Opinion

THURSDAY, OCTOBER 31, 2019

INTERNAL MATTERS

Congress spokesperson Randeep Surjewala

India's time tested policy over last 72 years is that Kashmir is our internal issue and we will accept no interference or third party mediation of any nature from any government or group of people

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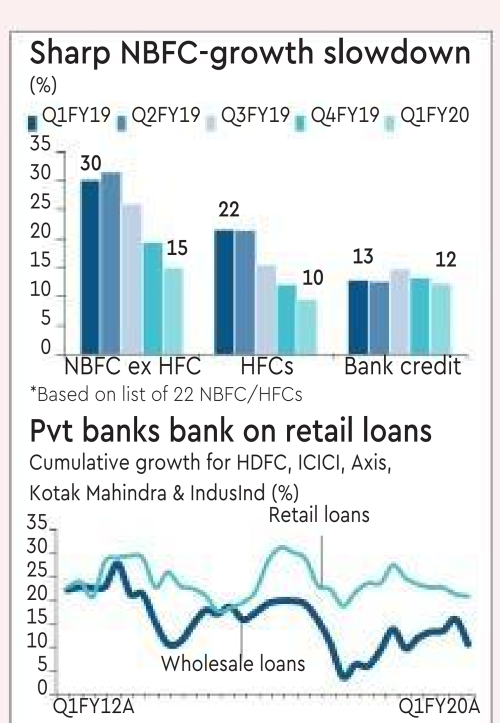
Fix NBFC crisis to get growth back

As the crisis worsens & banks stare at larger losses, credit-growth is collapsing. Getting PSBs to take them over is a good solution

MORE THAN A year after the defaults at IL&FS, not too many Non Banking Financial Companies (NBFC) and Housing Finance Companies (HFCs) can be said to be in good health. With access to credit constrained, a couple of them have defaulted, and some remain vulnerable to a default. Given this, it is surprising that an asset quality review, much like it was done for banks by Reserve Bank of India (RBI) in the last quarter of 2015, has not been done for NBFCs.

Between them, they owe banks a packet—about 50% of their loans are sourced from banks—so, it is important they stay solvent. The ones more vulnerable to a default are those that have big exposures to real estate developers; the financial condition of India's tier II builders is no secret. Most NBFCs appear to be adequately capitalised, but credit quality apart, there are instances of fraud and violations, which make it harder for the banks to recover their money. Resolution has evaded lenders to DHFL for almost a year now, and, with an SFIO probe into the diversion of funds being considered, it is anyone's guess how soon banks will see their ₹38,000 crore.

What has done in non-bank lenders is the lack of liquidity support. This is probably hurting as much as the poor exposures. Altico Capital, for instance, wasn't very highly leveraged when it found it wasn't able to meet some of its obligations. In the absence of access to short-term liquidity from mutual funds, NBFCs and HFCs today are seriously constrained for cash. While it is nobody's case that these lenders should be bailed out—they shouldn't because it would create a moral hazard—RBI and government need to step in and find a way out. Let the government support stronger state-owned lenders—with capital in the form of bonds perhaps—to help them take over the NBFCs and HFCs. Should private sector lenders want to buy out the businesses, the process should be speeded up. Some quick consolidation is needed, else, even the good loans on their books could go bad, and the capital would be wasted. CRISIL wrote on October 24 that NPAs in the wholesale loan books of non-banks are tipped to rise in the near to medium term as the moratoria lapse. The wholesale book of non-banks is close to ₹4 lakh crore. Even if half of this goes bad, the system will get a big shock. This warning must be heeded. As as we have seen with DHFL and HDIL, recovering the loans will not be easy.



Simultaneously, there needs to be a lot more urgency in putting stressed real estate projects into the hands of stronger builders so that these can be completed; homebuyers who make a nuisance of themselves need to be dealt with firmly. The turnaround in the real estate sector is the key to the revival of the economy, and the sooner the staggering four or five lakh units of inventory are disposed of, the better. The government's scheme to support projects that are 60% complete and are non-NPAs needs to be tweaked. The stressed projects need to be supported and handed over to stronger builders.

An analysis by *Jefferies* reveals that the commercial real-estate segment exposure of 36 banks to developers fell 8% y-o-y in FY19 over FY18 while the last four-year CAGR has been a mere 6.6% y-o-y. That's good news, but the exposure at the end of March 2019, was nonetheless close to ₹3.4 lakh crore—not be sneezed at. To be sure, not every developer is a potential defaulter, but large-scale default cannot be ruled out, and neither can action by the investigative agencies.

