Opinion

FRIDAY, DECEMBER 6, 2019

VISION-WISE

Union IT minister Ravi Shankar Prasad

"There are adequate safeguards to ensure that no innocent citizen is harassed ... These attempts to malign the government for reportedly surveilling citizens are completely misleading"

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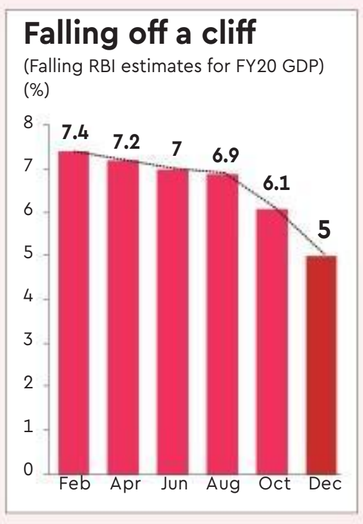
RBI policy signals huge govt deficit

RBI should have seen through inflation and cut rates, that it didn't suggests it is quite worried about FY21 govt borrowings

GIVEN HOW RESERVE Bank of India (RBI) has dropped its GDP growth forecast for FY20 to just 5%, one would have expected it to trim the repo rate, even if only by 10 basis points. Since June, the central bank has slashed the growth forecast by a chunky 200 basis points, indicating how removed from reality it was even a few months back. Indeed, the arguments put forward by the Governor justifying the pause—the repo rate remains unchanged at 5.15%—are unconvincing.

While there may be some concerns on inflation prompting the MPC to raise the headline inflation forecast—5.1%-4.7% in H2FY20 and 4.0-3.8% in H1FY21—given how fast growth is decelerating, the concerns appear to be overdone. If the risks are broadly balanced as the Governor said, these numbers are nowhere close to even 5.2% and there is room till 6%, so where is the anxiety coming from? Demand side pressures are likely to remain dormant—core inflation is tracking close to 2% down from much higher levels in June—and while prices of food may be going up, there is little chance this will disrupt the inflation trajectory given the large output gap; RBI needed to see through the inflation, but chose not to. In contrast, growth is threatening to slip to sub-4.5% levels, and there are few signs of recovery. It is perplexing that the MPC should have taken such a conservative view on inflation-targeting rather than choosing to be more flexible.

Governor Shaktikanta Das's observation that we need to wait for the impact of the measures taken by the government—cuts in corporation tax and the last-mile-fund for housing projects—to play out is hard to understand. What exactly are we waiting for? Even if the government does come up with a big stimulus package in the budget, that is some time away, and remedial action can be taken at the time. The only justifiable reason for a pause is that the fiscal deficit for FY20 is likely to see a big slippage, forcing the government to borrow more. That, then, could stoke inflation, though the large output gap reduces the likelihood. Also, it is possible RBI and the MPC believe they have done enough, and that they feel it is now the government's responsibility to remove any hurdles to investment.



By RBI's own admission, transmission has been slow; the combined 135 basis points cut in the repo since February this year has yielded 44 basis points of a cut in the interest rate on new loans at a time when the system has been awash with liquidity for six months.

However, as this paper has argued for two years now, cuts in the repo rate mean very little because banks are focused, as they should be, on their cost of deposits. If transmission has remained weak all these years, leaving Governors wringing their hands in frustration, it is because lenders are unwilling to let their margins contract. After many moons, deposit rates are now at multi-year lows while loan rates are not. Also, deposits are coming in at a reasonably good pace of close to 10% year-on-year, so there is ample liquidity.

But, now, there are two new problems. One, banks have turned extremely cautious about lending to businesses, which is not surprising given the quality of corporate balance sheets continues to deteriorate. So, they are not about to write cheques for enterprises that look shaky.

Second, with the economy having slowed tpo a crawl, industry has little incentive to invest. The output gap remains negative and is expected to remain so through 2020, and the manufacturing sector is doing badly because demand has slumped, so there is no reason to add to capacity just yet. The top business houses have picked up stressed assets through the M&A route, and the borrowing on this count is complete. Few well-run companies have reason to borrow too much.

