The real issues in media

New Information and Broadcasting Minister Smriti Irani needs to ensure that focus shifts from trivia to things that matter

MEDIA SCOPE

VANITA KOHLI-KHANDEKAR

The Central Board of Film Certification is fretting over trivia again. Its objection to the use of the word "cow" among others in a documentary on Amartya Sen is just another example of the cockeyedness on display when it comes to the media and entertainment industry. In the deluge of comment and counter comment real issues and their solutions get buried.

As new Information and Broadcasting Minister Smriti Irani takes charge, could this column point her to some?

Take films for instance. They are dogged by a lack of screens. Nitesh Tiwari's *Dangal*, the biggest hit in Indian cinema, has grossed about ₹2,000 crore globally. Of this, ₹600 crore was at the Indian box office. Roughly, that means about five per cent of Indians or about 60 million people saw *Dangal* in the theatres in India — the film's home country.

Compare that to China, where the film is a massive hit. *Dangal* collected ₹1,225 crore ($191.6 million) selling over 46 million tickets (it is still running there). The ticket prices are higher, but even then the number of tickets sold is more than that for any major domestic hit such as *Bajrangi Bhaijaan*. This is not just because *Dangal* is a good film, but because it got a better opportunity to monetise itself in China. The country has about 40,000 screens for its 1.38 billion people against 9,000 for India's 1.2 billion people. In 2011 China was at the same screen level. That is when the state decided to push investment into building screens. It is now the world's second-largest film market at $6.6 billion.

You could argue that people are watching films online and on TV and that theatres don't matter. But they do. More than three-fourths of the Indian film industry's revenues come from the box office. Without one, it is dead. While multiplexes are adding 150-200 screens every year, single screens have been shutting at twice that rate. Much of the growth for the last few years has come from raising ticket prices, not because more people are watching films. You could further argue that film is an irrelevant industry. It isn't. It is a huge marker of India's soft power and generates millions of jobs and crores in taxes.

Can the Ministry of Information and Broadcasting then direct its attention to putting together a policy that helps incentivise the building of screens across the country — by making it easier and less cumbersome? Instead, we are being blindsided by what words to use and how long to kiss on screen.

Then there is everyone's bugbear — news content. India's news television industry is known for ill-trained, loud and at most times judgemental and partisan reporters. Just three things could help.

One, take the Telecom Regulatory Authority of India recommendations from 2014 seriously and ban state governments, politicians, political and religious organisations from owning news channels or cable distribution firms. In addition, mandatory sharing of all information on a news organisation — quarterly reports, ownership structure, funding sources — online would go a long way in pushing out dodgy owners.

Two, free up Doordarshan by freeing up Prasar Bharati administratively and financially from the central government. Once the state broadcaster, which has no revenue pressure, is truly autonomous it can invest in good quality journalism. This will force the private news market to correct itself. The existence of the BBC has been a huge factor in how the TV news market in the UK shaped up.

Three, work at giving self-regulatory bodies such as the Press Council of India some teeth. If it had punitive powers, paid news would have been killed long back.

In the last six years only two significant decisions that facilitate the growth of the ₹1,26,200-crore Indian media and entertainment industry were taken — to digitise cable and to auction radio stations. More such decisions are needed if the industry is to contribute more than the 0.9 per cent to India's gross domestic product. That is the real stuff to fret about.

Twitter: @vanitakohlik

CHINESE WHISPERS

Gandhi's postcard message for MPs

Gopalkrishna Gandhi, the vice-presidential candidate of 18 Opposition parties, filed his nomination papers on Tuesday. Gandhi and some Opposition leaders, including the Trinamool Congress' Derek O'Brien, then sat down to strategise his outreach to the 780-odd Rajya Sabha and Lok Sabha members, who comprise the vice-presidential electoral college. Being old school, Gandhi considered sending each of them a personalised email. Finally, it was decided that Gandhi would send each member of Parliament (MP) a postcard with a message. O'Brien asked his office staff to arrange for the postcards. Gandhi also reached out to his college batchmate Odisha Chief Minister and Biju Janata Dal (BJD) chief Naveen Patnaik, who said his party MPs would vote for Gandhi. In the election for president, the BJD had voted for the National Democratic Alliance candidate, Ramnath Kovind, on Monday.

Next hearing, please

Chief Justice of India J S Khehar wowed everyone in court on Tuesday when, presiding over a five-judge Constitution bench, he said that a nine-judge bench would be set up overnight and hearing on the question of privacy in the Aadhaar scheme would be concluded on Wednesday. In the past, the Supreme Court heard the Kesavananda Bharati case for six months, the Mandal case for over three months and the judges' appointments case for another three months. Breaking the norm, the Aadhaar petitioners are allowed only 200 minutes and the government 30 minutes less. Attorney General K K Venugopal appreciated the lightning speed, remarking that the US Supreme Court gave each side only 30 minutes. That court takes up only 100 cases a year while its Indian counterpart hears 74,000 in the same period. Khehar added that Indian judges could not write judgments during office hours and weekends were spent writing them.

