The theory of the 'timepass' nation

There is such demand for content, even old movies and television shows are being repurposed for the smart phone

AMBI PARAMESWARAN

I used to notice that the two lady trainers in my gym were always glued to their smart phones. I did not know what they were watching and so decided to make a snide comment: "Are you trainers or are you here to watch useless videos". They protested violently and told me that they watch gym training videos on their smart phones, to become better at what they do. I quickly apologised and said to myself, "I wish this was true all over India".

The Economist (June 8, 2019) in its article, *A global timepass economy: How the pursuit of leisure drives internet use*, has singled out India as the global capital of smart phone video consumption. As of June 2019 Indian smart phone users were consuming 8.8 GB per user per month. These numbers per se mean nothing but when seen in the context of an average American consuming less than one third of this amount, you realise the immense spread of digital data/video in our country. The inherent harm and the potential for good.

The article quotes a Pew Research Center study done in sub-Saharan Africa and I was comforted that we are not alone. While 85 per cent said they use the internet to stay in touch and "timepass", only 17 per cent said they used it to take classes. Yet another survey done in Zambia confirmed that entertainment is the first thing that is demanded by users.

Remember these are not affluent consumers who belong to the "liesure class". In Thorstein Veblen's classic work, *The theory of the Leisure Class*, he postulated that through division of labour and segregation of classes, it was the well-heeled who had the time and the resources to spend on what he termed conspicuous consumption and conspicuous leisure. The poor were to spend almost all their time toiling in the factories and fields.

The advent of smart phones, the drop in mobile internet charges seem to have upended Thorstein Veblen's theory. The poor now are indulging in conspicuous leisure. Just look around you. The lift operator is watching movies on his smart phone, often in his mother tongue. In 2016, there were only 20 YouTube channels from India with more than one million subscribers; now there are more than 600. T-Series became the most subscribed channel on Youtube dethroning PewDiePie, a Swedish entertainer. In fact, one of YouTube's top 50 channels included one that is in pure Bhojpuri.

Just as Karl Marx described religion as the opium of the people, today, I suspect, timepass videos have taken over the mantle, to keep the masses suitably engaged. There are multiple spinoffs from this phenomenon.

The first and the most obvious is the growing demand for digital video content. Not only are old movies, old television shows getting repurposed for the smart phone medium, there is a growing demand for fresh content on new platforms. I think just as there were call centres mushrooming in every city of India, today we have digital video content producers mushrooming all over India.

The second is the growing opportunity for brands to ride this video addiction. By creating content in partnership with YouTube channels that have a significant number of subscribers (our 600-plus channels have a million-plus subscribers), brands can help create content that is engaging. Think of a series of recipe videos from a food brand. Or skin tips from a company focused on dermatology (check out Skin Diaries on YouTube). Or baby care videos (J&J's strategic acquisition of Babycenter.com gives them a continued edge in the baby care game). The list is endless.

Finally my favorite topic: The vast potential that digital video content offers with skilling tips to the multitude. My swimming coach was quick to advise me that I should watch a few videos on YouTube before I came for my next session (I did spend a few hours on this task, and it was a big help). The National Skill Development Corporation (NSDC) has approved 38 sector skill councils. The topics range from painting to plumbing, media and entertainment to tourism and hotels, automotive to telecom to textile. My friend who is chairing the Painting Council was speaking about the yeoman service the council is doing around the country. I am given to understand that NSDC has also catalogued several hundred skills in great detail. Each and every skill council needs its own digital video channel with a large number of usable videos. More importantly these videos need to have a strong engagement factor (something that Byju's managed to crack), and need to be promoted actively so that they don't end up languishing on the NSDC platform.

Just imagine if we can get the 400 million smart phone users to watch just a few hours of skill development videos every day, we might indeed be able to make them join the real leisure class in the foreseeable future, and not live in the false shadow of conspicuous leisure.

And my gym trainers would have taught me a very valuable lesson indeed.

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CHINESE WHISPERS

Many names of loan *mela*

Days after Union Finance Minister Nirmala Sitharaman (*pictured*) announced loan camps in 400 districts, finance ministry officials sought to play it down as a simple customer-outreach programme. While Sitharaman refused to term them "loan *melas*" during her press conference where she announced the move, an internal document circulated by the finance ministry to banks, which listed the districts to be covered from October 3, has branded the campaign "*Grahak mela* camps".

A damp squib

The Opposition in the Uttar Pradesh Assembly has decided to boycott the two-day, non-stop session convened by the Adityanath government to mark the 150th birth anniversary of Mahatma Gandhi. The three big Opposition outfits, the Bahujan Samaj Party, the Samajwadi Party, and the Congress, have not only decided to skip the Assembly session convened to discuss the UN General Assembly's Sustainable Development Goals, the Congress has also gone ahead and announced statewide protests at all district headquarters against the Shahjahanpur rape case at the time of the session. In the absence of Opposition members, the much-hyped event risks being reduced to merely a ruling-party programme, bereft of debates and alternative voices.

