Crossed wires

The noise over call tariffs and interconnection usage charges drowned out issues related to customer choice at the India Mobile Congress

NOT FOR PROFIT

NIVEDITA MOOKERJI

A Google search for India Mobile Congress will give out results that are likely to impress you. It's mostly described as the biggest technology and telecom summit in South Asia. Something like the Barcelona meet of this region. But far from it, going by the 2019 edition that ended on Wednesday.

First, many of the captains from the industry were missing. The telecom honchos were indifferent to the New Delhi summit, in sharp contrast to the full-house Barcelona one. If lacklustre participation marked the event in tune with the financial stress in telecom, its 5G theme got diluted by other distractions. From the voices captured from the venue, participants opted to focus on grievances rather than on the strides in technology.

Bringing out the bitter differences within the industry, what took centre stage was how tariffs must go up to improve the health of the sector and why interconnection usage charge (IUC) was an outdated concept. The 5G showcase trials, which were meant to be the dominant subject were sidelined, unless the context was reducing the reserve price of the 5G band for the upcoming auction. In the IUC and tariff war noise, the other contemporary issue that got diluted was the customer choice.

The narrative was around why the Telecom Regulatory Authority of India (Trai) must not delay phasing out IUC, how the government is working out ways to make the auction attractive, why the industry needs to compete effectively and should Chinese equipment makers like Huawei be part of the 5G play in India. The missing piece of action was customers: Do they need 5G services and why at this point? What are the different needs of urban Indians vis-a-vis the rural ones when it comes to communication technology? Why should they have to pay more for a call if Trai doesn't phase out IUC? Is India a country of smartphones or feature phones? And what's the level of quality in the current telecom services?

Before getting into smartphones versus feature phones and India versus Bharat, here's a summary of the IUC, an issue now central to the industry rivals — Bharti and Vodafone Idea (operating on 2G, partly phasing out 3G and 4G platforms) on one side and Reliance Jio (an out and out 4G player) on the other. The issue came alive when last month when Trai floated a consultation paper on whether there's a need to revise the applicable date for the Bill and Keep regime. That is, Trai asked stakeholders whether zero mobile termination charge should come into effect from January 1, 2020, and if yes, what parameters should be adopted to decide the new date.

Interconnection between two public telecommunication networks allows consumers of one service provider to communicate with consumers of the other service provider. Beyond the technicalities lies a commercial arrangement between the operators.

IUC is a cost paid by one mobile telecom operator to another when its customers make outgoing mobile calls to the other operator's customers. These calls between two different networks are known as mobile off-net calls. In 2017, Trai reduced the wireless-to-wireless domestic call termination charge to 6 paise from 14 paise. At that point, it had prescribed the zero termination charge from January 1, 2020, for domestic calls. Jio was seen as a beneficiary of the 2017 regulation, and its rivals moved court. Now that Trai is reviewing the IUC phase-out date, Jio has passed on this charge to the voice calls of its customers. The phase-out of the IUC hinged on the adoption of new technologies and their impact on termination costs as well as on inter-operator off-net traffic symmetry. But a large number of customers are still served by circuit switched networks for voice calls, according to Trai. Although the imbalance in the inter-operator off-net traffic is reducing over a period, it still exists. Therefore, the need for review.

While India is increasingly turning into a smartphone market, the country's feature phone market is still large and growing. According to IDC data, of the total 69.3 million mobile phones shipped to India in the June 2019 quarter, smartphone and feature phone share were 36.9 and 32.4 million units respectively. Also, in the same quarter, the number of 4G data subscribers increased to 517.5 million. But that was just about half the total wireless subscriber base in the country at 1.16 billion in the corresponding period.

Look deeper into urban-rural numbers and the divide is clear. The country's wireless teledensity, the number of phone connections for every 100 individuals living in an area, is 88.5. Of this, urban teledensity is 156.42 and rural is 56.68.

Whether it's assessing the IUC regime or ushering in 5G, the other India is a test case.

CHINESE WHISPERS

Open door policy

In a surprise move, Chief Justice of India (CJI) Ranjan Gogoi on Wednesday ordered that the doors to his courtroom be kept open for the day to let in fresh air. This was after the courtroom was found filled to capacity because it was the last day of hearing in the contentious Ayodhya land title dispute case. The security personnel seated outside the CJI's court had a tough time controlling the crowd as the doors were opened. The doors to the CJI's court are usually kept shut and also have heavy curtains to shut out the noise from the corridors.