RBI is right in saying the government needs to do the heavy lifting. So far, we have seen very little in terms of measures to stimulate the economy. The sharp cut in the corporation tax rate was totally a misguided move that will help only rich companies, many of whom will not invest a penny given the nature of their businesses. And, that will cost the exchequer some ₹1lakh crore. Given India's poor infrastructure, little ease of doing business, biased rules and regulations, and weak labour laws, not too many players are likely to want to invest in India. Simply wishing for a revival will not get us one—the high-frequency data for October and November are very disappointing, especially since October was a big festive month. Wholesale volumes reported by manufacturers show CV despatches to dealers in November fell some 20%, despatches of two-wheelers were down 16%, and car volumes down 5%. These can't be called green shoots. RBI probably knows that and is worried the government will roll out a big stimulus in February. Thursday's pause, however, sent benchmark bond yields to 6.61% , a two-month high, with the markets apprehensive that government borrowings in FY21 would be much higher than in the current year. Unless yields trend down soon, borrowing costs will rise again. We cannot afford the start of another vicious cycle.

AGRI REFORM

FARM BUSINESS SCHOOLS CAN REMEDY INDIAN AGRICULTURE'S MARKET DISCONNECT BY BUILDING CAPACITY THROUGH RE-TRAINING, AND RESTRUCTURING EXTENSION DELIVERY

From production to profitability

SMRITI VERMA
Research analyst, IFPRI
Views are personal

THE IDEA OF doubling farmers' incomes by 2022, when the country completes 75 years of its independence, was shared by prime minister Narendra Modi at a *kisan* rally in Bareilly (Uttar Pradesh) in February 2016. The announcement triggered a multitude of committees, panels, and agendas to be set up at various tiers of the government in pursuance of this objective.

Despite zealous efforts made by government agencies toward fulfilment of this goal, the state of farmers and agriculture has shown little or no improvement. We must look for new pathways that can leverage India's advantages of abundance in land, water, fertile soil, cheap labour, and favourable agro-climatic conditions to the benefit of farmers as well as farming. Farmer business school (FBS) is a new idea picking up steam across developing countries for making agriculture a profitable enterprise.

Conceptualised by the Food and Agricultural Organisation (FAO) of the United Nations, and inspired by its farmer field schools, FBS is an innovative training strategy for farmers to build entrepreneurial skills and management competencies to transform their usual farming into a profitable business venture.

It operates at the village level, and can be started by any number of individuals or agencies, including public sector extension services, civil society, farmer associations, or cooperatives. Farmers meet at a time of their convenience, usually for an entire season, to synchronise learnings with the various stages of a given production cycle. Extension officers and lead farmers are trained as facilitators to ensure smooth conduct of sessions and coverage of relevant materials. The school employs an "entrepreneurial learning-by-doing" approach, which is referred to as the Participatory Mutual Training and Learning Approach. Farmers work in small groups and learn to address business and marketing challenges and opportunities through collaboration and collective action based on discussions, practical exercises, and self-study. Farmers are taken step-by-step through the basics of farm business management based on their own production patterns. They train to take complex farming decisions in an iterative manner, to conduct it as any other business. At a farmer business school, farmers are not passively lectured on technicalities of production, about which they already possess knowledge; instead, they are trained to use simple decision support tools, checklists, and strategic questions that compel them to think like entrepreneurs, and act to maximise their profits from farming. This is what sets farmer business schools apart from other typical farmer training programs. The framework of an FBS is such that each farmer is largely responsible for his/her own learning.

The gap in Indian agriculture at present is its disconnect with the market—the idea of farm business schools has the promise to remedy this malady of Indian agriculture by hitting the nail on the head with its focus on transforming farmers' decision-making capabilities to respond to market signals. For instance, smallholders learn to assess market demands through an interactive approach, reflecting on their own production experiences, making observations, and generating new ideas that they can experiment during the season. Increasing globalisation of agricultural systems has exposed smallholders to greater shocks and risks, without commensurate state support, especially in developing countries like India. Smallholders, due to their small marketable surpluses, increasingly run the risk of being swept aside by the wave of competition from mammoth commercial companies in the food business that have large-scale standardised production and disproportionately better market access. How must extension services remould to correspond to emerging needs of farming as a business? To actively support market-oriented farming, appropriate capacity building through re-training and restructuring of extension delivery is essential. Farmers need support on achieving efficiency in production activities, refocussing from production to profitability. The emphasis of FBS is also on sustainability, putting scarce resources to their most efficient use. Crop diversification is one mechanism through which this can be achieved.