Breaking sweat over lunch break

Banking unions are upset with public-sector banks for advertisements announcing the implementation of uniform business hours in the National Capital Territory from October 1, but not including lunch hours. According to the advertisements, the banks' business hours will be from 10 am to 4 pm. These were adopted after an advisory from the Indian Banks' Association, and the decision was the outcome of discussions the Department of Financial Services had with heads of PSBs on "banking for customer convenience". The Bharatiya Mazdoor Sangh-affiliated Delhi Pradesh Bank Workers' Organisation has termed it a matter of great concern. It has said in the absence of specific instructions about lunch hours, there was a possibility of customer complaints if the staff take a break. It has demanded at least half an hour of lunch break and fresh advertisements specifying it.

A tough call for mobile handset makers

Why the tax incentive for new manufacturing may not enthuse the global giants

SURAJEET DAS GUPTA

Just over a week after announcing a sharp cut in corporate tax for new investments to 15 per cent, Finance Minister Nirmala Sitharaman said she hoped global players, such as Apple Inc, would find it attractive to invest in India and bring in its manufacturing ecosystem.

Her call to Apple came a few days after Communications Minister Ravi Shankar Prasad announced that the US mobile phone giant would be entering the country in a big way.

To transform India into a mobile export hub, the government has to focus on the top five or six global players (Apple, Samsung, Huawei, Oppo, Vivo and Xiaomi) which account for 87 per cent of the global mobile phone production. The government has engaged closely with Apple and Samsung, which account for 60 per cent of the global market.

The government's new-found confidence in making India a global hub for mobile phone manufacturing stems from the fact that it is offering one of the lowest corporate tax rates in southeast Asia, rectifying a persistent complaint from potential global investors. It also has a large and growing domestic market, of which the competing manufacturing hub of Vietnam cannot boast, and an English-knowing labour force.

Will that be enough? To put the issue into perspective: In 2018 India exported $1.07 billion worth of handsets, less than 3 per cent of Vietnam's handset exports ($37.60 billion), and less than one per cent of Chinese handset exports of $173 billion. The two countries account for 82 per cent of mobile handset exports globally.

In 2014, the government set up a Fast Track Task Force (FTTF), which fixed a target of exporting over 120 million handsets worth $9.4 billion by 2019-20. With Nokia putting in place a large unit for exports, many thought that target looked achievable, but the factory closed the same year following a tax dispute. By 2018-19, data presented to NITI Aayog by the Internet and Mobile Association of India (IMAI) showed that India had achieved 15 per cent of the target by volume and 14.8 per cent by value. Clearly, a policy that included a widely-publicised phased manufacturing programme to encourage local component manufacture had failed.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

Now, however, the US-China trade war is creating new opportunities for India. Apple, which makes almost all its iPhones in China, has been looking to hedge its bets by exploring alternative locations: India, Vietnam and a couple of smaller countries. The size of the manufacturing opportunity can be gauged by the fact that 70 per cent of Apple's $265 billion revenues come from selling iPhones. If, hypothetically, the Cupertino giant moved even 12 per cent of its iPhone manufacture to India, that would be equivalent to the total revenues from all mobile phones sold in India in 2018-19.

WRONG NUMBERS

- In 2014, the Fast Track Task Force fixed a target of exporting over 120 million handsets worth $9.4 billion by 2019-20
- By 2018-19, Internet and Mobile Association of India data showed that India has achieved 15 per cent of the target by volume and 14.8 per cent by value
- In 2018, India exported $1.07 billion worth of handsets, less than 3 per cent of Vietnam's handset exports ($37.60 billion), and less than one per cent of Chinese handset exports of $173 billion
- Indian Cellular & Electronics Association puts the cost disability for a mobile handset manufacturer in India at 10 to 12% against Vietnam and 19-23% against China
- Effective power cost in India are 40% higher than Vietnam and China, and both countries offer rental exemption of 15 years

Apple has made a beginning with its partners Foxconn and Wistron in Chennai and Bengaluru respectively, manufacturing some of the older iPhone models, mostly for exports. The plan is to progressively shift some part of the manufacture of its newer models too. Says a top executive in the mobile manufacturing space: "Apple's sales in India are less than even a per cent of its total sales so it is not a big market for it and won't be in the near term. The company's focus is on using India as an export hub and that is where the big opportunity lies."

For South Korean giant Samsung, the story is slightly different. In smartphone sales, it is a leading player in India, much ahead of Apple. So it has a substantial domestic base and manufactures a small quantity for exports. Samsung has already made big bets in Vietnam, its largest export hub, investing over $17 billion, most of it for handset manufacture.