A homecoming

It seems that Narayan Tripathi, the rebel Bharatiya Janata Party (BJP) MLA in Madhya Pradesh, has lost faith in the Congress. In a *ghar wapsi* of sorts, he landed up at the BJP headquarters on Tuesday and said, "I never left the party. Yes, during the voting on a Bill in the Assembly, I voted against the party. But that was due to some confusion. I thought both the BJP and the Congress were united in their vote but unfortunately that was not the case." He was accompanied by state BJP chief Rakesh Singh when he reached the BJP office to clear the air. Tripathi, along with colleague Sharad Kol, had stunned the party by voting in favour of the Congress government during voting on the Criminal Law (Madhya Pradesh Amendment) Bill, 2019, in the Assembly in July. Both have returned to the fold.

Give plastic, get rice

A district collector in Telangana's Muludu district has found a novel way of tackling the problem of plastic waste in the town. On Wednesday, district collector C Narayana Reddy announced that the administration will give one kilogram of rice for every kilogram of plastic returned. "Over the next 10 days, we want to collect all the plastic, clear the place and send the plastic bags to cement factories while the bottles to recycling units," Reddy told a local news channel. Donors including NRIs, local politicians, traders and NGOs have come forward to donate rice. So far 335 quintals (a quintal is 100 kg) of rice have been collected by the district administration in addition to a grant of ₹5 lakh from an NRI. Reddy expects that by October 26, close to 500 quintals of plastic would be handed over at the 174 *gram panchayats* that have been declared as collection points.

Metros on the rocky route of pvt investment

Two failed private metro operations have been taken over by the public sector, yet the private sector remains the sole engine of expansion for this mode of urban transport

JYOTI MUKUL

Some weeks from now, Delhi Metro Rail Corporation (DMRC), a joint venture of the Union and Delhi governments, will be running the operations of 11.7 km metro network in Gurugram, the country's first privately-funded metro system. The two lines of the Rapid Metro Gurgaon are currently owned by the state government-owned Haryana Mass Rapid Transport Corporation (HMRTC), which took them over after the IL&FS group, imploding under a financial scandal, exited on September 9.

This is the second private metro that DMRC has taken over. In 2013, it took over the Delhi Airport Metro Expressline, previously operated by Anil Ambani's Reliance Infrastructure (RInfra). For the Rapid Metro, a five-year operatorship and management contract will replace the 98-year concession agreements that Rapid Metro Rail Gurgaon Ltd and Rapid Metro Rail Gurgaon South, the special purpose vehicles for the two lines, signed with the Haryana Urban Development Corporation, now called Haryana Shehri Vikas Pradhikaran (HSVP).

These two companies are owned by IL&FS Transportation Network Ltd and IL&FS Rail Limited (IRL). The IL&FS group's exit has resulted in arbitration with the state government under an order of the Punjab and Haryana High Court.

One of the key points that the arbitration will settle is how much debt was raised for the Rs 3,700-crore project. This is crucial since 80 per cent of the debt will have to be paid by the Haryana government to the beleaguered IL&FS companies, under the court order. But before this, the Comptroller and Auditor General along with a private auditor appointed by the Rapid Metro Rail will conduct an audit to ensure that the debt is not inflated. "It is a group where there is an ongoing serious fraud investigation and the erstwhile top management is under probe. Therefore, an audit is important," said a senior Haryana government officer.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

The collapse of two private metro lines in the National Capital Region point not just to the failure of private companies in infrastructure but also their unwillingness to live through the long gestation projects that could be slow to take off. E Sreedharan, one of the key men in India's metro history, was famously against private metro systems. In an interview with Business Standard in 2011, he said constructing metro systems was highly capital intensive and in themselves they do not generate profit, which is why private sector is not suited for the job.

Both Delhi Airport Metro and Rapid Metro cited poor ridership numbers and advertising revenue to back out from the projects. In the case of the airport line, the situation was made worse by RInfra's allegations of defects in the civil structure that had been put up by DMRC. The line was built under a unique model under which DMRC constructed the civil structure in return for which RInfra had to pay a concession fee.

When private operators exit infrastructure projects, governments try to put assets to use instead of allowing them to decay. So public sector undertakings are asked to pick up the baton. Though operations go on, the collateral damage is that government entities get caught in legal disputes that have financial implications. For instance, DMRC is fighting an arbitration award in the court that entails an outgo of Rs 5,800 crore for it. RInfra had demanded the amount as termination claim. Besides, DMRC is required to service the debt of about Rs 2,940 crore taken by the RInfra-promoted Delhi Airport Metro Express Private Limited (DAMEPL).

According to DMRC, a number of measures have been adopted since then to improve the efficiency of airport line which include increasing the frequency of trains from 15 to 10 minutes. It also reduced fares after the takeover which led to an immediate increase in ridership, from 10,069 in July 2013 to 58,515 in August 2019.

For the Rapid Metro, the daily ridership estimate was 100,000 but even after the operation of two sections spanning 11.6 km, it is roughly 65,000. When it comes to the financial burden, it is HMRTC that will take on 80 per cent of the project's debt liability.

