple's programming will be primarily in English. And in India, the viewership of English programming is only 1 per cent in OTT. So in a market of 300 million active OTT users per month, you are looking at not more than a 3 million addressable market. To survive in India low pricing and addressing the mass market with regional programming is the only key to make money. Their entrance will not make a whimper. ”

Apple has a bevy of original programming lined up and it plans to dub their originals in 40 different languages. Many production houses say that they expect Apple to follow the same path as a Netflix — start with global programming and then move to originals made in India in regional languages.

He has a point: Even Netflix, despite the fact it has cut subscriptions to only ₹199 on digital and has made substantial investment in regional programming, still has only 1.3 million subscribers, according to various estimates by agencies, and Amazon, despite being tied to benefits of free delivery, is at around 2.5 million.

The CEO also points out that the focus of Apple will be to use its large cash reserves to take on the might of Netflix, Amazon, Disney+ in the US, where it will be a bitter battle for supremacy. They won't at least in the near future divert resources in smaller markets like India and invest in regional programming.

The big boys of the game have been Hotstar (bought by Disney) which initially attracted viewers primarily by offering the content free. The company, however, does not give out its paid subscriber numbers, but plans to increase subscription revenue share from 7-8 per cent to 50 per cent of total revenue in four years by pushing sports and it's original Hindi and regional content. It will compete with Apple currently with Hotstar Premium, the English programming package which is priced at ₹299 a month.

Yet many say competitors are underestimating their clout. Says Rajiv Bakshi,CEO of Reliance Big Synergy, which makes OTT programming: “Apple TV+ is a game-changing strategy. To begin with, it will be a global product, ideal for its formidable and trend setting customers in India, but it would localise to market requirements in the near future.”

Apple has a bevy of original programming lined up and it plans to dub their originals in 40 different languages. Many production houses say that they expect Apple to follow the same path as a Netflix — start with global programming and then move to originals made in India in regional languages. They say that with their data and understanding of Indian customers they can easily focus on what audiences want.

So will Apple + help them in changing their lacklustre performance in the country? The US giant has been seeing a steep fall in shipments to India. According to estimates, in 2018 the company's sales dropped to half of 2017 sales at 1.7 million. The number is likely to fall further in 2019 as it gets battered by high price and increasing Chinese competition.

One way Apple is tackling the challenge is by cutting prices. It has slashed the price of entry level iPhone 11 launched last week by 16 per cent compared to the earlier XR variant.

But a mere cut in price, many analysts say, does not work as competitors follow suit. Also most premium devices have no key differentiator in the product. But by bundling its Apple+ with a free one-year subscription the company is trying to stand out. “No other mobile manufacturer offers you OTT content of their own with a free subscription bundled with it,” says an analyst.

In India over 70 per cent of the usage of OTT channels is on mobile devices, especially amongst the youth, and compelling content on the channel, could help in driving its sales up. But the question is whether the OTT channel will galvanise more buyers to buy Apple devices.

CHINESE WHISPERS

Didi and Modi

During the campaigning for the 2019 Lok Sabha polls, West Bengal Chief Minister Mamata Banerjee (*pictured*) had said that she would send Prime Minister Narendra Modi *rosogollas* made of mud, pebbles so that he lost his teeth. Modi had responded a few days later saying he would welcome such *rosogollas* as *prasad* since the soil of Bengal had the essence of great men like Ramakrishna Paramhansa, Swami Vivekananda and others. On Wednesday, Banerjee met the PM and brought with her some of the best *sandesh* that Kolkata had to offer. Her former confidante Mukul Roy, who is now in the Bharatiya Janata Party, was not as generous towards her. Roy is the neighbour of Trinamool Congress leader Derek O'Brien and Banerjee's nephew Abhishek at the national capital's South Avenue. Banerjee stays at Abhishek's house when in Delhi. On Wednesday, Delhi Police barricaded the entire stretch of the street, blocking the access to Roy's residence. Roy's aides protested and the barricades were removed.

Connected by ban

On Wednesday, Congress spokesperson Ajay Maken welcomed the Centre's move to ban e-cigarettes but demanded to know why it had not banned cigarettes and *gutkha* as well. He said it was intriguing that the Centre's ban on e-cigarettes came days after US President Donald Trump called for a ban in the US, and that Prime Minister Narendra Modi is scheduled to travel to the US to meet him. Maken said it would have been better had New Delhi announced the ban before Trump did. When Maken was asked whether it was his personal view or that of his party's that cigarettes and *gutkha* be banned, the former union minister said it was his personal view.

