About incumbents and challengers

In many industries, incumbents have often been trumped in the new product/technology race by rank outsiders. Will EVs' fate be any different?

ACROSS THE BOARD

SHAILESH DOBHAL

A recent statement by Rajiv Bajaj, the gutsy chief of Bajaj Auto, at the launch of the company's first electric offering got me thinking on the issue of core competence. Bajaj said that he was surprised that battery and motor makers, even "television, fridge, mobile" importers had rushed into the electric vehicles or EV space. And that many industry peers were merely shopping for EV-tech startups unlike his firm, which was doing it in-house, as "we at Bajaj are engineers who do our own jobs".

Bajaj might have a point here, and we need people of his ilk by the dozen who stick to the knitting so to say, are ready to dirty their hands and invest their money in building technology ground up and are proud of their hard-earned stripes and all. And he may be right that many who are rushing into the EV space may just be gold diggers, looking for a fortune in mere trade/import arbitrage like many did in consumers electronics. In fact, I have a term for it — foreign-made Indian brands. Think of the early days of computers, colour televisions, mobiles et al. We know what happened to most when the tough times and tougher competition arrived — they simply jumped ship to the next "new" product/tech space and many faded into oblivion.

But it is instructive to recollect that global business history is replete with examples of big, successful firms being trumped in their own backyard by uppity new entrants, often with no experience, heritage or money! And it is truer in the new tech businesses. Think EVs itself, and I bet for most, the top-of-the-mind name is Tesla, not the Detroit duo of General Motors and Ford, or even the globetrotting Toyota.

We need people who are ready to dirty their hands and invest their money in building technology ground up

When it came to dominating the internet, it was not the reigning tech monoliths Microsoft or IBM, but newbies like Google and Facebook that stole the march. Walmart dominated the retail world like a colossus, and yet an Amazon was born right under its nose to straddle global e-commerce. And Johnny-come-lately, over-the-top media services players like Netflix and Amazon Prime are dwarfing entertainment biggies such as Time Warner and News Corp.

Businesses are discovering competition and existential threat from unlikely quarters. And challengers, much like Google, Amazon and Tesla, have nothing to lose whilst incumbents have a whole franchise to protect. Rank outsiders like Airbnb and Uber have upended industries as varied as hospitality and automobiles. The script is being played out by home-grown Oyos and Olas in the domestic market. And before it blew it, a Finnish paper-maker turned phone-maker, Nokia had become synonymous with mobile phones. And a rice trader dreamt and won the crown of being the content king of India, yes for a while. So challengers, even in retreat and death, deserve a little more respect.

So is core competence all bunkum? Not really. Once I asked a senior Coca-Cola manager from Atlanta why the firm never extended its brand to other categories. He told me something to the effect that for consumers, Coke can only mean a sugary, brown soda that pours out of a bottle or a can, and that you have to respect the consumers' understanding of the brand. So there is, after all, some grit in the competence comfort theory. And anyway, such is the impermanence of dominance that Google, which thought it owned the internet, missed out on not one but two subsequent tech waves in social media (Facebook, Twitter, LinkedIn) and e-commerce (Amazon). Surprisingly, in EVs too, it is old-world carmaker Nissan not Tesla that comes top on cumulative non-US global sales for a single model with its Nissan Leaf.

CHINESE WHISPERS

Vanishing opposition

The Uttar Pradesh by-polls are being seen as a test for Chief Minister Adityanath (*pictured*) ahead of the 2022 Assembly elections, and the opposition seems to have given his party, the Bharatiya Janata Party, a walkover. Although the opposition — namely, the Samajwadi Party (SP), the Bahujan Samaj Party (BSP), and the Congress — have fielded candidates in all the 11 seats in Monday's bypolls, their top guns were missing in action. While SP President Akhilesh Yadav canvassed only in Rampur for Tazeen Fatma, the wife of the party's Muslim face Mohammed Azam Khan, BSP President Mayawati and Congress General Secretary Priyanka Gandhi Vadra refrained from addressing public meetings and preferred the passive mode of attacking the Adityanath dispensation through social media and press releases.

Always consistent

Congress leader Jairam Ramesh on Monday tweeted against the Regional Comprehensive Economic Partnership (RCEP). Ramesh, a Rajya Sabha member, said: "Demonetisation. Botched GST. Now a third jhatka (jolt) with India likely to join the new trade accord called RCEP. This means: 1. More imports from China impacting Indian MSME; 2. Dairy imports from New Zealand and Australia hurting farmers/cooperatives, and 3. Free data flow compromising data security." Ramesh's tweet was contested by Swadeshi Jagaran Manch (the economic think tank of the Rashtriya Swayamsevak Sangh) Co-convener Ashwani Mahajan, who said: "(It is) Strange (that the) Congress, which concluded disastrous ASEAN-FTA, Indo-Japan and India-South Korea FTAs and pushed into RCEP negotiation, is talking about fallouts of RCEP FTA. Will the Congress apologise before the nation for its wrongdoings in yesteryear?" However, Mahajan soon tweeted that Ramesh called to tell him that during the UPA years too he had opposed free-trade agreements.