Efficient handling of complex farm management opportunities and challenges in production and marketing requires capacity building among farmers

Efficient handling of complex farm management opportunities and challenges in production and marketing requires capacity building among farmers and a learning framework where they can learn from their own as well as others' experiences. The most essential steps in planning the farm business include delineating its visions and goals, strategic planning, choosing and testing the feasibility of enterprises, and developing a business plan based on market evaluations. This is where the FBS comes in: rather than solving business problems for farmers, it helps them develop the knowledge and core managerial competencies to fully understand their problems, its causes, and derive experimental solutions.

Countries like Philippines, Indonesia, Ghana, Nigeria, Zimbabwe, and Tanzania, among others in Asia and Africa, have initiated Farmer Business Schools with diversified partner structures, though public extension services dominate. Only a few years after their introduction, FBSs in Africa have witnessed rapid expansion through adaptation for a wide range of crops such as cotton, rice, sesame, horticultural products, cocoa, cashew, and coffee, among others. In most projects, 20-44% of farmers trained are women, making agriculture more gender-inclusive. Reportedly, FBS trainings have been conducive to farm business growth in almost all projects. From the FBS, farmers have acquired better financial management skills, doing basic cost-production calculations on their own. They can better plan farm operations, follow a more efficient cropping calendar, and, most importantly, realise what they had been missing in making agriculture a profitable business like any other. India, too, should experiment with this novel and pertinent idea to train Indian farmers to graduate from simply producing to profitably managing their market-oriented farm business if the game of agriculture in India is to change forever.

Carbon risks reflected in stock prices

New research shows that markets are distinguishing among companies based on climate risks in significant ways, and the effects have been notably larger since the 2015 Paris Agreement

PETER R ORSZAG
Bloomberg

CLIMATE SPECIALISTS HAVE warned for years about a "carbon bubble" in which markets ignore or massively undervalue the risks to companies from climate change. Two new studies suggest, however, that financial markets have started seriously pricing carbon risk, especially since the Paris Agreement of 2015.

Whatever its other effects, that agreement may thus go down in history as the beginning of the end for any carbon bubble. With policymakers meeting in Madrid this week for the UN's annual climate conference, the new research should provide some comfort that their actions will be reflected in financial market prices.

One of the new studies, by Christina Atanasova of Simon Fraser University and Eduardo Schwartz of the University of California, Los Angeles, examines North American oil producers. In a sample of almost 700 oil companies, they find that, after controlling for multiple other factors, stock market values are higher for producers with larger reserves. This would be consistent with the carbon bubble perspective.

But, the research also finds that the growth of such reserves is associated with lower valuations, a trend that cuts against the carbon bubble view. And, when the authors dig deeper into the data, they find many clues that markets are pricing carbon risks in more meaningful ways.

For example, when reserves are divided into "developed" (which can be extracted from existing wells) or "undeveloped" (which generally require new wells), the developed reserves raise stock values but undeveloped reserves reduce them. This pattern is what one would expect if markets are awakening to climate risks, the authors note, suggesting the possibility that "future oil reserves that are generated from current capital expenditures will most likely remain in the ground." The takeaway: "market participants recognise, at least partially, that these investments are potentially negative NPV (net present value) projects that will destroy firm value."

Atanasova and Schwartz also find evidence that the adverse effects on valuation are caused disproportionately by companies with high extraction costs (thus making it less likely they will yield sufficient future returns to justify their costs) and for reserves located in countries with tougher climate policies (which would likely reduce the future returns).

In addition, the negative effect of reserve growth on valuations has been much stronger after the Paris Agreement than it was before. If the agreement helped to awaken markets to climate risks, this difference would make sense.