Calling on the divine for Air India

Air India's decision to offer only vegetarian food in domestic economy class has not gone down well with a large section of air passengers. While the national carrier said the move would help it cut costs and losses, many termed the decision elitist and said it reeked of class prejudice. Some even saw in it a conspiracy to foist vegetarianism on unsuspecting fliers. Industrialist Harsh Goenka offered a suggestion to the carrier: "Why not instead of safety instructions conduct Satyanarayan *ki katha* before take-off," he tweeted. Another Twitter user said that after all this, passengers might be expected to "stand for the National Anthem before take-off".

Industry 4.0 is India's second big opportunity

Technological disruptions enable firms to pursue all three value disciplines — operational excellence, product leadership and customer intimacy

GANESH NATARAJAN

Is there a unique value that Indian manufacturing companies can alone deliver to the global marketplace? The answer may well lie in revisiting the fundamentals of "value disciplines" that Michael Treacy and Fred Wiersema had articulated so well in 1997 in their book, *The Discipline of Market Leaders*. Arguing then that companies must choose their dominant value from operational excellence, product leadership and customer intimacy rather than trying to be excellent at all three, the authors made a compelling case for this choice and many success stories of that era were a result of making that choice early and sticking with it through decades of success.

In the 20 years that have elapsed since the argument for choosing a value discipline was made, far-reaching changes have occurred in the landscape within which manufacturing firms operate today. Extensive automation of manufacturing and business processes that created Industry 3.0 has now yielded to Industry 4.0, with the sweep of digital transformation creating a focus on end-to-end digitisation of all physical assets and integration into digital ecosystems with value chain partners. In fact, this is the way consulting firm PWC has defined Industry 4.0 in its 2016 Global Industry 4.0 survey. McKinsey & Co has defined Industry 4.0 as "the next phase of digitisation of the manufacturing sector" and calls out four disruptions which enable 4.0 — data volumes, computational power and connectivity, emerging analytics and business intelligence capabilities, human-machine interaction advances like touch interfaces and augmented reality systems and the improvements in transferring digital instructions to the physical world such as advanced robotics and 3-D printing.

A *Huffington Post* blog suggests that with our vast pools of technically trained manpower, Industry 4.0 is the defining opportunity for India to take its place as a global leader in manufacturing. However, the fact remains that most Indian manufacturing firms, particularly small and medium enterprises, are struggling to contextualise the opportunity and are still woefully short of preparedness for this new leap. Peeling the onion of concepts and technologies may help understand the area and the opportunity a little better. There is no better way to frame this understanding than to go back to the value discipline model. And the good news is that the speed of digital change now makes it possible for firms to aspire to master all three rather than make the choice of one, particularly if the initial bedrock of data management and analytics has been put in place by the organisation.

Combine the pull of the marketplace imperative and the digital transformation push and a potent new set of disciplines emerge. Product and service offerings are substantially enhanced by the addition of new intelligent data provision to the customer and completely new end-to-end digitised products and services with transformed commercial models are the order of the day with the time to market for new product introduction shrunk to all-time low levels. In the arena of operational excellence, vertical integration of all order fulfilment processes and extension beyond company walls to all value chain partners through digital interfaces has made supply and demand matching, operations and process planning, production inventory and quality control and asset and labour utilisation to be optimised. Customer satisfaction is being maximised by design thinking and charting new customer journeys on an ongoing basis, substantially improving sales service and after-sales customer management.

ILLUSTRATION: BINAY SINHA

What is needed is for general and plant managers to absorb the impact of these changes on products, customers and factory operations and for the whole organisation to get a grasp on the potential and opportunities that enabling digital technologies can offer. The deployment of smart sensors, wearables and mobile devices, augmented and virtual reality and location detection technologies substantially enhance the customer and employee experience with the products, Internet of Things and 3D printing and human-robot collaboration enable connectedness and virtual-physical interfaces to provide living examples of digital connectedness. Operations of new manufacturing facilities are greatly enabled through cloud computing and analytics, providing dynamic access to data in real time with advanced process control, real-time supply chain optimisation, digital performance management and predictive maintenance, real-time throughput management and smart energy management taking the unexpected and unanticipated out of the operations. Finally, customer satisfaction is maximised through location detection and virtual reality technologies with sophisticated customer relationship management tools making every customer's needs predicted and serviced individually by the organisation.

