Monetising music

Music is the lifeblood of the entertainment ecosystem; yet it remains small and under-invested in. Why?

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

Have you ever wondered why music companies invest almost nothing in developing new formats, markets or genres?

There are over a hundred genres such as Indipop or carnatic or quawaali across say 200 languages and dialects. We may hear of a funny "Why this Kolaveri di" or a lovely bhajan only if it goes viral. Otherwise the hundreds and thousands of singers, songs, instruments and compositions are rarely sampled by a large cross-section of people within India, forget outside. The largest market for Latin music is outside of Latin America. K-Pop or Korean pop music's global popularity has brought billion dollar valuations for Korean music firms. The last big hit from India was the A R Rahman composed Jai Ho in 2008. Music is a key piece of content across India's ₹1,67,400 crore entertainment ecosystem — for radio, TV, OTT, phones, restaurants et al.

What then holds it back? Two things.

One, it is very small, fragmented and totally slammed by piracy. Going by EY figures the industry made revenues of just ₹1,400 crore in 2018. Of this 80 per cent comes from film music. Therefore the largest chunk of investment available goes there. Historically films have brought in over 90 per cent of the industry's revenues. The proportion has gone down over the years as music channels (Channel [V], MTV et al), formats (cassettes, CDs, streaming services), television and the growth of the concert business helped non-film music find its audience. That is how Indipop, ghazal and other genres grew. But film music, usually a fusion of genres remains the most popular. Now digital offers the ability to slice and dice by musician, genre, country, language among dozens of variables.

But it still hasn't been leveraged to expand because the money the music industry makes is pathetic. And regulators have helped keep it that way. This is the second reason why the business lags.

Think about it. The ₹3,100 crore radio industry is almost three times the music business. It makes a bulk of its money from music. However, it pays just about ₹60 crore as royalty. A Copyright Board order from 2010 mandates that radio stations share 2 per cent of the net advertising revenues with music licence holders. It came at a time when radio was reeling from lack of scale, high licence fees and losses. The business is now competitive, and revenues come in from multiple sources like political ads and live events. It is time then to allow "voluntary licensing to determine market rates," says Megha Patnaik fellow at Esya Centre and assistant professor, Indian Statistical Institute. With the compulsory licensing regime up for review in September 2020 the Delhi-based think tank along with the Indian Music Industries association or IMI held a discussion on the subject last month.

Across media segments (TV, OTT, DTH) content costs range from 15-40 per cent. So it seems unfair that content costs in radio are only 2 per cent. However both compulsory licensing and the 2 per cent average are global problems says Mark Schultz, director, Intellectual Property and Technology Law Program, University of Akron School of Law. He reckons that voluntary licensing — meaning allowing buyers and sellers to negotiate — could help music companies get a 25-50 per cent revenue share. Streaming platforms, which are not subject to the 2 per cent rule, share between 50 per cent and 70 per cent with music owners.

Voluntary licensing sounds ideal but can it work in a fragmented market like India where large buyers like Airtel or Jio control reach? Maybe there is a case for increasing the compulsory licensing royalty rate to 10-15 per cent.

For perspective there is always China. About five years ago it shifted to a free-market royalty regime and cracked down hard on piracy. The result -- its music industry has added 40 million jobs to the entertainment ecosystem and China has become one of the world's top 10 music markets up from 39 in 2010. Maybe a combination of things — a free market and some regulatory backbone -- could help transform India's music industry.

As IMI president Blaise Fernandes puts it: "Open up the recorded music industry sector and we will see the next Despacito emerge from India and that will be a true Make in India story."

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CHINESE WHISPERS

Change, no change

The Andhra Pradesh government has been forced to make a U-turn a day after it announced that the APJ Abdul Kalam Pratibha Puraskar would be renamed the YSR Vidya Puraskar. Following a severe online backlash and attacks by critics including former chief minister N Chandrababu Naidu, the renaming of the award — named after former President APJ Abdul Kalam — was dropped by the Jagan Mohan Reddy government in the state. The awards are given on National Education Day on November 11, the birth anniversary of Maulana Abul Kalam Azad, the first education minister of independent India. In the past few months, Jagan Mohan Reddy (*pictured*), who came to power after a landslide victory in May, has faced criticism over the renaming of the previous government's schemes after his father and for painting a village secretariat building in the colours of his party.

Waiting for answers

Congress leader Rahul Gandhi has often been criticised for his lacklustre record in Parliament when it comes to asking questions, or making 'Zero Hour' interventions. The former Congress president is preparing in earnest for the forthcoming winter session of Parliament. Sources close to him say Gandhi, a Lok Sabha member from Wayanad in Kerala, will ask questions on issues of public importance during the Zero Hour. Once the session is over, Gandhi is likely to embark on 'yatras', or travel, in different regions of the country. At least five such 'yatras' are being planned. During those, Gandhi will interact with the people in general. Gandhi has been a Lok Sabha MP since 2004.