Congress' dilemma

The exit polls on Monday predicted a decimation of the Congress in the Assembly polls in Maharashtra and Haryana. Congress leader Rahul Gandhi and his associates, including the party's training department chief Sachin Rao, are busy planning the road ahead. Rao has been in touch with Gandhian institutions in Maharashtra to train Congress leaders and workers. These institutions have offered to educate Congress workers on Gandhian ideology, particularly the concept of satyagraha. But the leaderships of these institutions are worried whether the Congress would be comfortable with such training. Mahatma Gandhi believed people should not accept authority unquestioningly, and the institutions are afraid Congress workers might just turn around and question the dynastic hold in the Congress.

The trouble with transporting steel

For India to benefit from capacity targets set in the National Steel Policy 2017, modes of transportation other than road and rail need to be developed first

KUNAL BOSE

India's two leading industry professionals T V Narendran, CEO and managing director of Tata Steel, and Seshagiri Rao, joint managing director of JSW Steel, have wisely taken upon themselves the task of dispelling certain myths about the Indian steel industry, in particular that the mills here do not come up to world standards in terms of product quality and costs.

Narendran is emphatic in his assertion that some steel mills here would easily pass off as "globally competitive and efficient within their premises. But much of that advantage gets compromised when they step outside their factory gates" for procurement of raw materials and egression of finished steel products.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

This is because the environment outside mill premises where logistics come into play is largely within the realm of government, both at the Centre and in states. It goes without saying that the infrastructure here whether it is rail, road or water transport calls for considerable strengthening for our industries to enjoy logistical efficiency available to their counterparts in developed countries and also in some emerging economies.

In order to reduce their dependence on the heavily pressured infrastructure, some steel groups, specially Essar and JSW, are putting reliance on environment friendly and cost-effective movement of iron ore through pipeline from mines to mills. Tata Steel, where the logistics cost is around 15 per cent, is to own wagon rakes, build slurry pipelines and set up ports to ease movements of raw materials and finished steel products. Similarly, the majority government-owned miner NMDC, which is to commission a 3-million tonne (mt) steel mill in the downstream at Nagarnar in Chhattisgarh sometime next year, is building a slurry pipeline for iron ore transportation.

The trend of Indian steelmakers with financial muscle creating facilities to ease logistical pressure they are subject to is growing in recent years. But the nature of the steel industry is such that it requires moving three units of dry bulk items, including iron ore, metallurgical and thermal coal, ferroalloys, limestone and dolomite to make one unit of the metal, which will also requires evacuation to the market here and abroad. The 2017 national steel policy has set capacity target of 300 mt for production of 255 mt of steel in 2030-31. An infrastructure robust enough to handle steel related cargoes of 1.02 billion tonnes (bt) a year by then could only be created by the government with some contribution by the user industry.

Prime Minister Narendra Modi in an address to businessmen recently in the US said India was to invest $1.3 trillion in infrastructure in the next few years. This was in an attempt to present the country in a favourable light among potential foreign investors. Modi's announcement has delighted the steel industry here for two reasons: First, the promise of a sturdy infrastructure that Indian steel exposed to global competition acutely needs. Second, the promised $1.3-trillion investment in building roads and bridges and sea and river ports and airports will generate considerable additional demand for the ferrous metal. This, however, should not distract attention from the goal to bring down our now exceptionally high logistics cost to as near the world class level of 7 to 8 per cent in the quickest possible time.

Encouragingly for the industry, Dharmendra Pradhan who now has additional charge of steel besides petroleum and natural gas in the Union cabinet says that a key to improving global competitiveness of Indian steel will be to give it a multimodal transport system that will facilitate smooth movement of raw materials and finished products. Logistics cost has two elements. Direct costs are those incurred in the course of moving goods such as warehousing, transportation and any value added services. McKinsey & Co in a report says that the disturbing feature of the logistics scene in India is the 40 per cent share of indirect or hidden elements in total logistics cost against "less than 10 per cent of the total in developed countries. Indirect costs include inventory carrying cost, theft, damages and loss in transit."

Narendran says "inconsistencies in logistics result in higher inventories and that translate into inflated inventory carrying cost and working capital. What happens with steel industry logistics outside mill gates has an implication for other cost elements." This, therefore, underlines the urgency to fill the gaps in infrastructure denying the industry to realise its full potential. In recent weeks from Steel Secretary Binoy Kumar to Odisha Chief Secretary Asit Tripathy did some loud thinking on the best ways to come to grips with logistical challenges faced by the steel industry, which is required to create new capacity of 160 mt in the next 11 years.

