Reversing degradation of land

The government's approach towards fertilisers and soil health seems rather paradoxical

FARM VIEW

SURINDER SUD

Prime Minister Narendra Modi has urged the farmers in his recent Independence Day address to curtail or stop the use of fertilisers to keep soils healthy and save Mother Earth. This plea has significant implications for agriculture and, therefore, needs to be weighed cautiously. While the PM's concern for deterioration of soil quality due to chemical pollution is well founded, the solution offered by him seems rather simplistic. Chemical fertilisers alone are not responsible for degradation of land and its fertility. Nor a reduction in their use alone would check this menace.

Several chemical, physical and biological factors are vitiating the land resource. These have been elaborated in a "policy brief" on soil health, issued by the National Academy of Agricultural Sciences (NAAS) in May 2018. The significant among these are: Improper tillage; inept on-farm land and water management; soil erosion; water logging; salinity, alkalinity; imbalanced nutrient application; deteriorating biological and microbial profile of soils and, most importantly, the neglect of organic manures. A simultaneous attack on all these fronts — and not piecemeal action on one or a few of them — is imperative to preserve health and productivity of the soils.

Prior to the green revolution, the use of fertilisers was almost negligible. But the farm production was also too meagre to meet the needs of the population. It was, indeed, the fertiliser-responsive high-yielding crop varieties which brought about the green revolution that made the country surplus in most agri-products. Such high-output varieties normally require larger amounts of soil nutrients which farmyard manures alone cannot provide. These manures are, however, essential to supply micronutrients which the chemical fertilisers generally lack. Farm experts, therefore, recommend the conjunctive use of chemical fertilisers and organic composts for best results. Studies have shown that fertilisers, if applied in the right quantity, at the right time and at the right place (root zone), along with adequate doses of organic manures, tend to preserve soil productivity rather than spoil it.

That said, the fact also is that the government's approach towards fertilisers and soil health seems rather paradoxical. While on the one hand it intends to discourage chemical fertilisers, but on the other, it offers hefty subsidies on them — more than 70 per cent in the case of urea — to push up their consumption. There are problems also with the subsidies. These are neither rational nor uniform for different types of fertilisers. These, therefore, result in the imbalanced use of nutrients to the detriment of soil health. Moreover, while phosphatic, potassic and mixed fertilisers have been brought under the nutrient-based subsidy (NBS) scheme, the most-consumed urea has, for inexplicable reasons, been left out of it. The price of urea, too, has been kept unreasonably low. Steps like rationalisation of subsidies and decontrol of urea prices by bringing it under the NBS regime are vital to ensure balanced application of nutrients.

The need truly is to curb the injudicious use of fertilisers and promote their need-driven application. Some steps have already been underway to ensure that. Introduction of the soil health cards system and mandatory neem-coating of urea can be the typical cases in point. The next logical step would be to incentivise the production and use of organic manures and bio-fertilisers by offering fiscal sops at par with those of chemical fertilisers.

The Indian Council of Agricultural Research (ICAR) has recently developed a liquid bio-NPK formulation which can augment the supply of all the three major plant nutrients (N or nitrogen, P or phosphate and K or potash) without harming the soils. This liquid solution contains three different, but compatible, kinds of microbes. Of these, Azotobacter chroococuum is capable of fixing atmospheric nitrogen into the soil while the other two, Paenibacillus tylopili and Bacillus decolorationis, can solubilize phosphate and potash, respectively, to improve their availability to the plants at a very low cost. Such steps can help achieve the objective set forth by the PM without any deleterious impact on agricultural production.

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CHINESE WHISPERS

Complaints against Digvijaya

A minister in Madhya Pradesh has alleged that Congress veteran Digvijaya Singh (*pictured*) is trying to "destabilise" the Kamal Nath government. Forest Minister Umang Singhar wrote a letter to that effect to Congress President Sonia Gandhi on Sunday. Chief Minister Kamal Nath (pictured) retains the post of state unit president. Singh recently wrote to state ministers, urging them to meet him so that he could find out what action was being taken on his recommendations for transfers. Singhar took strong exception to Singh's letter and, without taking his name, said the former chief minister was running the government from "behind the curtain". "He (Singh) had also written letters to Nath regarding (the) Vyapam, e-tendering and tree plantation scams, but had not written about the Simhast (Kumbh Mela held in Ujjain in 2016) scam as his son Jaivardhan Singh is now heading the urban administration and development ministry. The Congress had made it (Simhast scam) a big issue while it was in the Opposition," Singhar alleged.

Other side of slowdown

At a time when getting reactions on the slowdown is like a ritual, a prominent personality who has straddled the two worlds of government as well as business had a funny anecdote to narrate when asked where India was headed. A reporter had called him some years ago late in the night to get his views on the Indian economy. His answer was, "I wasn't sure about the economy during the day, how can I say anything now?'' The following day, he asked his staff to remove his mobile number from his visiting cards. But the executive, who is on the board of several companies and is perhaps thinking more about the slowdown now, did offer his views on the Indian economy."Of course there's a slowdown, but I'm an optimist."