Under the MoU signed between DMRC and HMRTC, DMRC is only an operator and not the licensee. The Haryana government-owned corporation will give it ₹2.75 crore annually. Another ₹25 crore will be given as handholding support for maintenance besides the actual cost of DMRC employees posted to the project would be reimbursed.

The two failed private sector metro projects raise questions on traffic and cost estimates, but some argue that low cost alternatives to these expensive structures are the only way out. These could either be light rail transit system or high capacity buses especially in smaller cities. The failure of private metros, however, occurred in Gurugram and Delhi, which are both hubs of economic activity with high traffic volumes.

The other alternative is public-private partnerships, such as the 72-km Hyderabad Metro Rail which is operated by Larsen & Toubro. The infrastructure major invested ₹14,000 crore in the project along with viability gap funding from the state. Under an agreement with the state government, the company is allowed to recover 50 per cent of its investment through ticket sales, five per cent through advertisement revenue and 45 per cent through leasing of retail space. The average passenger traffic each day on Hyderabad Metro is around 300,000.

Another example of PPP is the 12-km Mumbai Metro One line in which RInfra holds 69 per cent and Mumbai Metropolitan Region Development Authority holds 26 per cent with the remaining 5 per cent being held by French company Veolia Transport RATP. Nonetheless, these projects built on PPP are yet to cross the point where they could be called successful metros.

Metros developed on PPP mode appear attractive given that the benefits accruing from Delhi's metro rail had led to a clamour for such projects in other cities. But state funding may not be possible, given the restricted fiscal space. This suggests that the future of urban metro projects are in a Catch 22 situation: Despite the spectacular failures of two private metro projects, private investment remains the sole route for expansion.

TRACK PARTNERS

DELHI METRO RAIL CORPORATION
Network: **377 KM**
Operator: JV of Union and Delhi govts

HYDERABAD
Network: **72 KM**
Operator: Larsen & Toubro

CHENNAI
Network: **45 KM**
Operator: JV of Union and Tamil Nadu govt

BENGALURU
Network: **42.3 KM**
Operator: JV of Union and Karnataka govt

MUMBAI METRO ONE
Network: **12 KM**
Operator: JV with RInfra holding 69% equity, Mumbai Metropolitan Region Development Authority holds 26%, Veolia Transport 5%

GURUGRAM
Network: **11.7 KM**
Operator: IL&FS group has exited; Now, with Haryana govt

INSIGHT

Creating a unified pension platform

ASHVIN PAREKH

A substantial part of the reforms in the area of old age security have, perhaps, gone unnoticed. The transition of government employees to defined contribution from defined benefits about 15 years ago has been a major reform. During this period, the fund has grown to a sizeable AUM of about ₹3.75 trillion and has more than three crore subscribers. The funds are managed by seven fund managers and its performance, when benchmarked against other comparable mutual funds schemes, has been noticeably good.

Recent reforms, aimed to enroll subscribers from the unorganised sector through government programmes like Atal Pension Yojana, are commendable. The regulators have also formed conducive regulations with tighter controls. One of the unique features of these reforms has been to mobilise, record and manage funds at very low costs per unit of funds under AUM. It might be the lowest globally. Various intermediaries have also contributed to keeping costs under control. They have approached their responsibility with a certain sense of social commitment.

Recent plans announced by the government and the regulator are important steps towards empowering subscribers. A thought weighing on the minds of policy makers now is unifying all pension programmes under one regulator and also create independent trust companies that undertake oversight of the intermediaries. This is a very significant reform aimed at benefitting subscribers. It is a major step in the right direction. The larger funds under their management will provide more room to incentivise intermediation and create more awareness, thus serving the subscribers better. The government and the regulator should perhaps consider possible measures in this direction. This will go a long way in covering the unorganised sector of the economy. The size of the funds offers the system some elbow room to push the pension products as a major alternative instrument for old age security. With adequate fiscal incentives, this can be achieved. In fact, reforms to encourage the lower sections of the economy in the unorganised sector to participate in old age financial security is key to the nation's economic growth.

On evaluation of the various components of the NPS and EPFO architecture, besides other pension programmes such as coal miners' pension, one notices that the cost of record-keeping is huge. It could well be more than half of the total cost. Some reforms around unifying the platforms that render such services would help in taking the financial performance of all the pension programmes to the next higher level of participation and coverage.

An excellent example of this is the unified payment platform offered by the National Payments Corporation of India (NPCI). It is a non-profit entity owned by the banks and offers a platform for a huge amount of transaction switch on a dynamic, real-time basis. It would be one of the most cost effective services when compared with any such platform worldwide. There are some unique features of the system. It is run on a no-profit basis to serve banks and the payment system. The system does not have multiple platforms for switching transactions between banks and customers. The RuPay card has emerged as one of the most successful stories worldwide. The service provided by Indian banks through this has empowered customers considerably. The pillar of this reform is a unified, cost-efficient and system-owned platform run on a no-profit basis.