In India, Samsung is likely to remain focused on the domestic market but it is also expanding exports. It has invested ₹5,000 crore in one of the world's largest mobile plants on the outskirts of Delhi, due to start production in 2020. About a third of its annual capacity of 120 million mobile phones will be earmarked for exports. It is also bringing in key component manufacturing facilities for mobile phone display and batteries at an additional investment of ₹2,500 crore.

Chinese player Xiaomi, which sold over 100 million phones in five years in India, is exporting handsets on a pilot basis. Manu Jain, Xiaomi vice-president, has openly said the company will assess how the government incentivises exports, given that local costs are higher than in China and Vietnam.

The lack of cost competitiveness is the chief hurdle to India's manufacturing dreams. A study by Indian Cellular & Electronics Association (ICEA) puts the disability for a mobile handset manufacturer in India at between 10 and 12 per cent against Vietnam and 19-23 per cent against China. Global players complain that effective power cost in India are 40 per cent higher (because of the need for back-up) than Vietnam and China, and both countries offer rental exemption of 15 years. China even offers 40 per cent subsidy on plant and machinery.

"The Merchandise Exports from India Scheme (MEIS), which compensates for this disability, has been challenged in the World Trade Organization and, in any case, provides only 4 per cent on the f.o.b (free on board) value as incentive to handset makers," says a senior executive with a global mobile handset manufacturer.

In fact, the recent cut in corporate tax has not put India on a par with Vietnam. Vietnam offers mobile handset manufacturers a four-year corporate tax exemption from the first year of profit, 5 per cent for the next nine years, 10 per cent for the next two years and finally settling at 25 per cent.

Even the PMP with its focus on "import substitution" through higher import duties of earmarked components, they say, has its limits. ICEA in its communication with NITI Ayog has pointed out that PMP has reached limits beyond which its effectiveness is questionable and it has certainly dented India's competitiveness in exports. Mobile manufacturers are now clamouring for PMP to be delayed till 2023.

With the government's earlier FTTF targets now buried, it has now come up with a new national electronics policy (NEP) this year. And that has fixed another ambitious export target of $110 billion worth of mobile handsets by 2025. How far this new target is fulfilled will depend on how the government responds to the challenges.

INSIGHT

RCEP and India: The way ahead

Regional Comprehensive Economic Partnership is undoubtedly a challenge but worth the effort with a resilient industry and reformative governance to help

RAJEEV KHER

India has taken the plunge and announced its willingness to remain within the Regional Comprehensive Economic Partnership (RCEP). The negotiations are expected to conclude by November 2019. Since a large part of the text remains to be concluded, the parties might agree on the broad contours of the agreement and continue to negotiate the nitty-gritty. It can be anticipated that the agreement will take effect only after a couple of years from the date of conclusion. This gives India some lead time to prepare for its implementation. Besides, as we understand from various discussions, much of India's commitment vis-à-vis China will be backloaded and will therefore give India even a longer preparatory time.

The industry in India has been wary of the new FTAs, particularly those where China is a partner. This stance is justified if India pursues a static economic policy framework. However, India is perceived to be in a reformative mode. Developments in the area of domestic resources, policy evolution, technology adoption, sectoral reforms and developments in competing economies do influence a national economy and its dynamism. Therefore, the fear of Indian industry though appreciated, is not desirable. India's opening up in 1991 and joining the WTO in 1995, despite the worst apprehensions, helped in many ways improve its integration with the global economy, thanks to the resilience and entrepreneurship of its industry. India signed trade agreements with neighbours between 1998 and 2006. These were the hay days for global economy. The subsequent FTAs were initiated around this period but concluded post 2006. It was a coincidence that the subsequent set of agreements became effective during the days of recession which inter alia left its shadow on our FTA experience.

When India signed FTAs with four major trading economies — namely, ASEAN, Korea, Japan and Malaysia — it was perhaps presumed that signing alone would prove a manna for all. FTAs are only institutional mechanisms which offer preferential markets to the signatories but not without corresponding work to help their utilisation. The test of utilisation is not a mention on the customs documents alone but much deeper and wider action on the part of all stakeholders. FTAs, without a national strategy to utilise them, are a waste and can give only limited benefits.

In the present production paradigm, a country's capacity to position itself on as many value chains as possible determines its preparedness to utilise FTAs. Boarding a value chain is a comprehensive exercise which includes tariffs, trade facilitation, logistics, technical regulations, regulatory developments, infrastructure, investments and above all an understanding that imports are as much a part of the process as are exports. Unless product areas are selected and trade friendly ecosystems for production are built around them, mere tariff-play will not help.