In this plethora of concepts and technologies, where does the India advantage lie? One needs to see the 4.0 imperative as a confluence of three capabilities. The first is the understanding of the new and emerging needs of the manufacturing customer and the role of analytics to deliver systems of insight leading to new models of engagement. The second is a good understanding of each new technology and the most appropriate deployment to serve product, shop floor and customer needs. And finally, there is the ongoing need for manufacturing industry personnel to be continually reskilled to be better professionals, with high degrees of flexibility to cope with new technology pushes on one hand and new stakeholder pulls on the other. In the last two areas, India with its vast pool of communicative and trained manpower and the market leadership it has already built in IT services, can clearly take the lead. The opportunity is ours to take and the time is now.

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BUSINESS LIFE

Robots will make the best fake news

Perfect, but phoney, videos of important people saying crazy stuff are a big risk

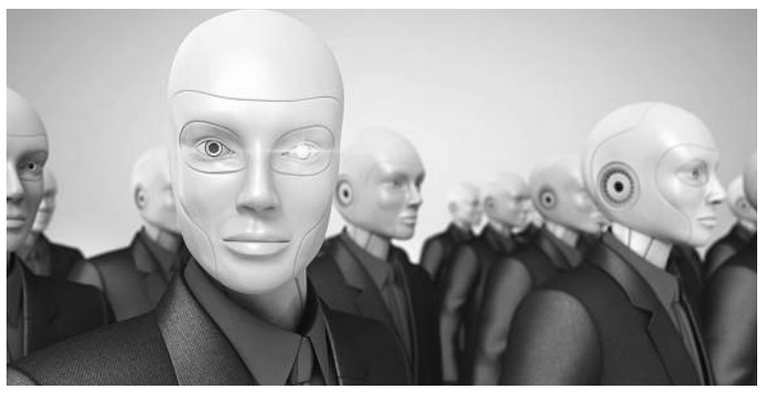
NOAH SMITH

Imagine that tomorrow, some smart kid invented a technology that let people or physical goods pass through walls, and posted instructions for how to build it cheaply from common household materials. How would the world change?

Lots of industries would probably become more productive. Being able to walk through walls instead of being forced to use doors would make it easier to navigate offices, move goods in and out of warehouses and accomplish any number of mundane tasks. That would give the economy a boost. But the negative might well outweigh the positive. Keeping valuables under lock and key would no longer work. Anyone could break into any warehouse, bank vault or house with relative ease. Most of the methods we use to keep private property secure rely on walls in some ways, and these would be instantly made ineffective. Thieves and home invaders would run rampant until society could implement alternative ways of keeping out intruders. The result might be an economic crash and social chaos.

This demonstrates a general principle — technological innovations are not always good for humanity, at least in the short term. Technology can create negative externalities — an economics term for harm caused to third parties. When those externalities outweigh the usefulness of the technology itself, invention actually makes the world worse instead of better — at least for a while.

Machine learning, especially a variety known as deep learning, is arguably the hottest new technology on the planet. It gives computers the ability to do many tasks that only humans were able to perform — recognise images, drive cars, pick stocks and lots more. That has made some people worried that machine learning will make humans obsolete in the workplace. That's possible, but there's a potentially bigger danger from machine learning that so far isn't getting the attention it deserves. When machines can learn, they can be taught to lie.



When machines can learn, they can be taught to lie PHOTO: iSTOCK

Human beings can doctor images such as photographs, but it's laborious and difficult. Faking voices and video is beyond our capability. But soon, thanks to machine learning, it will probably be possible to easily and quickly create realistic forgeries of someone's face and make it seem as if they are speaking in their own voice. Already, lip-synching technology can literally put words in a person's mouth. This is just the tip of the iceberg — soon, 12-year-olds in their bedrooms will be able to create photorealistic, perfect-sounding fakes of politicians, business leaders, relatives and friends saying anything imaginable.

This lends itself to some obvious abuses. Political hoaxes — so-called "fake news" — will spread like wildfire. The hoaxes will be discovered in short order — no digital technology is so good that other digital technology can't detect the phony — but not before it puts poisonous ideas into the minds of people primed to believe them. Imagine perfect-looking fake video of presidential candidates spouting racial slurs, or admitting to criminal acts.

That's just the beginning. Imagine the potential for stock manipulation. Suppose someone releases a sham video of Tesla Inc CEO Elon Musk admitting in private that Tesla's cars are unsafe. The video would be passed around the internet, and Tesla stock would crash. The stock would recover a short while later, once the forgery was revealed — but not before the manipulators had made their profits by short-selling Tesla shares.

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LETTERS

Supporting the elderly

Nitin Desai's article, "Universal basic income or social security" (July 18), lays down the debate in a focused way. He is right when he says that at present individuals cope with unemployment, large health expenditure, old age and other emergencies by falling back on traditional systems. This vulnerable section of the population, which includes the widows living in Varanasi and Vrindavan, needs immediate care.