Colourful war

After painting some Anna Canteens in YSR Congress Party (YSRCP) colours (blue, green and white) and renaming them Rajanna Canteen, the YS Jaganmohan Reddy government issued orders to paint all 11,158 gram panchayat offices in Andhra Pradesh in YSRCP colours. In its enthusiasm, it went ahead and gave an unexpected territory a dash of colour. Telugu Desam Party MP from Vijayawada Kesineni tweeted a photograph of a cemetery in Guntur district that had been painted in YSRCP colours. The photograph showed the graveyard walls, arch and a room sporting blue, green and white. His tweet drew immediate reaction with YSRCP supporters putting out photographs of another crematorium and a public toilet that sported TDP's signature yellow.

Many a slip between the cup & the lip

COUNTRY CODE

RAHUL JACOB

The sidewalks that lead to Bengaluru's Ranga Shankara theatre are obstacle courses of paving slabs and steel pipes, perhaps thrown about by a giant. Manhole covers obtrude upwards at odd angles, seemingly to trip up pedestrians. The opening lines of NDTV anchor Ravish Kumar's Magsaysay award acceptance speech — “My streets have craters and potholes which outnumber the moon”— ought to be an Indian urban rap song. In very few cities in Asia would such shoddy standards of public construction be acceptable.

Yet it is perhaps because of cityscapes akin to the aftermath of an earthquake that the Bharatiya Janata Party's gargantuan ambitions for India seem so seductive. One week the commerce minister announces a target of $1 trillion in exports in a few years, the next the UP chief minister says his state, with poverty levels comparable to sub-Saharan Africa, will be a $1 trillion economy soon. The casual abandon with which this government throws about trillions in public conversations suggests it prefers Monopoly — even the notes introduced since the catastrophe of November 2016 look similar — to conventional economics.

In no country in the world is the gap between ambition and execution as wide as it is in India, circa 2019. Our TV cheerleaders depicted our moon mission as glorious in its failure, but just days afterward, the World University Rankings showed that not one Indian university made it into the top 300. *The Economist* recently pointed out that no large economy spends less on research and development than India — a pittance at less than one per cent.

And, for all the faddish talk about discontinuing internal combustion engines by 2030, how does this count as progress if the electricity being used for vehicles to recharge is overwhelmingly from dirty coal-fired plants? As Michael Greenstone, a professor at the University of Chicago, pointed out at an event at the India Growth Centre this month, even Norway, where a third of vehicles are e-vehicles, is likely to reach 100 per cent only by 2050. Data released this month shows that e-vehicles are just 5.5 per cent of new car sales in California and most of these are Teslas.

The Modi government's goals could be defended as being an inspiring vision — or even management techniques once popularised by US management thinkers to stretch organisational capabilities — if they were grounded in some kind of reality. But projecting one trillion dollars in merchandise exports when we have been stuck at about $300 billion for the past five years merely undermines credibility — as does the Reserve Bank's 6.9 per cent GDP growth target for this financial year. The shock therapy of demonetisation and a badly implemented GST have killed off many small and medium exporters, and the global economy is in a downturn. The only supply chain still growing is electronics; we are mostly conspicuous by our absence. The big gainer is Vietnam.

Despite our lofty targets, no one compares India with China any more — except to say that the government's policies in Kashmir are not dissimilar to those employed by China in suppressing the Muslim Uighurs in Xinjiang. The government line that detentions, restrictions on movement and communication blackout are putting Kashmir on a road to peace has few takers overseas. Neither Al Jazeera nor the head of the UN body on human rights appear to believe this dispatch from the parallel universe that is Lutyens Delhi. “The best that can be said is that it is not a constitutional putsch on the scale of” the Emergency was *The Economist*'s verdict.

Of course, a proudly nationalist government can thumb its nose at international opinion, but the consumers of foreign media are people in boardrooms and at trading desks worldwide. Foreign portfolio investors pulled $4.2 billion from Indian equities in July and August. Resident Indians, meanwhile, have sent out as much as $5.8 billion in the first four months of this financial year, ostensibly for overseas travel, education and the maintenance of (and gifts to) relatives living abroad. This has raised questions of capital flight because it compares with $5.5 billion over five years of the previous government. The outlandish targets are not doing much for business confidence.