Location, location, location

Prime Minister Narendra Modi on Monday inaugurated the Garvi Gujarat Bhavan in New Delhi. The Bhavan is situated opposite the Congress' headquarters at 24, Akbar Road. Gujarat Chief Minister Vijay Rupani and his deputy Nitin Patel were present, as was former chief minister of the state and Uttar Pradesh Governor Anandiben Patel. The Bhavan is located next to the official residence of the chief of the Indian Air Force (IAF). It is also symbolic that the IAF chief's residence has a replica of the Rafale fighter jet installed right outside. Former Congress president Rahul Gandhi had made alleged irregularities in the Rafale fighter jet deal the central plank of his party's 2019 election campaign against the Bharatiya Janata Party. Needless to say, the symbolism of the Gujarat Bhavan and Rafale replica is not lost on Congress leaders and workers.

Apple gets to bite into Indian retail

After many months of patient negotiation, two Cabinet decisions last week may finally see the iconic brand set up shop in the country

NIVEDITA MOOKERJI

Apple was possibly in preparation mode for its Indian retail journey when the Union Cabinet last week passed two critical decisions that could remove long-standing policy hurdles for the Cupertino-based tech giant.

The Cabinet decision to ease sourcing norms will benefit not just Apple, but other foreign single brand retailers, too, such as Swedish furnishing major Ikea, which is already in India. As for Apple, the earliest India will get to experience Apple online will be early 2020 and the company's first fully-owned signature store should be up around 2022 — almost two decades after it had opened its first store worldwide. In many ways, Apple and Ikea's India stories are similar, especially in terms of their patience for a policy that suits their business and their engagement with the government cutting across regimes to make things work.

For years, Apple Chief Executive Tim Cook's statements have been consistent on India, but he stopped short of a commitment on retail until policy was favourable. If in one quarter he would say the company's very bullish on India and its people, in another he would mention India as an important market for Apple. When he visited India for the first time in 2016 with a packed itinerary--meeting Prime Minister Narendra Modi to visiting Bollywood studios and taking a surprise break in Kanpur to watch an IPL cricket match — he expressed similar sentiments, but without committing anything on setting up fully-owned Apple stores in the country.

Things changed during the May earnings call. Cook described India as "a very important market in the long term" and a challenging one in the short-term, adding "we plan on going in there (India) with sort of all of our might". He was talking about placing retail stores in India, with some confidence.

Less than two months later during the Union Budget in July, Finance Minister Nirmala Sitharaman announced that the sourcing norms for foreign single brand retail would be relaxed – but without elaborating precisely how. Last week, the Cabinet allowed single brand companies to factor in their local buy for export markets to meet the mandatory 30 per cent local sourcing condition.

There was another Cabinet approval that will make Apple's retail foray a reality, some 18 years after its first store was set up at Tyson's Corner, Virginia (US). The second approval was for 100 per cent foreign direct investment (FDI) under the automatic route in contract manufacturing. A government statement clarified that manufacturing activities may be conducted either by the investee entity or through contract manufacturing in India under a legally tenable contract, whether on a principal-to-principal or principal-to-agent basis.

Since Apple products — iPhone, iPad, Macintosh, iPod, and others — are made by contract manufacturers such as Foxconn and Wistron, the company believes the two Cabinet approvals together have removed all the policy hurdles on its road to India, sources in the know said. The assembling of Apple products has already started in India, though yet to gain scale.


Same euphoria: While there's no word yet on how many stores Apple could set up in India, there's much excitement around its possible entry REUTERS

If in May Cook had signalled an all-out foray into India, last week, a day after the Cabinet decision, Apple gave its first confirmation on its India retail foray. "We love our customers in India and we're eager to serve them online and in-store with the same experience and care that Apple customers around the world enjoy," the company said. "We appreciate the support and hard work by Prime Minister Modi and his team to make this possible and we look forward to one day welcoming customers to India's first Apple retail store," it said. It added, however, that "it will take us some time to get our plans underway and we'll have more to announce at a future date."

High brand interest

While there's no word yet on how much Apple will invest in India or how many stores it could set up, there's much excitement around its possible entry. Head of Industry Intelligence Group at Cybermedia Research, Prabhu Ram, says, "As a brand, Apple continues to be the most aspirational smartphone brand of choice for Indians. From a market positioning point of view, Apple's retail stores would enable it to attract and communicate to its target audience effectively."

For Apple, India is equally and perhaps more important. As Ram points out, "In the wake of the economic slowdown in China, as well as the outgoing trade war between China and the US, India posits an exciting opportunity for Apple to rewrite and improve upon its market performance, get a better foothold and gain a larger market share in the fastest growing smartphone market in the world."