In conclusion, policy makers and pension regulators could examine five major steps to unify the pension programmes. The first big task would be to create a single regulator and a uniform set of regulation. The fiscal incentives to subscribers, more than what we have presently, would bring the unorganised sector participants to pension programmes. This is the second reform recommended. The third one would be to reduce the cost by creating a unified platform for record-keeping and promotion of pension products, run on a non-profit basis. The fourth major step should be to have the trust companies conduct the awareness programme to equip subscribers to make informed choices. The last major step would be to strengthen the system with adequate risk management skills and introduce more financial asset classes and instruments for risk management.

The author is managing partner, Ashvin Parekh Advisory Services LLP. Views are personal

LETTERS

Safeguard depositors

The middle class toils day and night to save money for future needs and deposits it in banks considering them to be 100 per cent safe. But rich scamsters loot the banks leaving the depositors in the lurch. So there is a dire need to safeguard the bank depositors and increase the deposit insurance to at least ₹50 lakh from the current ₹1 lakh. Banks may pass on the cost of insurance to depositors indirectly. Otherwise, people will stop depositing their life's savings in banks and the banking system will collapse.

A K Gupta Ludhiana

Too much negativity

Apropos Anita Inder Singh's article "Why India lags behind China" (October 16), there are some other pressing reasons that have hindered India's industrial progress vis-à-vis China. True that the style of governance between authoritarian and democratic ones does not matter, but the type of democracy does. India is a flawed democracy in which the ruling party and the Opposition see each other as adversaries rather than as collaborators in achieving national goals. This has led to the "versus complex"— what the government does must be opposed and obstructed. A partisan outlook has replaced judging issues on their merit. These ongoing internal frictions have slowed down the benefits of the new economic policy of 1991 and demographic dividend.

Second, labour productivity continues to be very low. It has less to do with skill gap and more with the role of trade unions. New technology, performance-based career advancement, abolishing unproductive work practices — everything is opposed. The worst example is the banking industry where the rise in non-performing assets is accompanied by rise in wages.

Third, India remains a corrupt country, the claims of the Narendra Modi government notwithstanding. We rank among the lowest in that respect globally. This has led to higher costs of projects, poor quality of output and underutilisation of capital.

Y G Chouksey Pune

Preposterous demands

This refers to "Telangana bus strike: HC tells TSRTC employees, govt to hold talks" (October 16). That two employees of the Telangana Road Transport Corporation (TSRTC) have committed suicide following the tough stand taken by the state government to dismiss over 48,000 striking employees is most unfortunate. However, the demands of the employees are not reasonable either. The fact that they chose to go on strike from October 5 that coincides with the festival season made their intentions abundantly clear — to cause maximum inconvenience to the public and arm-twist the government into acceding to their demands.

The state road transport corporations were formed as government companies to operate on commercial principles and to make profit. When TSRTC has incurred a huge loss of Rs 928 crore for the year ending 2019, the demands of the employees for a pay hike, filling up of vacant posts and converting the corporation into a government department so that the recurrent losses of the corporation would be borne by the exchequer, are all preposterous. The contention that "their demands should be favourably considered as they had wholeheartedly participated in the agitation to form a separate Telangana state" is devoid of merit, as no government can take far-reaching economic decisions on the basis of quid pro quo.

One hopes the advice of the high court has a sobering effect and both parties hold talks to arrive at an early settlement. This will end the agony of the employees, as well as that of the public why use TSRTC buses every day.

V Jayaraman Chennai

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

Business Standard
Volume XXIV Number 46
MUMBAI | THURSDAY, 17 OCTOBER 2019

Timely policy response

Indian policy establishment needs to build capacity

The International Monetary Fund (IMF) on Tuesday reduced India's growth forecast for the current financial year by 90 basis points (bps) to 6.1 per cent. While the downgrade is substantial, it is not surprising for analysts. The World Bank recently reduced its growth forecast for the Indian economy to 6 per cent. Besides such multilateral institutions, the Reserve Bank of India (RBI) also has cut its growth forecast for the current financial year from 6.9 per cent to 6.1 per cent. The outlook for the Indian economy changed significantly after the official data showed that growth slipped to a six-year low of 5 per cent in the April-June quarter. The downward revision of growth forecast by international institutions is understandable as they normally go by the figures and assessments Indian government agencies offer them. But what is worrying is that the Indian policy establishment has failed to foresee the sharp slowdown. The Economic Survey, presented in July, forecast 7 per cent growth for the current year. The Union Budget went a step ahead with the assumption of 12 per cent nominal growth. Assuming 4 per cent inflation — which itself is an overestimate — it would have required real gross domestic product (GDP) growth of 8 per cent.