These two years must be used to buildma conducive ecosystem to make Indian products more competitive and to develop a mindset for international trade. A laundry list of some tasks for our dynamic trade minister could be as follows:

- The government must take RCEP as a strategic opportunity.
- The leadership must apprise the multiple silos in the government that the decision belongs as much to them as it does to the commerce ministry. A Cabinet Committee on Trade chaired by the Prime Minister could steer the domestic action agenda.
- The industry must know that the bullet is real and they must bite it to remain relevant. An ambitious multi-layered, multi-agency and multi-sectoral programme for advocacy and awareness should be launched. A dedicated institutional mechanism must be incorporated. An appropriate narrative mainstreaming the strategic thought should be canvassed.
- The last few rounds in a negotiation are always critical when unwanted stuff can sneak in or wanted stuff can stay out. The negotiators must guard against such possibility. Negotiating for the nitty-gritty requires hard bargaining and a temptation to relax, assuming a fait acompli, is real.
- Even before the basic contours are agreed on, an effective committee system, a reconciliation mechanism and a limited emergency snap-back arrangement should be agreed on.
- The Wuhan sprit will be relived in Mamallapuram in October. Though there may be an important geo-political agenda, RCEP should be at the top of that agenda. It is as much a strategic issue as many others. There should be a frank conversation leading to clear understanding between the leaders.
- Serious reforms in selected sectors must begin or speed up. We no more have the luxury of procrastination. In most cases, elements of such reforms are either in the pipeline or need to be dusted out and put on a time-bound track. Many recommendations of the high level advisory group appointed by the commerce ministry are awaiting acceptance and action.
- India's trade remedy apparatus has evolved over time, but requires an institutional review.
- A well-evolved standards and technical regulatory system is of utmost importance both for promoting exports and for regulating imports. Therefore, a targeted sector-owned programme must be launched and monitored.
- Despite two decades of FTA experience we have not been able to create a sound data management system for FTAs. Both the merchandise and services sectors require a preferential data management system immediately.
- The foreign trade policy in the making must build on its predecessor but prominently bring in the transformational role of technology and the paradigm of value chain manufacturing. A complete review of present market promotion, development and facilitation programmes is also necessary.

RCEP is undoubtedly a challenge but worth the effort with a resilient industry and reformative governance to help.

The author is a former commerce secretary and distinguished fellow at RIS. Views are personal.

LETTERS

Need quality learning

Abhishek Waghmare's analysis "Science and tech losing steam" (Statsguru, September 30) leads to some more conclusions that show our higher education system is unable to cope with the need for quality and purposeful thrust in the field of learning.

Taking the year 2014-15 as base and comparing with 2018-19, we find that even as the number of universities has gone up from 760 to 993, the total enrolments (undergraduate and postgraduate) have increased slightly from 23.5 million to 23.56 million with the number in undergraduate classes actually coming down from 21.74 million to 21.58 million.

Also, juxtaposing this negligible increase with the fall in enrolment in engineering and science classes, we realise how adverse and skewed is the education our young generation is receiving. We have a large number of students entering colleges with inadequate learning in schools. They need more close and personal attention at the college-level from teachers.

Y G Chouksey Pune

The system is okay

This refers to A K Bhattacharya's column on "Separation of responsibilities" (September 30). I submit that the factual position as well as his conclusions need to be reset. He says that compulsory retirement has been used "quite frequently only now". That is not quite correct. It has been done in NDA-I period also for both direct and indirect tax officers when Arun Jaitley was the finance minister (FM). It was done during VP Singh's time when he was the FM. Singh cleaned up the department of corrupt officers at a very high level, such as the collectors, commissioners and members of the board, in one big sweep.

Next is being done by Prime Minister Narendra Modi. In between there was nobody as FM or PM who cared for honesty as such. We had N D Tiwari, P Chidambaram, Manmohan Singh and those who cared two hoots for honesty. It is the truth and nothing but the truth. I stand by what I say as I was in service at that time.

The author has said that it is limited to the income tax department only. Not really. An equal number has been thrown out under Fundamental Rule (FR) 56-J in the indirect tax department also. But he is correct when he says that this has not been done in other departments. While it is true, there is a problem about these officers like in IAS or IPS, as they are assigned to states and they are subject to the jurisdiction of states. If corrupt officers are shielded by the state chief minister, they cannot be brought to the central government for action under 56-J.

Mr Bhattacharya has argued for "creating a Chinese wall between those officers who undertake investigations and those who are responsible for tax collections". This suggestion is far from clear. There are two types of investigations. One is when a tax fraud is detected prima facie at the time of import or manufacture, the task of investigation cannot be obviously detached from the revenue officials. In any case, there are units like anti-evasion or revenue intelligence that are independent organisations. They are not run by revenue collectors. The other type of investigation is against officers that is done by the vigilance department, which too is not run by the revenue officers.

I am of the firm opinion that there is nothing wrong with the system. We need strong and honest FM or PM like V P Singh and Narendra Modi to clean the system. Only they can deliver.