Filthy, broken pavements from Bengaluru to Mumbai notwithstanding, this government promised a Clean India by October 2, 2019, to honour Mahatma Gandhi. Admirably, Swachh Bharat has led to 100 million more toilets in homes, even if questions remain about whether all of these are connected to disposal systems and are being widely used. Revealingly, the ministry's e-book says that it “has drawn significant eyeballs... (despite starting with) a tentative, small share of the column space wallet”.

Better sanitation and better job prospects matter of course for almost everyone, but notably for the millions making their way through school. The teenaged girls on stage last Saturday at Ranga Shankara were from the Nizamuddin *basti* in New Delhi. Their high-spirited, confidently autobiographical narration in *Bhagi hui Ladkiyan* was engaging. Yet, one couldn't help worrying about their prospects as the gap between India's grandiose economic targets and its inability to deliver is relegated to no longer being news at all.

LETTERS

Easier said than done

This refers to "India expects to gain control over Pak occupied Kashmir one day: Jaishankar" (September 18). While one tends to agree with the External Affairs Minister S Jaishankar's (*pictured*) well-meaning contention that Pakistan occupied Kashmir (PoK) is part of India and New Delhi expects to have physical jurisdiction over it 'one' day, his added plea that henceforth talks with Pakistan would be only about 'PoK' and not on Kashmir, makes little sense.

Simply put, why talk to a rouge state if PoK is part of India? Moreover, will Pakistan so easily hand over this long yet forcibly held (since 1948) part of Jammu & Kashmir to India notwithstanding some strong voices of protests constantly raising heads against its oppressive and autocratic regime.

India will have to virtually snatch it back if Jaishankar really means business by wishing to have its physical possession one day. Are we geared up for embarking on such a decisive move? It may be easier said than done even though our Army is capable of doing so. Mind you, the entire world is keenly watching India's footsteps in J&K, post the abrogation of Article 370.

Kumar Gupt Panchkula

Be practical

I agree with your editorial “Don't repeat the mistake” (September 17) that the issue of citizenship shouldn't be subjected to casual and petty political considerations. However, due care has to be taken about realities such as capacities of our land, number of available jobs and the limitations of our social fabric.

The idea of welcoming every single person who crosses over into India is noble but who will create resources required to accommodate lakhs of Bangladeshis and Rohingyas? Compassion and empathy for desperate, persecuted people have to be supported by practical considerations. We cannot absorb unlimited number of migrants and provide everyone with infinite benefits. And new immigrants do not create jobs as "champagne socialists" would have us believe.

If people are voting for Adityanath and Manohar Lal Khattar, it's because the issue of unchecked migration from across our borders and resultant crime, religious fanaticism and unemployment have not been addressed with the seriousness which it deserved by the then ruling dispensation at the Centre.

Faults, discrepancies or shortcomings of the Supreme Court monitored National Register of Citizens process cannot be an excuse to stop identifying and deporting illegal people. If anything, the process needs to be made more efficient and error-free. The concern for stateless people cannot be an argument against national security.