The other recent analysis, by Patrick Bolton of Columbia Business School and Marcin Kacperczyk of Imperial College London, assesses a wider array of companies, numbering more than 3,000, that extend well beyond the oil industry. The title of their paper is "Do Investors Care about Carbon Risk?" Their answer is "largely consistent with the view that investors are pricing in a carbon risk premium at the firm level."

The market puts lower value on, and requires higher returns from, companies with higher levels and growth rates of emissions

The authors find that the market puts lower value on, and requires higher returns from, companies with higher levels and growth rates of emissions. They also conclude that the market started to require significantly more compensation for climate risk after the Paris Agreement.

Interestingly, both studies conclude that institutional investors are not driving the markets' recent climate-related penalties. Despite the heightened attention to the issue among such investors, Atanasova and Schwartz find no material effect from institutional investors on the size of the climate penalty associated with undeveloped reserves. Similarly, Bolton and Kacperczyk find that divestment effects from large investors do not generally explain carbon risk pricing patterns. Such divestment tends to occur only in certain industries (such as oil and gas) and to be associated only with a narrow definition of emissions (so-called Scope 1, or direct, emissions).

The new studies together suggest that markets are distinguishing among companies based on climate risks in significant ways, and that the effects have been notably larger since the 2015 Paris Agreement. The most extreme version of the carbon bubble, in which carbon risks are ignored by markets altogether, is thus no longer an accurate picture of how stocks are priced.

What is not clear from either study, however, is whether the market is penalising future climate exposure sufficiently to reflect the risks. In other words, what if the magnitude of how financial markets price climate risks still underestimates the actual future risks? In that case, some carbon bubble effects would persist.

What is clear is that climate risks will continue to increase over time. It's also clear, based on the latest research, that the market will respond to those risks.

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StoppingRAPE

Systemic solutions needed, from wholesale change in attitudes towards women to beefing up technological aids to policing

THE HYDERABAD GANGRAPE-murder has foregrounded, once again, the pervasiveness and brutality of sexual crimes against women. The revival of public debate on the issue of women's safety with renewed vigour has exposed the sheer inability of the state to preserve the most fundamental right to life and dignity for about half its population. Lawmakers vociferously demanded stricter punishments for rapists in Parliament, from surgical and chemical castration to public lynching and more liberal awarding of the death penalty as a deterrent. The parliamentarians' statements betray, at best, their helplessness in dealing with a systemic problem; at worst, it indicates a failure to recognise the systemic nature of the problem of sexual violence. Neither case instills confidence.

Making public spaces safe for women is unachievable without wholesale change in attitudes towards and about women. That will be a multi-generational endeavour. Meanwhile, the state must make spaces safer and more gender-inclusive. For instance, simply reviving the beat constable system, as recommended by the NITI Aayog in 2016, and increasing the number of PCR vans can do much to make public spaces safer for women. Coverage and surveillance of public spaces, including roads, parking spaces, and buses, by CCTV cameras, too, should act as a deterrent. India could also look to emulate the US's strategy of employing drones for public safety. Reducing police response time—the average response time in India still remains abysmally high—would immensely improve both crime prevention and investigation. The judicial system, too, needs an overhaul—the need is not only to speed up the process of addressing cases of sexual violence but also to provide affordable legal aid to survivors. It is shameful that over half a decade after the Centre established the Nirbahaya Fund in the aftermath of the Delhi gangrape, its corpus remains largely unused. Telangana has only used 8% of the ₹12.3 crore that was allocated to it.

LETTERS TO THE EDITOR

Citizenship Amendment Bill

The Cabinet's nod for the controversial Bill granting citizenship to undocumented non-Muslims from Pakistan, Bangladesh, and Afghanistan who came to India on or before December 31, 2014 has raised the hackles of the Opposition, and all those who believe in the secular character of the country. The Opposition has rightly termed the Bill as an attempt at communal polarisation, and the Congress has threatened to move the Supreme Court. Inner-Line Permit (ILP) states and Sixth Schedule areas in the North-East have been exempt from the Bill. The Centre would do well to look at all religions in the same light, and drop the contentious Citizenship Amendment Bill.

