

BusinessLine

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Where's the jugaad

India has improved its rank in Global Innovation Index — but others are moving faster

Time and again, we are reminded, and rightly so, for being way down in the global innovation sweepstakes. The Global Innovation Index 2017, compiled by Cornell University, INSEAD and World Intellectual Property Organisation, shows India has moved up six places among 130 nations over the last year, while China, at 22nd place, is the only middle-income country to be in the top 25. Switzerland, Sweden, the Netherlands, the US and the UK are the top five innovative countries. That India lags behind, despite its army of scientific and technical manpower, is not surprising. More than policy lacuna, we have overwhelming ecosystem issues, in higher education, government and the corporate world. India offers liberal tax breaks on R&D spends, at well over 100 per cent, yet studies have shown that research has been essentially limited to three sectors: pharma, automobiles and IT. Foreign companies have been at the forefront of R&D spend, leaving India Inc behind. Further, studies also suggest that these innovations do not have positive spillovers for the domestic economy. India Inc needs to introspect on the lack of R&D culture, despite the tightening of intellectual property laws since 2005. It needs to get its act together in a competitive, rapidly changing world.

India does not figure anywhere in the global university rankings either. These studies may have been questioned for their methodology (excessive emphasis on being published in Western journals), but the fact that our universities do not figure in the top 100 tells a story. A focus on churning out half-baked technology graduates, with a poor grounding in basic sciences, seems to have played a role here. India's R&D scientists, studies point out, number less than 200 per million people, against over 800 in the case of China and over 5,000 in Japan. The Institutes of Science Education and Research have come up rather late in the day. Besides, if the West has stolen a march, it is because of its robust university system. Its universities are not just well endowed, but are also crucibles for inter-disciplinary exchange of ideas, rather than places where fear of authority and thought control prevail. A socio-cultural resistance to encouraging individual excellence is the norm here, in the lab and at the workplace.

While adapting workforce to skill requirements, the Indian economy should take a long term view on its needs — something that's absent across sectors, from urban governance to agriculture. If government bodies do not put a premium on performance, the private sector is driven by short-termism. A premier agency should work towards dovetailing research with long-term goals.

The road ahead for Emmanuel Macron

The suave French President may want to become a global player, but nagging problems await him as he rolls out his agenda



VIDYA RAM

EUROSCOPE

On Tuesday evening French President Emmanuel Macron and British Prime Minister Theresa May watched the French and English football teams play a friendly in the Stade de France in Paris, after a day of talks in Paris. The contrast between the positions of the two leaders could have scarcely been more striking. The validation over Brexit that May had sought evaporated on June 8, as her party lost 13 seats after a disastrous campaign by her party and an engaging, passionate one by Labour that saw them surge by more than any party had managed in post-war Britain.

Macron, by contrast, performed spectacularly well, in defiance of critics who had questioned whether his success in the presidential elections would be repeated in the legislative assembly elections, which pitted him, a relative political novice, against France's seasoned political operators. His new party La Republique En Marche (REM), formed just a year ago, fielded candidates from within existing political circles and brought in approximately half from outside, drawing on people from a range of backgrounds from a full fighter, to lawyers, to a student.

The party, along side its partner MoDem (a smaller, centrist, pro-European party) is now projected to win as many as 450 out of 577 seats

in France's National Assembly, when voters return to vote in the second round that will take place on Sunday, after having won just over 32 per cent of the vote. This would be well in excess of the 290 seats needed to gain legislative dominance.

Macron's agenda

The results suggest voters embraced Macron's agenda — including a radical overhaul of France's labour laws to give employers more flexibility to hire and fire workers — to a greater degree than many had suspected, and were willing to give him the legislative majority to make that possible.

In the wake of the presidential election some polls had suggested public wariness of REM success in the legislative assembly elections, well aware that the record of the previous Socialist Party administration of Francois Hollande had promised so much that had not been delivered upon.

While the results will matter less to bilateral relations than the presidential election (by tradition the French system enables foreign policy to lie largely in the hands of the President), they are likely to be welcomed by India and Indian business: and followed in the wake of Prime Minister Narendra Modi's visit to Paris to discuss climate change policy, and anti-terror strategies, among other issues. Macron's now strengthened pro-European voice will also be welcomed as India prepares to restart talks with Europe over the elusive free trade agreement.

