A climate change-sparked meltdown

The ECB is among central banks trying to prepare for what a report warns could be a "coming economic upheaval"

JACK EWING

Climate change has already been blamed for deadly bush fires in Australia, dying coral reefs, rising sea levels and ever more cataclysmic storms. Could it also cause the next financial crisis?

A report issued this week by an umbrella organisation for the world's central banks argued that the answer is yes, while warning that central bankers lack tools to deal with what it says could be one of the biggest economic dislocations of all time.

The book-length report, published by the Bank for International Settlements in Basel, Switzerland, signals what could be the overriding theme for central banks in the decade to come.

"Climate change poses unprecedented challenges to human societies, and our community of central banks and supervisors cannot consider itself immune to the risks ahead of us," François Villeroy de Galhau, governor of the Banque de France, said in the report.

Central banks spent much of the last 10 years hauling their economies out of a deep financial crisis that began in 2008. They may well spend the next decade coping with the disruptive effects of climate change and technology, the report said.

The European Central Bank, which on Thursday concluded a two-day meeting in Frankfurt focusing on monetary policy, is beginning to grapple with those challenges. The bank did not make any changes in interest rates or its economic stimulus programme on Thursday. Instead, other issues are coming to the fore.

Christine Lagarde, the central bank's president, who took office late last year, has pledged to put climate change on the bank's agenda, and it was a topic of discussion at the last monetary policy meeting, in December.

Members of the European Central Bank's (ECB's) governing council argued "that there was a need to step up efforts to understand the economic consequences of climate change," according to the bank's official account of the discussion.

Global warming will play a big role in the ECB's strategic review, a broad reassessment of the way the bank tries to manage inflation. For example, when trying to influence market interest rates, the bank could decide to stop buying bonds of corporations considered big producers of greenhouse gases.

This new awareness of the financial consequences of a hotter earth comes as central banks are contending with another new challenge: Technologies that threaten their monopoly on issuing money and their power to combat a financial crisis.

Unofficial digital currencies like Bitcoin or Facebook's Libra, which is still in the planning stages, bypass central banks and could undermine their control of the monetary system. The obvious solution is for central banks to get into the digital currency business themselves.

On Wednesday, the central banks of Canada, Britain, Japan, Sweden and Switzerland said they were working together with the Bank for International Settlements to figure out what would happen if they did just that.

It's complicated, though.

Like cash, people can use digital currencies to pay other people directly, without a bank in the middle. Unlike cash, digital currencies allow person-to-person transactions to take place online.

Such a system could be more efficient, but also risky, according to a report issued on Wednesday by the World Economic Forum, the organization that stages the annual conclave in Davos.

Commercial banks might become superfluous, and fail. Central banks would in effect become giant retail banks. But they have no experience dealing with millions of individual customers and could be overwhelmed. If a central bank collapsed, so would the monetary system.

Climate change also takes central banks into uncharted territory. Think the subprime crisis in 2008 was bad? Imagine a real estate crisis caused by rising sea levels and coastal flooding that renders thousands of square miles of land uninhabitable or useless for farming.

By some estimates, global gross domestic product could plunge by 25 per cent because of the effects of climate change. Central banks have enough trouble dealing with mild recessions, and would not be powerful enough to combat an economic downturn of that scale.

"In the worst case scenario, central banks may have to intervene as climate rescuers of last resort or as some sort of collective insurer for climate damages," according to the report, published by the Bank for International Settlements, a clearinghouse for the world's major central banks.

It suggested some precautionary measures central banks could take.

Central banks, which often function as bank regulators, could require lenders to hold more capital if they hold assets vulnerable to the economic effects of a shift to renewable energy. An example might be a bank that has lent a lot of money to fossil fuel companies, or to the Saudi government.

CHINESE WHISPERS

Delayed starts

Election seasons and time schedules aren't the best of friends but it has become almost a routine affair for press conferences organised by various political parties in Delhi, which is gearing up for its Assembly elections, to start after long delays. These gatherings, organised around evenings or late afternoons, have been starting 30 to 45 minutes behind schedule on a regular basis with the parties blaming the city's traffic for the wait. On Thursday, even a national spokesperson of a party, who was supposed to address the media, was made to wait. A senior leader advised the waiting scribes to turn up at future events 15 minutes after the scheduled time. Keeping up with the tradition, the presser started 40 minutes after the time printed on the invite.