Nothing should distract us from the goal to bring down the exceptionally high logistics cost to the global level of 7-8 per cent in the quickest possible time

Tripathy describes the logistics scene in Odisha, which alone has 30 mt steel capacity of the country's around 140 mt as "a nightmare" with "evacuation of finished products as well as moving imported raw materials from ports" posing major challenges. The least that Odisha, which is to have one-thirds of the projected national steel capacity of 300 mt in 2030-31 will be required to do, with backing of the Centre, is to have a break from traditional approach to logistics and promote multimodal transportation. Tripathy says: "Odisha has two major rivers, Brahmani and Baitarani, which should be developed into major inland waterways" for transportation of steel related raw materials and finished products. Such goods movement finding much favour in the US and in EU countries is relatively inexpensive and, at the same time, environment friendly.

Interestingly Kumar and Tripathy's proposal to create steel hubs so that the units in them could have the benefit of common infrastructure also features prominently in the 2017 policy. Hopefully, recent pronouncements by Pradhan and concerned bureaucrats that inland waterways and coastal shipping will be developed to ease pressure on rail and road transport will be followed up by rapid action.

Supporting Narendran's claim of high levels of efficiency of Indian mills when high logistics cost outside mill gates is not considered, JSW's Rao says, "Five Indian groups feature in the World Steel Dynamics list of 30 world class steelmakers."

ON THE JOB

Low-skill jobs dominate

MAHESH VYAS

During May-August 2019, an estimated 404.9 million persons were employed in India. This implies that 2.5 million more people were employed during these months compared to a year ago, when employment was of the order of 402.4 million.

This is a healthy sign because during the preceding two May-August periods, employment had fallen in similar year-over-year comparisons. Employment during May-August 2018 was 5.5 million lower than it was in May-August 2017 which, in turn, was 0.6 million lower than it was in May-August 2016.

May-August 2019 is also the second consecutive complete Consumer Pyramids Household Survey to have recorded a sequential increase in employment. One comprehensive survey is conducted over a four-month period. The January-April 2019 survey recorded an increase of 3.4 million jobs over the September-December 2018 survey. And now, the May-August 2019 survey has recorded an increase of 0.6 million jobs. This is noteworthy because jobs had declined sequentially in all the preceding three surveys, that is, in all the three surveys of 2018.

While all this is good news, the not so good news is that the increase in employment in the latest May-August 2019 survey is distributed more in favour of sectors that should be seeing a fall in employment. We study the distribution of the 2.5 million jobs that increased between May-August 2018 and May-August 2019. Note that this period in 2019 included the 2019 Lok Sabha elections in May.

Agriculture saw an increase of 8.4 million jobs. This is surprising because monsoon rains were running behind schedule and by the end of August 2019, kharif sowing was 1.7 per cent lower than it was by the end of August 2018. The increase was largely in crop cultivation. This saw employment go up from 133 million to nearly 139 million. Poultry farming and animal husbandry also saw an increase in employment from 1.8 million to 4.3 million.

An increase in employment in agriculture during a year in which agricultural activities had shrunk is odd. One explanation is that as jobs in other avenues had shrunk, labour had no recourse but to revert back to their farmlands and claim that they were employed in agricultural activities.

Construction, which is known to be the first place for unskilled and surplus workers from the farmlands to be employed, shed 2.4 million jobs. The sector is estimated to have employed 62 million during May-August 2018 and this fell to 60 million in May-August 2019. These workers are likely to have repaired with the farmlands.

The stress in the construction sector is not new. While it shed 2.4 million jobs in May-August 2019, it had shed 7 million jobs in May-August 2018. During this year, even agriculture had shed a massive 11 million jobs. The saviour during 2018 was retail trade services which absorbed an additional 6 million jobs and the services sector as a whole that absorbed a total of 10 million jobs.

But, absorption of additional labour in retail trade is declining sharply. The sector could absorb only 1.4 million additional persons in May-August 2019 compared to May-August 2018. And, the services sector as a whole shed 2.3 million jobs.

Travel and tourism is the biggest contributor to the decline. It shed 2.2 million jobs. Several other services sectors have shed jobs. These include IT and financial services. These shed 0.6 million and 0.5 million jobs respectively in May-August 2019 compared May-August 2018.

The share of easily identifiable low-skill jobs is quite high. While all sectors have low-skill jobs, the sectors that have largely low-skill jobs are agriculture, construction, retail trade and personal non-professional services. The share of these jobs in total jobs is over 70 per cent. The share of these jobs in the total employment has also been creeping up. It was about 68.7 per cent in 2016. Then it rose to 72.1 in 2017 and 72.2 in 2018. In the first eight months of 2019, it was higher at 73 per cent.