Even as the global retail team at Apple is putting together the online and store plans for the country, the American tech company (counted along with Amazon, Google and Facebook as top global brands) has a presence in India through its Map Development Centre in Hyderabad and App Accelerator in Bengaluru, besides the manufacturing facilities set up by third parties. In fact, the Map Development Centre, which develops maps for Apple products, employs close to 5,000 including contract staff. The App Accelerator offers a window into the latest advances in Apple platforms directly from the company experts in Bengaluru, enabling others to create their own innovative apps. "With the opening of this new facility in Bengaluru, we're giving developers access to tools which will help them create innovative apps for customers around the world," Cook had said in 2016.

Sourcing still tricky

The Map Development Centre and the App Accelerator are expected to add to the Apple universe once the stores open and manufacturing picks up. Reacting to the easing of sourcing norms last week, Navkendar Singh, associate research director, International Data Corp (IDC), had said, "this is being done to position India as a favourable destination (for foreign brands), that they can make here, sell here and export as well".

In the midst of so much optimism, the domestic sourcing math continues to be a complex exercise and it's still tough to ensure compliance, prompting an official to quip recently that it's a "stone age" condition. Single brand retail policy has been tweaked and changed many times in the last seven years, trying to serve the make-in-India cause while wanting to attract FDI. Even case-to-case approval for niche companies like Apple was proposed a couple of years ago as policy makers were told there's nothing much it can source from India. While that proposal was dropped, the sourcing reality hasn't changed much. The global contract manufacturers and component makers of Apple are importing most of the stuff for the assembly of products in the Indian facilities.

But armed with the latest Cabinet decisions, Apple is on its way to expand its 5,000-plus India team and offices while working on getting real estate for the first store likely in Mumbai, to be followed in Delhi. That's after more than 500 such destination stores, most notably at Fifth Avenue in New York, Union Square in San Francisco and Regent Square in London, have come up across 25 countries already.

ON THE JOB

A V-shaped unemployment rate

MAHESH VYAS

Weekly estimates of the unemployment rate had given a preview of the rising unemployment rates in August 2019. These had bounced between 8 and 9 per cent compared to 7-8 per cent range observed in July. August 2019 finally ended with an unemployment rate of 8.4 per cent. This is the highest since September 2016.

The unemployment rate has been rising more or less steadily for a long time now. What does this rising rate tell us?

Over the past three years, the unemployment rate time-series forms a skewed V-shape — of a sharp initial fall from September 2016 till July 2017 and then a slow and steady rise. It fell from over 8 per cent in September 2016 to less than 4 per cent by July 2017. That was, in effect, a 500 basis points fall in 10 months. It took 36 months to claw back those 500 basis points slowly but quite steadily to over 8 per cent by August 2019.

The V-shape pattern of the unemployment rate holds true for both, urban and rural unemployment rates.

The urban unemployment rate was 9.6 per cent and the rural rate was 7.8 per cent in August. Both these are also the highest rates since September 2016.

Has the unemployment rate "recovered" to its "norm" of 8-9 per cent in India, as it was between January and September 2016? Or, is the unemployment rate on a steady secular rise since July 2017?

If the former is true then the unemployment rate could stabilise at 8-9 per cent in the near future. This can be interpreted as a recovery from the combined shock of demonetisation and GST that led to a fall in the labour participation rate (LPR) and therefore the unemployment rate and a reversion to a normal unemployment rate of 8-9 per cent in India.

But, this is unlikely. The unemployment rate is an outcome of the labour participation rate and the employment rate. The preferred outcome is that both should rise. What do we see in the data?

The labour participation rate, which fell sharply after demonetisation in November 2016, is recovering — not in a smart V-shape recovery as it should, but a very small and almost weak recovery is seen in recent months after several months of steady fall.

The labour force participation rate seems to have reached its nadir of 42.46 per cent 11 months ago in October 2018. Since then, it has risen slowly and steadily to scale nearly 90 basis points to 43.35 per cent in August 2019.

In August 2019, the labour participation rate was higher than in August 2018. An increase in the LPR compared to a year-ago is a recent phenomenon. This happened in July 2019 also.

We are, therefore, witnessing a healthy change in the trend in the form of a gradual increase in the labour participation rate in recent months. This is a phenomenon unseen since we began monitoring labour markets in 2016.

However, this increase in labour force participation rate is not matched with an increase in the employment rate. The difference between the two has been rising. More people are seeking employment but not as many people are finding employment.

The increase in labour participation rate is a healthy sign as it hopefully reflects a confidence in labour that they may find jobs compared to the long period post demonetisation when labour simply left the labour markets as they had no hopes of finding jobs. We say hopefully because we hope that they are not seeking jobs entirely out of desperation.

But, this hope hangs precariously on a thin thread.

Investment conditions have been weak. New investments into large and modern enterprises are important to absorb the rising working age population into the labour markets. However, data from the annual financial statements of companies and from announcements by entrepreneurs do not show any pick-up in investments. Growth in good quality jobs is therefore very poor.