— NJ Ravi Chander, Bengaluru

Crime and religion

The controversial Godman Nithyananda, who was accused of rape and child abduction, and declared a fugitive under the Indian justice system has now declared that he is the supremo of Kailasa, a Hindu Rashtra set up for aspiring and persecuted Hindus. Not long ago, he grabbed the attention of many with his attempt on YouTube to disprove the theory of relativity, and claims to have developed a software to teach cattle Tamil and Sanskrit. While the location of the greatest Hindu nation, as claimed by Nithyananda, remained unconfirmed, his Kailasa.org web portal claims that the new nation has a flag, a government, and a university. As a country considered as a sacred land or a *Punyabhoomi*, India remains and continues to remain one of most sought after spiritual destination for many. But, in the garb of *sanyasi*, godmen like Nityananda are doing more harm than good to Hinduism, with their alleged criminal activities and by taking their followers for ride.

— M Jeyaram, Sholavandan

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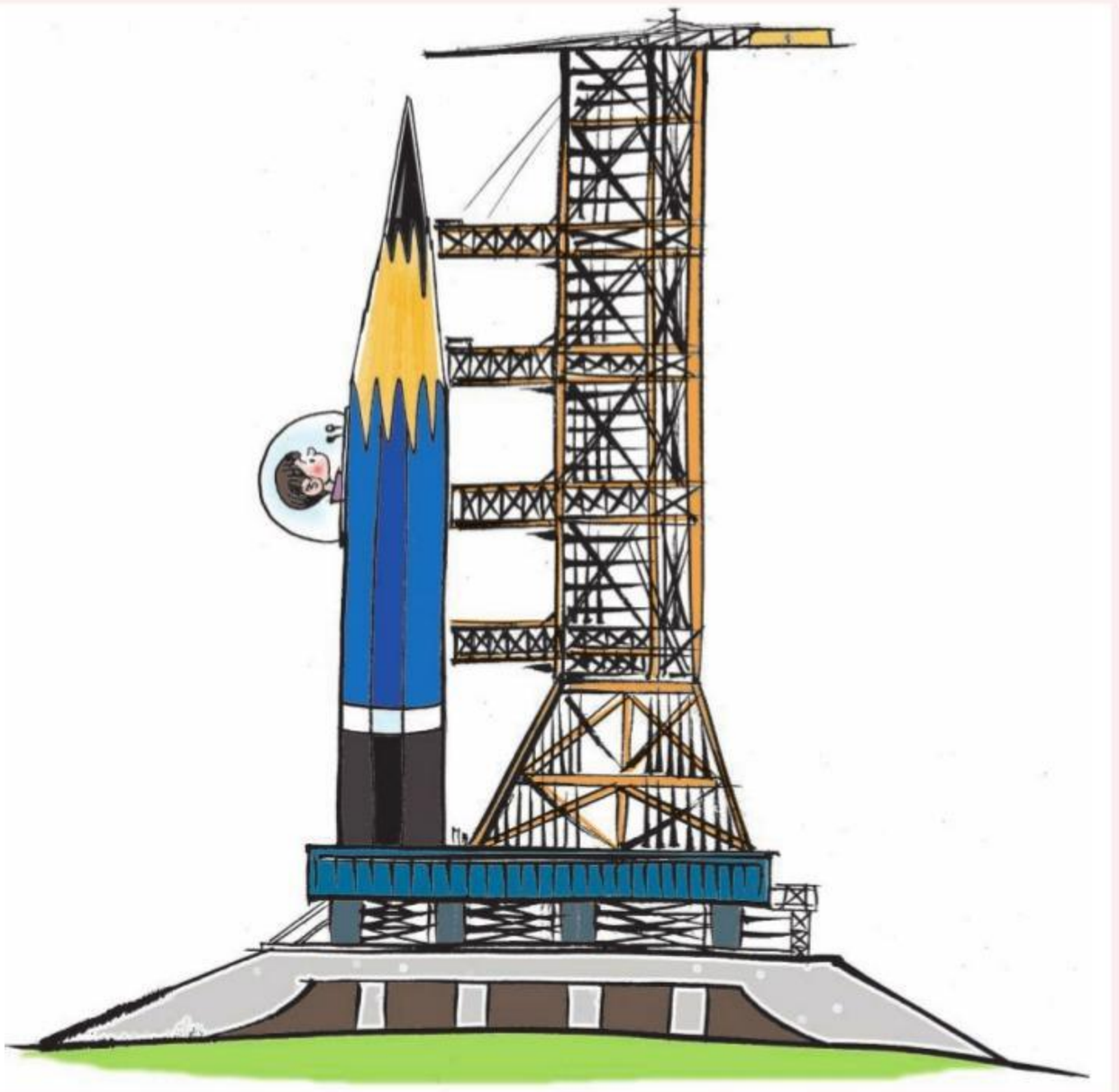