Golden words

West Bengal Bharatiya Janata Party President Dilip Ghosh (*pictured*) stirred up yet another controversy after claiming that Indian cows produced gold when sunlight fell on their humps. And that was the reason the milk of Indian cows had a yellow tinge. Calling foreign bred—cows, or videshi cows, aunts, he said only Indian cows should be referred to as *matas*. As expected, his comments went viral in no time, drawing muck flak from social-media users. A bunch of them suggested, albeit in jest, that Ghosh should be made the next finance minister so that India could start producing gold from cow's milk, which would go a long way in solving the country's economic woes.

Start-ups move slowly into space

In India's space industry, start-ups are taking off and investors are pouring money into them lured by the promise of distant growth

T E NARASIMHAN

They may be tiny and working on a tight budget, but there is no dearth of enthusiasm in India's fledgling space industry. Adventurous space entrepreneurs see sky as the limit going by the magnitude of opportunity in the sector.

The small satellite launch market alone is estimated to be worth $69 billion by 2027, according to a report by satellite applications consultant Euroconsult. It estimates 7,000 small satellites to be launched globally over the next eight years. When other aspects of the space market are added to this, the overall industry becomes much bigger at $350 billion, and India has a mere 2 per cent of that share.

Driven by the huge opportunity for growth, many Indian Space Research Organisation (Isro) employees are leaving the comfort of a paycheck and launching their own ventures or getting involved in mentoring other start-ups.

Most of these new ventures have come up in one of the three areas where Indian scientists have an advantage: Designing and manufacturing space-related hardware and components; services built around data gathered from space; and those that are in the business of sharing know-how with other space-related start-ups.

The numbers speak for themselves. Until three year ago, there were only three or four companies, today over 30 new ventures have come up in the space arena.

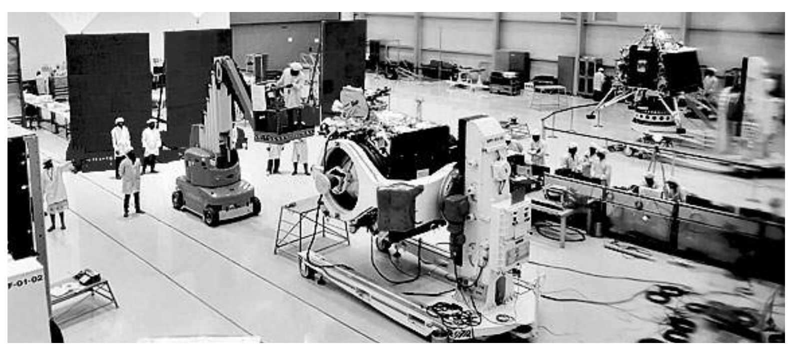
"A combination of my interest in the future of space, increase in demand, Indian advantage in global space business, and the need for public-private partnership to be internationally competitive, all together led to moving out and starting my own venture," says Pawan Kumar Chandana, a former engineer at the Vikram Sarabhai Space Centre, who founded Skyroot in 2018.

Skyroot Aerospace has a team of 35 people, mostly former Defence Research and Development Organisation and Isro employees, who have been developing launch vehicles for small satellites.

Covering a wide range of payloads between 200 kg and 720 kg, these launch vehicles (part of the Vikram series developed by Isro) offer the most affordable ride to space.

Branching out of Isro has its obvious advantages, the most important being the industry know-how, says Prateep Basu, co-founder and chief executive officer of SatSure, which was started in 2016 and today has offices in India, Switzerland, the UK, and Australia.

It offers bespoke geospatial big data platform to enterprise customers. The platform combines satellite imagery, proprietary algorithms with weather, Internet of Things, drone imagery, social and economic data to generate near real-time and location specific insights on agriculture, banking, financial services and insurance, infrastructure and climate.



INVESTMENTS IN AEROSPACE (2015 – 2019 YTD)

YEAR 2019* | NO. OF DEALS 4 | Amount ($M) 3.4

Company	Investors	Amount ($M)	Date
PE-VC			
Bellatrix Aerospace	StartupXseed Ventures, IDFC Parampara Capital, KITVEN, Others	3	Jun-2019
AgniKul Cosmos	Speciale Invest	0.4	Feb-2019
Astrogate Labs	Speciale Invest	N.A.	Jun-2019
Kawa Space	Speciale Invest	N.A.	
ANGEL			
Kawa Space	Vijay Shekhar Sharma	N.A.	Sep-2019
Bellatrix Aerospace	Deepika Padukone, Growx Ventures, Others	N.A.	Jun-2019

Source: Venture Intelligence, Venture Intelligence

For instance, it can use the available satellite data from the late 1990s to assess risks of drought or flood or even pest infestation, and take steps to mitigate them using geospatial technology to generate real-time information and early warning signals. It also assists with monitoring of large area, crop suitability mapping, and early warning signals for natural disaster.