Of heart and work

Rajasthan Chief Minister Ashok Gehlot (*pictured*) took an apparent jibe at Prime Minister Narendra Modi's popular radio programme Mann ki baat when he said that "*kaam ki baat*" was just as important as "*mann ki baat*" (heart-to-heart conversations). He made this statement at the inauguration ceremony of the Jaipur Literature Festival (JLF). Gehlot said JLF was the place where thinkers across the world came and did "*kaam ki baat*" along with "*mann ki baat*". Now the phrase *kaam ki baat* can be interpreted in two different ways: A conversation which is useful or a conversation which is about work. Which one did the Congress veteran have in mind?

More power to women

There are several sectors in India that have a skewed gender ratio at the workplace, the power sector being one of them. So efforts at diversity... or the optics of it... are hard to miss but a recent event, organised by an industry association, took it to a completely new level. First, the event on "women power" aimed to "electrify the women in you". The session was held at an "women empowerment pavilion" which hosted a workshop on "harmonising work and life" and a talk show on "how to face gender biased challenges in the field of engineering", among other things. There were lectures by women leaders — ironically, not from the power sector — on "she believed she could, so she did". Needless to say, men members among the audience were conspicuous by their absence.

Mega mergers and mega pension liabilities

As the government tries to set up robust next generation banks, concrete steps are needed to tackle the long-term risk of retirement liabilities

RITOBRATA SARKAR

Globally, mergers and acquisitions have become a significant tool for corporate restructuring across industries. The financial services industry has also experienced mergers leading to the emergence of very large banks and financial institutions. There is a lot of research and experience to highlight that the success (or failure) of such mega transactions hinge on the harmonic integration of business, technology, people and culture.

The recent proposal by the government to consolidate 10 public sector banks(PSBs) into four large banks is expected to increase efficiency and reduce the cost of lending, but consolidations of such magnitude can pose several challenges. One such challenge that fails to attract the attention it deserves is the significant exposure to pension and other long-term employee benefit liabilities. In the case of these 10 PSBs, the reported "defined benefit" (DB) obligations represent over 85 per cent of their total market capitalisation and the annual DB cost contributes almost 20 per cent to the total net loss reported by these 10 banks in FY 2017-18 and FY 2018-19.

During a merger or an acquisition, pensions- and benefits- related issues are often the big-ticket items with significant impact on the company's future financial viability. Therefore a thorough due diligence is required to ascertain that the liabilities are not under-reported and that the plans are sustainable in the long term. Before the pension plans merge, the amalgamated banks must undertake a complex review of their long-term liabilities to avoid unforeseen or unmanageable risks. These include a true and fair assessment of these uncertain obligations, which may give rise to significant risk in the future. Identifying and managing such risks early will give banks greater certainty and confidence.

The consolidated DB liability of the 10 banks has crossed the milestone figure of ₹1 trillion as on March 31, 2019. Due to the long-term nature of these retirement benefit plans, their liabilities are extremely sensitive to the assumptions. With bond yields declining globally as well as in India over the past couple of decades, the DB liabilities are expected to rise, driving up the employee benefits expense and significantly impacting the banks' future P&L. For instance, even a 100 bps change in bond yields could increase the aggregate pension costs for the year by ₹15,000 crore, causing a massive stress on the profitability of these banks.

While one may argue that the DB liabilities are well-funded and backed by assets, the following questions still need to be addressed:

- Are the liabilities currently reported accurate? For example, the future salary growth assumptions considered by almost all the 10 banks are in the range of 5-6 per cent when actual increases may have been higher. Additionally, have the increases in dearness allowances and future pension increases been appropriately factored into the calculations? To demonstrate this, if we were to assume a higher future salary growth assumption of say 8 per cent and a higher pension increase assumption, then the possible impact could be as much as ₹30,000 crore.
- Are the benefits sustainable in the long term? The ongoing cost of these schemes may continue to rise and have a high impact on the bank's overall costs. With declining interest rates and increasing life expectancy, how these DB pension liabilities are managed will be crucial to ensure that they are sustainable in the long term.
- What risks do these plans pose to the long-term profitability of the merged banks? For example, what impact may future wage revisions have on the overall cost of these plans that are linked to the final salary? What could be the impact if the government were to increase the pensions in the future due to demands from employee unions?
- Whether the funds backing the liabilities are adequate and are the assets and liabilities appropriately matched?