In May-August 2019, these relatively low-skilled jobs were of the order of 296 million. A year ago, these were of the order of 289 million. Therefore, these low-skill jobs saw an increase of over 7 million during the span of a year. Note that the total increase in jobs during this period was only 2.5 million. So, it is possible that jobs have moved out from relatively better sectors.

Employment in the manufacturing sector declined by 0.9 million between May-August 2018 and May-August 2019. The textiles industry is estimated to have shed 2.2 million jobs and non-metallic mineral products shed another 0.4 million. Non-metallic mineral products include cement, tiles, bricks, glass. This ties up with the finding that employment in construction has declined. Food industries and machinery manufacturers added labour. Even utilities added labour.

The fall in manufacturing jobs, IT and financial sector jobs is worrying. And, an increase in farmhands is not a solution to the jobs challenge.

The author is the MD & CEO of CMIE

LETTERS

Ridiculous logic

This refers to a statement of Rahul Sinha, the National Secretary of Bharatiya Janata Party (BJP), on Nobel Laureate Abhijit Banerjee that was reported in *Business Standard* on October 20. Sinha said, "Those people whose second wives are foreigners are mostly getting the Nobel prize. I don't know whether it is a degree for getting the Nobel."

This is not only a deliberate insult to Banerjee but also Amartya Sen. It is a ridiculous statement that one does not even have to disprove. One can only mention that Banerjee's wife Esther Dufflo is not just a foreigner but a professor at Massachusetts Institute of Technology and the co-recipient of the 2019 Nobel Prize for economics. I have great respect for Prime Minister Narendra Modi and so I would request him to purge the BJP of its national secretary.

And it's not just one member of the party. Piyush Goyal is the Minister of Commerce and Industry. His statement that Banerjee was totally left leaning and the people of India had rejected his thinking also makes no sense to say the least. What is the "left thinking" in Banerjee's theory of Randomised Controlled Trials? I have read his book Poor Economics. The theory is that rather than taking the problem of alleviation of poverty in totality (like Amartya Sen or Martin, the American Professor does), he and his team have taken an alternative approach. They segmented the problem in smaller aspects of improving education or health in some areas working with the local governments, not only in India but also in other countries such as Kenya. In Gujarat, they are working with the BJP government and elsewhere with other governments like in Rajasthan, with the Congress government. It is the team which has got the Nobel Prize, not only Banerjee.

This is experimental economics. In one experiment in Rajasthan, it was found that many parents did not bring their children to clinics for free immunisation but did so if offered a free kilo of dal. The Abdul Latif Jameel Poverty Action Lab is doing research under the guidance of these famous economists in Harvard and MIT. Just dismissing it as a left-leaning exercise, as Goyal has done, only shows that he talks without understanding anything. With friends like him, Modi does not need any more enemies.

Sukumar Mukhopadhyay via email

The worth of a teacher

This refers to "Infrastructure of opportunity" (October 21) by Manish Sabharwal and Ashok Reddy. It is an incisive analysis of the poor state of affairs in government-run schools in terms of teacher performance and governance. There is sufficient anecdotal and other evidence to show that it is the quality of teachers rather than the infrastructure that ensures great learning outcomes among students.

These qualities are both tangible and intangible. The former (such as qualification or experience) can be recognised, measured and rewarded by say, good pay and incentives. But the latter comes from within the individual. The passion for teaching is the most important of them. High pay does not create passion. There are still some teachers who give free coaching to poor or bright students to build their careers but there are also many who run coaching classes to make more money.

Passion helps overcome the physical hurdles in the profession particularly in rural areas where many amenities are missing. The government should identify and support passionate teachers. It is time teachers were freed from non-teaching work such as serving election duty or serving as priests in temples as the Haryana government did. Respect and love for a passionate teacher are the best motivators.

There is no system of job evaluation that can determine the worth of a passionate teacher. If passion is high, she is priceless. If it is low, she can prove to be very expensive.

Y G Chouksey Pune

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HAMBONE

NO DESSERT! YOU MEAN I ATE ALL THAT FOOD FOR NOTHING?

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Come clean on the fisc

If taxes fall short, it should not be covered up

The Union finance ministry has reportedly informed the Fifteenth Finance Commission of the straitened nature of Indian public finances. The ministry is of the opinion that the tax shortfall in the ongoing fiscal year will be around ₹2 trillion. This is in the same ballpark as the degree by which the provisional actuals for the last fiscal year, 2018-19, were less than the Budget estimates. The last Union Budget projected revenue for the coming year at ₹22.4 trillion. A shortfall of this magnitude would mean that either revenue would be raised from non-tax sources, spending would have to be severely crunched, or the fiscal deficit would miss the target of 3.3 per cent of gross domestic product (GDP). None of these is a palatable option. A fiscal crunch at a time when the Indian economy has clearly slowed sharply would run the risk of entrenching the slowdown or even turning into a downward, self-reinforcing spiral. Raising non-tax revenue could be one option. However, things have not moved fast enough on this front. The government will need to move ahead with the stated idea of strategic sale to bridge the shortfall in receipts under other heads.