The little growth that we have seen in recent months is entirely in rural India. Employment in August 2019 was nearly 2 per cent higher than it was in August 2018. But, this comes entirely from rural India. This is not the kind of employment that an aspirational India hopes for.

Year-on-year (y-o-y) growth in employment in rural India was 2.9 per cent in August 2019. But, urban India saw a 0.2 per cent fall. And, urban India has recorded a y-o-y fall in each of the past 13 months.

If labour continues to face a rising unemployment rate, and poor employment opportunities, it may start getting discouraged from entering the labour markets. Or, it could depress wages sharply which would indicate desperation.

The author is the MD & CEO of CMIE

LETTERS

Limited advantage

This refers to the editorial "Free the banks" (September 2). The merger of 10 public sector banks (PSBs) preceded by the capital infusion of ₹70,000 crore in distressed PSBs in quick succession is as questionable as was demonetisation coming hurriedly ahead of GST leaving the latter limping.

Neither the timing nor the manner justifies it. Two years ago, the State Bank of India was saddled with five associated banks; has the problem of bad loans abated there? According to some reports, it hasn't. A major reason is that merging banks without solving their deep-rooted hurdles — political interference, no proper reward and punishment system for performance assessment, unionisation of officers, fear of investigation against honest but daring decisions and poor work ethics — is like putting the cart before the horse.

Besides, the amalgamation of non-performing assets is very distinct from bringing together the organisational culture of the different banks involved in the merger. In fact, it leads to clash of work culture even when the cultures are perceived as similar. For example, when small banks are tagged with the big ones (as in the case of Punjab National Bank and United Bank), the fear of domination hampers performance.

Lastly, with the finance minister announcing that the mergers will not result in job losses, the advantages of economies of scale will be limited and application of sophisticated technology will result in surplus manpower.

Y G Chouksey Pune

Unfortunate stance

This refers to "Jalanomics: No rain, just a drizzle" (Banker's Trust, September 2). The piece gives an insight into the task entrusted to the Jalan panel and the deft manner in which the former Reserve Bank of India (RBI) governor and his team (minus S C Garg) put together a report covering most of the aspects about the central bank's capital framework which were being seen even by the experts with the bewilderment of the "five blind men" who described the elephant. The Jalan Panel report, which has put a lid on the glaring adhocism seen in the earlier estimates and reports on RBI's reserves (1997, 2004 and 2013) can form the solid basis from which future discussions on the maintenance of capital and reserves by RBI can begin. There can be several ifs and buts, though.

It is unfortunate that a person of former PM Dr Manmohan Singh's stature expresses concern over the financial strength of the RBI in the context of the ₹1.76 trillion surplus transfers to the Centre. The depletion of RBI's reserves accelerated since 2013 when Singh was the PM. The appropriation from surplus income to contingency fund was discontinued based on a strange observation by Malegam Committee that the RBI had "adequate reserves for three years".

M G Warrier Mumbai

A clarification

The report "Indigo flies past Air India on international routes" (September 2) by Aneesh Phadnis says Indigo had 11.8 per cent of all the international seats to and from India to AI's 11.4 per cent and Emirates' 8.1 per cent. This is wrong going by the sheer volume of international flights with wide-body aircraft that AI operates compared to the routes and capacity deployed by Indigo in the international sectors. Indigo offers one-fifth of the seats offered by Air India on international sectors.

The report itself says AI carried 1.82 million passengers from April-June, making it the largest airline on overseas routes whereas Indigo carried 1.49 million passengers in the same period.

Corporate Communications
Air India

Phadnis responds: The report was based on an analysis done by aviation consultancy firm CAPA. The report clearly states that the analysis does not include number of passengers flown on international routes, and is based on seats on a weekly basis.

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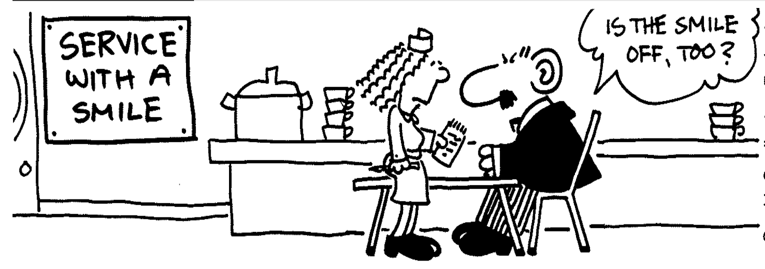
HAMBONE



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Red signal for NHAI

Its debt-fuelled expansion is a reason for worry

The Prime Minister's Office (PMO) has reportedly expressed concern regarding the ballooning of debt and unplanned and excessive expansion of the National Highways Authority of India (NHAI). Given past political risks in the roads sector and a debt overhang that affects many private contractors, equity from the private sector has been hard to come by. Thus, the NHAI has had to turn to paying directly for highway-building using the "engineering, procurement and construction", or the EPC model. This has led to a debt build-up that is large — indeed, of proportions that it can affect the overall systemic stability. Debt may reach ₹2.5 trillion soon, and interest payments alone might be ₹25,000 crore from now on.