To address these questions, it will be prudent to reassess the DB liabilities as part of the merger. In practice, such assessments require complex calculations based on actuarial modelling taking into account several projections and assumptions related to economic and demographic factors that can be extremely uncertain in the long term. As such, proper consideration should be given in determining these assumptions and an independent assessment must be carried out when the opening balance sheet of the merged banks are created.

Assumptions should reflect the actual past experience of the merged banks. The merger provides an opportunity to undertake an independent detailed analysis on a much larger database, which can lead to more credible results. For example, the mortality experience of pensioners can be assessed and built into the assumptions. In addition, aspects such as mortality improvements and future wage/pension revisions should be given due consideration when determining assumptions.

Further, as part of the merger process, there is an opportunity to consolidate the various retirement trusts into larger funds that can improve operational efficiencies and offer better investment opportunities for the funds going forward.

As the government tries to set up robust next generation banks, concrete steps are needed to tackle this major long-term risk of retirement liabilities. Assessing the fair value of these liabilities and developing a plan to mitigate these risks should be a priority to create a cleaner balance sheet, thus fulfilling one of the key objectives of this merger. Driving down the "mega" lane, "pension liabilities" is a much needed "pit stop" to fix things and keep sight of the chequered flag.

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INSIGHT

The new axis of infrastructure

India's massive infrastructure build-out targets need an all-hands-on-deck effort

SAMEER BHATIA

India's infrastructure gambit for the coming decade will see states take the centre stage of investments.

With the centre walking a fiscal tightrope, and the economic slowdown hobbling private investment, we estimate that states will need to marshal ₹100-110 trillion, or approximately 45 per cent of the total infrastructure investment requirement of ₹235 trillion in the next 10 years. This is imperative to sustain India's gross domestic product (GDP) growth at around 7.5 per cent and infrastructure spend at over 6 per cent of GDP annually through the next decade.

Formidable as that sounds, it is eminently doable — given that states accounted for about 41 per cent of total infrastructure spend (including Centre and private sector) in fiscals 2011-20, and their share in capex surged to 65 per cent.

In fact, 15 large states with growing economic heft and determination to address infrastructure gaps, are well-placed to muster about 85 per cent of the expected investment.

Crisil's latest *Infrastructure Yearbook 2019* identifies these states and pinpoints differentiated strategies for them to action, in order to realise these targets: "The investment trajectory of 15 large states will be crucial in this context. But given differences between them in terms of economic output, prosperity and fiscal capacity, they will need customised actions and sequencing to make material progress."

To crystallise these prescriptions, we grouped these states into three clusters, based on their gross state domestic product (GSDP) size and per capita incomes (PCIs).

The four "frontrunner" states — Maharashtra, Karnataka, Tamil Nadu, and Gujarat — are endowed on urbanisation, industrial base, and PCI fronts. But they show some fatigue with respect to capex growth in recent years.

These states will need to be intrepid to push through structural and sectoral reforms, as this will be key to create new triggers for capital allocation and growth. They need to expand capex from about 27 per cent share (in all states, fiscals 2015-19) to about 37 per cent.

Five "middle-of-the-pack" states — Andhra Pradesh, Kerala, Punjab, Haryana, and Telangana — with lesser population weight, mirror front-runner states on endowments. They can legitimately aspire to be growth leaders, provided they punch above their weight and up their capex game (as Telangana has managed to do).

Six climber states — Bihar, Madhya Pradesh, Odisha Rajasthan, Uttar Pradesh, and West Bengal — have seen sharp capex growth in the last five years, despite lower incomes per capita. However, an accompanying debt surge could come in the way of sustaining this. Continuous upfront institution building to improve investment capacity in social and physical infrastructure would help them create better conditions for growth.

Finally, states not only need to crank up spending quantitatively, but also improve efficiency through institutional strengthening and capacity building, to tap commercial financing and private investment.

Despite the strides, three broad factors interfere with a sustained investment lift off in states: (i) Fiscal squeeze, in the form of persistent revenue deficits, debt surge, and high fiscal deficits in several large states; (ii) weak institutional capacity, reflected in mounting losses and operational deficiencies of utilities in power, water and urban transport sectors; and (iii) inadequate reforms and programmatic impetus to scale commercial financing and public-private partnerships (PPPs).