The fact is banks, especially state-owned banks, aren't out of the woods given the NPA cycle doesn't seem to be ending anytime soon. Sectors such as power, telecom, and real estate continue to be pain points, apart from MSMEs and agriculture. While they may have some capital, the rising number of corporate defaults suggests they are going to need much more than they had probably. Without capital, it is going to be difficult to lend.

Already, loan growth at banks has been decelerating sharply over the past couple of months, when it was 14-15% y-o-y, and went below 9% y-o-y in the fortnight to October 11 because banks become so risk averse. They are choosing to lend only to top tier firms, and this has resulted in the spread of AAA bonds over the G-Sec narrowing. Meanwhile, the spread of the lowest-investment grade bonds over the AAA-rated bonds has now widened almost to levels last seen in 2008-09.

It is going to be hard, if not altogether impossible, to revive growth without freer flow of credit. Already, we seem to be getting into a vicious cycle where slowing loan growth—as seen in Q2FY20—could exacerbate the pain in industry, making lenders even more risk averse than they are today. SBI's corporate book grew just 2% y-o-y in the September quarter. The government can persuade the state-owned banks to lend to the mid-micro-mini corporates, but their appetite will be limited; unless they are forced to, which of course is possible, it is unlikely they will risk exposure to weaker entities. And, if they take some hits on NBFC or HFC loans, they would end up short of capital, too. The DHFL resolution has taken way too much time, and threatens to remain elusive. There can't be another DHFL.

Pushing CONTRACEPTION

WHO and *Lancet* studies show how big the threat from unintended pregnancies and unsafe abortions are

A RECENT WHO study in 36 countries finds that two-thirds of the sexually active women who wanted to avoid fertilisation didn't opt for any method of contraception. This was mainly due to concerns over side-effects, "underestimation" of such methods where the women didn't feel confident in a contraception route available, and other health concerns. The poor use of contraceptives has led to one in four pregnancies being unintended. Globally, 74 million women belonging to low- and middle-income households have unintended pregnancies annually, which results in 25 million unsafe abortions and 47,000 maternal deaths. WHO highlights unintended pregnancy as a major cause for miscarriage, malnutrition, illness, abuse, neglect, and deaths. The shocking figures underscore the need for making access to safe, modern family planning techniques easier, if maternal and child health is to be improved.

A 2018 *Lancet* study found that of 15.6 million abortions in India in 2015—the rate of abortion was 47 per 1,000 women aged 15-49 years—22% were in health facilities, 73% abortions were through medications outside of health facilities, while 5% were outside of health facilities and without medications. With a bulk of the women opting for abortion having pregnancy terminated outside health facilities, the Centre must consider bringing abortions under its health insurance programme, Ayushman Bharat, to improve institutional care for abortions and curb avoidable maternal deaths. While bringing abortions under a government programme will help get rid of the stigma attached, the latter will also need constant awareness efforts. The government must also work on increasing the awareness levels amongst frontline health workers to help push up use of contraception and bring down incidence of unsafe abortions. More important, efforts have to be made to get men to share the burden of contraception, else, the reproductive health and rights of women will be shortchanged.

TARIFF WARS

FROM TRADE TO CURRENCY, THE REAL PROBLEM WITH THE PHASE ONE ACCORD IS THAT IT PRESCRIBES BILATERAL REMEDIES FOR MULTILATERAL PROBLEMS

No art to the US-China trade deal

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Views are personal

DEALMAKERS ALWAYS KNOW when to cut their losses. And, so it is with the self-proclaimed greatest dealmaker of them all: US President Donald Trump. Having promised a Grand Deal with China, the 13th round of bilateral trade negotiations ended on October 11 with barely a whimper, yielding a watered-down partial agreement: the "phase one" accord.

This wasn't supposed to happen. The Trump administration's three-pronged negotiating strategy has long featured a major reduction in the bilateral trade deficit, a conflict-resolution framework to address problems ranging from alleged intellectual-property theft and forced technology transfer to services reforms and so-called non-tariff barriers, along with a tough enforcement mechanism. According to one of the lead US negotiators, Treasury Secretary Steven Mnuchin, the Grand Deal was about 90% done in June, before it all unravelled in a contentious blame game, and a further escalation of tit-for-tat tariffs.