Forget about paying down the debt, it seems difficult to see how the interest payments will be met, because according to SBI Caps, revenue from toll collection is only growing at 6 per cent a year. The market is increasingly unwilling to bear the NHAI's additional borrowing, which is expected to be ₹75,000 crore this year — dwarfing the contribution from the Union Budget of ₹36,700 crore. It is thus increasingly dependent on state-controlled pools of finance like the National Small Savings Fund, which might give it as much as ₹40,000 crore of the ₹75,000 crore.

The Ministry of Road Transport and Highways appears to be quite sanguine about these numbers, noting that the NHAI continues to be rated AAA, and that it has had no trouble repaying debt or meeting increasing fundraising targets. The ministry is quite correct about these points. It is also correct that highway-building cannot grind to a halt, given its importance for the broader economy and employment generation. Even so the concerns of the PMO — and similar worries raised by the Comptroller and Auditor General — need to be taken on board. The NHAI, faced with a scarcity of risk capital and constrained budgetary support, has nevertheless seemed to imagine that it can take on as much debt as it likes in order to finance a continuing expansion. But the high credit rating is because the NHAI is considered to have a quasi-sovereign guarantee. The contingent liabilities of the NHAI, therefore, are of importance to the government as a whole and not just the Authority or its nodal ministry. The problem is that there is no transparency as to what the total contingent liabilities might be — while rating agency ICRA has estimated it at ₹63,000 crore, some estimates from insiders put it as high as ₹3 trillion. Compensation from cess funds has also been lower than land acquisition costs for the past few years. Land costs now make up roughly a third of the total spends and have nearly doubled to ₹3 crore per hectare in the past three years.

Before taking on further debt, the NHAI should be more transparent about its accounting to the public. The facts must be known, including the degree to which the NHAI's debt burden impacts the broader ecosystem. Anecdotal evidence that the NHAI has been withholding payments, for example, can cause contagion elsewhere in the system. This, combined with publicly visible difficulties building up in meeting interest payments, has the potential for systemic disruption. Further freeze-ups in debt markets, already roiled by the fallout of the collapse of IL&FS, must be avoided.

Brace for hard Brexit

Businesses should prepare for a no-deal exit from EU

In a manner of speaking, the UK may have finally achieved some visibility on the terms on which it will leave the European Union (EU) on October 31. British Prime Minister Boris Johnson's actions over the past week signal the UK's exit from the EU, 46 years after it joined, without a withdrawal agreement, which has been the long-standing demand of his supporters in the hardline European Research Group in Parliament. By proroguing Parliament soon after it meets tomorrow and reopening a few days before October 17, the date of the final EU summit ahead of Brexit, Mr Johnson has left the House of Commons little time to debate any proposal ahead of the October 31 deadline. This much is clear from the fact that no alternative deal is in sight and Mr Johnson is attempting to persuade the EU to scrap the Irish backstop — the controversial clause in former Prime Minister Theresa May's deal involving the sole land border between Northern Ireland and the Republic of Ireland.

The backstop fulfils a political condition of an Irish unionist party, on which the Conservatives depend for their slender majority in Parliament, but leaves the UK without negotiating powers until the terms of the future relations are finalised. The EU sees the backstop as an optimum solution but the British regard it as undermining the spirit of sovereignty. Parliament voted against Ms May's deal three times, precipitating her departure and Mr Johnson's appointment. There is a degree of irony in this position, because businesses were not averse to the backstop on grounds that it guaranteed them some measure of stability while the terms of engagement were being negotiated.

What will no-deal mean in real terms? Doomsday scenarios from various think thanks predict the decimation of the pound sterling, recession, job losses, goods piling up at the ports, and widespread shortages of food, medicine, and other essentials. Some amount of planning against such a contingency has, however, begun. Mr Johnson has pledged £2.1 billion, to be spent on infrastructure at ports, extra border officers, freight capacity, and stockpiling of medicines and public communications to help people and businesses. Working groups focusing on alternative arrangements to avoid a hard Northern Irish border after Brexit have been set up. Their findings have been under wraps, though Mr Johnson claims "abundant solutions". These solutions involve something called a "trusted trader" scheme, a regulatory and industry assurance scheme, data sharing and a Northern Irish sanitary and phytosanitary zone to track contamination and disease.

The Republic of Ireland has conceded that a hard Brexit would involve authorities initially turning a blind eye to some areas of cross-frontier trade on the assumption that the UK will not diverge from EU regulations and standards overnight. The efficacy or otherwise of all these arrangements and compromises will be evident if no acceptable agreement is reached before October 31. Mr Johnson's public posturing certainly points to that result: He has said the UK would refuse to pay the £39 billion divorce bill — part of which involves the UK's unpaid pledged contributions towards the EU Budget — in the event of a no-deal Brexit. The countdown to the UK's tryst with destiny has begun.