Based on this, we identify three vectors for states to drive action and steer transformation:

- Expand fiscal space to invest: Stabilise goods and services tax; tap asset monetisation; deploy medium-term expenditure frameworks; move to direct subsidies
- Enhance state capability to implement: Nurture counterparty public institutions; build project development rigour; tap commercial financing and PPPs
- Engender conducive policy and regulatory dexterity to lift investment momentum: Deepen sectoral reforms; make land available; remove labour market distortions; improve ease-of-doing business.

On its part, the Centre needs to proactively engage in areas requiring inter-state coordination and drive decision-making consensus, including critical sectoral and structural reforms (such as in the power sector, factor markets, and inter-state water resources sharing).

The *Infrastructure Yearbook 2019* also releases the latest InfraInvex scores for major infra sectors — power, roads and highways, airports, ports, and urban. This one-of-a-kind index tracks, measures, and assesses the investment attractiveness and development maturity of infrastructure sectors, based on their "drivers" and "drags".

The key takeaway this year is that scores have declined for most sectors vis-à-vis the previous year.

Airports and railways were the only sectors that saw some positive action at the start of this fiscal, with the successful award of contracts for modernisation of six airports, and increased outlay and cost recovery in railways. Conversely, the renewable energy sector — which was among the leaders of InfraInvex last time — has seen a substantial decline in score this year, on account of increased counter-party risk, renegotiation of power purchase agreements, unviable tariff caps during auctions, and land acquisition issues.

Ports continue to face the brunt of the flux in global trade and slowing exports. Persistent weakness in power distribution, including increased gap in tariff recovery, and institutional bottlenecks to investments in urban infrastructure have kept scores low for these segments.

The latest scores only goes to reiterate that India's infrastructure build out and investment targets in the next decade will need all cylinders to fire simultaneously, with states assuming a central role. Achievable, if armed with vision and will.

The author is president, CRISIL Infrastructure & Risk Solutions

LETTERS

Last hope

As many as 144 petitions against the Citizenship Amendment Act (CAA) have been filed in the Supreme Court and all these petitioners wish that the Act be declared unconstitutional. But the SC's three-judge bench headed by Chief Justice S A Bobde (and comprising Justices S Abdul Nazeer and Sanjiv Khanna) issued a notice on all fresh petitions and gave four weeks to the government to file a reply. Maybe the SC forgot that any delay in addressing pressing issues is eroding its credibility. Now the big question is: How much time the Centre needs to provide for the information required by the court? The aam aadmi wonders that when the government already got around a month's time to submit its response, then why does it need four extra weeks? It's a ploy to slow the process in the court.

But since state after state are raising their voice against the CAA, in the people's court, there are no adjournments. If anything, the protests are drawing support from various quarters. Is it not better for the SC to put an interim stay on the implementation of the Act till the time the larger bench hears the case? People are waiting with a lot of hope because the SC's word on all these issues is final.

Bidyut Kumar Chatterjee Faridabad

Do not lose focus

This refers to the news that the government is planning to reduce the duty-free allowance on alcohol to one bottle from two for people returning from abroad. The reason cited is that countries such as Singapore permit only one bottle at these duty-free stores at the airports. I would request the government not to reduce the allowance. Why deprive international travellers of small pleasures? After all, Brazil permits 12 bottles of alcohol and even the UAE permits four bottles. Let us focus on dealing with serious economic issues like inflation and falling consumption instead of a bottle of small desires.

Rajendra Aneja Mumbai

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Preserving the Republic

Constitution must be followed in spirit, too

On January 26, 1950, India gave to itself one of the most complete, modern and liberal Constitutions in the world. Seventy years on, this country must not just celebrate that moment but rededicate itself to the observance of Constitutional principles, both in letter and spirit. The survival of India as a state, its development as a nation and its growth as an economy over the past seven decades owe a great deal to the fact that India's Constitution emerged from broad deliberations, and the founding generation's dedication to Constitutional methods and principles. There is little doubt, of course, that over the course of these seven decades of the Republic there have been times when its liberal bedrock has been under siege — the imposition of Emergency being one such moment. There is every reason to worry that India is now passing through another such stage, if not as obvious as was the case in the 1970s. The Economist Intelligence Unit (EIU) releases a "Democracy Index" every year, which tracks how various countries are doing in terms of their democratic institutions and experience. India dropped 10 positions in a single year, with its rank in the index slipping from 41 out of 160-plus countries in 2018 to 51 in 2019. The EIU stated that "the primary cause of the democratic regression was an erosion of civil liberties in the country", providing as examples the National Register of Citizens in Assam, the removal of Jammu and Kashmir's autonomy and its demotion from statehood, and the new citizenship law.