Where there are start-ups, investors tend to follow. In 2019 so far, $3.4 million has flowed into the sector (*see table*). Most of the money has come from incubation centres such as that of the IITs, angel investors, venture capital, PEs and deep-pockets of other entrepreneurs who have made their money online. PayTM's Vijay Shekar Sharma, for example, has invested in Kawa Space, a start-up that designs and operates earth observation satellites for financial services firms, governments, among others.

This is a sea change from the nature of the space industry earlier, which developed in clusters and was built around the requirement of Isro alone, supplying components for its various missions. As a result the scale of the industry remained in the domain of micro, small and medium enterprises. "

"Now with the exponential increase in the requirement of rockets, satellites, applications and related ground infrastructure, this is an exciting time for the private industry to supply to the domestic market and integrate in the global supply chain," says Ratan Shrivastava, former advisor at FICCI's Space Division and an aerospace consultant.

"The space industry today is where the computer industry was in the 1970s," says Awais Ahmed, founder and CEO at Pixxel Labs, which is into building and launching constellations of nano-satellites.

"We are seeing reduction in launch prices, critical electronic components becoming smaller in size and off-the-shelf products (not custom-made for space), shrinking costs of manufacturing. It is a very lucrative market for anyone with passion and interest to start up," he adds.

There is no doubt that there is scope for widespread adoption of space technology in sectors like agriculture and in pollution monitoring and more companies today are willing to buy space-related products and services. But none of these start-ups have a strong foothold yet. It's an industry growing side by side with multiple companies starting up that complement each other.

"There are problems with growth and sustainability and developing a robust long-term business plan to justify the VC valuations," says Shrivastava.

Currently, the demand comes mostly from other businesses. Isro hasn't engaged with the Indian start-ups in a big way, he adds. The business model, therefore, is to generate revenue from other start-ups in the industry; satellite start-ups need the launch start-ups and vice versa; and satellite component manufacturers need satellite operators and vice versa.

For the industry to move out from the work-share model to full-fledged exporter, some things need to change first, "We need to develop space infrastructure. At present, we have only one functional space port from where rockets can be launched," says Shrivastava.

INSIGHT

Is South Asia ready for take off?

To ensure the region's growth path remains strong and sustainable, new policies and initiatives need to remain mindful of fiscal, financial and environmental risks

ANNE-MARIE GULDE-WOLF

Since the mid-1980s, durable reforms coupled with prudent macroeconomic management have brought steady progress to the South Asia region, making it one of the world's fastest growing regions. Real GDP growth has steadily increased from an average of about 3 per cent in the 1970s to 7 per cent over the last decade. Although growth trajectories varied across countries, reforms supported strong per capita income growth in the region, lifting over 200 million people out of poverty in the last three decades. In India as an example, important waves of reforms began in earnest in the early 1990s, focused on reducing business regulations and liberalising the trade regime, and continued post-2000 with efforts to promote macroeconomic stability (including the Fiscal Responsibility and Budget Management Act in 2004, the inflation targeting framework for monetary policy in 2015, and the pan-India goods and services tax in 2017).Today, South Asia accounts for one-fifth of the world's population and, thanks primarily to India, contributes to over 15 per cent of global growth.

A newly released paper by the IMF's Asia and Pacific Department finds that South Asia is poised to play an even bigger role in the global economy going forward, in both relative and absolute terms. South Asia's contribution to global growth is set to increase over the medium to longer term, while more mature economies decelerate. Greater economic diversification, with an expansion of the service sector, improvements in education, and a still sizable demographic dividend are among the key elements underpinning this performance. India in particular has benefitted from the transition from exporting tea and fabrics several decades ago towards a more sophisticated basket of goods and services today.

Based on demographic trends, more than 150 million people in the region are expected to enter the labour market by 2030 — this demographic dividend is most enduring in India and Nepal, where the working-age population is not expected to peak until 2040. This young and large workforce can be South Asia's strength, if supported by a successful high-quality and job-rich growth strategy. Amid a changing global economic landscape, South Asia will need to leverage on all sectors of the economy in a balanced way, supporting improvements in agricultural productivity and a sustainable expansion of manufacturing, while promoting higher-skill services, to achieve this goal.