The losers

While the disastrous performance of the Socialist Party in the Presidential elections continued (they commanded 9.5 per cent of the vote



Eyes in the future His moment of truth is yet to come AFP

in the first round, with projections that they could win anything up to 40 seats but could risk potentially falling below the 15 seat threshold needed to form a parliamentary group, while their presidential candidate Benoit Hamon lost his seat), the poll proved surprisingly challenging for Marine Le Pen's Front National, which came third, winning 13.5 per cent of the vote, well short of the mainstream Republican Party, which had floundered in the first round following the scandal encompassing its candidate Francois Fillon.

There had been considerable concerns that the Front National could present a significant threat to Macron even after his clear victory in the second round of the presidential election.

Also surprising was the poor performance of Jean Luc Melenchon, the radical left candidate whose La France Insoumise party (France Unbowed) managed to get just a 11 per cent share of the vote, though ini-

tial analysis suggested that many of his supporters stayed away. In fact, low turnout was a noticeable aspect of the election; below 50 per cent and in contrast to the animated public engagement with the presidential election.

While many suggested it was the result of voting fatigue, to some it's a dent in Macron's apparent success, (his effective share of the country's voter based was 15 per cent, given the low turnout) and one which could point to some of the problems that lie ahead for him as he starts to roll out his agenda.

A global player

Macron has already made a head start on his pledges: one of his government's first initiatives is to introduce legislation aimed at "cleaning up" French politics by, among other things, banning the hiring of family members by politicians and tightening up of expenses rules. He has also kick started discussions with unions over his proposals to

rehaul labour laws. Protests have already taken place in the French capital, suggesting that this will be no easy battle for Macron to win. Also controversial is his move to strengthen anti-terror legislation, which has concerned human rights groups, but which he believes is necessary following the terror attacks, perpetrated by lone wolves or in a coordinated manner, which have taken place in France in the past couple of years.

His ambitions to position himself as a major global player have also become evident: whether it was in his offer to host American climate change researchers in France, or his closely-observed white-knuckled handshake with US President Donald Trump, which he described as a "moment on truth." While a determined European, committed to the European project, he sought to take a conciliatory role with Britain this week, suggesting that the door may remain open to Britain to return to the EU's fold.

Why the Fed rate hike didn't create a ripple

Fed's been hiking rates gradually, allowing all stakeholders enough room to absorb impacts and find other credit routes



LOKESHWARRI SAK

The US Federal Open Market Committee (FOMC) raised its target fund rate by another 25 basis points on Wednesday and put forth a detailed roadmap for trimming its balance sheet. Such hawkish policy would have sent financial markets reeling three-four years ago.

But investors absorbed the latest Fed action with an uncharacteristic nonchalance. Why are the investors unperturbed?

The first reason is the systematic manner in which the US central bank is going about policy normalisation, with detailed guidance given well in advance about the data-points it follows, the trajectory and the range of outcomes.

Well planned and executed

While hiking the Fed funds rate in the June meeting, the FOMC has indicated that the rate could move to 1.4 per cent by the end of 2017,

gradually increasing to 3 per cent by the end of 2019. While the rate-hike schedule is contingent upon data releases on inflation and unemployment, spelling out the probable outcomes clearly has helped markets prepare themselves.

The Fed has also made it clear that it intends to shrink its assets, which increased from \$865 billion in August 2007 to \$4.5 trillion by end 2014. It plans to do this by not reinvesting the amount paid back on maturity.

Such payments will be reinvested only if they exceed certain limits. In treasury securities, the limit would be \$6 billion per month, which will increase by \$6 billion every three months until the cap rises to \$30 billion per month. The limit in the case of mortgage backed securities (MBS) is set at \$4 billion a month, to increase in steps of \$4 billion every three months until it reaches \$20 billion per month.

While the committee has not stated when these limits will come into force, many in the market expect it to be enforced by September this year. If that happens, the maximum monthly limit of \$50 billion will kick in by September 2018. By the end of 2020, total assets of Fed would have reduced by \$1.7 trillion, reducing the balance sheet size to



Sitting pretty The US central bank's monetary mission AFP

around \$2.8 trillion. Such staggered reduction is unlikely to roil financial markets.

Dollar carry trade

Another reason why financial markets are unfazed is the diminishing relevance of dollar carry trade. In the period immediately after the crisis, the near-zero rate of interest in the US had given rise to dollar carry trade wherein investors borrowed in dollars to invest in assets across the globe, creating price bubbles in many assets.

But this concern no longer holds due to two reasons. One, the Fed funds target rate that was at 0.25 per cent from December 2008, has

been rising since December 2015. The hike in the June 2017 meeting is the fourth since then. Carry trades generally unwind when borrowing costs move higher. Two, dollar has also been quite volatile since 2014, a feature that is not conducive to carry trades either.