But, hope springs eternal. As both economies started to show visible signs of distress, there was new optimism that reason would finally prevail, even in the face of an escalating weaponisation of policy by the United States: threatened capital controls, rumoured delisting of Chinese companies whose shares trade on American stock exchanges, new visa restrictions, a sharp expansion of black-listed Chinese firms on the dreaded Entity List, and talk of congressional passage of the Hong Kong Human Rights and Democracy Act of 2019. Financial markets looked the other way and soared in anticipation in the days leading up to the October 11 announcement.

And yet, the phase one deal, announced with great fanfare, is a huge disappointment. For starters, there is no codified agreement or clarity on enforcement. There is only a vague promise to clarify, in the coming weeks, Chinese intentions to purchase about $40-50 billion worth of US agricultural products, a nod in the direction of a relatively meaningless agreement on currency manipulation, and some hints of initiatives on IP protection and financial-sector liberalisation. And, for that, the Chinese get a major concession: a second reprieve on a new round of tariffs on exports to the US worth some $250 billion that was initially supposed to take effect on October 1.

Far from a breakthrough, these loose commitments, like comparable earlier promises, offer little of substance. For years, China has embraced the "fat-wallet" approach when it comes to defusing trade tensions with the US. In the past, that meant boosting imports of American aircraft; today, it means buying more soybeans. Of course, it has an even longer shopping list of US-made products, especially those tied to telecommunications equipment maker Huawei's technology supply chain.

But, China's open wallet won't solve America's far deeper economic problems. The $879 billion US merchandise trade deficit in 2018 (running at $919 billion in the second quarter of 2019) reflects trade imbalances with 102 countries. This is a multilateral problem, not the China-centric bilateral problem that politicians insist must be addressed in order to assuage all that ails American manufacturers and workers. Yet, without resolving the macroeconomic imbalances that underpin this multilateral trade deficit—namely, a chronic shortfall of domestic saving—all a China fix could accomplish would be a diversion of trade to higher-cost foreign producers, which would be the functional equivalent of a tax hike on US consumers.

Promises of a currency agreement are equally suspicious. This is an easy, but unnecessary add-on to any deal. While the renminbi's exchange rate against the US dollar has fallen by 11% since the trade war commenced in March 2018, it is up 46% in inflation-adjusted terms against a broad constellation of China's trading partners since the end of 2004. Like trade, currencies must be assessed from a multilateral perspective to judge whether a country is manipulating its exchange rate to gain an unfair competitive advantage.

> **Multilateral problems require solutions aimed at the macroeconomic imbalances on which they rest. That could mean a reciprocal market-opening framework**

That assessment makes it quite clear that China does not meet the widely accepted criteria for currency manipulation. Its once-outsize current-account surplus has all but disappeared, and there is no evidence of any overt official intervention in foreign-exchange markets. In August, the International Monetary Fund reaffirmed that very conclusion in its so-called Article IV review of China. Although the US Treasury recently deemed China guilty of currency manipulation, this verdict was at odds with the Treasury's own criteria, and Mnuchin is now hinting that it may be reversed. Far from essential, a new currency agreement is nothing more than a feeble grab for political bragging rights.

The real problem with the phase one accord is the basic structure of the deal into which it presumably fits. From trade to currency, the approach is the same—prescribing bilateral remedies for multilateral problems. That won't work. Multilateral problems require solutions aimed at the macroeconomic imbalances on which they rest. That could mean a reciprocal market-opening framework like a bilateral investment treaty, or a rebalancing of saving disparities between the two countries that occupy the extremes on the saving spectrum.

The saving issue is especially critical for the US. America's net domestic saving rate of just 2.2% of national income in the second quarter of 2019 is far short of the 6.3% average in the final three decades of the twentieth century. Boosting saving—precisely the opposite of what the US is doing in light of the ominous trajectory of its budget deficit—would be the most effective means, by far, to reduce America's multilateral trade imbalance with China, and 101 other countries. Doing so would also take the misdirected focus off a bilateral assessment of the dollar in a multilateral world.

A macro perspective is always tough for politicians. That is especially true today in the US, because it doesn't fit neatly with xenophobic bilateral fixations like China-bashing. With new signs of Chinese resistance now surfacing, the phase one accord may never see the light of day. But, if it does, it will hurt more than it helps in addressing one of the world's toughest current economic problems.