The department of social welfare could be entrusted with designing financially sustainable schemes for the elderly in these two cities. Nothing makes people prouder in their old age than to be able to support themselves. They have to be engaged in developing soft skills, managing small-scale industries that pay well under the Swachh Bharat Abhiyan like manufacture of soaps, toilet and fabric cleaning material, moping apparel and moping clothing, napkins, dusters, brooms, fabric softeners and anti-bacterial solutions. These items would be in good demand as the country takes a big step with Swachh Bharat.

Besides, a couple of films on the success of Swachh Bharat Abhiyan in the above mentioned manufacturing units for elderly workers and newspaper clippings lauding their work would instill a feeling of dedication and exuberance among widows and raise their self-esteem. Papad making is another area where the elderly can be employed.

These activities after proper soft skill training by local trainers would supplement their income and keep them engaged.

N K Bakshi Ahmedabad

More scrutiny needed

T T Ram Mohan's analysis of IDFC Bank's merger with non-banking finance company Shriram City Union Finance (SCUF) in his article, "A none too exciting merger" (July 18), brings to the fore some important issues.

First, the IDFC Bank management's confession that "organic growth is not a realistic option for the bank" puts paid to the Reserve Bank of India's (RBI) claims of issuing new banking licences for expanding banking services in the country. This, despite the RBI diluting the definition of a bank branch to a banking outlet that can even be exclusively operated by business correspondents/banking agents.

Second, if we accept that NBFCs like SCUF are providing important service by financing informal sector enterprises, such mergers are likely to extinguish important sources of finance, which banks generally shun due to reasons of size or reach.

Third, as correctly indicated, IDFC Bank was a respected name in infrastructure finance (and even had excellent sector knowledge). Would it be too early for IDFC Bank to turn around its core competencies?

Fourth, the present management of IDFC is making tall claims and trumpeting the merger. Is it not fair for shareholders that a new management guides the destiny of this bank? Any missteps may adversely affect the merged entity in its infancy.

Also, the business media has a responsibility to scrutinise such mergers.

Y P Issar Karnal

For healthy debates

For sometime now there seems to be a race in the electronic media to initiate debates by inviting leaders of political parties and others. Curiously, the same set of people, who have expressed their views frequently on a particular issue, are invited repeatedly by most of the channels. Also, the debaters are mostly based in Delhi.

Instead of carrying the debate forward fairly, some of the news anchors become spokespersons of the ruling party. In some cases, the panellists start shouting all at the same time and none of them can be heard by viewers.

Wouldn't it be better if the anchors did not express their views but only conducted the debate in a constructive way by inviting experts rather than spokespersons of political parties? There is no dearth of intellectuals who know the subjects at length and can express their impartial and constructive views. That would make for healthy debates.

S K Khosla Chandigarh

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HAMBONE BY MIKE FLANAGAN

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The valuation dilemma

A lot depends on the corporate earnings season

The BSE Sensitive Index (Sensex) on Tuesday posted its biggest single-day fall this calendar year, but that was due to specific government action that affected two of the biggest index heavyweights. Overall, the stock market has been in a euphoric mood for quite some time, hitting new highs driven by a tidal wave of liquidity. This is part of a global bull run, as 26 of the world's 30 largest stock markets have been trading near their respective annual or historic highs. There have been inflows from every quarter — global fund managers are still upbeat about India despite higher valuations and say it is one of the strongest structural stories among emerging markets, as a result of which foreign portfolio investors have pumped in over ₹70,000 crore into Indian stocks. While domestic institutions have contributed over ₹45,000 crore, retail investors have also participated in a major way, both directly and via the fund route. Assets under management of equity funds have swelled by ₹1.4 lakh crore since June 2016.

Most observers agree that the markets are overvalued and perhaps even in bubble territory, given the lukewarm performance of many sectors. The Nifty is trading at a current price-to-earnings, or P/E, ratio of 25, while the Nifty Free Float Midcap 100 is trading at an incredibly high P/E of 32. The Nifty has rarely hit these levels while mid-caps are at historically high valuations. Yet, earnings growth remains in the single digits for the broad market and the bad loans crisis is far from resolved, with many corporates struggling to service debt. The disruption caused by demonetisation has not yet worked its way out of the system and that has led to job losses and affected consumption. The goods and services tax (GST) is being hailed as a game changer, but it will also cause some short-term uncertainty. There are multiple linkages between the informal and formal economy and the GST will force an inevitable reworking of those value chains. That will take some time and earnings growth cannot stabilise until the re-forging of value chains is complete.