Such indices should often be taken with a pinch of salt, but there can be no doubt that in this case India's fall in the rankings reflects widely shared concerns. It is time to examine how core constitutional principles can once again be brought to bear on this country. On multiple fronts there has been a regression in terms of following both the letter and the spirit of the Constitution. It is not only a challenge to constitutionally-mandated secularism, but there are also questions about whether the rights guaranteed in the Constitution will continue to be valued and, indeed, updated in a new era. No Constitution is static, and it must change with the times. But the liberal bedrock of India's Constitution must continue to operate. Those institutions charged with preserving this bedrock must be vigilant to uphold their independence and to defend the basic constitutional principles.

The basic fact to be noted is that while political change and new ideas must be respected in a democracy, they should not challenge the constitutional principles. It is fidelity to such principles that maintains the continuity and legitimacy of any state. It provides not just opportunities for individuals but also security, without which investment and growth is impossible. Yes, there must be changes: Privacy needs to be respected more, colonial-era restrictions on speech and excessive power for security forces repealed, and property rights need to be revisited. But these are perfectly compatible with the Constitution as written and debated seven decades ago and in the years since. The political class that has often paid lip service to the Constitution over the years had better instead seek to serve it in reality.

Andhra's capital errors

There are better ways of ensuring inclusive development

The Andhra Pradesh government's decision to scrap Amravati as a "super-capital" and build three capitals instead in different parts of the state defies all logic. Nevertheless, with a majority of 151 in the 175-member Assembly, Chief Minister Y S Jagan Mohan Reddy had little trouble in getting the necessary legislation passed. Thus, Amravati, which Mr Reddy's predecessor Chandrababu Naidu had made considerable headway in developing, will be retained as a legislative capital housing the state Assembly. Visakhapatnam, 367 km away, will be the executive capital, where the state secretariat and the Raj Bhavan will be based. Finally, Kurnool, 692 km from Visakhapatnam and 343 km from Amravati, will be the judicial capital with the high court. Mr Reddy's ostensible logic for this dramatic shift from Mr Naidu's blueprint is disingenuous. He says he wants "inclusive development," the latest term in the national political lexicon that usually hides a multitude of motives. Even if Mr Reddy's reasoning is taken at face value, it is hard to see how the argument progresses beyond a real estate play. Inclusive development, in its original form, is embedded in the concept of administrative efficiency for all. It is not clear how decentralising the three key organs of governance by hundreds of kilometres will achieve this. To offer just one example, a land-loser to a government project contesting compensation will find herself saddled with huge travel costs shuttling between Visakhapatnam and Kurnool, in addition to legal fees.

That said, there is a strong case for bringing administration to the people through decentralisation. If Mr Reddy were truly concerned about this, it would make sense to develop mini-secretariats in each major region, just as Haryana and Uttar Pradesh have done with Gurugram and Noida, respectively. This has the dual benefit of allowing farmers in these regions to gain from land acquisition and people to access administration easily. The immediate prognosis is that Mr Reddy is unlikely to follow this sensible policy because of ingrained caste rivalries between the coastal Kammas, represented by Mr Naidu and his followers, and the Reddys from the Rayalseema (or southern) region. The former are said to have gained from the Amravati land deals, which is why Mr Reddy is seeking rebalance for the caste he represents via this decentralised scheme. He has, nevertheless, said he would make good on promises made by Mr Naidu to farmers who are awaiting full compensation for land surrendered for Amravati, and has even doubled the amounts. But with state's debt burden, it is difficult to see how he can do this as well as raise money for his tri-capital plan.

No less damaging are the signals to potential investors. Reneging on renewable energy contracts, announcing job reservations for state residents, and demolishing buildings dating to Mr Naidu's tenure can scarcely be considered encouragements for business houses seeking stability and sanctity of contract. The fate of the Bill lies with the upper house, in which Mr Naidu's Telugu Desam Party holds 28 of the 58 seats. Rather than any "inclusive" concerns, the confrontation between landed interests and caste configurations will decide whether this five-year-old state will have three capitals or one.