Leveraging RCEP & the FTA with USA

Decisions to conclude RCEP, and working out a trade deal with the US are examples of India making trade a decisive instrument, for both, economic and foreign policy goals

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Views are personal

THE RCEP NEGOTIATIONS are likely to be concluded at the 35th ASEAN Summit in Thailand during October 31 to November 4, 2019. Along with the RCEP, India is also moving close to signing a trade agreement with the US. Both are major developments for India in signaling deep and comprehensive external engagement with major and middle powers, and key regional forums like ASEAN. They are also significant in India's decision to go ahead, notwithstanding stubborn domestic resistance.

For quite some time, conflicting impressions have gone out regarding India's seriousness in engaging with the rest of the world. The strongest of these struck at Davos in January 2018. Addressing the gathering at the annual meeting of the World Economic Forum, prime minister Modi highlighted three 'greatest threats to civilisation': climate change, terrorism, and backlash against globalisation. On the third, he alluded to 'forces of protectionism ... raising their heads against globalisation' for 'reversing' the process—a trend reflective of countries becoming 'more and more focused on themselves', with the impact of such mindsets being no 'less dangerous than climate change or terrorism'.

The emphasis on protectionism dragging future progress of the world would have rekindled hopes among some of India—traditionally a hesitant and slow trade liberaliser—converting itself to be a new champion of economic globalisation. The hopes were consistent with the robust character of Indian foreign policy witnessed since prime minister Modi's assuming of office in May 2014. The hopes were dashed when, within a few days of the prime minister's speech, India's Union Budget went all-out in raising customs duties on several imports for providing 'adequate protection to domestic industry'. More contradictions between foreign and trade policies were variously evidenced before and after, particularly India's studious reluctance to engage in FTAs.

The eventual decisions to conclude RCEP, and working out a trade deal with the US are examples of India making trade a decisive instrument for both, economic and foreign policy goals. The bold attitude of the government is, in spite of domestic economic groups (e.g., the RSS-affiliated Swadeshi Jagran Manch (SJM) that organised a nationwide protest against joining RCEP), domestic industry, and even major government departments and ministries, remaining viciously opposed to India's joining FTAs and lowering trade barriers. These defensive mindsets are not expected to change. But, what is interesting is the government's decision to go ahead on two large trade deals in spite of the knowledge that it might end up antagonising several constituencies and stakeholders. However surprising it might seem, the decision reflects an executive mindset that has been seen before in India on implementing politically difficult economic reforms.

The commitment to RCEP and a trade deal with the US come at a time when the Indian economy is not in the best of health. Since returning to office for a second term, the Modi government has been saddled with the challenges of reviving an economy whose GDP growth is slowing and several major sectors moving into a sluggish mode. Over the last three months, the government, led by the finance ministry, has announced a slew of measures for kick-starting growth, and reviving investment. These include those taken specifically for encouraging exports. Exports appear to have become a priority for the government with the realisation that, reviving external demand is essential for lifting overall demand. Exports can increase significantly if India is able to attract export-oriented FDI from the US, and major RCEP members. Such FDI, apart from triggering fresh economic activity at the ground level, including new jobs, would push Indian products deeper in foreign markets, enabling them to overcome the problem of stagnant domestic demand. The late, but much-needed focus on exports, along with the emphasis on attracting export-stimulating investments, fit well with the goals of joining RCEP, and getting a FTA with the US. Moreover, a generous corporate income tax cut, and a few other notable improvements in doing business indicators, should contribute to greater competitiveness of Indian exports, enabling them to take advantage of these trade agreements.

Nothing comes free though. Both RCEP and the India-US trade deal would irk multiple domestic constituencies. Notable among these are dairy producers, the steel and chemicals industry, and the large number of constituencies opposed to India's broader trade and investment relations with China and the US on geopolitical and ideological grounds. The current context of economic slowdown, however, offers the government the right opportunity of pushing through the trade deals. This is similar to what past governments have done in identical situations. The history of India's economic reforms over the last three decades has several examples of the politically 'difficult' external sector reforms being implemented during episodes of economic slowdown. Beginning from policies taken by the Narasimha Rao government during the balance of payments crisis in 1991, and those during the later years of the Vajpayee government when GDP growth dropped below 4%, similar context and response were noted during the Manmohan Singh government in September 2012, following stagnating industrial growth and prospects of downgrade in global credit rating.