Sukumar Mukhopadhyay via email

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Business Standard
Volume XXIV Number 35
MUMBAI | WEDNESDAY, 2 OCTOBER 2019

The antibiotics challenge

Don't extend price caps on drugs

An expert committee, according to a report in this newspaper, is likely to recommend to the drug price regulator that it should "rationalise" caps on antibiotic prices by bringing non-branded generic medicines into the net.

Currently, branded antibiotics like Augmentin have a margin cap of 8 per cent for stockists and 16 per cent for retailers, while their wholesale prices are fixed by the regulator. Similar regulations will now be introduced, if the National Pharmaceutical Price Authority agrees, for generic antibiotics. The immediate impact of such a change is not known, although it is speculated that hospital margins will be most affected. But this is an opportune moment to reflect on the problems with price caps on antibiotics in general. Rather than helping consumer welfare, they destroy value and hurt the consumer.

Any price cap has a supply response. The supply response in the case of medicines like antibiotics will be harmful in many ways. First, shortages of drugs brought under price control may become common: Rationing may take place if the price cut is particularly deep. Resources could be transferred to more profitable production of drugs whose price is not capped, for example. Some companies can exit from producing certain pills entirely. Others might collude with doctors or hospitals to ensure that pills that are excluded from price caps are the ones being recommended — this is perhaps what is happening with regard to branded and non-branded generics. The second form of response will exacerbate the problem: A supply response that will adversely affect quality. Drug makers will cut corners, and in the absence of proper regulatory supervision will produce pills of poor quality. Inappropriate prescriptions are already a serious problem in India and price caps have made them worse. A study by researchers at the Indian School of Business on the supply and demand response in India to the introduction of price caps for Metformin, a medicine used for the treatment of Type II diabetes, showed that all these effects were visible. In addition, companies colluded with one another to capture the market for Metformin following the regulation of the price of Metformin 500, in particular. None of the companies has been hauled up so far for such actions. Regulation without the capacity for follow-up implementation is a bad idea and should be avoided.

Overall, research and studies have established that the effect of pharmaceutical price controls in India is adverse. Emma Dean of the Centre for Global Development in Washington, DC, has shown that an outcome of price caps in India was "decreased sales of price-controlled and closely related products". In other words, some patients could no longer access the drugs. Prof Dean shows that this disproportionately harms poorer and rural consumers.

The obvious corollary is that richer consumers with better access to drugs can procure them more easily. This also encourages an unhealthy rise of inappropriate prescriptions and their misuse by some patients. With antibiotics, the overall effect of such inappropriate prescriptions would then be particularly dangerous — over-prescription to those who do not need the drug. India is already the worst country in the world for antibiotic resistance, which is a global crisis. India also faces a public health crisis, thanks to poor quality drugs being universally available. As the country moves to universal healthcare, it should move away from arbitrary price controls for drugs.

Warship woes

India needs a clear road map to build naval capacity

Defence Minister Rajnath Singh was correct in stating that the Indian Navy could deal Pakistan a heavier blow today than in 1971, when Indian missile boats attacked Karachi port. But Mr Singh has set his sights very low. The Karachi strikes, while morale boosting, were eventually peripheral to the outcome of that war. Today, given that Indian Navy's budget of $8 billion is only slightly smaller than Pakistan's entire defence allocation of $11 billion, far more would be expected from it. New Delhi's strategic vision of the Indo-Pacific requires the Indian Navy to exercise control over not just the Arabian Sea and the Bay of Bengal, but all of the northern Indian Ocean from the Strait of Hormuz in West Asia, to the Malacca Strait in the East. In achieving this, the key challenge would come not from Pakistan's weak navy, but from a bigger and stronger China, which is already asserting its presence in these waters. The question for Indian planners is: How ready is the Indian Navy for that?

Serious capability shortfalls are evident from the Navy's demand for a larger share of the defence modernisation budget. In an unusually blunt statement last fortnight, the Navy vice-chief publicly lamented that, in the last seven years, its share of the overall defence budget has dropped from 18 per cent to under 14 per cent today. Meanwhile, its share of the capital budget has fallen from over 30 per cent to less than 24 per cent today. The Indian Navy's long-term capability plan envisions a fleet of 200 warships and 450 aircraft by 2027, but it currently has just 131 warships and 230 aircraft. Worse, most shortfalls are in capital warships — the multi-role destroyers, frigates and corvettes that are the Navy's workhorses. Submarines are in short supply and the government's inability to conclude a long-delayed contract for building 24 minesweepers has left the Navy with not one of these crucial vessels.

Equally worrying, many capital warships built in the last two decades are operating without sensors and weapons that are central to their capability. Most of the Navy's modern vessels are not fitted with modern towed array sonars, essential for detecting enemy submarines. These warships, each costing several hundred million dollars, risk being torpedoed because of the absence of sonars worth a few million dollars each. Similarly, the Scorpene submarines now entering service at half a billion dollars each are toothless because contracts have not been concluded for modern torpedoes. As a stopgap, the Navy's decades-old SUT torpedoes have been given a lifetime extension but the numbers are falling to barely six torpedoes per submarine.