So why is the stock market euphoric? Ironically this is partly because the economy is not booming — other avenues of investment do not look as attractive. The investment cycle is in the doldrums with bank credit disbursal limping at 25-year low, real estate has not recovered from demonetisation, gold is in a bear market and falling interest rates have led to reduced returns on fixed deposits. The system is flush with money that is being deployed in the stock market in the absence of attractive returns from other avenues. In addition, the inflation rate is falling and more interest rate cuts are expected, pumping even more liquidity into the market. So investors are expecting quick returns. There are also optimists who point to expectations that there will be positive effects from several reforms such as the GST and the Real Estate (Regulation and Development) Act. But the market has been running higher and higher on such hopes for a long time. Eventually earnings must catch up if these high valuations are to be justified. Hopes are riding on this results season, it could be make-or-break for market sentiment.

A case for regulation

Overcharging by hospitals has reached alarming proportions

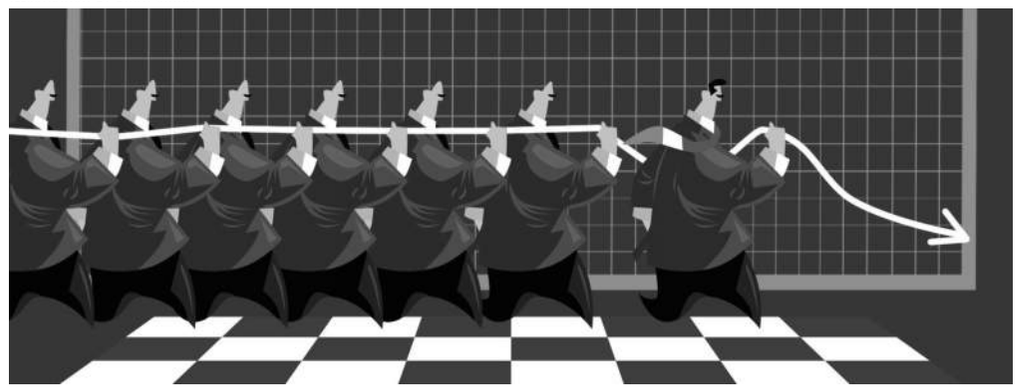
A study by the Maharashtra Food and Drug Authority, reported by this newspaper last week, provided some disturbing information. It examined invoices from 12 major hospitals in Mumbai and found that basic medical supplies for heart patients were dangerously overpriced. The most startling fact was that balloon and guiding catheters, which are used for angioplasties, were sold by hospitals at over five times the landed price. In one example, a balloon catheter, which was imported at a price of ₹4,220, was bought by a hospital at ₹7,950, and sold at ₹22,000. In the process, the hospital made a startling profit margin.

The government should always be careful about meddling in the market system, and in prices. But health services are always an imperfectly functioning market; they depend upon an inability of patients to shop around at a time of medical emergency. There are also enormous information asymmetries between the provider and the patient — the provider always knows more — although the assumptions of perfect competition require common knowledge about underlying prices and the services on offer. Naturally, therefore, there is a solid case for some intervention even in the private sector, as long as it is with a light touch and carefully designed. In the recent past, the National Pharmaceutical Pricing Authority stepped in and capped the price of cardiac stents which were being sold by hospitals at similar margins and mark-ups. Price caps in general may not be the best form of intervention, as they do not allow enough flexibility over time. But unless some other form of regulatory action is forthcoming, health care companies will almost certainly be faced with more and more price caps if they persist with these rates.

Alternative mechanisms exist. Transparency is one such. If hospitals believe the market permits them to make a certain profit margin, they should do so by charging in those areas of the bill where the patient can clearly see that they are being charged for the services of the hospital. Hospitals might resist this. Customs duties on imported medical equipment have been reduced in the new goods and services tax, or the GST, regime. This might encourage hospitals to continue to shift their charges away from the correct section on their bills. Perhaps the tax implications of this need investigation. One solution, being tried in West Bengal, is to produce a list of suggested charges for standard procedures and equipment, so that patients at least have a sense of the degree to which they are being "overcharged", and can raise it with the hospitals directly. This increase in information for consumers can help the market work more efficiently.

Competition and consumer protection legislation provide another road to check this rampant malpractice by hospitals. The Competition Commission can certainly inquire into whether these prices being charged to patients are being fixed in collusion between hospitals in a certain geographic area, such as Mumbai. And past judgments show that the courts consider the Consumer Protection Act, 1986, as applying to health care services that charge a "fee". If necessary, that Act should be amended to ensure that the definition of a "fee" includes hospitals that are hiding their charges for their services by inflating the cost of supplies. In any case, this is a clear case for regulatory intervention.