Crisis produces opportunities. RCEP and India-US trade might be the latest beneficiaries of such opportunities given India's proclivity of using difficult economic conditions to overlook domestic opposition in pursuing contentious reforms. Ironically, they might not have happened had the Indian economy not got stuck.

LETTERS TO THE EDITOR

Virtually legal, stable coin

The virtual currency market remains highly volatile as international acceptance of Altcoins is speculative, even though experienced traders predict a huge demand on account of lowering supply, and owners promise compliance with regulations in the near future. Excessive selling pressure, and bearish investor sentiment persist. The potential cons of terror funding, round tripping, money laundering, information security breach, and non-compliance with tax norms outweigh the benefits of ease of use, cost savings, and financial-inclusion. Of late, global-concerns indicate a rising need to address the wide array of regulatory challenges clouding virtual currencies. Increased scrutiny of leading e-commerce & social-media platforms highlights the need to monitor political advertising, adopt a collaborative approach, and improve promoter goodwill. Legacy players and potential entrants viz. e-commerce firms, online retailers, and social media platforms must be subject to uniform regulations. Misuse of the existing vast outreach by platforms to create inroads in the uncertain asset class, and leverage the avenues to increase exposure threatens to jeopardise the interests of novice investors. At present, a limited availability of secure advanced networks and infrastructure impedes the application of digital currencies as a viable alternative for peer-to-peer payments/fund-transfers. To attain monetary stability, it is important to expedite the launch of an alternative crypto-format, which is transparent, and adheres to global financial standards. A well-regulated digital instrument, with crystal clear norms on ownership, categorisation, valuation, taxation and end-use, can facilitate market-accessibility, and optimal utilisation of the underlying block-chain technology.

— Girish Lalwani, Delhi

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TRADE CHURN

Who will milk the benefits?

Before entering into global trade agreement like RCEP, India must take note of the dairy sector's huge contribution to the economy

Dairy sector contribution to the Indian economy

Year	Paddy & wheat output (₹ cr)	Milk output (₹ cr)	Milk/paddy & wheat production (%)	Milk as % of live-stock output	Agri to GVA (%)	Livestock to total GVA (%)	Livestock as % of Agriculture GVA
2011	2,88,663	3,27,767	11.9	67.2	18.5	4.0	21.8
2012	3,29,976	3,72,228	11.4	65.9	18.2	4.0	22.0
2013	3,63,196	4,23,150	14.2	65.5	18.6	4.1	21.9
2014	3,55,655	4,95,835	28.3	66.8	18.2	4.4	24.4
2015	3,74,018	5,60,777	33.3	67.1	17.7	4.6	26.2
2016	4,19,206	6,14,387	31.8	66.9	17.9	4.6	25.8

Note: Author calculation, Source: National Account Statistics.

Farmers' share on consumers' price and average final bound duties on dairy product

Country	Farmers' share on consumers' price@	Self-sufficiency in milk (%) @	Farmer milk price as % of world market price @	Avg final bound duties on dairy product (%)#	Milk yield per cow in kg in 2018	No. of dairy farmers (million) 2018*
India	60	100	15.6+	63.8	1,715	73.08
Russia	47	80	27.4+	15.1	3,855	3.091
Canada	46	99	83.4+	208.5	10,491	0.011
Germany	45	111	7.5+	$	8,063	0.063
Japan	45	73	153+	101	8,604	0.018
US	43	105	16.6+	19.2	10,500	0.038
Denmark	43	202	11.3+	$	9,982	0.003
Belgium	37	100	4.7+	$	7,928	0.010
South Africa	36	102	1.1+	92.3	5,863	0.001
Brazil	35	97	10.6+	48.8	2,202	0.962
France	34	116	11.2+	$	7,054	0.063
Pakistan	33	99	3.9+	100	1,276	6.984
Netherlands	30	192	13.7+	$	8,687	0.012
Italy	27	80	31.4+	$	7,500	0.028
Australia	24	117	6.8-	4.3	6,197	0.005
New Zealand	23	823	10.0-	10.0	4,437	0.012
China	20	76	68.1+	12.2	2,383	0.013

Profiles 2019. + denotes above world market price above - below the world market price and *-The world dairy situation 2019.$ denotes not available but follows EU tariff rate (44.8%)