Part of the blame lies with the Navy, which designs quality warships, but builds just three-to-four vessels in each design class. In comparison, the US Navy builds to a standardised design — it commissioned USS Arleigh Burke in 1988, and has since built 82 destroyers of that class. This allows for incremental design and process improvements and economy of scale for vendors and sub-vendors. In comparison, the Indian Navy's 12 destroyers are spread over three different designs. The challenges before the Navy are clear. Rather than bluster, it is time for the government to set a clear road map, allocate the finances needed and facilitate the Navy in creating the capability needed for supporting India's strategic vision in the region.

ILLUSTRATION: BINAY SINHA

The way forward for public sector banks

Regulation and supervision of all banks should be made ownership neutral

WHAT NEXT

Y V REDDY

A release from the Press Information Bureau on June 24, titled "Public Sector Banks", had this to say on strengthening PSBs: "Over the last four financial years, the Government of India has taken comprehensive steps under its 4R strategy of recognising NPAs transparently, resolving and recovering value from stressed accounts through clean and effective laws and processes, re-capitalising banks, and reforming banks through the PSB reform agenda".

There seems to be some confusion between the legitimate functions of the sovereign; the owner; the regulator and the board or management. Recognising NPAs is a matter for the management and the regulator, namely the Reserve Bank of India (RBI). It is common to banking industry as a whole, and not restricted to the public sector. Legislating clean and effective laws and processes is the legitimate function of the sovereign, but that is also common to PSBs, cooperative and private sector banks. Indeed, common to financial sector. Recapitalising banks is a legitimate function of owners; and in the case of PSBs, the government is the owner of majority shares but not the only shareholder. Some clarity on the PSB reform as distinct from the eco-system of the banking industry is essential in considering the way forward.

The press release also stated that PSBs have been recapitalised with an amount of ₹3.19 trillion during 2014-19. An additional amount of ₹70,000 crore towards PSB recapitalisation has been budgeted for 2019-20. Additional infusion of capital may be needed, if the performance of PSBs continues to be as in the past. To meet capital adequacy norms and retain majority ownership, additional capital will be needed if PSBs do well, and expand their business. Either way, there could be demands on fiscal unless policies change in future.

Union finance minister announced on August 30 the merger of 10 PSBs into four. Is size an advantage for pursuing the objectives of public sector banking?

Current realities

After the nationalisation of banks in 1969, banking became synonymous with PSBs. But now, private sector banks have significant presence. Further, PSBs are no longer owned 100 per cent by the government. Shares of PSBs are held by FIIs, domestic entities and individuals. By recapitalising unilaterally, the government has injected capital into PSBs, but the other shareholders have not. Whether the unilateral capital infusion by the government has disproportionately benefited non-government shareholders is unclear.

With the recent recapitalisation, the share of government has increased significantly in many banks. Interestingly, the share of domestic private shareholding is miniscule in larger private sector banks. In brief, banking system in India is predominantly government-owned or foreign-owned. Will this persist?

The share of PSBs in the outstanding credit of all scheduled commercial banks declined from about 75 per cent in 2011 to about 59 per cent in 2019. While the share of private sector banks almost doubled from about 18 per cent, the share of PSBs in annual credit flow decreased from about 77 per cent in 2011-12 to about 20 per cent in 2017-18.

In 2013-14, banks had a share of 54 per cent in the flow of resources to the commercial sector. By 2017-18, it was reduced to 45 per cent and during 2016-17, it was only 35 per cent. The role of the banking sector in meeting the credit requirements of the commercial sector has thus been declining; and within the banking system, the share of PSBs is declining. Will this be reversed?

Approaches and risks

The current approach seems to be that all PSBs should be subjected to reform. The reform consists of recapitalisation, consolidation of banks and improvements in governance. It is possible that the risks arising out of regulation, which is not neutral to ownership will persist, and the share of the private sector banks would continue to increase. Unless government and RBI guidelines on ownership of banks change, the banking system as a whole will be increasingly dominated by foreign shareholders.

The alternative approach is a call for privatisation of all PSBs on the grounds that such a move will reduce fiscal costs and limit the scope for crony capitalism. The risk is that the common man will be left in the lurch because the level of comfort and trust she has in the private sector is not high. It is possible that the dominant ownership of the banking system as a whole will shift to foreign shareholders unless government policies on foreign investment in banks change.

A third approach, viz., a strategic view of public sector banking could be explored to ensure a well defined minimum share of banking for PSBs. This would require the government to support some PSBs while privatising some others based on purposefully well defined performance indicators. A strategic view should also be a countervailing force to the expanding presence of large industrial houses in the growing non-bank financial intermediation.