ILLUSTRATION BY BINAY SINHA



Improving multinational tax behaviour

OECD's Multilateral Instrument is a first step whose details need etching

PARTHASARATHI SHOME

The OECD's Base Erosion and Profit Shifting (BEPS) project under the auspices of the G20 is for combating abusive transactions relating to multinationals' (MNE) tax activities to reduce their global tax burdens through hybrid arrangements, transfer pricing and permanent establishments. Thus there are two sides to this — governments and MNEs — and a tug of war to collect or retain revenue. On June 7, the Multilateral Instrument (MLI) was signed by 67 countries, including India, in Paris. The Indian finance minister appeared in the front row centre of the group of finance ministers. It was a noteworthy moment. It took steady urging and handholding since 2006 at the Ministry of Finance to change a persistent view that the OECD was merely a rich-country club.

The MLI's — Action 15 of BEPS — objective is to simultaneously modify bilateral tax treaties of countries that sign the MLI, thus enabling the other BEPS Actions to take immediate effect instead of through a slower process of modifying bilateral treaties by each pair of signatory countries.*The OECD broadened the scope of country participation so that more countries could join in the deliberations. Broadly there are two initiatives — Inclusive Framework for BEPS and Global Forum on Tax Transparency — in which India is in a key position and is participating on equal footing with OECD members.

On June 19 there was an academic conference organised by Maastricht University, the Netherlands, on Action 15. What emerged at the conference was revealing in many aspects. Maikel Evers of the OECD explained that the MLI document is additional to a bilateral treaty and does not replace the latter. There are minimum standards to be met by every country before signing the MLI but there is also considerable flexibility allowing a signatory to register its reservations on selected aspects of the MLI. Indeed, some one-third of those who are involved in the process have not yet signed the MLI. For example, Mauritius needs some more time to study it while Norway declared constitutional constraints.

Stig Sollund of the UN elaborated on the UN view, emphasised that BEPS was a G20 initiative, and elaborated how the UN varies from the OECD. He explained that UN Commentaries were issued simultaneously as OECD's. He pointed to the continuing need for a forum where developing nations could feel comfortable to present and discuss their point of view; that forum remains the UN. He clarified that the UN had not recommended signing the MLI to developing countries. And Uwe Ihli of the European Union also informed how the EU stood apart on some counts. Therefore, it became clear that multilateral organisations are not necessarily on the same wavelength.

Independent experts followed with remaining constraints on MLI implementation. Hans Mooij hypothesised if BEPS would cause more disputes together with more dispute resolution reflecting expected higher transparency with BEPS Actions. He cautioned against pressure on countries for, when countries do not sign the MLI, it could reflect different needs: They may work at different speeds, and there could be other factors than just intransigence. Hence there is continuing need for specialised platforms to bring together countries with common interests, examples being the MLI Ad Hoc Group (though too large) and the MLI Ad Hoc Group on Arbitration (about the right size). Finally, noting that international taxation—and associated with it, arbitration—is a latecomer than international protocols on investment, trade etc, why not open up to outside experience and involve them as well in the formulation of international taxation rules?

Other experts pointed to as yet unknown areas of application of BEPS rules, for example, apportionment of revenue among countries that should reflect income where genuine economic substance occurs. David Spencer raised issues with the use of unitary taxation — which he felt was difficult to define due to subjectivity involved — for MNE taxation. He differentiated unitary taxation from the Common Consolidated Corporate Tax Base (CCCTB) for the taxation of MNEs, and cautioned that rules for MNEs—entity basis, unitary business basis, or consolidated income or combined reporting—remain to be specified. Sol Picciotto took the position that unitary should simply mean treating firms in a way to reflect "economic reality", and contended that BEPS does not solve such issues. He emphasised the need for simplicity in any formula used, based on employee number or payroll, sales by destination (though it is not easy to get data on this), and production factors.

BEPS cannot be to collect government revenue willy nilly. For BEPS to be successful, MNEs also need guidance. Edwin Visser of PricewaterhouseCoopers (PwC) explained this from the MNE standpoint. For example, CCCTB should be simplified by using well-understood accounting bases such as the IFRS. There is a need for rules to increase certainty — statute of limitations, and limiting retroactive application. A permanent arbitration court needs to be developed. There should be a rethink on residence as taxable presence, or profit as the corporate income tax (CIT) base. The revenue allocation basis should be more neutral. And, reflecting the increasingly higher global revenues from VAT/GST compared to CIT, tax treaties on VAT/GST should be contemplated. Visser also pointed to the practical constraints of MNCs having to work against constrained tax administrations characterised by lack of legacy and talent in the face of budget cuts, little sustainable technology, and pressure to do more for less.

This author spoke on India's experience in formulating and legislating international taxation policy and the hurdles faced and overcome during 2012-17. Given that BEPS could be viewed as a movement away from destination-based taxation, it is not entirely surprising that India, a proponent of source-based taxation, came on board. However, India has not signed on to mandatory arbitration which it should reconsider.