Ajay Tyagi New Delhi

Reality check

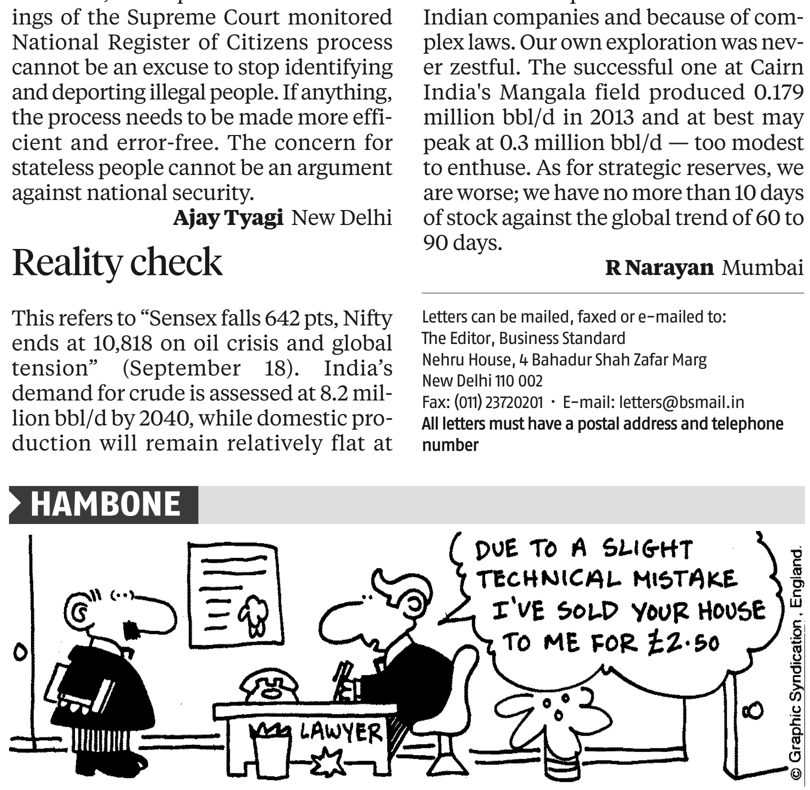
This refers to “Sensex falls 642 pts, Nifty ends at 10,818 on oil crisis and global tension” (September 18). India's demand for crude is assessed at 8.2 million bbl/d by 2040, while domestic production will remain relatively flat at around 1 million bbl/d. We depend on Middle East for 60-65 per cent and the rest from the West and Africa. Our supply distributions are across several countries, including Iran, Libya, Sudan, and Nigeria. The Saudi Arabia one is a new development and now uncertain geo-political trends would make us ever dependent on imports.

Foreign investment in exploration in India has waned in recent years due to increased competition from domestic Indian companies and because of complex laws. Our own exploration was never zestful. The successful one at Cairn India's Mangala field produced 0.179 million bbl/d in 2013 and at best may peak at 0.3 million bbl/d — too modest to enthuse. As for strategic reserves, we are worse; we have no more than 10 days of stock against the global trend of 60 to 90 days.

R Narayan Mumbai

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

HAMBONE



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Streamlining disinvestment

Govt should go beyond making administrative changes

The government is considering more powers to the department of investment and public asset management (Dipam). As reported by this newspaper on Tuesday, the Cabinet is likely to deliberate on a proposal that will make Dipam the administrative authority, irrespective of which department oversees a particular public sector undertaking (PSU) that has been picked for strategic sale. The move should be welcomed as it will help the government streamline the disinvestment process to an extent. Administrative departments are generally not keen on selling PSUs, which delays the entire process, among other things. Over and over again, it is clear that politicians and bureaucrats see their local PSUs as a source of patronage and perquisites. Unless this relationship is severed, the chances for a quick disinvestment remain slim. Putting the disinvestment process on the fast track will go a long way in helping the government attain the ambitious target of raising ₹1.05 trillion on this account in the current financial year.

At a broader level, it is heartening to see that the government is looking to smooth the process for strategic sale of PSUs. In this context, it would do well to go beyond just making administrative changes and look at the process in a more holistic manner. For instance, it would help if there is a medium-term plan for disinvestment in general and for strategic sale in particular. The government can put out a list of companies that can be sold in the medium term. It can ask the NITI Aayog, which has worked in this area, to maintain a list of possible candidates. This will improve the process in at least two ways. First, both Dipam and the administrative department will be able to work according to this calendar and prepare for strategic sales in a better way. Second, the market would know the kind of assets the government would be selling. This will give time to potential buyers to evaluate the prospects and prepare financially. It is likely that if the government follows this path, it will get a better price for its assets because of higher competition in the market.

Additionally, if the government follows such a process, it would know roughly how much money to expect from disinvestment in a particular financial year, which can augment its capital spending programme. In fact, the way disinvestment has been pursued over the years should be avoided. The government sets a target, depending on fiscal needs, and then looks for companies to meet the target. Also, the current practice of the government prevailing upon its own companies to step in to buy stakes in their peers must be avoided. This is faux disinvestment at the very least. The government needs to work with a view that it should not be running a commercial enterprise, which not only has a fiscal cost but also distorts the market. Further, the proceeds should be used to create new assets such as those in the area of infrastructure, which will help increase potential growth in the long run. Overall, the entire disinvestment process should be reviewed to maximise gains.