To build on the strong performance to date and allow for growth to take off in earnest, the countries in the region will need to step up their policy and reform agenda. South Asian economies can further open up to trade and foreign direct investment (FDI), improve governance, and foster financial development to enable more efficient allocation of resources to the private sector and reduce the still significant state footprint in the economy. For India, there is a particularly large need for infrastructure investment, including in the areas of (renewable) energy, transport, water, and urban services — land reforms are important to facilitate this investment. The region will also need to prepare its workforce for the challenges of the twenty-first century to be able to fully reap the benefits of its demographic dividend. Investing in human capital and addressing the large informal sector — taking significant steps to strengthen women's economic empowerment and labor force participation and support the youth—would bring sizable economic gains to the region.

Following up on its investment in tertiary education, India should now also increase spending directed at primary education, broadening access to quality education and boosting literacy across the country, including for young girls.

Sustained structural reform efforts, including successfully harnessing its young and large workforce alongside substantial trade and FDI liberalisation, could bring India's real GDP per capita to nearly 50 per cent that of the United States by 2040, with important spillovers to the region. Under a full liberalisation scenario, South Asia could contribute about a third of global growth by 2040, with real GDP growth surpassing 6.5 per cent, compared to nearly 6 per cent under the current baseline and 5 per cent in a downside scenario where the benefits of the demographic dividend cannot be secured.

The region's robust economic performance and recent elections in most South Asian economies offer a propitious window of opportunity to accelerate this reform agenda. Cross-country evidence finds a higher likelihood of achieving more reforms, at lower cost, in the first two years of a government office. A frontloaded reform programme is also more likely to succeed as it provides more time to see the reforms bear fruit. All of this strengthens the motivation for the Indian government to act on reforms early in its second term.

Clear communication on the benefits of the reforms and prioritisation based on their expected macrostructural impact are key to building reform momentum. Stronger social safety nets are especially important to supporting the most difficult structural reforms, notably to labour markets, minimising their distributional impact on the most vulnerable segments of the population, and promoting strong and inclusive growth. To ensure the region's growth path remains as strong as sustainable, new policies and initiatives need to remain mindful of fiscal, financial and environmental risks.

The author is deputy director, Asia Pacific Department, IMF

LETTERS

Why we don't need RCEP

This refers to "India decides against signing RCEP trade deal, says terms not favourable" (November 4). It is good that India has decided not to sign up RCEP for now. Since India's interests were not addressed it did not make sense for it to sign on the dotted lines. Since India is mainly an import-driven economy, it is all the more imperative that we do not sign up with anything that will further increase our trade deficit. It is good that other countries that have signed up with RCEP have acknowledged this fact. Talks of having the RCEP started in 2012 and as recently as in 2017-18, India had offered to eliminate tariff on about 90 per cent of the items from ASEAN countries and 74 per cent from China alone, which meant India had conceded too much ground and it was not a winsome situation for us.

In the past also such partnerships had proved adverse for India. Small businesses that had suffered post demonetisation and GST would have suffered a huge blow had India signed on. Indian Inc, small businessmen and farmers have all the reasons to be happy. But main task starts now for the government. Now it has to ensure that Make in India gets all the desired push and all the pending domestic reforms see the light of day to really make India's decision meaningful. We will have to improve our export by several notches and that can only happen when we produce the best quality products and give China a run for its money in the global market.

Bal Govind Noida

We need fresh air

Like every year, this year too Delhi and the NCR region find itself enveloped by toxic air. As usual, the authorities are busy in their favourite pastime, playing the blame game in full public glare. The sight of school-going children wearing protective masks have failed to awaken their conscience. The common man finds himself helpless, as always, hoping that better sense would prevail among the authorities, coaxing them to do the needful.

I am asking here a larger question: Is it not the failure of our collective responsibility that toxicity in the air reaches alarming proportions every year and we are rendered helpless by the system? Why can't those responsible shed their political egos and do something to mitigate our sufferings? Why can't our legislatures, be it Parliament or state assemblies, discuss and deliberate the issue on a priority basis and suggest a way out? Why does the Supreme Court need to step in in a matter that is purely in the realm of administrative capability? And finally, when would our governments wake up from deep slumber and think about resolving this menacing problem?

Democracy is all about discussion and dialogue. But our democratically elected governments are shying away from meaningful engagement to find a solution to the problem. Hopefully with judicial intervention and pressure from the civic society, the authorities would become more responsible, bury their egos and tackle the issue.