ILLUSTRATION: AJAY MOHANTY

The dangers of optimism

An unshakable optimism about the long-term destiny of India's economy is counter-productive at moments of crisis

POLICY RULES

MIHIR SHARMA

Optimism is not a sin. But it cannot be the foundation for a country's entire economic strategy. Sadly, that is what appears to be the case in India — and unless decision makers swiftly revise their assumptions about the future, any optimism will begin to be quite unfounded.

The problem is this: We have long been accustomed to assume that, in the long run, things will work out for the Indian economy. It has many things going for it: A young population, strong consumption demand, a large market, a labour cost advantage. But these very advantages have bred complacency and, worse, arrogance. A belief in our own destiny, in the economy's inevitable rise to upper-middle income status, undercuts any attempt to introduce urgent structural reform.

These advantages are slowly turning into hurdles. A young population that is under-employed means that welfarism rather than growth will become the dominant paradigm. Labour that is cheap is under-skilled and therefore unable to compete in the world markets. Strong consumption demand underlay years of acceptable GDP growth. But to be sustained, growth needs investment and productivity increases. Consumption cannot keep growing forever. Worse, even, is the arrogance of size. We believe that our domestic market is so large that we do not need exports. We believe that it is attractive enough that investment from the rest of the world is inevitable, even if we create an unwelcoming atmosphere for such investors. It seems to have escaped us that even China, with a larger population, could only grow through accessing world markets. Are we going to short-change ourselves, by producing only for one-fifth of the world, while China produces for the remaining four-fifths? Is our economy condemned to being a quarter of China's?

An unshakable optimism about the long-term destiny of India's economy is a particularly pernicious myth at moments such as we find ourselves in now, when there is both a cyclical slowdown and structural constraints on growth. For the government, there is often a trade-off between short- and long-term effects of policy. For example, high government spending might revive demand with short-term benefits, but it might also have poor long-term effects by ensuring the state continues to dominate the pool of savings at the cost of the more productive private sector. To insulate India's external account in the long term, we might want to reduce our transport system's dependence on imported fuel; but in the short term, pushing electrification and fuel efficiency is hurting the automobile sector. Structurally, it might be in India's interest to allow less efficient public sector banks to wither away; but if the concern is reviving lending in the short term, then instead the government will wish to prop them up somehow. For long-term growth, one priority would be reducing the size of the government's wage bill in such a way that it can use tax revenue more efficiently. But if we wish to ensure consumption in the short term is resuscitated, then no action can be taken on that front. If the optimism-driven belief is the short term is what really matters because the long term will take care of itself, then such structural reform will inevitably be de-prioritised. We have long been told that India reforms only in an emergency. But the truth seems to be that India reforms only enough to escape an emergency.

Thus there is insufficient urgency when it comes to structural reform. There is also insufficient urgency about fixing the root causes of the investment slowdown. It is believed that recovering demand will result in the overcapacity problem being solved, and thus investment will return. But ending overcapacity is a necessary and not a sufficient condition for an investment revival. Correcting the impression of grave political risks to investment is even more important. The government has begun reaching out to concerned voices in industry and elsewhere to allay their fears about "tax terrorism". Some welcome reforms to tax administration have been promised. But the words and action will not have an impact without a sustained change in both political rhetoric and the institutions and legal framework that control tax officials. Capacity in the legal system also needs to be built up; international arbitration needs to be treated with less contempt; and bilateral investment treaties need to be signed that protect foreign investors. Expectations about the Indian economy's future are so sky-high in India that it is difficult for officials to believe that not all investors may share it. Even if they do see India as the only bright spot for global growth, it is all too easy for investors, particularly foreign investors, to suffer catastrophic capital loss in India even in a growing economy. Instead of reassuring them about their fears through institutional reform, they are instead lectured about the need to invest in India. We then are so concerned about round-tripping and capital drain that we constrain the arrival of capital counter-productively. One observer of the Indian economy described how foreign investors are treated thus: "In China they are greeted with a red carpet; in India with red tape."

The simple fact is that the recipe for growth has changed. We still need to be competitive, to produce for markets beyond our own, to seek productivity gains rather than incentivising low-value assembly. If we produce for our own consumption alone, we will be stuck in a low-value-added, low-wage equilibrium — and constantly subject to external shocks, since our dependence on imported energy is not going anywhere for some time. We cannot ignore all the ingredients of this recipe and still assume that the product is going to taste good. Things may still turn out all right for the Indian economy, but not if complacency and unfounded optimism win the battle against realism.