ILLUSTRATION: ROHNIT PHORE

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FOUNDATIONAL LEARNING

Let's not delay the NEP

We need to focus on foundational learning. Today's primary school-going students will join India's workforce by 2030, and to reap the benefits of our demographic dividend, we need to start with building a strong foundation. We know that if we fail on this, we fail on everything: We fail on poverty reduction, human capital, GDP, and so on

THE DRAFT NATIONAL Education Policy (NEP) 2019—the first update in almost three decades—is potentially a game changer as it aims to bring some long-awaited shifts in the education continuum and offers a clear pathway of reform. The draft NEP has identified issues of 'early childhood education' and 'foundational learning', which are at the core of the learning crisis, and it has the right set of ideas when it comes to giving importance to the liberal arts model for transforming higher education.

There has been an overwhelming response to the draft document, and the committee has done an outstanding job in synthesising diverse viewpoints. The government must now act quickly to finalise the document and pass it through the legislature. The focus must shift to its implementation, as it is going to be a complex task requiring sustained and concerted efforts. There are many steps that the education ecosystem will have to take at both national and state levels before this document can make its desired impact. The big ideas in the document will need unrelenting focus by the government, and various organisations and individuals who are committed to education reform are willing to come forward to support the government on ideas, innovations and funding.

The government should maintain the sharp focus on foundational literacy and numeracy, and then phase in other priorities, as needed

Here, I will focus on one of the big ideas mentioned in the draft policy that needs to become a national priority—i.e. foundational learning. According to the draft NEP, India's learning crisis is rooted in foundational learning, and it rightly states that "our highest priority must be to achieve universal foundational literacy and numeracy in primary school and beyond by 2025. The rest of the policy will be largely irrelevant for such a large portion of our students if this most basic learning is not first achieved."

A World Bank report that was released last month shows that 53% of all children in low- and middle-income countries suffer from learning poverty, which means that they are unable to read and understand a simple text by the age of 10. To galvanise this progress and to meet the Sustainable Development Goal on education (SDG 4: Quality Education), the World Bank launched a new learning target to cut the learning poverty rate by at least half before 2030. This ambitious goal can only be achieved if India—which has the maximum number of primary school-going children—can show a massive improvement in foundational learning and cut its current learning poverty level of 54.8% by more than half in the next decade.

Universal attainment of foundational learning is of paramount importance. And since we do not have the resources to focus on so many things at the same time, my one advice to the government would be that they should maintain the sharp focus on foundational literacy and numeracy, and then phase in other priorities, as needed.

To translate this goal into real action, there are some critical ideas that will help operationalise the focus on foundational learning.

- First, a strong thrust by the Centre in the form of a national mission backed by technical and funding guidelines will catalyse demand for critical reforms at the state level. In the current financing structure, foundational learning is largely dependent on the Union government's schemes, but the central government can ring-fence funding to states for early grade interventions; in turn, states could be mandated to share a three- to five-year plan on how they plan to achieve universal foundational learning.
- Second, clear goal setting and alignment of sharp metrics. In primary schools, a teacher's daily dilemma is to figure out what to teach and to whom. To complete the curriculum, teachers usually choose to focus on the 'top of the class', leaving others to catch up on their own. This can be solved by identifying and communicating well-defined indicators or competencies such as alphabet and word recognition, oral reading fluency and comprehension of short stories. Setting these expectations amongst teachers and parents, and socialising them at district and block level by introducing competition, will ensure action in the classrooms.
- Third, the central government will also need to ensure availability of independent, reliable and comparable data to all the actors on a regular basis to create an environment where there is both an urgency towards achieving the critical goals by 2025 and providing incentives for improvement at all levels. Put together by independent organisations, this will help both the Centre and states identify the gaps that need to be addressed and customise solutions.