Sanjeev Kumar Singh Jabalpur

Letters can be mailed, faxed or e-mailed to: The Editor, Business Standard Nehru House, 4 Bahadur Shah Zafar Marg New Delhi 110 002, Fax: (011) 23720201 · E-mail: letters@bsmail.in

All letters must have a postal address and telephone number

HAMBONE

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Separation of powers

Splitting posts of chairman and MD will improve governance

A section of corporate India has spoken out against the idea of separating the positions of chairman and managing director (MD) or chief executive officer (CEO), and appointing a non-executive director as chairman of the board. A report in *The Indian Express* quoted top businessmen and industry associations as saying that it was a needless reform at this time. The bone of contention is the Securities and Exchange Board of India's (Sebi's) order, making it mandatory for the top 500 listed entities to appoint a non-executive director as chairman by April 1 next year. Further, the chairman should not be related to the MD or CEO. The regulator introduced these changes broadly in line with the recommendations of the Uday Kotak committee on corporate governance, which submitted its report in October 2017. The committee noted the separation was seen to provide a more balanced structure of governance. This will enable the board to act with more independence and reduce the excessive concentration of powers. Since Sebi's mandate, more than two-thirds of India's top publicly traded companies have separated the positions.

The issue is still being debated in many countries. There is considerable pressure from shareholders in the US, for example, to separate the two and companies are moving in that direction. The proportion of S&P 500 companies whose chief executives were also chairmen more than halved in 2018. The underlying idea behind the rules framed by Sebi is to improve governance. Adhering to the higher standards of governance would benefit both the promoters and minority shareholders. There is considerable merit in the argument that having the same person as chairman and MD presents a typical case of conflict of interest. If the chairman is also the MD, he or she could be tempted to ignore the failures of the management. By separating them, a company can clearly distinguish management authority from board authority, and empower the chairman and CEO to pursue their respective duties without concern that interests in one position might negatively influence the other.

However, at a broader level, there are two important issues. First, the separation of positions is not to undermine promoters because it would not stop them from running the business or making decisions in the interest of the company and creating wealth for shareholders at large. In fact, reduction in the concentration of powers would lead to better decision-making, assuming both the MD/CEO and chairman have their roles clearly defined and are well qualified to hold the respective positions. Second, from the regulatory standpoint, rules by themselves are unlikely to change things as desired. There have been a number of cases in the recent past where the presence of independent directors, for instance, did not stop the management or promoters from taking decisions that were not in the best interests of either the company or minority shareholders. This is true for even companies with professional management. Therefore, it is important for the regulator to improve disclosure norms and develop capabilities to make sure that listed companies follow regulations. Nonetheless, while improving regulatory capability is an ongoing process, separating the position of chairman and MD/CEO is likely to improve supervision at the company level itself and lead to better governance. Higher standards of corporate governance will help attract more risk capital and augment overall economic growth.

Action plan for Delhi

Pollution requires a holistic response

Diwali firecrackers create extreme pollution once a year; crop burning emits extreme levels of pollutants for about a month every year, but construction, industrial power, and transport sources combine to create very high levels of pollution throughout the year in Delhi.

While the judiciary has been partly successful in eliminating the use of polluting firecrackers every Diwali, its impact on banning crop stubble burning has been unsuccessful. At the same time, the impact of efforts to reduce year-round pollution also appears to be marginal. While the Central government has maintained a remarkable silence on the matter, the state governments in Delhi and Punjab are busy pointing fingers at each other.

Clearly, rather than ad hoc solutions by various tiers in the government, a comprehensive and coordinated action plan is needed. This requires constantly monitoring ambient air quality and identifying the sources of pollution. While in-depth academic research has been conducted, the results are varied as each study has used different definitions, parameters, and periods.

A comprehensive action plan requires the government, or the Central Pollution Control Board, to come up with an official report on ambient air quality that identifies specific sources of various pollutants across the year. The report should state each of the sources and its contribution, and it needs to have official sanction by the government. Ambient air is what harms health and lives and knowing the specific sources will help design a specific plan. An official sanction will help the public and private sectors to work together. Such an official and periodically updated source apportionment report can then form the basis of a systematic plan of action.

The plan itself needs to allocate various tasks among different tiers and arms of the governments. The Delhi government, for instance, should be surfacing the 8,000 km of unsurfaced roads under its ambit, ramp up public transport, improve the vehicular pollution check system, and move out brick kilns. The Central government needs to ensure that the 30-odd coal power plants in the vicinity of Delhi comply with emission control. Besides, farmers in Punjab and Haryana should be incentivised to shift from water-guzzling and pollution-causing rice production to other environmentally benign crops. The economics of the farmers need to be changed so that collection and disposal of stubble can be more rewarding than burning. A proper ecosystem for zero-emission vehicles such as e-scooters should also be taken up urgently. The many municipal departments in Delhi need to come together to set up an efficient mechanism of garbage collection and disposal, and offenders in the construction sector and other polluting industries must be penalised. Such an action plan needs to be realistic and time-bound, monitored by both civil society and the government.

Finally, no action plan can work if implementation is weak. While measuring pollutants is important for policy, identifying the polluter through a red-flagging service is the key for implementation. Real-time remote sensing imagery through satellites and other means needs to be added to the menu of monitoring options. The time for doing things in an ad hoc manner and finger-pointing is long over.