On the other hand, if expenditure cannot be compressed — and the finance minister has publicly committed to preserving the amount of capital spending in particular — then, in other words, the fiscal deficit might effectively increase from the targeted 3.3 per cent of GDP to something closer to 4 per cent. The fact is that this reversal of the fiscal consolidation process will throw into question the entire glide path to 3 per cent of GDP, which has long been promised. But transparency is a virtue in and of itself. The credibility of government figures has been questioned widely following the Union Budget's reliance on the inflated, revised estimates of tax revenue rather than the provisional actuals, which were estimated after last year's tax shortfall had become clearer. This added to the confusion about the actual borrowing target of the whole public sector — a confusion created partly by the decision to use borrowing against public-sector enterprise balance sheets to fund spending that might previously have been accounted for in the Union Budget.

The credibility of government budgeting needs to be restored. There has been a crisis of private investment in India partly because of the ongoing uncertainty about the nature and quality of public-sector spending. This uncertainty must end and transparency restored. A real fiscal picture must be provided. It will also help in addressing the problems in both revenue and expenditure more transparently. The finance minister promised at the International Monetary Fund meeting that India would stick to the fiscal consolidation programme. While her determination to not review the fiscal deficit target is admirable, the reality may be different. The problems with the goods and services tax and the slowdown that impacts direct tax revenue are certainly major events that would affect the budgeting and fiscal consolidation paths of any government anywhere. A one-time re-evaluation of the fiscal position and a new credible glide path or spending framework, alongside a transparent public-sector borrowing requirement, should be priority for the finance ministry.

Turmoil in the marketplace

FDI norms for e-commerce should be relaxed

A party that promised the business community a radical departure from the Congress' economic management appears to be copying its worst practices straight from the bad old days of the licence-permit raj. Last week, the government asked top e-commerce retailers Amazon and Flipkart, the Indian arm of Walmart, to furnish details of its top five sellers, investments, and commission agreement with vendors. The inaptly named Department for Promotion of Industry and Internal Trade (DPIIT) has sent both the e-commerce giants separate questionnaires, asking them to provide details of their capital structure, business model, and inventory management system. There are several questionable aspects to this move. First, the investigation has been initiated on a complaint from a brick-and-mortar retail traders' lobby, the Confederation of All India Traders (CAIT), which alleges that these online marketplaces have been violating norms on foreign direct investment (FDI) to report their highest ever sales over Dussehra.

This surge stood in stark contrast to the noticeably poor footfalls in brick-and-mortar outlets and undeniably pointed to high online discounts. It is unclear why the government should mobilise its own administrative capacity to launch this investigation when an independent competent authority in the shape of the Competition Commission of India (CCI) exists to deal with complaints of such restrictive trade practices. Given that the CCI has investigatory powers, it would have been appropriate for the CAIT to have referred its complaint to the CCI or for the government to have done so. The fact that the CAIT has been an enthusiastic supporter of the Bharatiya Janata Party may explain why the government has decided to defend its interests from deep-pocketed foreign-owned online platforms.

The CAIT's principal accusation is that Amazon and Flipkart have violated FDI norms by enabling deeper discounts, which undercut its member-retailers. These rules, which came into play in February this year, were designed specifically to protect domestic online and physical retailers and have no embedded economic logic. One, they debarred companies from exclusive marketing arrangements with foreign-owned online portals. Two, online entities with foreign investment cannot offer products sold by retailers in which they hold an equity stake. Third, online e-commerce giants are debarred from stocking 25 per cent of their inventory from a single vendor. Fourth, such online marketplaces were prohibited from manipulating the prices of products or offering deep discounts. If such micro-managed protectionism contradicts the spirit of a forward-looking globalised economy that India aspires to be, it also reflects a fundamental misunderstanding of the online business. Rather than being the product of undercutting, online discounts are the result of significantly lower distribution costs by eliminating one key element of the retail chain — the retail store. Suppliers to these online marketplaces may choose to leverage this competitive cost structure to offer deeper discounts during festive seasons. Physical retailers do the same thing but can never hope to compete because of higher cost structures.

Foreign marketplaces may well have been violating FDI norms. And by mobilising its political clout, the CAIT may well have introduced an irritant in their functioning. But if its members hope to extract lasting gains from these investigations, they are not only behind the curve but destined to fall behind even further as the Indian consumer embraces e-commerce, foreign or otherwise, with unpatriotic enthusiasm. The government would have done better to have relaxed its February press note rather than enforcing a level playing field.