INDIA'S LIVESTOCK SECTOR ensures food security, provides employment, which leads to a reduction poverty and, more importantly, rural inequity. This is also evident from the increasing dependence of Indian farmers on livestock. Share of livestock sector to Gross Value Added (GVA) increased from 4% in 2011 to 4.6% in 2016. While share of agriculture and allied sector to gross value added consistently declined from 18.5% to 17.9%, during this period share of livestock in agricultural and allied gross value added increased from 22% to 26%. Among the livestock products, milk and milk product consist the highest share (67%) in the value of output from the livestock sector. Besides, this sector has been growing 11%, compounded annually, whereas the agricultural and allied sectors have grown 9% over this period. In recent years, milk and milk products are the largest agricultural commodity generating 32% more output than combined output of paddy and wheat.

According to the Agriculture Skill Council of India report, around 8.4 million small and marginal dairy farmers' directly and indirectly depend on dairy sector for their livelihood, out of which 71% are women. Moreover, of total workforce engaged in dairy activities, 92% are from rural areas. Further, around 69% of dairy workers belong to socially and economically disadvantaged communities.

Another critical aspect is that while the crop production employs rural workforce for 90-120 days in a year, the dairy sector plays an important role in providing alternative employment opportunities.

According to the situation assessment survey of Agricultural Household's report, 2013, the average monthly receipts per agricultural household was ₹5,542 for those engaged in cultivation activity and ₹2,604 for households engaged in animal farming. Moreover, 69% average monthly receipts were derived from production of milk. Marginal and small agricultural households holding less than 0.01 hectares of land reported a higher share (78.3%) of income from the production of milk compared to the all-India average (69%).

According to the Food and Agriculture Organisation 2017, India is the largest milk producer in the world which contributes 21% to the world milk production followed by the United States (12%), Pakistan (5.3%), China (4.2%), Brazil (4%), Germany (3.9%), Russia (3.7%), New Zealand (2.5%), Netherlands (1.7%) and Australia (1%). In terms of numbers of dairy farmers, India is followed by Pakistan (7 million), the United States (0.038 million), China (0.013 million), New Zealand (0.012 million) and Australia (0.005 million).

India has around 73 million dairy farmers mostly holding one or two milch animal per farmer. Also, in India, farmers share in the retail price of milk is around 60%, the highest amongst other countries (International Farm Comparison Network, Dairy Report, 2018). Whereas, in the case of New Zealand and Australia, where average holding is 430 and 263 milch animals per farmer, respectively, price share is only 23% and 24%. Similar is the situation in the United States, Germany, France, and Denmark, where farmers receive only 43%, 45%, 34% and 43% of consumers' price on milk and milk products, respectively.

Milk yield, though, is highest in the US followed by Canada, Denmark, Netherlands, India and Pakistan. In terms of farmer milk price as a percentage of world market price, all countries' milk prices are above the world market price except New Zealand and Australia. The cost of producing milk in India is lower than Russian, Canada, Japan, the United States, Italy, and China but above Germany, New Zealand, and Australia. Still, India is more comfortably placed in terms of milk production, that too, at cheaper rate. It would, thus, be unfair to compare India's small holder dairy farming system with that of developed countries'.

India's milk production is expected to increase to around 330 million metric tonnes in 2033-34 as per NITI Aayog working group report 2018 from the current level of 176 million metric tonne (2018-19). India has enough potential market to utilise surplus milk and also increase the trade balance in dairy products. Countries like New Zealand, Denmark, Netherlands Australia, France, Germany, and the USA have milk self-sufficiency of more than 823%, 202%, 192%, 117%, 116%, 111%, and 105%, respectively. These countries, particularly New Zealand and Australia, are looking to push their surplus milk and milk products to India through Regional Comprehensive Economic Partnership (RCEP) trade negotiation.

India should look at import duty structure of other countries such as Canada, Japan, Pakistan and South Africa. Canada imposes a 208% protection duty on dairy products

According to the industry estimates the market share of Indian value-added milk products is estimated to be around 0.5 million metric tonne. If we allow imports of all value-added dairy products from New Zealand that is equivalent to 5% of their total export and volume of 0.133 million metric tonne, New Zealand alone will capture almost one-third of domestic market. This will not only adversely affect Indian economy, but also affect the socio-economic condition of millions of rural small, marginal and landless farmers particularly and economically disadvantaged communities.