Misuse of agriculture credit

RBI report provides damning evidence

The lingering suspicion that a sizeable part of the institutional loans extended to the farm sector is being misused and misdirected has virtually been confirmed by a recent review of agricultural credit by an internal working group of the Reserve Bank of India (RBI). It has found that several states are getting more institutional agricultural finance than their annual farm sector gross domestic product (agri-GDP). In some states, the amount of such finance has been observed to be much higher than the estimated total farm input requirement by their farmers. In Andhra Pradesh, for instance, the crop loans given between 2015 and 2017 were seven and a half times the sum needed by the cultivators to meet their input needs. Yet, the informal sector (read moneylenders) remains a critical source of funding for farmers all over the country. Clearly, a significant part of the highly subsidised credit being extended to farmers is getting diverted to non-agricultural purposes. In fact, this is not the first definitive evidence of misutilisation of this money. Indications to this effect have been captured in some earlier studies as well. A 2015 study, based on the RBI data, had revealed that the bank branches located in urban and semi-urban areas also disbursed large sums as agricultural loans. Also, the disbursement of crop-linked credit continued even during agriculturally lean periods when farmers normally do not seek loans.

Several other glaring flaws also mar the agricultural credit sector. The most significant among these is its skewed distribution. The bulk of it is going to the big landholders, leaving small and marginal farmers at the mercy of moneylenders. The RBI report reckons that nearly 41 per cent of the small and marginal farmers, who constitute over 86 per cent of the total farm households and need credit the most, are not covered by the scheduled commercial banks. So are a large number of tenant farmers and sharecroppers who also badly need low-cost loans. What is worse, agriculture's allied fields and the farmers' long-term investment needs are by and large being neglected in credit allocation. The associated sectors such as animal husbandry, fisheries and forestry, which now account for about 40 per cent of the agri-GDP, are getting less than 7 per cent of the total institutional loans. Similarly, the share of the investment credit in the overall farm loans has shrunk sharply from almost 50 per cent in 2000 to barely 25 per cent in 2016. This apart, the present system of higher subvention of interest on timely repayment is being exploited by some resourceful farmers to invest subsidised finance in fixed deposits at higher interest rates.

Some of these drawbacks can, no doubt, be overcome by replacing the interest subvention system with direct benefit transfer to the targeted beneficiaries as suggested by the RBI's working group. This can benefit tenants, sharecroppers and landless labourers who are now being denied institutional credit. Routing all crop loans through Kisan Credit Cards can be another way to curb some malpractices. But, admittedly, such moves may not rid the credit system of all its ills. Consultations with stakeholders, including bankers and borrowers, seem vital to seek solutions to other critical issues.

INDIA'S TRADING PERFORMANCE

($ million)	Imports from the country (1999-2000)	% share of India's import	Imports from the country (2018-19)	% share of India's total import	Exports from the country (1999-2000)	% share of India's total export	Exports from the country (2018-19)	% share of India's total export
ASEAN10	4,600	9.2	59,000	11.6	2,200	5.9	37,000	11.2
Sri Lanka	44	0.1	1,500	0.3	500	1.4	4,700	1.4
Bangladesh	78	0.2	1,000	0.2	640	1.7	9,200	2.8
Japan	2,500	5.0	13,000	2.5	1,700	4.6	4,900	1.5
South Korea	1,100	2.2	17,000	3.3	480	1.3	4,700	1.4
Total FTA	8,322	17.0	91,500	18.0	5,520	15.0	60,500	18.0
China	1,300	2.6	70,000	13.7	540	1.5	17,000	5.2
EU countries	11,000	22.0	58,000	11.4	9,700	26.2	57,000	17.3
United States	3,600	7.2	36,000	7.1	8,400	22.7	52,000	15.8
Top non-FTA	15,900	32.0	164,000	32.0	18,640	50.0	126,000	38.0
India's non-oil import/export	50,000	–	510,000	–	37,000	–	330,000	–

Source: Department of Commerce, Government of India; Centre for Technology, Innovation and Economic Research (CTIER)

India's FTAs: Threat or opportunity?

Our experience with the existing free trade agreements has been lukewarm. The industry must change for this to change

INDIA'S WORLD?

NAUSHAD FORBES

India signed a series of Free Trade Agreements (FTA) in Asia that came into force in the 2000s. Across industry and policy-makers, a view has emerged that these FTAs have not served India well, and even actively damaged Indian industry. Is this view correct? Tales of woe of specific sectors and individual firms abound. What does the aggregate data show?