ILLUSTRATION: AJAY MOHANTY

A week with investors

India is well-positioned to benefit from a slowing China, provided it drives a growth and reform agenda

I had the opportunity to spend a week in the US, attending conferences and meeting with global allocators. It was an interesting time to be meeting with investors. India had just announced the tax cuts and the UN general Assembly session was on in New York. The following are my takeaways as far as India goes.

1. There was strong interest in India, and in trying to understand the current situation. Most were pleasantly surprised by the tax cuts — not something they had expected from the Indian government. Questions were asked as to why a corporation tax cut, and not more focused demand creation measures. Most were intrigued as to why the authorities had not announced a middle-class tax cut or cuts in duties on certain goods and services. India is not known for being extra friendly to large corporations, MNCs and highly profitable companies, the main beneficiaries of these tax cuts. Some asked as to how companies will use the tax cuts and increased cash flows. As is well known, in the US, companies mostly pay out a tax windfall through higher buybacks and dividends. Investors were keen to know why Indian companies were different. There was excitement over potential further reforms. Strategic sale of government assets was seen as a big positive, as was talk of simplifying personal tax rates. Most felt that India still remains a very complex place. Lots can still be done to make it easier to do business in the country.

AKASH PRAKASH

2. Most allocators accepted that India was at the bottom of the economic cycle. Five per cent GDP growth should be as bad as it gets. With both the fiscal and monetary policy levers now being pulled, the economy should begin to recover. It is also going to be one year since the NBFC crisis. The effects of the credit crunch will soon be in the base. Only a few thought that growth will not improve in calendar year 2020 . The fiscal was a concern but most felt the trade off, to risk a higher deficit to boost growth, was worth it. Every investor felt that the current posture of the Reserve Bank of India (RBI) to give equal weight to both growth and inflation was the right approach. A Fed-like dual mandate approach was much preferred to an ECB-like obsession with only inflation exhibited in the past.

3. There was concern as to why corporate profits have disappointed so significantly in India. Many asked as to whether there was some kind of paradigm shift driving lower corporate profitability in the country. Will there ever be regression to the mean? Everyone had seen the data or heard the numbers from India fund managers. In 2008, corporate profit-to-GDP in both India and the US was similar at about 7.5 per cent. Today, the same number in the US is over 10 per cent, while in India the profit share has collapsed to under 3 per cent. The tax cuts will drive an earnings upgrade, the first in over seven years. Investors accepted that the profit share cannot keep dropping. Most were willing to believe that we will see a period of strong corporate profits once the economy revives.

4. Though investors were willing to accept that both the economic and profit cycle had bottomed for India, the concern holding them back from adding money to the country was valuations. Looking at India from a top-down MSCI index perspective, the market was simply not cheap enough. Neither on an absolute basis, nor when compared to the broader emerging markets universe. Only a few were aware of the damage to stocks, below the surface. The mid-cap indices are down 30 per cent, from their peak in January 2018, with small-caps down 40 per cent. Quality trade has gone to an extreme, with a large portion of the market now simply seen as uninvestable. The price damage in selected stocks and sectors has been simply breath-taking. Many stocks are falling on low volumes in the absence of buying. If global allocators can be convinced that once they go beyond the top 50 companies, the Indian market is actually reasonably priced, I would expect significant inflows. Valuation remains the single biggest pushback to increasing India weights.

5. There was deep disappointment over Indian corporate governance. Many were shocked with some of the recent instances of promoter fraud, leverage and balance sheet irregularities. Some of the disclosures in the financial services space in particular were deeply worrying. What were the auditors, rating agencies and regulators doing? The governance premium has increased and will continue expanding as more governance weaknesses are exposed. Allocators have been surprised by the extent of share pledges. Many argued India cannot be among the most expensive markets in the EM world with this level of governance.

6. Many allocators were aware that India was going through a clean-up of sorts, with many of the weaker companies and promoter groups being allowed to fall by the wayside. Most recognised that such a clean-up slows growth initially as the system adjusts. However, as the strong get stronger and gain share, the quality of growth improves and the economy recovers. Most also recognised that India has gone through a series of economic shocks over the past four years. First demonetisation, then the goods and services tax followed by the NBFC crisis. Thus the economy has not had the time to recover. Hopefully over the coming years, we can get back to a more normalised environment, and deliver our potential.