Ideally, the slowdown should have been taken into account in the Budget as the economy has been losing momentum for several quarters. The decline in the April-June quarter was not because of an exogenous shock. True, the global economy has also slowed, but this too was not entirely unanticipated. The biggest disadvantage of not being able to read lead indicators is that it makes the policy totally reactive. Proactive policymaking can help minimise the damage. For instance, in the August review of the monetary policy, the RBI reduced its growth projection for the year by 10 bps, along with a cut in the policy repo rate by 35 bps. It was then reasoned that a 50 bps rate cut would have been excessive. However, it had to scale back the growth projection significantly in the October policy. Since monetary policy works with a lag of about two to three quarters, it needs to be more forward looking. The latest World Economic Outlook of the IMF shows that in the absence of monetary stimulus, growth forecast in the global economy would have been lower by 0.5 percentage point, both in 2019 and 2020. The monetary stimulus has thus offset the negative impact of the US-China trade war to an extent. Put differently, large global central banks evaluated the risks associated with the trade war and took pre-emptive action. Even though the efficacy of monetary policy in advanced economies is being debated, this is a good example of how policymaking should be approached.

Lower growth will also put pressure on the government's finances. Revenue Secretary Ajay Bhushan Pandey rightly noted in an interview with this newspaper that if the growth projections are lowered, it will affect the collection of goods and services tax. However, if the government had acknowledged the slowdown, it would have been able to account for revenue and expenditure more judiciously. Therefore, it is important for the Indian policy establishment to build capacity to be able to gauge economic activity, which will help shape a better policy response. As this newspaper has argued in the past, the central bank can work on an aggregate indicator based on incoming information to reduce the dependence on official data, which comes with a lag. This will not only help the RBI in conducting monetary policy but also enable the government to make policy adjustments in time.

FCI's rising debt stock

India's food management system needs a revamp

The growing indebtedness of the Food Corporation of India (FCI), which bodes ill for its financial health, is essentially the consequence of recurrent under-budgeting of food subsidy by the Union government, excessive stockholding and flawed grain procurement and distribution policies. Inadequate provisions for food subsidy in successive Union Budgets in the past few years have been compelling the FCI to borrow from the National Small Savings Fund and other sources. Open-ended grain procurement at the minimum support prices (MSPs) has, on the other hand, caused excessive accumulation of food stocks, requiring needless expenses on their upkeep. Furthermore, the annual increase in the procurement prices without a simultaneous increase in the sale prices has pushed up subsidy on the food grains supplied under the national food security law. The per-kg subsidy at present is estimated at ₹33.10 for rice and ₹24.45 for wheat. Even this year's Budget leaves a gap in the subsidy reimbursement of ₹1.74 trillion, which the FCI has to cover through borrowings. This, together with the previous years' outstanding loans of ₹1.45 trillion, is anticipated to raise the FCI's total debt burden to nearly ₹3.2 trillion at the end of 2019-20. Well-advised reforms in the FCI and the food management system are, therefore, urgently needed.

Several cogent proposals to this effect were mooted by the high-level committee headed by former food minister Shanta Kumar in its report in 2015. It had suggested that the FCI should hand over all procurement operations for wheat and rice to the states, which have developed adequate infrastructure for this purpose. This would allow it to concentrate more on the areas not covered under any price support mechanism, resulting in widespread distress sales. But this sane counsel has gone unheeded. The FCI still picks up grains largely from the same set of states where it has been doing so in the past. This has distorted the cropping pattern, tilting it in favour of cereals at the cost of other food crops that are in short supply and often face price volatility.

The Shanta Kumar committee had also called for carrying out labour reforms in the FCI to bring down the grain handling costs. This recommendation has been implemented only partially and needs to be taken forward without delay. Another critical recommendation that has been totally disregarded pertains to amending the food security law. The committee had favoured a reduction in the population coverage but an increase in the monthly food grain quota of the beneficiaries to make this law truly helpful for the poor. For this, it suggested the population coverage to be curtailed from the present 67 per cent to 40 per cent, which would cover all below-poverty line households, and raising the quota to 7 kg per head, instead of 5 kg, which is inadequate to meet their food needs in full.

Going by the recent indications from Food Minister Ram Vilas Paswan, the need for revamping at least some aspects of the food management system has finally dawned upon the government. But how far it is willing to go is yet to be seen. Nothing short of radical systemic changes in the FCI and the management of food economy would suffice.

ILLUSTRATION: BINAY SINHA

The price of onions

The right immediate action is inaction. The right preventive action is to get traders to constantly hoard too much

INDIA'S WORLD?