To conclude, India played a lead role in the MLI. It comprises a good step for India in benchmarking itself in international taxation. To bear fruit, its participation should continue at the highest knowledge level for which subject specialisation has to be encouraged. India's continued presence at the table remains crucial.

See N. Nigam in P. Shome ed. (2016), BEPS: Global Taxation Agenda, ITRAF/Wolters Kluwer, New Delhi.

Railways' muddled priorities

NEW DELHI DIARY

A K BHATTACHARYA

The Indian Railways has just put out its grand plans for launching high-speed railway projects to connect Mumbai with Ahmedabad and Delhi with Varanasi. Their political significance can hardly be ignored. But perhaps more important is the disconcerting message they convey about the misplaced priorities of the Indian Railways.

Announcements of new projects will certainly get the railway ministry many newspaper headlines. But these newspaper headlines alone won't address the crying need for improving the Indian Railways' overall services for transporting passengers. You may argue that high-speed railway projects are as important as the need to make existing passenger services better and more efficient. But that is precisely the problem that is yet to be fully addressed.

In its fixation with high-speed railway projects, the Indian Railways has either failed to appreciate the evolving transportation dynamics in an increasingly aspirational India or ignored the need for improving existing services. And when it has tried to do so, its priorities have been misplaced and policy responses have been inadequate. Consider some of the recent initiatives to understand what may be going wrong with the Indian Railways.

But first let us look at the proposed fare structure for the high-speed railway projects. According to reports submitted to the Railway Board, the proposed fare for the Delhi-Varanasi or the Mumbai-Ahmedabad project is expected to be ₹4.5 per kilometre. This is slightly lower than the average per-kilometre cost of flying. In India, airlines charge an average fare of ₹5 a kilometre on most sectors. High-speed railway travel will be marginally cheaper than a flight. But the problem is that the advantage will be more than neutralised by the many pluses of air travel.

A shorter travel time, a superior experience (compare the conditions of railway stations with those of the airports) and the lure of enjoying upward social mobility as reflected in flying instead of travelling by train would make air travel a preferred choice even when compared with a high-speed railway service. Already, the government has tried to tap into the potential offered by an increasingly aspirational India by launching a scheme – UDAN — to facilitate low-fare air services between small towns.

The political mileage from enabling an ordinary Indian to fly from her town to another destination would be no less than what is likely to be obtained from a high-speed train service between Delhi and Varanasi or between Mumbai and Ahmedabad. Also consider that the 10-15 years of gestation period for the high-speed train projects will mean a long wait by which time low-fare air services would have made deep inroads into this market. In short, high-speed railway projects will have serious hurdles to cross before they can make headway.

Instead, the Indian Railways may do well to identify some low-hanging fruits that could be plucked to bring about positive outcomes by way of better and more efficient passenger services. So, what are the key priority areas the Indian Railways should focus on? Let us begin with its suburban networks in many parts of country that by the volume of passengers account for almost 28 per cent of the total passenger traffic carried by the Indian Railways. But the problem is that these suburban networks account for only 14 per cent of the Railways' total traffic revenue.

This huge gap is because the fare structure for the suburban railway services is heavily subsidised with few revisions to reflect the costs incurred by the service provider. With no government subsidy available, the Indian Railways bears this burden. As a consequence, the quality of these services has deteriorated over time and the hole in railway finances has been getting bigger. Populist policies of successive governments have ensured that these fares remain largely unrevised. The first priority area, therefore, should be to start the process of rationalising suburban rail fares so that these services are not a drain on the Indian Railways' finances and the quality of suburban railway services could get better with improved infrastructure.

The second priority area should be to take a closer look at all the explicit and hidden fare subsidies that the Indian Railways offers to different categories of passengers. Why, for instance, should a tax-paying senior citizen (over the age of 60 years) enjoy a 50 per cent fare concessions on all trains? Is it not time to restrict such concessions only to senior citizens below a specific income level? Or why not review all railway fare concessions to employees and retired employees so that their actual costs can be accounted for with a view to phasing them out or plugging the leakage? Even the fare concessions granted to parliamentarians should be reviewed.

Finally, the Indian Railways seems to be unduly worried over the need for improving occupancy levels in its premium trains like the Rajdhani and Shatabdi services. It is puzzling that an occupancy level of 95 per cent in the Rajdhanis or 75 per cent in the Shatabdis should be a cause for concern for the Railways. Worse, this level of occupancy seems to have encouraged it to consider reducing fares by offering discounts and other concessions. The idea is to improve the occupancy level and shore up revenues.