All this calls for a sense of urgency. Today's primary school-going students will join India's workforce by 2030, and to reap the benefits of our demographic dividend, we need to start with building a strong foundation. We know that if we fail on this, we fail on everything: We fail on poverty reduction, human capital, GDP, and so on ... there is a lot riding on bridging this critical gap in our education system. The NEP, once implemented, can play a critical role in the transformation of our education system and ensure that today's primary school students become productive and empowered citizens of India who will drive the country towards its $10-trillion ambition. To put the policy into action, I am confident that the state departments, educators, NGOs, parents and students will bring the sum of their considerable talent, commitment and resourcefulness to bear so that we see meaningful, measurable progress.

Curing medical devices sector

MALAY MITRA

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Will a separate Medical Devices Authority reinvigorate the medical devices sector in India?

A ROBUST REGULATORY mechanism has been a fairly long wait for India's semi-regulated medical devices industry. At a time when healthcare experts are expecting a separate regulatory framework for medical devices, the government is in the process of formulating a Medical Devices Authority (MDA) for the vast range of products in the sector. With the dichotomy between CDSCO (Central Drugs Standard Control Organisation) and BIS (Bureau of Indian Standards)—and the NITI Aayog also having its say—divided in opinions, one will have to wait to assess how successful the new body might prove to be. According to sources, BIS will continue to frame guidelines but these would be regulated by MDA. Also, the proposed body will be separate from CDSCO, which will continue to be the regulator for drugs.

Here, we are going against international norms. For instance, in the US, the FDA is the agency under which medical devices are controlled, and FDA's Center for Devices and Radiological Health regulates firms that manufacture, repackage, relabel, and/or import medical devices sold in the US. Similarly, the European Medicines Agency has a medical devices agency. Same is in Japan. In such a scenario, a separate agency to regulate medical devices will be unique to India and may pose its own challenges.

One must ask if instead of forming a new body, wouldn't it be better to have the powers and working invested in a self-contained division within CDSCO? This would save costs and, more importantly, be within a regulatory system to share expertise. Also, non-compliance with global standards and safety guidelines on the domestic front is a major loophole in ensuring the quality of locally-manufactured medical devices; India lacks infrastructure to test the quality of such devices. The new mechanism and multiple layers of a separate MDA might lead to more confusion amongst manufacturers, further hampering the ecosystem growth.

One must ask if instead of forming a new body, wouldn't it be better to have the powers invested in a self-contained division within the CDSCO?

It would be interesting to see if India is able to fill in the gaps in the fields of R&D, manufacturing and testing facilities, with MDA in place. While we have policy mechanisms and regulatory practices to compare India's domestic produce, the true testament of quality can only be attributed to adoption and implementation of international harmonised standards rather than coming up with a new mechanism altogether. Another problem is the human resource crunch at multiple levels—a shortage of inspectors to carry out quality assessments, crippling state of manufacturing units and poor regulatory environment are major challenges.

A Deloitte report had noted that "India has not been able to develop itself as a strong manufacturing base for medical technology. The industry remains dependent on imports for meeting its domestic requirements." This also raises eyebrows towards the ongoing US-India trade talks and speculations around the pricing mechanism, which highlights the need for a scientific and promising alternative that thinks beyond capping prices of select devices (cardiac stents, knee implants).

For the government to realise the need of wider accessibility of healthcare services, one needs to create a holistic environment that supports the establishment of a new regulatory regime. With its primary objective of ensuring safety, quality and efficacy of medical devices, MDA would be able to focus on globally harmonising the standards of domestic as well as imported devices only with universally-accepted and harmonised norms like in the rest of the world. In what looks like a mutual (the government and the industry) inclination as per ongoing negotiations between the two countries (US-India trade deal) towards trade margin rationalisation (TMR), it could be the next scientific step to solving the crisis around price capping in the medical devices industry. If calculated the right way, TMR could be the hope the healthcare industry in India needs. However, it would be incorrect to jump to any conclusion regarding the success or failure of the new MDA before it is even formulated.