ILLUSTRATION: BINAY SINHA

Budget in the season of protests

The government has missed the chance to defuse the anger over CAA and focus on the economy

The Union Budget will be overshadowed by the ongoing mass protests across India, and the government has missed the chance to narrow its focus and concentrate on the economy. This is not deliberate and is the result of an error in judgment from the prime minister.

He has been seeking to defuse the anger and the passion. But he has failed because he does not really understand what underpins this nationwide movement against the citizenship laws, and so doesn't comprehend how to overcome it.

There was an opportunity to hit pause on the protests, if not an outright stop, in the Supreme Court this week, but that opportunity was not taken.

The attorney general could have voluntarily sought a stay on the Citizenship Amendment Act till the court sent down its judgment on its constitutionality. His instructions were instead to stall. This he succeeded in achieving. The government had filed no response to the 60 or so petitions it had already received weeks ago. But the judges chose to give the Modi government another four weeks, reasoning that the Centre had not received all the petitions.

The question is what the delay will achieve. The prime minister may think things will blow over in that time. They won't, and this is why the Budget will suffer as a result.

When you have little or no engagement with the other side, you cannot figure out what to do to engage, negotiate with, crush or pacify them. This is the case with the Bharatiya Janata Party (BJP) and the people it is faced with in the anti-Citizenship Amendment Act (CAA) movement.

AAKAR PATEL

Before independence and before the rise of the Muslim League under MA Jinnah, only 3 per cent of the Congress party's members were Muslims. After Jinnah's ascendancy even this modest number fell dramatically, and in all honesty there was no meaningful Muslim representation in Congress. This is why Abul Kalam Azad, a great intellectual, had to suffer being called the "show boy" of the Congress Party. It was not an unfair slur to make: It honestly reflected the numbers. The absence of Muslims in Gandhi's and Nehru's Congress made them unaware of what the community wanted, which was a fair share in power, and certainly unaware of the strength of its feeling.

The situation in the BJP today is worse. It has always had one or two national representatives, never popularly elected, who are its fig leaf. Names like Sikander Bakht, Mukhtar Naqvi and Shahnawaz Hussain come to mind. Out of the BJP's 303 Lok Sabha MPs, none is a Muslim.

Neither Naqvi nor Hussain has come to the anti-CAA protests and would not dare to come. They know they are show boys in the true sense of the word. But that reality also means the BJP has zero contact at the ground level with the protestors, who are to a large extent Muslim, joined by students and a smattering of the group contemptuously called liberals.

The government does not have a sense of the energy and the resolve of those on the street because it is not there and the people it knows are not there. The other reason for its ignorance of what it is faced with is that to the largest extent these are spontaneous and not politically led. Other than in West Bengal, the crowds in the rest of India are leaderless.

This means the political parties, friends and even adversaries, Modi and Shah rub shoulders with in Parliament also have little or no connect with the anti-CAA movement.

In Uttar Pradesh, Akhilesh Yadav's Samajwadi Party chose not to support the protestors, wary of the communal spin given to them and the Yadav voters will react negatively. Yadav and Mayawati may have assumed also that the hard posture of the Uttar Pradesh government would have broken the spirit of those on the street. This did not happen and sit-ins are now underway in Allahabad, Azamgarh and Kanpur other than Lucknow.

All of this means that the political establishment is unconnected and dislocated from the millions who seek change. Despite the attempted clarification offered by the prime minister, there is no clarity on what is going to happen regarding citizenship. He said that his government had not formally discussed the National Register of Citizens so far. That doesn't really mean anything and as assurances go, it is weak. It has sent a clear message neither to the protestors nor the state.

They are still aware that from April 1, the National Population Register will begin to be rolled out. In many states like Bihar and Odisha there is ambiguity about what will happen. In BJP-run states it is clear that the process will unfold and produce chaos.

In Bangalore, the homes and shops of 300 people were razed on the accusation that they were Bangladeshi. The media reported that they were not, but so what if they were? The state must follow due process and not put up its xenophobia for all the world to see.

To the protestors looking on at such events across the country, this will be a further reason to dig in and not give up. They are fighting for their constitutional rights and for survival. This is a different kind of thing than the protests this government or any previous Indian government is used to. And they will not end because of the usual tactics of delay and brutality.