Three, even as the Fed stopped its bond buying programme, other central banks such as the European Central Bank and Bank of Japan have been aggressively pumping liquidity into the system. The ECB's \$2.6 trillion bond-buying is set to run till year-end and the Bank of Japan is buying Japanese government bonds and ETFs worth around 90 trillion yen a year. Global investors,

therefore, need not fret about liquidity draining out of the system as long as these banks continue monetary easing.

Four, other currencies such as the Australian dollar, New Zealand dollar, yen and euro have replaced the gap left by declining dollar carry trades since interest rates in these countries are still quite low.

End of uncertainty

Finally, bond and currency markets are being influenced by recent developments. US 10-year government bond yield has decreased from 2.4 per cent in mid-May to 2.16 per cent. These rates have been affected by two factors: one, the expectation that the Fed will not hike rates too aggressively this calendar. Two, dollar's slide has also led to lower demand for US government bonds. When Trump took charge of the US, dollar rallied in anticipation of aggressive policies to boost growth. As these hopes faded, dollar has been sliding lower.

Fall in yields on US government bonds is, however, unlikely to affect Indian bond market that is currently being influenced by the falling inflation. The rupee, on the other hand, has been on firm wicket due to strong flows and reversing exports.

SUKIYAKI MANJULA PADMANABHAN



LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

TTO can wait

The editorial, 'The right to price' (June 16) has rightly argued for amending the Telecom Tariff Order 1999 by the TRAI. But that would be meaningful only if telecom companies offer services with transparency. They are bound to measure up to the contractual obligations without fail under the concerned agreements and the legally-binding stipulations of the TRAI. Still, customers repeatedly face call maturity issues, call drops, voice aberrations, long buffering for data usage despite tariffs are collected for higher generation signals, established connectivity on voice and data hitting the buffers and wrong bills.

It is said that telecom service rates are much lower in India than other markets, but we must compare in terms of quality of services for equitable charges. There are still loopholes in regulations that the telecom companies are using,

which should be plugged by the TRAI. Till then, amending the TTO 1999 can wait, to avoid customers being taken for granted by telcos.

B Rajasekaran Bengaluru

Bad signals

While the banking industry is still to recover from the shock that it received in January after the arrest of the former top officials of a state-owned bank involving loans granted to Kingfisher Airlines, the CBI raid on the NDTV promoters' official recently in the context cited is sure to send a bad signal that will not augur well for the growth of economy. A general view is that a more pragmatic and practical approach is necessary in dealing with the burning issue of non-performing loans of banks, else it will throw the banking industry out of gear for reasons of needless fear developing in the minds of bankers.

Even the recent amendment in Banking Regulation Act giving more teeth to RBI to deal with the NPAs perhaps will be of no use without any initiatives forthcoming from the bankers themselves. Already, the credit growth is witnessing a near stagnancy and the paradox is that even with a cut in the lending rate, there are no signs of its revival.

Srinivasan Umashankar Nagpur

Real worries

This refers to the report "Organised retail, neighbourhood shops a worried lot" (June 16). With the date for introduction of the GST regime fixed as July 1, there is little time for any serious examination of any points of the scheme. But these can be kept in store by the Government for attention after some time. The worries of the sector in the news are real. Other units might also have apprehen-

sions of negative fallouts, which might affect their interests seriously. It is therefore desirable that the impacts on the various sectors on the implementation of the GST are looked into after a certain period of its operation and appropriate remedies initiated.

TR Anandan Email

Poor models

Political leaders should be role models for the people in all aspects of life. Simplicity, humility, patience, perseverance, knowledge and discipline are some of the important traits expected of the people at the helm. That Telugu Desam MP Diwakar Reddy reported late at the airport (Vishakhapatnam) on Thursday morning and threw tantrums at airport officials is condemnable in no uncertain terms. This is not the first incident of this sort in the country. Such MPs should be divested of

some privileges they enjoy for a time period.

S Ramakrishnasayee Ranipet

Tackling farm woes

It is an irony that in our country about 30 per cent of foodgrain/fruit/vegetables and other commodities that are grown/produced are destroyed due to lack of storage and proper transport. If the Government is serious about the farm crisis, it must create a National Cold Storage Corporation on the lines of Central Warehousing Corp. This can help build a cold storage in every village. Land can be obtained as a panchayat would come forward and donate.

Along with this, government must also improve road connectivity. This would create employment opportunities for skilled and unskilled manpower.

K Ashok Kumar Kolkata