The success of an FTA should be judged against its objective of enhancing trade. If the proportion (and not just absolute level) of both imports and exports between the countries concerned has grown, then an FTA is successful for both parties. That is its intended effect — to move trade in the direction of the FTA country relative to others. If only one of imports or exports have grown, then the benefits have been one-sided. If the proportion has stayed the same or fallen, then the FTA has had no effect.

To FTA or not to FTA

The table shows India's trading volumes for 1999-2000 and 2018-19. Strong annual growth over 19 years in both imports (14 per cent) and exports (12 per cent) has taken our trade volume from $85 billion in 2000 to $850 billion last year. The volume was $152 billion with the FTA countries. Both exports and imports have grown. In 13 of 20 instances, the proportion of imports or exports has grown. The India-Japan FTA would seem to have been completely ineffective for both countries — as our share of imports and exports have fallen substantially. The South Korean FTA seems to have worked to South Korea's advantage, with our share of exports staying the same, while our imports have risen.

Compare trade patterns with our major non-FTA trading partners: The US, China and the EU. These three accounted for 32 per cent of our imports in both 2000 and today, and 50 per cent of our exports in 2000, falling to 38 per cent today. The US has retained its importance for us in both imports and exports, while the EU has declined. The big winner is China: From 2.6 per cent of our imports and 1.5 per cent of our exports in 2000, it now accounts for 13.7 per cent of our imports and 5.2 per cent of our exports, making it our largest trading partner after the US.

Decoding trade data

Overall, our FTAs have had little effect on our trade flows: Accounting for 16.3 per cent of our trade in 2000 and 17.9 per cent of it today. They have not, contrary to perception, been a disaster for Indian industry, but we have certainly not seen the benefits from the FTAs that we expected.

Three reasons why: First, India is not the only country signing FTAs. ASEAN, South Korea and Japan have FTAs with many more countries than we do, including China. Some of these are much wider and deeper than ours — so-called zero-for-zero agreements, where zero items are excluded from the FTA and a zero tariff applies in both directions. This enables close supply-chains to develop and prosper — for example, in electronics, where components and sub-assemblies wander around Asia with tiny bits of value-addition at each step in each country. As Adam Smith pointed out in 1776, the degree of specialisation is limited by the extent of the market. By excluding many items from agreements, we limit the extent of the market and our ability to participate in these supply-chains.

Second, tariffs are not the only barriers to trade. My favourite non-tariff barrier (NTB) from some years ago: France required electronic consumer products to be imported only through the port of Lyon — which would have been fine, except that Lyon is not a port. Our pharmaceutical firms report great difficulty in getting approvals to sell in Indonesia, South Korea and Japan — in spite of specific inclusion in the FTA. Sector-specific sub-committees are to be set up to address such issues, but have not been formed — a clear opportunity.

Third, trade patterns reflect underlying industrial competitiveness. It is no accident that we have seen the greatest growth in our imports from China (up 54 times), South Korea (up 15 times) and Vietnam (up 65 times). These are among the world's most competitive countries, and almost any country's trade balance has moved substantially in favour of these three. We might complain about NTBs and higher costs of doing business, but improving our competitiveness is the surest way of improving our trade balance.

So what must change?

India is on the verge of signing the RCEP — which brings together the ASEAN 10, Japan, South Korea, Australia, New Zealand, China and India — 16 countries which make up half the world's population and a third of its GDP. I have written separately (*Business Standard*, August 29, "Is RCEP Good for Indian Industry?") about our strong interest in joining the RCEP. But for us to truly reap the benefits of RCEP, we need to learn from our lukewarm experience with our existing FTAs and change two things.

First, policy must adopt a strong export-promotion stance, starting with a competitive exchange rate. A strong rupee may be good for our psyche, but it makes imports cheaper and exports more expensive. Around ₹80 to the dollar would restore the rupee to the real effective exchange rate of 2014. Our export policy must also focus on markets where we have complementary strengths. We need FTAs with the US, EU and the emerging pan-African Free Trade Area. As we negotiate with the EU, we must ignore the growls from the auto industry and hear the opportunity of the auto-component and garment industries. And let us enable our exporters to scale by raising the capital of the Exim Bank and the export credit guarantee cover to global levels.