NAUSHAD FORBES

The economist Ashok Desai has a marvellous little book that provides insight into the workings of the Indian economy and the crafting of effective economic policy. He calls it *The Price of Onions*.

Mr Desai shows that a relatively small fall in the onion crop leads to a huge surge in the price of onions. Every student of economics learns in her very first class that supply curves slope up, and demand curves slope down. So when supply falls, the price rises until demand matches supply. Mr Desai explains that for an item like onion, which is widely consumed but makes up a tiny part of the family budget, we need a very large rise (10 times) in the price before we reduce consumption enough (10 per cent). Economists like their language to be as opaque as their theories, so they call this "inelastic demand". A typical year will see onion prices range from ₹3 to ₹30 per kg — as crop patterns change supply against reasonably constant demand.

Mr Desai continues: "Suppose now that you are the minister of civil supplies in the BJP government. The newspapers carry news every day of rocketing onion prices. The Congress is organising demonstrations which draw housewives by the thousand. Coalition partners are threatening to withdraw support unless onion prices are brought down. The Prime Minister is on the phone asking you to do something fast. What would you do?

"Whatever you might do, you cannot increase the output of onions till the next crop comes in. You call in the Secretary. He tells you about your secret weapon — the Essential Commodities Act. This Act gives the government power to compel traders to declare their stocks, to lay down maximum stocks that can be held, and to sequester stocks.... Force is essential; traders would not do these things willingly. Its effectiveness must be doubtful... the consequences must make one pause. For if these measures make traders disgorge stocks, the fall in price that this brings must be temporary. As long as stocks cannot be increased, scarcity can only be relieved now by making it worse later. Supplies can only be shuffled across time, and price rise can only be reduced now by raising it later"

I am quoting at length from Mr Desai's *Price of Onions* because he wrote not this month, as we might think from reading our current headlines, but in 1999, inspired by the rise in onion prices of September-October 1998. India has progressed in these last 20 years. Economic policy-making, and our agricultural policy, must also move on. How?

What caused the current shortage?

Let's come to 2019. Many insightful recent articles, by Ashok Gulati, Harish Damodaran, Shreekant Sambrani and others, tell us what caused the problem: First, very low onion prices (₹3 in January) led some farmers to switch away from onions for their rabi crop. Second, the absence of a seasonal price rise last September-October (prices remained at ₹6-7 per kg) reduced the stocking of onions by farmers and traders. Finally, large-scale flooding this monsoon lessened the onion crop in the three states of Maharashtra, Karnataka and Madhya Pradesh which produce over half of India's onions. Prices soared as a result.

What can the government do?

I ask this question with great hesitation. As a concerned Indian citizen, I worry that we constantly look to the government for solutions to all our problems. The monsoon fails. What is the government doing? Consumers are buying fewer biscuits, *banians* and cars. What's the government doing? And if my worry is that we look too much to the government for solutions, my great fear is that they might actually respond and Do Something. Unless one has solid theoretical and empirical evidence that an action by government will actually help, the right action is inaction. Governments should and can enforce the rule of law, ensure it is fairly applied to every citizen, protect us from our enemies, and invest in widespread health and education for a better future. A government cannot make markets, and when it tries to control how they move, it almost always makes things worse.

So in the short-run, the right action by the government is to do nothing. Let the high price of onions clear the market, matching supply with demand. Let onion growers keep exporting — we are the world's largest onion exporter, export 10 per cent of our production, and must retain the markets we have developed. (By banning the export of onions, we also risk damaging relations with our neighbours in Sri Lanka and Bangladesh. Our prime ministers surely have more important things to discuss than onions). Equally, encourage traders to import onions from overseas if they can get them cheaper.

In the long-run, the government — and institutions like the Confederation of Indian Industry's Centre of Excellence for Food and Agriculture (FACE) — can help the market for onions work better. Efficient markets rest on an assumption of full and equal information being available to all. FACE could help by sharing information on crop yields and expected shortages. When prices for onions fall to ₹3-4 per kg (as they did in January this year), below the cost of producing them, that is the time to prompt creating a buffer stock — at a price slightly above production cost. Mr Desai, again: "The way to stabilise prices is not by punishing hoarders, but by making them hoard more". If we do nothing, this years bonanza profits will make farmers grow more and traders stock much more next year — thus keeping prices low.

If onion supply-chains seem inefficient (Ashok Gulati and Harsha Wardhan tell us that farmers get only 29 per cent of the consumer's rupee), the solution is not to intervene in pricing but foster greater competition and reduce uncertainty to make supply more efficient. The Lasalgaon *mandi* near Nashik dominates the onion trade in the country. If this concentrates too much power in too few traders, encourage other *mandis* across the country to trade in onions, connecting all *mandis* with networks to transparently share price information. Improved and large-scale cold-storage facilities can make it cheaper to store onions and so reduce price volatility. In other words, make markets work better instead of trying to control how they move. And if such interventions seem too difficult, then do only one thing: Read Ashok Desai's *The Price of Onions* — and Do Nothing.