ILLUSTRATION: BINAY SINHA

The logjam in rate transmission

The gap between lending rates and RBI's repo rate has reached levels only seen in crises

TESSELLATUM

NEELKANTH MISHRA

Transmission of interest rates, or rather, the lack of it, is now in a crisis-like situation. The gap between the average bank lending rate (by this we mean the weighted average lending rate or WALR on outstanding rupee loans, as reported by the Reserve Bank of India) and the repo rate (which the RBI sets) is now the widest on record. This gap has built up mostly in the last 15 months: Between January 2015 and August 2018, the average bank lending rate fell by the same amount as repo rate. It is since August 2018 that the bank lending rates have barely moved despite 135 basis points of repo rate cuts.

Some of this is the normal time lag for the rate cuts, which first affect new loans, to seep through into the overall loan-book. The gap between rates on new loans and those on outstanding loans (the flow versus the stock, so to say) has increased slightly, but in our view that is primarily due to the short-lived rate-hike cycle we saw last year, where the repo rate had risen from 6 per cent to 6.5 per cent between June and August 2018. When this happened, the rates on fresh loans, which broadly track the bank's cost of funding, first began to rise, and are now falling: Somewhat like turning a very large ship, it takes a while to change direction, and rates should fall in the next few quarters as the recent repo rate cuts flow through. However, the gap between repo rates and those on fresh loans is now inexplicably wide, and may not adjust meaningfully. The switch to external benchmarks that the RBI enforced starting October may help speed up transmission of future rate cuts, but would not help transmit the cuts already made.

Many instinctively assume this as banks profiteering, but there is little evidence of that. The gap between the lending rate on fresh loans and that based on the marginal cost of funds (MCLR) is within the historical range. The reported net interest margins of banks have also not expanded meaningfully.

There is a similar problem of rate transmission in the bond markets, too. The heightened credit-spread due to risk-aversion in bond markets has been well documented: For example, among non-banking finance companies (NBFCs), the gap between the rates at which the firms considered "safe" are borrowing, and those considered at-risk, has continued to widen over the past year.

But equally problematic has been the elevated term premium, that is, the gap between the long-term risk-free rate (as represented by yields on the 10-year government bond) and the short-term risk-free rate (that is, the repo rate). Not only is this spread much wider than it has been historically, it is now the widest globally, again pointing to some serious problems.

On the face of it, this may seem to be due to a lack of demand for bonds from foreign portfolio investors (FPIs), but the problem has other facets too. Over the past decade, the RBI has been steadily bringing down SLR limits (that is, the percentage of deposits that banks must park in government bonds), and raising FPI limits by a broadly similar amount. Till about a year back, this was working, as banks' share of government bonds fell, and that of FPIs, domestic insurance companies and RBI increased. Over the past year, however, FPIs have largely stayed away despite high real-yields, and the increase in the share of RBI has been offset by the drop in the share for banks. In a relative sense, the RBI has bought, and banks have sold. Till a month back, banks were selling government bonds to generate liquidity for lending.

The wide gap that has recently opened up between time deposit rates and the repo rate, in our view, is another symptom of the problem. The friction caused by the government's reluctance to cut small savings rates is only a part of the explanation (it affects only about 10 per cent of incremental deposits annually).

In our view, the root cause for the weak transmission in both banks and bond markets is weak money supply. Broad money (measured by M3, which is the sum of currency in circulation, deposits in banks and banks' deposits with the RBI), has been growing at around 10 per cent annually for the last three years. For an economy that expects to grow at 11 to 12 per cent annually in nominal terms, this is too low. Given that formalisation of more than 40 per cent of the economy that is informal is a policy objective, money supply needs to grow faster. However, even as de-risking in the financial system has brought down the money multiplier since Sep-2018, growth in base money (measured by M0, something that the RBI controls) has now slowed to just 12 per cent year-on-year.

As effective interest rates in the bond and bank markets are not coming down despite repo rate cuts, and the economy continues to slow, it is not surprising that system credit growth has fallen well below 10 per cent (this includes all forms of domestic credit: Banks, NBFCs and bonds). This growth was nearly 15 per cent till a year back. The decline in credit growth is both due to demand, as high interest rates discourage loan demand, and also due to supply: At this stage of the economic cycle, where growth expectations are being revised downward, it is rational for financial firms to tighten credit standards and bring down loan growth targets, and they are doing so. Rejection rates for auto loans, for example, have picked up and risk officers in mutual funds continue to discourage purchase of even marginally risky bonds.