7. Most investors were surprised by the ferocity of the NBFC crisis. It truly has been a mini-Lehman moment for India. The crisis has effectively wiped out the business model of most of the wholesale players in the space. The cost to the economy has been enormous. Most blame the current slowdown largely to the funding challenges faced by NBFCs. Given the trust deficit, allocators felt that the RBI would have to provide comfort to investors on the quality of the underlying NBFC book. No one other than the RBI, they felt, could provide the comfort investors need to invest in the space. The only way the system will clear is by attracting private capital. Private capital has no trust in the rating agencies or auditors and needs comfort on the credibility of the disclosed asset quality and numbers. Only the RBI can break this knot. The dislocation obviously helps the two or three stronger NBFCs and the banks, as consolidation in the space is inevitable.

8. Most allocators were convinced that the tension between China and the US, was here to stay, irrespective of who is in the White House. Consequently, China will slow, and its economy has seen its peak growth. As it slows, at some point the leverage issues will surface. Most allocators were looking to increase their investments in Asia ex-China.

India has a real chance to attract flows over the coming year. Investors understand that both growth and earnings have bottomed and few are overweight the country. Allocators are looking for growth in a slowing world. Most still believe in the country's long-term potential. We are well-positioned to benefit, if we can only stabilise, not have another blow-up and be seen to drive a growth and reform agenda.

The writer is with Amansa Capital

Taxing or trading our environmental sins?

Record-breaking temperatures and extreme weather events leave no choice but to act on climate change. At the United Nations, the prime minister announced a higher target of 450 gigawatts of renewables. India takes climate action seriously. But the less others act, the more India's development options get constrained by a shrinking global carbon budget. Renewables and energy efficiency are not enough; emissions must be reduced in industry and transport too. If India were to be more aggressive on mitigation — in the most cost-effective way — what instruments should it choose? Should we tax or trade our environmental sins?

India has used several measures in recent years: Perform, Achieve and Trade (PAT) for energy efficiency in major industries; Renewable Energy Certificates trading scheme; coal cess; and sectoral incentives (monetary and regulatory) to promote clean and efficient electricity. But these measures are not economy-wide and do not always translate directly into greenhouse gas mitigation. For more than a year, representatives from industry, academia and think-tanks have discussed direct mitigation instruments and developed a framework to evaluate options*.

INFLEXION POINTS

ARUNABHA GHOSH & VAIBHAV CHATURVEDI

The first option is an Emissions Trading Scheme (ETS). An absolute cap on emissions combined with trading gives flexibility to businesses, promotes innovation and reduces pollution. Globally, over 50 jurisdictions have ETS markets. Complementary policies increase effectiveness. Policies that promote renewables, energy efficiency, incentivise fuel switching, improve building standards, or increase public transport have helped the EU and Californian schemes. Their experience suggests that administrative costs could be less than 1 per cent of total abatement costs.

India, too, has similar complementary policies. The PAT scheme showed that effectiveness increases when there are relatively fewer regulated entities. Regulating fewer upstream entities (say, a refinery) reduces administrative costs compared to many dispersed downstream points of emissions (say, millions of small industrial units). For its stage of development, India should choose either an increasing emissions cap, or one based on emissions intensity of production. While consistent with its current policies, the choice would ultimately depend on international ETS market developments. Whether emissions permits are allocated by government or auctioned, it must be fair and transparent. If there were no global and equitable allocation of emissions allowances, could an ETS in India trade with other markets in China, Europe or North America? Could carbon and non-carbon credits be linked, to capture co-benefits of mitigation and adaptation? Answering such questions would help India design more fit-for-purpose ETS markets, with robust monitoring and verification, while continuing to reduce abatement costs.

A second option is a carbon tax. There are 26 carbon tax systems worldwide, which raised $33 billion in 2017. By 2020, existing and planned taxes will cover about 5 per cent of global CO2 emissions. Economists debate whether a carbon tax should apply to two or more sources using the same rate per tonne of CO2 equivalent (tCO2e). Such a definition would exclude India's coal cess or excise duties on petrol and diesel. The real question should be: What tax would nudge behaviour? Relative prices that shift behaviours vary across sectors. From a sectoral perspective, carbon taxes have worked best when alternatives are readily available. Otherwise, the cost imposition does not translate into desired mitigation outcomes.

The hardest decision concerns the tax rate. It varies from $3 per tCO2e in Japan, $5 in Chile to $132 in Sweden. India's choice would depend on its priority: Social cost of carbon; GHGs abated; targeted revenues; or benchmarking against trading partners to maintain competitiveness. Tax rates could be further indexed to inflation (Iceland), gradually increase (France) or have formula-based adjustments to factor in macroeconomic conditions and technological advances (Switzerland).

Carbon tax revenues must be deployed justly and transparently. A revenue-neutral approach would reduce other taxes. Alternatively, governments could spend revenues on low-carbon infrastructure. The least favoured option would be transferring revenues to fund the general budget.