Strategic presence

In brief, disjointed incrementalism in policies relating to PSBs, equating them with banking system, poses risks which can be minimised by some immediate steps. First, make regulation and supervision of all bank (PSBs, cooperatives and private sector) ownership neutral (currently, PSBs and cooperative banks are subjected to dual control by the RBI, Union government and state governments, respectively). Second, the government should set the goal for PSBs to have at least 30-40 per cent of the banking sector's share, and ensure selective recapitalisation of some banks without ruling out privatisation of others.

Third, review the policies relating to fit and proper criteria and ownership of banks with a view to ensuring adequate and appropriate domestic shareholding in all banks. Fourth, ensure that the primary focus of PSBs is social banking with adequate and transparent fiscal support for the purpose.

The writer is a former RBI governor

Real interest rate dynamics: Who can help?

ADITYA PURI

Availability and cost of funds are both key drivers of economic growth. The role of India's financial sector in achieving the $5 trillion economy target is therefore critical. While financial entities will do their share of work, it's important to understand the constraints they face in lowering the cost of funds.

Economists focus on the real rate of interest to guage the impact on growth. The cost of money has to be set off against its purchasing power. While savers prefer a higher real interest rate, borrowers want this to be low. The trick is to find the optimal real interest rate that produces desired levels of growth.

The choice of interest rate in measuring this real interest rate is critical. A good representative rate would be one at which companies and individuals borrow as it takes into account the "risk" element.

Corporate bond yields are a good proxy. Economists point out that real interest rates are high for India and hamper sustained growth. The real interest on 10-year AAA corporate bonds is 1.23 per cent in the US, 1.40 per cent in China, and 5.27 per cent in India.

That's because real interest on corporate bonds can be thought of as an amalgam of risk-free (government bond) real interest rate and risk premium. A major reason for the difference in real interest rates is the difference in risk-free real interest rates. A comparison of 10-year government securities minus inflation shows that India (3.57 per cent) has a higher rate than China (0.31 per cent) and the US (0.02 per cent).

This difference in risk-free real interest rates depends on how much the government borrows. Higher the fiscal burden, the higher the likely risk-free rate. According to International Monetary Fund data, the consolidated fiscal deficit is 1.4 per cent of the GDP in the UK, and 4.8 per cent in China, compared to over 6 per cent in India.

This brings us to risk premium added to real risk-free interest rate to arrive at effective real cost of borrowing. For India, risk premium on AAA bonds is 1.7 per cent to US' 1.2 per cent and China's 1.08 per cent. The reason this is high is because premiums represent risk and what better index of possible default than the ratio of bad loans to total.

A comparison of gross non-performing loan percentages tells us why India's risk premia are high. The ratio for Malaysia is 1.54 per cent, the US 1.12 per cent and the UK 0.73 per cent as against 9.98 per cent for India. So while borrowers ask for lower rates, good credit habits would help.

Lending and deposit rates must be seen in conjunction. Higher deposit rates set a floor to lending rates. The one-year deposit rate in India is 6.5 per cent (SBI) compared to 3.1 per cent in Malaysia, 1.75 per cent in China and 1.5 per cent in Thailand. The question is: Can deposit rates be brought down without compromising the flow of household savings into India's financial system? Let's remember India faces a shortage of savings. Household saving after netting out liabilities was 6.6 per cent of GDP in 2017-18 (8.1 per cent in 2015-16).

There's a misleading argument that Indian banks earn exorbitant margins on loans, reflected in their high net interest margins (NIMs), and have ample space to reduce lending rates. This is based on selective data where margins of a few private banks are shown to be over 3.5 per cent while that of developed markets, say the UK, is 1.7 per cent. This is comparing apples to oranges. Indian banks' margins do not reflect provisions for credit risk, while those of the UK do.

If we were to use the same accounting norm (from Bankscope), India's average NIMs work out to 2.5 per cent (only 2 per cent for PSBs) for 2018, while Thailand's was 2.9 per cent, the Philippines' 3.3 per cent and the US' 3.3 per cent.

There's a correlation between wage rates and real interest rates. The more tepid the wage growth, the higher the real interest rate. Higher the wage growth, higher the demand and thus inflation. For developed economies, wage growth and inflation are often used interchangeably. While wage data is patchy for India, evidence shows that wage increases have been depressed and wage growth has slowed. The result is high real interest rates. Urban wage growth fell to 9 per cent and rural to under 5 per cent in 2018-19.

The high real interest rate in India also reflects distortions in the financial economy based on regulations. The cash reserve ratio in India is at 4 per cent of net demand and time liability to Thailand's 1 per cent and the US' 3 per cent. Australia and the UK do not have cash reserve requirements. The notion of statutory liquidity ratio (SLR) is alien to most other economies. The comfort the regulator needs in terms of banks' ability to access liquidity is met through the liquidity coverage ratio, so what's the need for SLR.

Indian banks over and above corporate social responsibility undertake financial inclusion, which is imperative to meet growth and socio-economic ambitions.