But even more importantly, Indian industry must see its future in export. In the Confederation of Indian Industry, we have been holding discussions with different industry groups on RCEP. There is overwhelming focus in protecting the Indian market — and underwhelming interest in accessing Asian markets. This must change. We have dozens of great Indian firms that see the world as their market, but we need tens of thousands of Indian firms to export their way to greatness. We must use our technical talent to develop products and services that we seek to then sell around the world. An FTA, such as RCEP, enables access. It is for Indian industry to turn this access into opportunity. Instead of howling about imports, let us howl instead about anything — infrastructure, the cost of power, delays at ports, the strength of the rupee, NTBs, the Ease of Doing Business — that comes in the way of our being great exporters.

The writer is co-chairman Forbes Marshall, past president CII and Chairman of Centre for Technology Innovation and Economic Research and Ananta Aspen Centre.
ndforbes@forbesmarshall.com

Why Apple isn't Jio

SWOT

KANIKA DATTA

Indian journalists have been quick to describe Apple's partial marketing *volte face* from an ultra-premium positioning to price warrior as its "Jio act". This is lazy thinking, good perhaps for a headline but otherwise a fundamental misrepresentation of the Cupertino-based giant's strategic shift.

The difference is small but significant. With Jio, Reliance started out as a price warrior to challenge the competition with near-free services. Apple's positioning entails a critical shift from its foundational ultra-mega premium strategy. It involves a sharply targeted line of attack against competitors across multiple market segments — telecom, consumer hardware, internet broadcasting and so on — that takes in "co-opetition" with a former deadly corporate foe, Samsung. Apple is disrupting the market by cutting price but it is not abandoning its premium positioning altogether. It is stretching the brand to more price points.

By stretching its brand across the price spectrum Apple has taken a leap of faith, but an imaginative one, if nothing else. This is quite distinct from leveraging deep pockets to price a service cheaper than incumbents to gain market share. If anything, Apple's brave new positioning has highlighted sharply the chronic paucity of strategic thinking among Indian corporations. And nothing reveals this visceral weakness better than the current economic slowdown, which appears to have left corporate India stumped.

Slowdowns, especially in demand, usually put managements on their strategic mettle. Global management history has many examples of companies countering market challenges with shrewd contrarian strategy. The successful introduction of the tiny Volkswagen into the American market dominated by chrome-laden gas-guzzlers was one of them. Avis rent-a-car's famous underdog advertising — "we try harder because we're number 2" — is another as was Ikea's ability to transform cheap DIY furniture into middle class chic.

India has seen its share of innovative strategic thinking but, strikingly, most of it has come from multinationals of foreign origin. For instance, when competition crowded the market in the early noughties, Suzuki-dominated Maruti reinvented itself from a cheap small-car maker to an automobile giant offering consumers a product on every price point. Then MD Jagdish Khattar explained it as graduating the consumer up the value chain from, say, a Zen to a Baleno and so on. It was Korean major Hyundai that altered the dynamics of the small car market with the tallboy-designed Santro (which was so popular the order-book was closed soon after it opened when the Santro was re-introduced last year).

It is worth noting that many of the strategic gambles sought to *upgrade* markets. The L1-type duopoly of the commercial vehicle and bus market was challenged by Volvo, which ended up becoming shorthand for premium service bus services. In the early 1990s, Procter & Gamble created new markets with premium washing powders and sanitary products that had challengers Hindustan Lever, as it was then known, and Johnson & Johnson, scrambling to respond.

On the other hand, price warrior-ship has long been the only weapon in Indian-owned corporations' armoury. The problem with this mono-focus is that it is easy for competitors to catch up. Karsanbhai Patel's bucket-shop detergent Nirma threw Hindustan Lever into a tizzy until the latter was able to leverage its vast cash flows to offer a similar product; Nirma retained its consumer following, but was never able to challenge Hindustan Lever seriously again. Much has been made of the ₹1 shampoo sachets introduced by FMCG maker Cavinkare, which certainly gave the multinationals a run for their money for a while. Until the challengers copied the Chennai-based company's innovation in no time.

Tata Motors was one of the exceptions among Indian-promoted companies to demonstrate some solid strategic thinking with its Ace, the mini-truck launched in the mid-2000s with the tagline "*Chota Haathi*" (little elephant) filled a crucial gap in freight logistics and has more or less held its own. But the introduction of per-second billing by now defunct group company Tata Teleservices launched a price war that eventually mortally wounded it. If Jio's extended "welcome offer", which passed regulatory and predatory pricing tests, was admiringly touted as a "disruption", it was only because competitors are in dire straits financially whereas petro-products parent Reliance Industries had the cash flows to sustain near-free services and invest heavily in expansion.