Data localisation will impact GDP

Data localisation can trigger 'contagion effect' on other sectors, affecting costs and operations for such businesses

AMITAYU SENGUPTA

The author works with the Internet and Mobile Association of India. Views are personal

THINK TANK ICRIER recently released the report 'Economic Implications of Cross-Border Data Flows', which is pertinent to ongoing discourse on data localisation, especially as initiated by the draft Personal Data Protection Bill (PDP).

The PDP by the expert committee under Justice Srikrishna (Srikrishna Committee) suggested staggered localisation of personal data from the perspective of protecting privacy. The white paper by the Srikrishna Committee that accompanied the draft PDP noted that "the representations made to us have not persuaded us of the possible economic implications of local storage and processing of personal data in India. It is our considered view that the size and potential of the Indian market trumps the additional cost that some entities may have to bear on account of a mandate to process personal data locally."

It seems, for the committee, the understanding of 'economic implications' was restricted to operative costs of relocating data servers in India. The understanding was thereby limited to 'some entities', predominantly those engaged in digital services, and the committee perhaps was of the opinion that the economies of scale offered by a market as large as India more than offset the initial 'cost'.

However, the actual economic cost of data localisation goes beyond mere relocation of data servers in India, and the ICRIER report is perhaps the first such detailed study that tries to capture the whole picture.

In the report, the ICRIER team has estimated the impact of cross-border data flows on India's international trade at the macro level. The report finds that 1% increase in international internet bandwidth leads to an increase of $696.71 million in total volume of goods trade for India. Between 2016-17 and 2017-18, about 12% of the growth of India's total volume of trade can be attributed to increase in international bandwidth. The impact is much higher when bilateral services trade is added into consideration. Therefore, in any form, a freeze on cross-border data flows risks derailing this positive network effect.

The report by itself has certain limitations that need to be taken into cognisance. For instance, it takes international bandwidth as a proxy for volume of cross-border data flows. Consequently, this study cannot distinguish what proportion of actual cross-border data flows are to be affected by the provisions of localisation of personal data (given the PDP keeps anonymised data outside its ambit), nor distinguish in terms of direction of data flows—inflow or outflow from India. Moreover, there is no analysis of sectoral impact—for instance, which sectors will be affected and how, which all services sectors are most susceptible, and what impact will it have on other sectors?—or how any data localisation will alter trade balance (how much does it affect imports, or how are exports affected?).

Nonetheless, the report clearly draws the bigger picture of data, data flows, and how intrinsically it is linked to the overall economy. Much of the argument over data localisation is guilty of being myopic as they perceive data as a specific asset/resource particular to digital services. The ICRIER report proves that data flows cannot be seen in silos. As a corollary, regulations like data localisation are not mere sectoral regulations that will only affect the digital services sector, but will have much broader implications.

A critical component of the study is the opportunity cost of data localisation, based on industry survey conducted for the purpose. The report suggests that opportunity costs of data localisation vary based on various parameters: the industry in consideration, the size and maturity stage of the business, local or multinational service providers, etc. IT, telecom, financial services are most likely to be directly impacted by data localisation. But the report also touches upon the far-reaching consequences such a policy can have.

For instance, as the report reveals, a major food and lifestyle company of Indian origin that uses cloud services hosted in Singapore is worried about the quality and cost of data services under forced data localisation. Thus, data localisation can trigger a form of 'contagion effect' on other sectors, thereby affecting costs and operations for such businesses, even though they may not directly involve in cross-border data flow businesses.

Any policy mandate of data localisation by the government of India also risks consequences that can impact the Indian economy. For instance, the report highlights that the risk of retaliatory measures (by other jurisdictions) and potential fragmentation of the internet need to be evaluated as these are bound to have repercussions for the Indian economy. Similarly, the economic cost of delayed availability of latest services/technologies and the overall negative impact data localisation can have on innovation is another area of concern. This is critical given the nascent start-up sector in India and how much India is actually banking on this sector for the near future.

The ICRIER report captures the various direct and indirect avenues by which data localisation can affect the Indian economy. Even though the report may not quantify them all, it does provide enough macro insights for a more nuanced and informed choice on the matter, for both policymakers and industry alike.