Thirdly, the Paris Agreement's Article 6 permits transferring mitigation results from one country towards meeting another's low-carbon goals via Internationally Transferred Mitigation Outcomes (ITMOs). The challenge would be to account for mitigation consistently when some countries have a single-year (2030) target and others have multi-year trajectories. Furthermore, the experience of the Clean Development Mechanism has soured trust in such processes. It is critical that ITMOs are not only accounted for transparently but that transactions are honoured.

A fourth route is via company-level initiatives. Some Indian industries have used internal carbon pricing to finance energy efficiency and clean energy. When it makes business sense, companies adopt sustainable practices. Some firms (Mahindra, Wipro, among others) have adopted science-based targets to align with the global imperative for net carbon neutrality by 2050 or earlier.

But a wider portfolio of policies, applicable to all competitors, are needed before businesses consider deep mitigation actions. Even a low internal carbon price, if combined with supporting policies, could assist firms in choosing best available technologies and deliver significant outcomes. As with ETS and carbon taxes, greater transparency (starting with voluntary reporting on internal carbon prices) would help to design responsive policies.

No single instrument will suffice. Nor will one option optimise across several dimensions: Co-benefits and co-costs, distributional impacts, alignment with economic structure, feasibility of implementation, revenues and administrative burden, and links with global developments. India's low-carbon transition must be linked to broader sustainable development priorities. It is time to experiment with price and quantity nudges to drive innovation and climate leadership, while remaining competitive.

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The case for book publishing monopolies

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The other day I told my son I'd buy him a book. His curt response was, "Get with it, man". He meant no thanks, only Kindle.

The next day I offered my 75-year-old sister to buy her a book on Kindle. "Don't be an ass," she said equally curtly.

A few weeks later, I was travelling around in Europe. Old and young, though only a small percentage, had iPads. The rest had their phones. I didn't see anyone carrying a book. No one. Nor was anybody reading from a Kindle. On iPad they could have been reading anything but on Kindle it had to be a book. So no Kindle, no book.

I asked myself if people actually read books on their phones because in iPhones you can download the Kindle app. It can be done — I do it occasionally — but it's not much fun. It's ok if it's a short story, just about. But a whole book is a peak too far for most people.

Nevertheless, lakhs of books are now available for reading on screens. But how many people actually read them? No one has any idea. My son, however, says everyone reads books on screens. But publishers say very few. Clearly, there is an information problem here that needs solving.

In any case there don't seem to be many bookshops left anywhere in the world. And shops that sold secondhand books have almost completely disappeared. What happens to old books, then?

That problem aside, are people buying printed books online the way I do and, increasingly, most people I know also do? The discounts are very attractive. That seems to be the obvious answer to the disappearance problem, not least because it raises some interesting questions about the economics of publishing.

Degrees of competition

Ideally, from a supply-demand viewpoint, book publishing should be a monopoly in each country because, first, it would allow much-needed scale which is currently missing and which, secondly, would allow massive cross-subsidisation between subjects and even genres. But exactly the opposite situation obtains in almost all countries.

If you think about it, this monopoly-type thing has already (almost) happened on the distribution side because of huge online aggregating platforms who access from small booksellers. Gone are the days when there were book shops that specialised in particular subjects.

There is a completely non-sentimental reason this should happen on the production side as well now. The current cottage or micro-industry structure is completely idiotic from every point of view. It helps no one.

This will infuriate many people who think that a monopoly will suppress certain types of books. That objection sounds noble but suppression happens even now, except it's not called that. It's called market insufficiency, which is jargon for "no one will buy this rubbish".

The worst offenders here are the small publishers who operate with very little capital and even less editorial quality control. In fact, the capital inadequacy means these publishers necessarily have to be picky. The lack of quality control means the opposite. It's ridiculous.

In contrast a monopoly, because it can cross-subsidise, is unlikely to suppress anything. It is highly volume dependent and volumes need more variety, not less.

In that sense it's no different from a soap company which needs a few, huge brands and scores of other less successful ones. At one time Procter & Gamble had 70 brands of body soaps.

Monopolistic exploitation

Another objection to a monopoly could be that it will increase the base price of all books. Even the prices of bestsellers could, or will, double for no good reason at all. Greed will dominate pricing.

This is possible but not probable. I would like to see a single multi-brand monopoly that indulges in price gouging in its most successful brands. It is a problem but probably not a serious one in the books business.

Had it been so every publisher who signs up a bestselling author and thus becomes a monopolist would have exploited the opportunity because it would help the suppliers of books — the authors and the publishers — immensely. Both would make more money. But the opposite has happened. Bestsellers are the lowest priced. That's how the market works.

There remains the question whether if print nearly vanishes, would a monopoly be good for electronic books. Absolutely, because then even the distributor could be eliminated.

When will this happen? In the next two decades. It's happened to films. So why not books, too?