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

The global tarnishing

SWOT

KANIKA DATTA

Tarnishing the image of the country' has become the new buzz-phrase applied to citizens who may express their concerns about India's current social and political trajectory. A subsidiary offence associated with this exercise is to "undermine the impressive performance of the prime minister". Or so a recently withdrawn sedition petition would have us believe. The problem gallant defenders of the prime ministerial faith may face is that, right now, it is the international institutions that are doing the so-called undermining and tarnishing.

Immediately before and after the Xi-Modi Mamallapuram spectacular, three institutions have come up with economic growth projections for India that are far from impressive. Last week, Moody's Investor Service cut its 2019-20 GDP growth forecast from an already modest 6.2 per cent to 5.8 per cent. Its report suggests that India's government has scored own goals. "The drivers of the deceleration are multiple, mainly domestic and in part long-lasting," Moody's report stated.

A day later, the International Monetary Fund's new managing director, Kristalina Georgieva, mentioned India and Brazil, both BRICs champions once upon a time, as the two countries in which the "synchronised slowdown" in the global economy is most pronounced. On Tuesday, the IMF duly trimmed its 2019-20 forecast from 7 per cent to 6.1 per cent. That was preceded by an even more drastic slashing of projections by the World Bank to 6 per cent from an unwarrantedly optimistic 7.5 per cent. ADB and Fitch had also announced downward revisions in FY20 forecasts (7.2 to 6.5 per cent and 6.8 to 6.6 per cent respectively).

That little of this has been greeted with hand-wringing on editorial pages or fulminations on TV shout shows is principally because these institutions are, in a sense, behind the curve. Those who follow these things already know this bad news, since the central bank had cut its forecast from 6.9 per cent to 6.1 per cent and high-frequency indicators had flashed the warnings long before. Belying the untenably optimistic Budget projections, first quarter growth hit a multi-quarter low of 5 per cent and the second quarter is expected to be worse. And Indians who face the impact of slowing growth in their daily lives have already started feeling the impact.

These institutions, which are concerned with arcane numbers, aren't the only ones "tarnishing the image of the country". Over the year, global country rankings that various institutions publish also suggest that Narendra Modi's "impressive performance" may be hard to spot.

Let's consider the recently released Global Hunger Index. India didn't have an impressive ranking on this index to begin with despite an elaborate and expensive Right to Food legislation. But in 2019, India's rank stood at 102, down from 95 in 2010.

This marks a steady deterioration from the 83rd position in 2000. In the spirit of whataboutery that typifies the public discourse these days, it is fair to say that the avowedly pro-poor United Progressive Alliance's performance wasn't impressive either. But it may be recalled that the successor forged to power on the promise of delivering development like never before. When the share of wasting — or low-weight-for-height — rises from 16.5 per cent in 2008-12 to 20.8 per cent in 2014-18 and outstrips Yemen and Djibouti, it is possible to question the veracity of that electoral promise.

Higher education, another sub-set of human development, has been a particular focus of Mr Modi's HRD ministry in a variety of ways. This year, however, saw Indian universities drop out of the top 300 in the Times Higher Education World University Rankings for the first time since 2012.

In overall human development, in fact, the needle has scarcely moved. The country weighed in at 135 out of 188 countries in the UNDP's 2014 Human Development Report. In 2018, it stood at 130 out of 189 countries.

With Make in India, Digital India, and scores of other branded government programmes apparently designed to turn India into an industrial racehorse, the country should have zoomed up the rankings in terms of global perception. But the World Economic Forum's Global Competitiveness Index — which relies heavily on the perceptions of global business executives — showed that India had slipped 10 ranks to 68 among 141 countries. This drop was not because it had scored all that poorly but because other peer countries did better.

India did record improvements on three indices that reflect issues high on Mr Modi's radar. The Ease of Doing Business Index (up 53 notches between 2016 and 2018 to 77 among 190 economies), the Global Corruption Index (up three ranks to 78 out of 180 countries in 2018) and the Global Innovation Index (up 29 spots between 2014 and 2019 from 81 to 52 in 129 economies). In the EODB index, some of the sub-indices have made genuinely notable improvements, with three of them figuring in the top 25. But to describe these improvements, which place India in the Mediocre Middle, as an impressive performance would amount to overstatement. And it's the world that's telling us this, not "anti-national" Indians.