If the growth in system credit as well as broad money supply stays in single digits, it is hard to envision a sustained recovery in economic momentum. The challenge for policy-makers is to ensure that borrowing rates come down in line with the drop in nominal growth rates. This may not occur till a force is applied to break through the logjam in rate transmission through banks and bond markets. While counter-cyclical changes to macro-prudential policy easing can be an option, the credit spread in banks and bond markets would be hard to influence through policy. However, policy-makers can and perhaps should increase the pace of base money supply, may be by buying government bonds in sizeable quantities.

The writer is India Strategist and co-head of Asia-Pacific Strategy for Credit Suisse

A retreat from RCEP

NEW DELHI DIARY

A K BHATTACHARYA

It was a big surprise that the Narendra Modi government on Monday decided not to join the Regional Comprehensive Economic Partnership (RCEP) trade deal. The prime minister was present in Bangkok to take part in the deliberations during the third RCEP Summit and India seemed set to join the new trading bloc. But almost at the eleventh hour, India pulled out of it saying that the terms of the new group would adversely affect its national interest. What went wrong at the last minute?

The RCEP was conceived as the world's largest trading bloc of 16 countries (10 members of the Association of South East Asian Nations or ASEAN and six of its free trade agreement partners) that covered over 3 billion people (45 per cent of the world population) with a combined gross domestic product (GDP) of $21.3 trillion and 40 per cent share in world trade. After India pulls out of it, the group's strength will be somewhat reduced, but will nevertheless remain the world's largest trading bloc.

The surprise over India's decision is understandable. In the run-up to the RCEP Summit talks in Bangkok early this week, the government and many other stakeholders, including industry bodies and even sections within the ruling Bharatiya Janata Party (BJP), had veered round to the view that it would be better to be inside the world's largest trading bloc than to remain outside. Being inside would give the government an opportunity to modify the rules as and when they were framed to suit its interests, it was argued from the Indian side. What's more, several countries within the RCEP had indicated to India that they would prefer India to be inside to manage and even contain a dominant member like China.

Even the government-appointed High-Level Advisory Group (HLAG) on growing India's trade had recommended in its report that there were strong advantages of India joining the RCEP. The report was submitted barely 10 days ago. At a function where the HLAG report was released, Commerce Minister Piyush Goyal said the document was like the *Geeta* or the *Bible* or the *Quran*. So, what changed so fundamentally in a few days that India changed its stance on the RCEP so completely?

That it was a surprise last-minute decision was obvious from the fact that Mr Modi had attended the Summit. Rarely do heads of government attend a Summit and pull out of a deal at the eleventh hour. Comparisons will be made between what Mr Modi did on Monday and how the US President Donald Trump withdrew from the 12-nation Trans-Pacific Partnership agreement in January 2017. But there are key differences between the two withdrawals. Mr Trump had pulled out of an agreement his predecessor had signed in 2016. Mr Modi was taking forward a deal that his predecessor government had initiated and had come close to signing it before announcing a withdrawal.

But from an international diplomacy perspective, Mr Modi's decision to pull out of the deal will be seen as a setback for him. A strong leader enters the negotiating table only after reasonably ascertaining that success will be achieved in securing the country's national interest. The question would be: Why did Mr Modi join the Summit if he was not sure of convincing other members of the need to address India's concerns? Even within India, Mr Modi would have to present more convincing reasons for his decision than what has been trotted out so far by government representatives as reasons for the withdrawal.

The reasons cited so far for Mr Modi's decision on the withdrawal include the RCEP member-countries' refusal to accept India's proposals for a cap on imports from China, provision for more trade in services, an assurance for better market access for more Indian goods and services to the Chinese market and making 2019 the base year for tariff reduction. India's concerns were also over the proposed tariff reduction in agriculture and the dairy sector, which could have harmed Indian farmers.

But none of these issues was new. The Indian government was hoping to make some progress on them and get a resolution through further negotiations over time. What, therefore, happened in Bangkok that the government decided to back out of the deal? Had the RCEP member-countries become less accommodative of the Indian concerns? Was it because of the growing China influence? And did India's bargaining ability take a hit after the global mood and the reaction of some international leaders turned less friendly in the wake of recent developments in Kashmir?

There is little merit or logic in the argument that the Indian government withdrew from the deal because of immense pressure being exerted on it by the Swadeshi Jagran Manch, an organisation that opposes free trade and justifies protectionist policies, and several industry leaders and farmers, who were worried over growing imports as a result of the RCEP deal. The fact is that Swadeshi Jagran Manch has always been opposed to RCEP.

So, why was the Manch ignored earlier and suddenly it became important last Monday? Similarly, a few days before Mr Modi left for the Bangkok summit, the Confederation of Indian Industry (CII) issued a statement that favoured India signing the RCEP deal. But on Monday, the CII changed its stance and justified the Indian government's decision to withdraw from the RCEP.