It is all about global risk mitigation

Last year has been the worst for the global economy in terms of growth since 2008 with all major centres of economic activity in the world registering a decline in growth. And 2020 will, at best, be slightly better. Any hope to the contrary was dashed by the latest global economic growth forecast published this week by the International Monetary Fund (IMF). Global growth for this year has been cut from 3.4 to 3.3 per cent — compared with 2.9 per cent in 2019. 2021 would not look so much better with growth expected to be at 3.4 per cent, down from the previous 3.6 per cent forecast. And bear in mind that IMF's forecasts tend usually to be on the optimistic side.

In fact, all the factors which were bearing down on the economy last year are still there. Corporate leaders and investors are as worried as ever, if not more, by the rise of geopolitical, non-business, risks. First among them is the rise of protectionist policies in many parts of the world and the unrelenting assault on the multilateral trade system.

CLAUDE SMADJA

In that respect, there can be no illusion that the trade deal between Washington and Beijing signed on January 15 is no more than a pause in the economic, technological and strategic competition between the US and China, with major forces in the Trump administration more intent than ever to pursue a contain and decouple strategy towards China. As worrisome is the fact that Donald Trump seems likely to use that "pause" to turn his sights to Europe and the US trade deficit with the European Union. The White House has been quite clear on its intention to impose trade sanctions on France if it pursues its intention to tax the revenues of the US high-tech giants made on its soil. Similarly, Brussels has been as clear in its warning that it would retaliate if the US were to act on its threats. Still hanging in the air is the threat of US tariffs against German cars.

Anemic condition, or slowing down factors of different nature, continue to prevail in all major economies. Germany's manufacturing sector is now in its 16th month of recession with exports on a significant downward trend, impacted by China's economic slowdown and the trade war initiated by Mr Trump. The Bundesbank now expects Germany to grow by only 0.5 per cent this year, with negative reverberations all over Europe as the country accounts for more than 30 per cent of the eurozone gross domestic product (GDP). More importantly, this is not a cyclical crisis. The German growth model based on exports, downward pressures on wages, emphasis on sectors such as automotive and chemical and "black zero" budgets — constitutionally mandated balanced budgets leading — to notably insufficient infrastructure investments, is now reaching obsolescence.

In China, the leadership is struggling with a tough balancing act between pursuing the deleveraging of the economy to reduce the financial risk, created by bloated indebtedness in some corporate sectors and among provincial and local governments, and putting as floor under economic growth at 6 per cent — the country's lowest expansion rate for the last 30 years. Beijing's challenge in the coming months will be to find ways to boost domestic spending and the confidence of the consumers and private sector investors as youth unemployment is on the rise.

India, for its part, has seen economic growth decline over the last 18 months, with the latest IMF forecast for the country revised down 0.9 per cent to just 5.8 per cent. The country is paying the price of much needed corporate de-leveraging and a government that seems to have dropped the ball on the economy, as it gets mired in damaging political diversions. India is very much at risk of missing the opportunity created by the US-China trade and technology confrontation to attract more foreign companies as a manufacturing base. It remains to be seen if the dearth of private sector investment and the slowing down of infrastructure investment will be reversed by new measure in the Budget in addition to a set of recent measures aimed at reviving growth.

Japan is notably the only large economy where the IMF forecast is revised upward as the impact of the stimulus package enacted by the Shinzo Abe government at the end of 2019 and the boost to economic activity expected from the Olympics 2020 should drive the country growth to 0.7 per cent against a previous forecast of only 0.5 per cent.

While the US economic cycle remains quite resilient, with the expansion phase now in its 10th year, consumer confidence still high and an unemployment rate at a record low of 3.5 per cent, growth is expected to decline from 2.3 per cent in 2019 to just 2 per cent this year. One can count on Mr Trump to keep the economy humming in the coming months as a major asset in his reelection drive. However, the remaining impact of the tax reform will definitely fade away in the course of 2020; consumer sentiment is exposed to any stock market reversal, and the sharp increase of low-credit-quality bonds stimulated by low interest rates is generating warnings from US economists as well as from the IMF. Last but not least, the propensity of the Trump administration to engage in trade wars, with the uncertainties they create, could continue to damper business investment.