Hindutva in foreign policy

BOOK REVIEW

ANITA INDER SINGH

Has Narendra Modi's ideologically inspired foreign policy between 2014 and 2019 been more of a domestic vote winner than a carefully crafted diplomatic strategy that has enhanced India's world role as a force for peace, stability and regional and global prosperity? This important question is raised by Ian Hall, Professor of International Relations at Griffith University, Australia, in his timely book on Mr Modi's foreign policy. For instance, the Pulwama terrorist attack before the 2019 elections worsened relations with Pakistan and probably won Mr Modi more votes in the 2019 general election. But did India's heated response improve its regional or global image?

First and foremost, Mr Hall should correct a serious copy-editing mistake in the Preface so that it does not reappear in subsequent editions of his book. He refers to "India's Congress-led government of Rahul Gandhi, Nehru's grandson...." (p. xii). Presumably, he means Rajiv Gandhi.

Mr Modi's BJP-RSS combine strongly dislikes Jawaharlal Nehru's ideal of secular democratic nationalism. The two intertwined institutions have since long condemned it as a foreign idea and wanted their version of Hindu nationalism to define independent India. They opposed Nehru's "foreign" ideas of official non-interference in religious affairs and of the equality of all religions.

Hindutva appeals to many Hindus, since it offers the prospect of India becoming a world power defined by the Hindu nationalist version of Hindu philosophy. Hindu nationalism has inspired Mr Modi's domestic and foreign policies and shaped his approaches to foreign countries. But the Hindu nationalist concepts through which he outlines India's global role are unfamiliar to foreign countries. So is the Hindi-Sanskritic nationalist vocabulary used by Mr Modi, including *Sanskriti evam sabhyata* (cultural and civilisational dialogue), *shanti* (peace), and *samman* (dignity).

Sections of the Hindu diaspora — especially in the US — may support Mr Modi's version of Hindu nationalism. But how many foreign governments do? Mr Hall could have questioned the extent to which diasporas improve bilateral ties. The Chinese diaspora in the US is larger than the Indian one. Has this translated into good Sino-US ties? Not in the context of President's Trump's trade war against China. Will the Indian diaspora in the US really improve Indo-US ties, especially on trade and strategic issues? Surely national interests decide the nature of bilateral relations?

Mr Modi's many foreign trips have enhanced his domestic image more than his international one. He has done little to change the course of foreign policy. The border disputes with Pakistan and China remain festering sores. Unequal trading ties are, in their different ways, bones of contention with both authoritarian, territorially expansionist China and the friendly, democratic US. And since the book went to press, so is the revocation of Article 370 on Kashmir.

Mr Modi has steered India closer to the US, but strong differences over trade and New Delhi's wish to buy Russia's S-400 missile remain. Interoperability is the ultimate necessary condition of America's arms sales to countries. Indian arms purchases from Russia collide with this condition. As for Russia, Mr Hall could have said that the Russia-China tie challenges Mr Modi's belief that Moscow is New Delhi's trustworthy partner. That same Russian friend first sold the S-400 to China in 2015 and will export missile-building knowhow to help China strengthen its defence capability. The book makes clear that bilateral ties should be seen against the wider background of multilateral interests of countries — though Mr Hall does not highlight this point himself.

All Indian prime ministers have played a decisive role in shaping foreign policy. But Mr Modi has shown scant concern for process and consultation in the making of foreign policy. More ideological than pragmatic, he has never presented a strategic document. His closest friends and advisers represent Hindu nationalist thinking. The Modi establishment has never explained how its Hindu nationalism relates ends to means in foreign policy. In foreign, as in domestic policy, Mr Modi has been helped by the willingness of bureaucrats to accept and carry out his agenda.

Photo opportunities with several world leaders have helped Modi to overcome *domestically* the image of India as a country in economic decline over the last five years. But abroad? Initially he had limited success in drawing some foreign investment into India but he is no economic liberal. Since the painful demonetisation in 2016, many foreign investors have taken their cash out of the country. Mr Modi's statist, protectionist, disincentivising approach is at odds with his rhetoric about India's openness and embrace of globalisation. The spread of China's Belt and Road Initiative across Asia, Europe and Africa has highlighted India's economic weakness and limited influence even in its own South Asian neighbourhood. India's claim to be a peacemaking Hindu world guru lacks credibility amid widespread reports of increased communal violence under Modi's premiership. New Delhi is suppressing dissent and simultaneously trying to shape "national" thought through school and university education.

Mr Hall's well-researched and highly readable book will stimulate debate on Modi's foreign policy.

The reviewer is a founding professor of the Centre for Peace and Conflict Resolution in New Delhi. Website: www.anitaindersingh.com

MODI AND THE REINVENTION OF INDIAN FOREIGN POLICY
Ian Hall, Bristol University Press,
221 pages; ₹ 799