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India's exports and Factory Asia

AMITA BATRA

The Prime Minister's emphasis in his Independence Day address on the need to boost exports is a clear indication of policy priority for the Indian economy. However, the Chief Economic Adviser's optimistic statement last week (*Business Standard*, August 27, 2019) that India's goods export share of less than 2 per cent of global exports is indicative of a huge potential calls for a reality check. Sadly, India's export share in global trade has been close to 2 per cent now for over five years. After having registered negative rate of growth in fiscal 2015 and 2016, export growth gained some ground in the following two years, but lost momentum in fiscal 2019 and continues to be a major cause of concern. Further, India's export competitiveness, measured as the ratio of market share in top 20 partner country markets in 2017 over that in 2012, has seen little change with a less than 5 per cent increase[1]. A more detailed analysis of India's export trends against major global export/ trade trends and developments reveals other significant weaknesses and suggests a more sober perspective.

First, international trade is predominantly trade in goods, with trade in services being less than one-third of the total value of goods trade. Almost half of world trade in goods comprises intermediate goods and even though volumes in other categories (consumer goods, raw materials, capital goods) may have increased over the years, proportions have remained unchanged.

Second, over the last two decades, world trade has been propelled mostly by global value chains (GVCs), particularly those that require goods crossing borders multiple times. The underlying fragmentation of production processes has extended the scope of international specialisation from between products to different stages of production of individual products. Consequently, new sources of comparative advantage (and hence opportunities) for developing countries to integrate with GVCs have emerged. Participation in GVCs is linked with export diversification, sophistication and higher productivity.

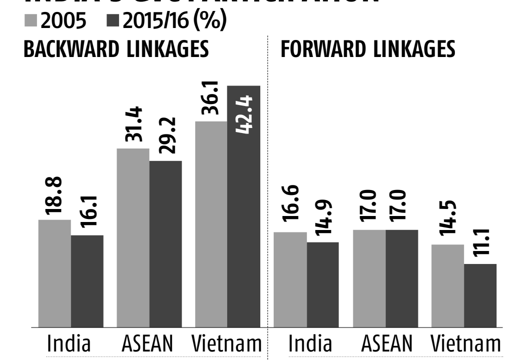
Third, value chains are largely regional with Asia, Europe and North America being the three global production hubs. In the last decade Factory Asia, essentially reflecting upgrade and transformation of the Chinese economy and ASEAN countries, has been the most dynamic production hub in the world. It has consistently registered increase in intra-regional trade, essentially indicating the positive correlation between level of economic integration and ease of cross border movement of goods. Europe and North America, the other two production hubs in the world, centered around Germany and the US, have shown slight decrease in intra-regional trade but stronger inter-regional linkages with Factory Asia[2].

As against global export trends, India's share of global services exports is double its share of global merchandise exports. The ratio of services exports to merchandise exports increased from 35.8 per cent in 2000-2001 to 58.2 per cent in 2016-17[3]. The largest merchandise export category for India is consumer goods (44 per cent) followed by intermediate goods export (33 per cent)[4].

India's integration with GVCs is among the lowest in G20 countries. Compared with the ASEAN group of countries, India's GVC integration is not just far lower but it has also experienced a decline in both its backward (that is, import content of exports) and forward (domestic value added embodied in other country exports as a share of gross exports) GVC linkages. In comparison, for ASEAN, backward GVC linkages have declined but from a higher level and by a slightly smaller magnitude while its forward linkages have remained constant (*see chart*). The experience of Vietnam, another lower-middle income country, offers a striking contrast: It has a much higher level of GVC integration and has experienced a steady increase in its backward integration over the same period.

Furthermore, India's value chain integration with East Asia/Southeast Asia (E&SEA), the most dynamic hub of GVC activity, remains weak. Value added (VA) originating in India entering E&SEA's exports to the world, is only a fraction of the VA contributed by ASEAN and Vietnam. India's VA contribution in 2016 was only a fourth of Vietnam's contribution and a measly 3 per cent of ASEAN's contribution. The same is true of India's GVC linkages with the sub-region of ASEAN. VA originating in India and entering ASEAN's exports to the world is 11 per cent of Vietnam's VA in ASEAN exports and 1.6 per cent of intra-ASEAN VA[5]. These low relative shares indicate that demand for India's exports is not being driven by demand from E&SEA/ ASEAN, either for foreign final demand or for further movement in the global value chain. Understandably, India's manufactured goods exports to ASEAN have shown little change in composition or share in over a decade.

INDIA'S GVC PARTICIPATION



Source: Trade in Value Added Database, 2018, OECD.

Finally, motor vehicles and textiles and apparel sectors, which are among India's top export sectors, are also among sectors with highest levels of value chain integration, globally and for India. However, in recent years, India's GVC integration in both these sectors has declined. Import content of exports in textiles and apparel, which was 15.3 per cent in 2005, has declined to 13.4 per cent in 2016. In motor vehicles, the import content of exports fell to 23.5 per cent in 2016 from 25.3 per cent in 2005. Simultaneously, India's share in global exports has declined significantly in textiles and apparel and remained stagnant at insignificant levels in the motor vehicles sector. Recent government policy of higher import duties on inputs for these sectors (textiles and apparel in 2018; auto parts in Budget, 2019) may result in domestic substitution of imported inputs possibly by inferior goods or higher cost of production, leading to continued loss of competitiveness and market share.