Globally, the low price USP was hijacked by China. Before that, Japan, the other Asian giant to successfully compete in first world markets, pioneered several management techniques that have become standard operating procedure — from just-in-time to kaizen and beyond. India's contribution to the global management lexicon has been *jugaad*. Don't knock it, it's a useful concept to have around. But as a meaningful theory of competitive advantage it clearly doesn't work. Maybe it's something to do with India's family-dominated business environment that nearly three decades after economic liberalisation, Indian corporations still have to learn to think strategically.

Masters of the universe

BOOK REVIEW

RAJESH KUMAR

It has been over 11 years since Lehman Brothers, one of the largest investment banks on Wall Street, filed for bankruptcy and practically threatened to pull down the entire global financial system. Though the damage was contained with active policy intervention, economic recovery remained feeble, and the subdued economic performance is now shaping politics in many countries. But the global economy is losing momentum again. The European Central Bank, for example, is restarting its asset purchase programme just months after it stopped the last installment of quantitative easing, and US President Donald Trump is putting enormous pressure on the Federal Reserve to aggressively cut interest rates. To be sure, the world did not reach this point suddenly. *The Economists' Hour: How the False Prophets of Free Markets Fractured Our Society* by Binyamin Appelbaum, an editorial writer at *The New York Times*, examines four decades between 1969 and 2008 when economists played an important role in shaping public policy in the US, though the ideas flowed to the other parts of the world as well, and how things went out of hand.

Earlier economists didn't command the kind of influence they did in recent decades. William McChesney Martin who was the chairman of the Federal Reserve from 1951 to 1970 told a visitor that the central bank has 50 econometricians and they are located in the building's basement for a reason. He then explained that they are in the building because they ask good questions. But they are in the basement because "they don't know their own limitations, and they have a far greater sense of confidence in their analyses than I have found to be warranted." But this thinking didn't last long. Economists gained influence in the following decades and, arguably, became the masters of the universe. As Mr Appelbaum shows, among other things, economists convinced the US President to end military conscription, they persuaded the judiciary to largely abandon the enforcement of laws related to antitrust, and managed to put a dollar value to human life.

While the book talks about a number of economists and how they influenced policymaking, the narrative often comes back to Milton Friedman, who, undoubtedly, was the most influential economist of his time. Friedman, a Nobel laureate, essentially propagated the idea that the free market was the best system for governance. Friedman famously said that if you put the federal government in charge of the Sahara Desert, there will be a shortage of sand in five years. While economists are not a homogenous group, there was near consensus on broad issues in the period under review. As a 1979 survey of members of the American Economic Association showed, well over 90 per cent opposed rent controls and tariffs, and favoured floating exchange rates.

Mr Appelbaum argues that the market revolution went too far, and the book is a "story of what happened when nations decided to take both hands off the wheel." The growth in the US, for instance, slowed in successive decades, adjusted for inflation and population. The book shows how Chile's economy suffered under the influence of "Chicago Boys" while Taiwan, which took American aid money but resisted its economic ideas prospered. While some of the steps that Taiwan took helped, all economies perhaps cannot grow by pushing exports with the help of an undervalued currency at the same time.

Although the broader narrative is well-known and a lot has been written on the subject, at least over the last decade, *The Economists' Hour* recounts how policies shifted in the US and elsewhere with plenty of interesting stories. After the financial crisis, in a widely read essay in *The New York Times*, Paul Krugman, for instance, underscored the basic issue: "Economics, as a field, got in trouble because economists were seduced by the vision of a perfect, frictionless market system. If the profession is to redeem itself, it will have to reconcile itself to a less alluring vision — that of a market economy that has many virtues but that is also shot through with flaws and frictions."

What is perhaps needed is an adequate level of checks in the market system. However, such a level is difficult to define. In India, for instance, which does not figure prominently in the book, excessive government control has stifled growth. Meanwhile, the US has moved to another extreme. Mr Trump is not willing to listen to economists and is threatening the basic architecture of the global economic system. This could have far more damaging implications.

THE ECONOMISTS' HOUR: How The False Prophets of Free Markets Fractured Our Society
Binyamin Appelbaum
Picador; 480 pages; ₹699