This is a wrong focus. The problem with the premium trains is not their occupancy levels, which are fairly high by any yardstick. Instead the focus should be on how the overall railway experience in premium trains can be improved — with better amenities in railway stations, faster speed, greater adherence to punctuality and ensuring cleanliness in the trains as also in the stations and on the tracks. Some steps in this direction are being undertaken, but the wrong focus on improving occupancy levels by reducing fares or providing discounts is worrisome. If anything, the Railways should first consider improving the services and then raise the fares to address the age-old problem of cross-subsidisation of passenger fares with relatively higher freight rates for goods.

China, US and manifest destinies

BOOK REVIEW

SHYAM SARAN

Historical analogy is an effective tool for analysing contemporary international relations and Graham Allison, the well-known Harvard professor, is certainly adept in its use. He coined the phrase "Thucydides Trap" to highlight the tensions that are generated when an emerging power challenges an established one; more often than not, these tensions seem to lead inexorably to war, even when neither side wants war. The historical analogy goes back to the 5th century BC when ancient Sparta, the established power, went to war with the rising power, Athens, and the results were tragic for both. The war, known as the Peloponnesian War, was chronicled by the great Greek historian, Thucydides. Why did the war take place? Thucydides' answer: "It was the rise of Athens and the fear that this instilled in Sparta that made war inevitable."

In order to avoid the charge of historical determinism Graham Allison claims that in using the word "inevitable" Thucydides was indulging in hyperbole, that war is not always predestined in such situations. He presents 16 historical case studies, from the 15th century onwards, to demonstrate that while in 12 instances war was, in fact, the outcome of a contestation between an established and an aspiring hegemon, there were four cases in which a clash of arms had been avoided either through a mutual respect of respective spheres of influence or through self-restraint by the established power. Thus in the 19th century, Britain conceded to the US dominance over the western hemisphere while retaining its command over the European theatre and its colonial empire, in particular India. In contrast, the First and Second World Wars resulted from Germany's search for unchallenged dominance in Europe and its aspiration to rival British naval power.

Graham Allison looks at the Cold War relationship between the US and Russia as a success in preventing the outbreak of war between the two superpowers even if there were near misses like the 1962 Cuban missile crisis. Although he tries to sound an optimistic note on the trajectory of US-China relations going forward, the analysis he presents offers more reasons to expect the worst rather than hope for the best. For example, China is already, in Purchasing Power Parity terms, the largest economy in the world, having surpassed the US. It is on track to overtake the US in nominal currency terms by 2022, if not earlier. The book also presents considerable data to show that in most other key metrics of power — economic, scientific and technological (such as robotics) — China is the world leader or will soon be. A significant failure of American policy is its inability to grasp the enormity of the shift that is taking place in the global balance of power and assuming, somehow, that China will be prepared to acquiesce in a US-centric global order. As he points out, American policy makers are unable to "distinguish the valid from the vivid".

Having made his case persuasively, Mr Allison disappoints in the policy prescriptions that he offers to enable America to deal with this historically unprecedented power shift. He begins by making an important, if somewhat self-evident, point that the US must decide its priorities and then bargain with the Chinese to safeguard its core interests. The examples he gives hint at precisely what the Chinese may want, that is, conceding Chinese dominance in the Asia-Pacific, abandoning Taiwan and even reducing forward deployments near China's coast in return for restraining North Korea, respecting American core interests which may lie closer to the US mainland, the Atlantic and a less expansive Pacific theatre. While lauding the "wise men", like George Kennan, who conceived of the containment policy to deal with the post-war Soviet challenge, Mr Allison shies away from suggesting something similar to confront a rising China, in particular a China that, like Theodore Roosevelt's belief in America's manifest destiny in the 19th century, believes in national rejuvenation in the 21st.

Mr Allison's analysis over-simplifies in order to amplify his thesis. For example, do nuclear weapons and the deterrence embedded in their possession lessen the chances of an all-out war between major powers? Did this factor not prevent the Cold War from becoming a hot war? There may be rising tensions between China and the US but will they not be restrained from escalating such tensions given the risks of a nuclear war?

The analysis is limited to the dynamics between the US and China. But there are a host of other substantial powers, including Russia, Japan, Australia and India, whose choices will affect the balance of power even in Asia, where China seeks dominance. There is no account taken of the inevitable slowdown of the Chinese economy and the imbalances that grow and add to its vulnerability. Chinese politics remains brittle and opaque and factional squabbles are endemic. The imperatives of one-party rule often contradict the logic of economic reform. Therefore, while profiting from Mr Allison's outstanding insights, we must remain open to other scenarios. I do not believe that Chinese hegemony is inevitable or indeed sustainable even in Asia.

The reviewer is a former foreign secretary. He is currently Senior Fellow, CPR, and a member of its governing board

DESTINED FOR WAR: CAN AMERICA AND CHINA ESCAPE THE THUCYDIDES TRAP?
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