India's trade policies, therefore, need to be significantly reformed towards (1) enhancing growth of merchandise trade through increased integration with GVCs, with special focus on regional value chains in the dynamic East and Southeast Asia, and (2) avoiding protectionist tariff hikes/ trade measures that threaten loss of existing comparative advantage of its top exporting sectors.

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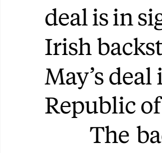
1. Key Statistics and Trends in International Trade 2018, UNCTAD, 2019; 2. Global Value Chain Development Report, 2019, WTO, World Bank, Washington DC; 3. Economic Survey, 2018.; 4. wits.worldbank.org; 5. Trade in Value Added Database, 2018, OECD

Call of the wild



BOOK REVIEW

MAHESH RANGARAJAN

Paraphrasing the American ecologist Aldo Leopold, the author sees ecology both as evocative of the wonders of nature and as enabling the means for a community "to see the marks of death". This may, at first glance, seem morbid but Shankar Raman, with his ludic and sometimes lyrical prose, tears us away from an Animal Planet or Bear Grylls' view of the wild. Ecology is a science of relationships of the tree and the garden gecko as much as the rain forest. He invites the reader to let the senses enjoy and learn from nature and its "eternal dance of life death and renewal" and partake of it, not tear its web asunder.

Given his three-decade engagements, first as naturalist, then as ecological scholar and then, for two decades-plus, as pioneer in re-growing rain forests in abandoned coffee estates in Valparai, Tamil Nadu, his is a journey across landscapes where life takes many shapes and forms. All through, whether in gibbon and clouded leopard country in the north east or discussing the metropolitan leopards around Mumbai, he never lets go of one thread. That life hangs together or not at all.

Given there are 77 pieces written across the years, though polished and honed as a wordsmith should, the tone and timbre vary. This book is best read in bits, depending on the mood and title that grab you: It is just right for a good but not long read. To my mind, the young Shankar Raman or the one reflecting on his early days come out the best. There is a Gerald Durrell-like fascination for nature in the shadow of bustling human life. It is not large, familiar animals or birds but often little-known places, and fascinating cameos of nature in the everyday that bring the pages of this book alive.

It was as a high school lad and then an undergraduate in the then city of Madras that Mr Raman cut his teeth as a naturalist. The ode to six seasons in the city is deeply evocative, with fruit bats and owls coming alive as never before in prose pictures. There is a touching ode to his mentor, the late R K G Menon, or "Cutlet", who took youngsters to the Guindy park to cut transects, study pug marks and learn to read the lives of creatures that lived in this little forest in the city. In his 50s, "Cutlet" Menon had carried out studies of antelope behaviour; five years later in 1982, estimates of wild ungulates used transect methods.

As a scientist, the author is part of a small band of men and women off the beaten track. He recounts how rare pygmy hogs are being captive-bred and put back into grasslands in Assam and how Naga village councils protect endangered Amur falcons. Local volunteers watch over hornbill nest in Namdapha in Arunachal Pradesh lest the young end up in a cooking pot. There is a love for nature but of one seized of the new vocabulary of science. Any glimmers of hope in a wider mood of darkness? There is a sense of foreboding in many essays, of a juggernaut of breakaway growth that brings great benefits but at immeasurable cost.

More than anything, he ties ecological loss to the everyday. The essay "The butchery of banyans" recounts the majestic trees that for centuries gave shade and shelter to people and animals on roads in southern India. An order is passed, and along the Chamarajnagar road to Gundalpet and Asanur those trees are cut down in a matter of days. Markers of cultural as much as natural history vanish with little thought to ways to minimise or prevent such havoc. Trees come alive and there is even an essay on a straggler in a logged woodland who "stands alone to mark the forest that once was".

The larger question is more than mere aesthetics or scientific curiosity. The neglect of the environment extracts great costs to human health and this is but to be expected given that we too are reliant on the cycles of life that sustain air, the waters and the soils. Beyond polluted air or vanishing lakes, or depleting ground water, there is a crisis of ethics and a blinkered outlook. Looking at nature afresh calls for a rethinking here and now of how Indians value the land and all that lives in it. He celebrates the heart of India, the Kanha Park, where streams originate in the deep forest. The land is inestimably more than the sum of its parts. It is not the *sal* tree or the deer or tiger or bumble bee but all of them together that need reprieve as much for our sake as their own.

There are many forces small and large searing the wild heart of India, and the cause would be better served by a smaller less catholic a selection than this one. The book, then, is a plea and one that blends intellect and emotive appeal for, "a land ethic and place in the community, open to all who care to participate, who will feel moved to act and make space for other species in their lives and in their hearts".

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THE WILD HEART OF INDIA
TR Shankar Raman
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