Indian government should look at import duty structure of other countries such as Canada, Japan, Pakistan and South Africa. Canada imposes 208% protection on dairy products, which are the highest trade protection among the countries followed by Japan (101%), Pakistan (100%), South Africa (92.3%) and Australia (4%). Further, Australia, South Africa, Mexico, Venezuela, and Chile do not import dairy products from India.

Thus, the county needs to take a guarded approach in terms of joining the Regional Comprehensive Economic Partnership. Dairy is the backbone of the rural economy, any move to allow unrestricted imports of dairy products would spell disaster for the farmers.

Going green

UC DOSI

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Aluminium's role in green applications for sustainable development

TODAY, WORLD ECONOMIES are growing rapidly, and the need for sustainable development is far more pertinent than ever before. The on-going dialogue for sustainable living has inspired and encouraged governments, businesses as well as individuals to ensure that the current development demands do not hamper the ability of future generations to meet their own needs.

While countries have collectively made progress at meeting the United Nations goals, situation is grim. According to the Sustainable Development Goals Report 2018, economic losses were worth $300 billion in 2017, three in 10 people in developing countries lack access to safe drinking water, four in 10 lack access to clean cooking fuels and technologies, world hunger is on the rise again, and 4.2 million people died from air pollution in 2016. Sustainable development is, thus, a need of the hour.

Large businesses across industries are constantly on the lookout for greener alternatives that can aid the implementation of sustainable business models. Since aluminium is the third most abundant material on earth after oxygen and silicon, making up 8% of the earth's crust, it has successfully filled this gap by providing greener options to industries like construction, automobile, electrical and packaging. While aluminium is not as cost-effective as plastic and steel, it is 100% recyclable, durable, and energy-efficient; it also has the smallest total carbon footprint among competing materials.

Aluminium has been at the helm of green applications in the last decade. To achieve lower carbon footprints, countries are extensively using aluminium for the following:

Green Buildings: Green buildings have gained popularity over the last five years, and this revolution is heavily backed by aluminium. Aluminium's strength makes it the first choice for structural frameworks, while its reflectivity makes the buildings more energy efficient. The recycling rate for aluminium in the construction industry is 95%, making it a key component of LEED-certified buildings. It also enhances the solar efficiency and minimises air leakage through aluminium fenestration. It is an excellent alternative to metals like steel in the manufacturing of green buildings.

As it is empowering and driving sustainable initiatives, the demand for aluminium across different sectors is expected to grow by 8% CAGR in the next five years

Electric Vehicles: Aluminium is expected to accelerate worldwide adoption of electric vehicles, making it one of the most sought-after metals in the automobile industry, as it is crash absorbent, durable, corrosion-resistant, easily formable and infinitely recyclable. By virtue of being lightweight, aluminium reduces the mass weight of a vehicle, thereby making it more fuel-efficient. It plays an instrumental role in reducing the CO2 emissions from electric vehicles and thereby improving the air quality. Furthermore, the thermal and anti-corrosion properties of aluminium make it an ideal component for battery frames. These lightweighted vehicles are also expected to meet the safety requirements given its structural strength and can be fully recycled while emitting 1.5 tonnes fewer greenhouse gases over its lifecycle.

Aluminium Packaging: Aluminium's ability to be extruded or rolled into any shape, and its insulating properties, make it a versatile choice of metal for packaging. This non-toxic green metal can be rolled up to eight times thinner than a banknote! With the recent ban on single-use plastic in India, aluminium is increasingly being used for packaging, like foils, packaging, etc. It also reduces shipping costs and carbon emissions for beverage makers. Alloys of series 1xxx, 3xxx, and 8xxxx are the most common forms found in packaging that have a shelf-life exceeding 12 months.

With the advent of energy-efficient technology, countries like India need to adopt a green-mindset. India currently exudes 5.7% of the total global emissions and is progressing towards lowering that number. The use of aluminium presents the excellent potential for increasing the sustainable use of energy. As it is empowering and driving sustainable initiatives, the demand for aluminium across different sectors is expected to grow by 8% CAGR in the next five years.