Finally, the structure of the loan and bond market plays a role in keeping rates high. First, lack of transparency in pricing loans entails a cost. This stems from a lack of defined liquid risk-free government yield curve. For most maturities, there's no benchmark yield that can be used as a reference for pricing. This needs to be addressed to develop the corporate bond market. This would bring about division of responsibilities between corporate bond market that should fund long-term projects and banks for shorter-term financial needs. Second, the relatively high interest rates reflect the absence of risk management products such as credit default swaps. In their absence risk premium gets baked into these rates.

Finally, domestic bond, money and currency markets are interlinked among themselves and with the global markets. In order to permanently bring down cost of funds, these and associated market for hedging risks have to be woven together. The government is taking the right steps to address the issue of high cost of funds. Greater credit discipline by borrowers would help.

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In Bapu and Ba's shadow

BOOK REVIEW

CHINTAN GIRISH MODI

The Government of India is commemorating the 150th birth anniversary of Mohandas Karamchand Gandhi (MKG) on a large scale, within the country and on international platforms. When India's image as the land of peace has taken a beating due to human rights violations in Kashmir, the poster boy of non-violent resistance is being deployed for cultural diplomacy. The move might be ironic but is smart nevertheless because his personality and his ideas make him a sure-shot winner.

MKG's legacy is worth studying but the commemorative moment is more about platitudes, less about critical engagement. In making one person the face of an entire movement, and elevating him to a god-like status, we erase the labour of those who worked behind the scenes and lived in the shadows. Regardless of whether they cared to be in the spotlight or not, we need to recognise the contributions of those unsung individuals who served tirelessly in India's struggle for freedom from British rule. They may not have fought on the frontlines, or taken a bullet, but that does not diminish their sacrifices.

The Diary of Manu Gandhi 1943-1944 sheds light on one such person. Manu aka Mridula Gandhi was the youngest daughter of MKG's nephew — Jaisukhlal Amritlal Gandhi — and Kasumba. She came to live with MKG and his wife Kasturba, and called them Bapu and Ba respectively. Her biological mother had passed away. Manu became a satyagrahi at the age of 14. She spent her time as a prisoner in Wardha Jail, Nagpur Central Jail, and the Aga Khan Palace in Pune. While in Pune, she began writing a diary on April 11, 1943. Twelve volumes of Manu's diaries, predominantly written in Gujarati, are lodged in the National Archives of India. Tridip Suhrud has translated, edited and annotated diary entries from that collection to put together this book. His reputation as a scholar of the Gandhian intellectual tradition raises expectations from this book, and it does not disappoint.

MKG had made it obligatory for ashramites and satyagrahis to maintain a diary as a practice of self-examination and self-purification that would help them in the pursuit of truth. However, Mr Suhrud's translation indicates Manu's diary was not a private container for her thoughts and feelings. MKG read, signed and commented on what she wrote. He pointed out spelling errors, and rectified them. He encouraged her to keep an account of the yarn she spun, and record all that she read. He also asked her to improve her handwriting, and note what she learnt from others.

Mr Suhrud has retained these corrections and comments, offering an explanation for these interventions wherever possible. MKG taught Manu about scripture and philosophy, truth and forbearance, health and nutrition. He looked out for her but was also a proponent of tough love. While Manu thought of MKG as "more than a mother," he might come across to contemporary readers as autocratic and abusive.

Manu writes in detail about her daily schedule. Apart from participating in morning and evening prayers, and attending lessons with MKG and other elders, she has a lot of work to do. This includes cooking meals, preparing juice, making tea, taking Bapu for walks when he is unable to walk without support, applying ghee to Bapu and Ba's feet, and being on call for Ba in a period of deteriorating health. Manu oils and combs Ba's hair, gives her massages, helps Ba with her bath, and puts up with her temper tantrums that are nothing but an expression of her agony caused by illness.

On one occasion, Manu writes, "The temperature measured 102.5°C, which for Ba's condition is high. She has a burning sensation in the urinary tract. She has become very weak. Last night she could not sleep at all. She would lie down, get up, and sit. I was with Ba in her bed. She clung to me like a child clings to her mother." On another occasion, Manu writes, "Motiba was rather unwell. Every five to 10 minutes, she would need to defecate. Sometimes, even her clothes were soiled. I would wash her clothes each time they were soiled."

In Mr Suhrud's translation, Manu appears deeply devoted to Bapu and Ba. She falls ill repeatedly while discharging her duties and tries to hide this from others. When speak to her harshly, she assigns blame to herself. This must have been a challenging experience for someone of her age who lost her mother early in life, and also saw Ba withering away. Her emotional universe, filled with struggle and resilience, is at the heart of this book. Read it for her, not MKG.

THE DIARY OF MANU GANDHI 1943-1944
Tridip Suhrud
(editor and translator)
Oxford University Press
184 pages, ₹750