It is also possible that the Indian government found in Bangkok that its demands were not being heard and decided to make a tactical shift to instead pledge itself for a trade deal with the United States. Joining the RCEP could have been viewed by the US as India becoming a closer trading partner with China and a new market for Chinese goods — a move that could also reduce the impact of the US trade tariff actions on China. India pulling out of the RCEP has thus opened up the possibilities of a new trading arrangement between India and the US. If the US quickly signs a trade deal with India and if India retaliates against Chinese denial of access to Indian goods, the logic of India's retreat from the RCEP would acquire a new dimension.

A courageous ride

BOOK REVIEW

SANJAY KUMAR SINGH

Let me begin this review with an admission. I am slightly wary of autobiographies. I — and this probably holds true of the reader as well — grew up conditioned to revere the printed word, especially in a book. As a student, I was a sucker for autobiographies, especially if it contained a good rags-to-riches narrative. But one day came the realisation that autobiographies can lie. Let me cite one example to make my point. When I read Lance Armstrong's *It's Not About the Bike*, I believed every word of it. How can you not love the saga of an athlete who makes a comeback after cancer and wins one of the most arduous competitions on earth? There were allegations floating around already, but like most I refused to give them credence. So, when Mr Armstrong admitted on the Oprah Winfrey show that his Tour de France victories were fuelled by drugs, the news felt almost like a personal betrayal.

At their best, however, autobiographies can be edifying. The tales of an individual's triumphs and tribulations offer invaluable lessons in how to cope with the curve balls life throws at you. It is in the spirit of a student of life lessons that I have chosen to approach this genre, notwithstanding the risk of being deceived occasionally. So should you.

The book under review is by Robert Iger, who joined ABC Television in 1974 (ABC was later taken over by Walt Disney) at the lowest rung and became its chief executive officer (CEO) in 2005. The probability of a mere college graduate becoming the CEO of a Fortune 500 behemoth (Walt Disney ranks 53rd) are minuscule. How did he make it to the top and, more importantly, stay there? It is 2019 and he is still going strong. The book offers a glimpse of Mr Iger's values and decision-making frameworks. Therein, perhaps, lies the secret of his success.

At the Disney headquarter was a unit called Strategic Planning. Michael Eisner, the previous CEO, had created it to help him identify new business opportunities. It comprised bright people from the country's top business schools. Gradually, it took over all the critical decision-making within the company. While these talented individuals possessed analytical rigour, such centralisation within a vast organisation like Disney meant that valuable time was lost in arriving at decisions. The company was letting many opportunities slip out of its grasp. Mr Iger felt the heads of businesses should be the ones making the critical decisions, as they were closer to ground realities. Early in his tenure as CEO, he reduced Strat Plan's strength and curbed its role. He writes that when news of this powerful, often oppressive, bureaucracy being cut to size spread, it lifted his peoples' morale.

When a CEO wants his company to grow rapidly within a highly competitive landscape, he adopts the path of acquisition, rather than organic growth. But making acquisitions work can itself prove challenging. Mr Iger's success in this regard is striking. When he first approached the likes of Steve Jobs (Pixar), Ike Perlmutter (Marvel), George Lucas (Lucasfilm), and Rupert Murdoch (21st Century Fox) with his proposal to take over their companies, he made the overture with the utmost respect, sensitivity and patience. He assured these strong-willed individuals that the unique identities and cultures of their companies would be preserved. What he said at the time of the Pixar acquisition sums up his attitude: "If we don't protect the culture you've created, we'll be destroying the thing that makes you valuable." Elsewhere he writes that people think what they are buying is manufacturing assets or intellectual property, but what you really get is people. In a creative business especially, he adds, that is where the value lies. CEOs prone to riding roughshod over the companies they have taken over would do well to remember that.

Over the past decade, the entertainment industry has witnessed tectonic shifts. Mr Iger decided he would embrace technology rather than be overwhelmed by it. In 2017, he purchased BAMTech, which had perfected a streaming technology, and used its platform to launch Disney and ESPN's direct-to-consumer over-the-top (OTT) video streaming services. It was a big gamble. This new mode of distributing content directly to consumers would cannibalise the revenues of existing businesses. There was no guarantee it would succeed. Nonetheless, Mr Iger felt the risk had to be taken. If Disney waited for too long, it would be outflanked by nimbler rivals. It was another illustration of his credo to always act out of courage rather than fear.

In the book, Mr Iger comes across as a humble man, who believes in treating others with decency and fairness, and views life as one long learning adventure. Not just heads of companies, this book has much to offer even youngsters just embarking on their earning, and learning, journeys.

THE RIDE OF A LIFETIME: Lessons in Creative Leadership
Robert Iger
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