Testing India's mettle in metals

India needs to develop a Shanghai like structure for a robust metal market

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METAL MARKETS TODAY are convinced of the dependence of global metal prices on the health of China's economy. China is the world's biggest metal consumer with a third of global trade in manufactured goods (World Bank 2018). No wonder, metal markets keenly await the data on Chinese manufacturing and economy to appropriately price most metals. Such an influence is also backed by the existence of robust ecosystem

In 1999, metal trading started on Shanghai Futures Exchange (ShFE), beginning with Copper and Aluminium. To match the mettle of London Metal Exchange (LME), ShFE began discovering prices that reflect the Chinese market fundamentals.

The success of ShFE derivatives market accelerated the practice of warranting in the physical market leading to healthy development of trade financing with the warranted inventory being used as the collateral. During the last decade, copper and aluminium inventory in ShFE warehouses have expanded by three times. Development of ShFE-led warranting raised the bar of trust built around warehouse receipts.

State policies supported this development. China Nonferrous Metals Industrial Association (CNIA) emerged as the state-recognised nodal body for promoting compliance with national policies. Besides, the National Nonferrous Metals Standardisation Technical Committee periodically evaluates the need of revision in standards based upon the industry requirement in conformity with the global standards. The entry of international players for warehousing and warranting under ShFE framework indicates the steady integration of the global and Chinese standards.

With China being the world's largest metals consumer, prices discovered on the ShFE platform are today a key indicator of the local fundamentals.

With its aim of being a 'price-maker' been achieved, ShFE is setting itself to compete with LME to be the global benchmark exchange. As per 2018 FIA annual report, ShFE traded 1,119 million tonnes of major non-ferrous metals, about a third of 3,932 million tonnes on LME. The proposed opening up of ShFE to foreign investors will further help Chinese market.

Indian metal markets are in the same state today as the Chinese were at the start of 21st century. The primary and secondary (scrap) Indian physical metal markets are in a highly unorganised and fragmented state amidst lack of quality standards and storage infrastructure with poorly developed forward curve. Despite being one of the largest consumers, Indian markets largely benchmark their deals on LME discovered prices.

Lack of development of regulated warehousing ecosystem for metals has not only crippled development market for financing of inventories but also restricted most major deals to a month's horizon in an effort to lock their margins. As the first step towards development of regulated warehousing sector, primary and secondary (scrap) metal markets need synchronized standards

A significant development has been taking place in Indian metal markets with the launch of India-benchmarked MCX deliverable metal futures contracts. All five base metals futures contracts on MCX: Aluminium, Zinc, Lead, Nickel and Copper have recently been made delivery-based. The new deliverable contracts have been readily welcomed by the market participants and about 24,971 tonnes of base metals have been delivered through MCX's delivery mechanism in the half year ending September 2019. In addition to this, an average daily Open Interest (signalling long-term interest) stood at around 80,000 MT in September 2019 and the current stocks of around 18,000 MT in the exchange-accredited warehouses. The India-benchmarked deliverable futures contracts have aided the transparent discovery of the India premiums. While, the product design of base metals still largely follows LME brands/standards, but it is expected to lead to the alignment of domestic standards.

If India's metal futures markets were to recreate Shanghai's success, it is essential that its price discovery process is backed by robustness of participation, financialisation of the metal markets ecosystem, standards and testing mechanism matching that of global markets, and the frequency/efficacy of relevant economic and market data collection and dissemination. It warrants that there is a policy unleash in India around standards and testing, financing of metal stocks, regulated warehousing and warranting, economic/market information collection and dissemination, etc.

The Bureau of Indian Standards, which prescribes standards, should provide for purity based standards for metals in alignment with global market needs, besides setting up sampling\testing protocol and accreditation for testing laboratories, matching international standards in an effort to connect the Indian markets with global counterparts. Further, bringing storage of metals under the Warehousing Development and Regulatory Authority will enable issuance of e-NWRs providing for the safety of financial institutions leading to development of forward curve across tenures. Allowing banks and financial institutions to finance such e-NWRs would not only ease the working capital needs of the user/producer industries but also make value chain develop storage to effectively cushion price fluctuations and thereby sustainably supporting the 'Make in India' policy aspirations. Healthy stocks and transparent information about the same will make markets further more efficient. Finally, existence of a nodal ministry for metals similar to that of steel with a mandated responsibility of the sustainable development of non-ferrous metals ecosystem will bring coherent policy actions aimed at making India a competitive manufacturing base for global consumers and to bring its share of global trade to 5%.