Add to this picture a geopolitical environment marked by uncertainty, volatility and prone to crises, which can erupt almost overnight in the Middle East or, for instance, about Taiwan or the South China sea issues; then take also into account the challenges created by climate change, the painful and costly adjustments that major sectors such as the automotive, energy, chemical, steel industries will have to make in a relatively short span of time to comply with new stringent regulations on carbon emissions. So it is no surprise that global risk mitigation will remain a top priority for business leaders and policy makers in the course of 2020.

The writer is president of Smadja & Smadja, a Strategic Advisory Firm; @ClaudeSmadja

English's pronoun problem is centuries old

BOOK REVIEW

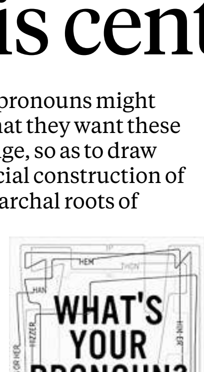
JOE MORAN

"Pronouns are suddenly sexy," Dennis Baron declares at the start of *What's Your Pronoun?* For "pronouns," read one specific pronoun, or rather its long-lamented absence in English: The third-person singular gender-neutral pronoun. And for "sexy," read thorny. Pronouns now come up in lawsuits, school regulations and company codes of conduct. Colleges ask students to provide their preferred pronouns; online dating sites offer pronoun options. "It used to be nerdy to discuss parts of speech outside of grammar class," Baron, a professor emeritus of English and linguistics at the University of Illinois, writes. "Now it's cool."

After this slightly forced attempt at with-itness, *What's Your Pronoun?* settles down into a scrupulous and absorbing survey. Its great virtue is to show that these issues are nothing new: Gender-neutral pronouns like "ze," "thon" and "heer" have been circulating since the mid-19th century; others as far back as 1375.

Almost no one now defends the use of a generic "he" — but what to replace it with? Mr Baron is surely right that no one cares for "his or her": Too unwieldy. As for the pronouns historically proposed to replace "he" or "she," they failed to gain traction because "they look strange on the page."

Coiners of new pronouns might usefully counter that they want these words to look strange, so as to draw attention to the social construction of gender or the patriarchal roots of traditional pronouns. Fair enough, but the point about pronouns is that they replace nouns, and thus trade the specific for the generic — so they will probably catch on only when they are inconspicuous. In writing, a pronoun that draws attention to itself stops the reader's eye and checks their pace at the wrong point in a sentence.



WHAT'S YOUR PRONOUN? Beyond He & She
Author: Dennis Baron
Publisher: Liveright Publishing
Price: $25.95
Pages: 283

For Mr Baron the solution is clear, and I used it (hopefully unobtrusively) in that last sentence: The singular "they." He provides ample textual evidence, from Shakespeare on, that this is a perfectly respectable option — and so unconscious that even those who condemn it invoke it without noticing.

For the still unpersuaded, he points out that singular "they" is older than singular "you." Only in the 1600s did singular "you" start pushing out "thou" and "thee." Having the same pronoun for both singular and plural forms makes for potential ambiguity. So colloquial plural forms have sprung up, such as "y'all," common in the American South, or the more recent "you guys" — an oddly gendered locution at a time when the generic "he" is becoming extinct. Still, we get by. No one considers ditching the singular "you."

For Mr Baron, the benefit of singular "they" is that it is often used by those in search of a nonbinary or gender-neutral pronoun, as well as those who give such issues little thought. While many language mavens are coming around reluctantly to singular "they" — in December Merriam-Webster anointed "they" its "word of the year"— some traditionalists still hold out against it. Their defence is convention. I admit that the nonbinary use of "they" to refer to a specific person — "Alex likes their burger with mustard" — still sounds jangly to my ears. I will get used to it. Language, as Baron eloquently shows, works as a dynamic democracy, not as rule by experts. The sticklers may not like "they" (singular) but they (plural) will eventually have to bow to the inevitable.

Almost no one now defends the use of a generic "he" — but what to replace it with? Mr Baron is surely right that no one cares for "his or her": too unwieldy. As for the pronouns historically proposed to replace "he" or "she," they failed to gain traction because "they look strange on the page"

Mr Baron's book layers on rather too many examples of historical usage, including a 60-page "chronology of gender-neutral and nonbinary pronouns" at the end. This scholarly assiduousness, though, also makes him the ideal pilot through these contentious political-linguistic waters. If you want to know why more people are asking "what's your pronoun?" then you (singular or plural) should read this book.