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Gauging the 'real' value of bitcoin

Fundamentals have little to do with the price of the cryptocurrency; it depends on how much somebody is willing to pay for it

THE OTHER SIDE

A V RAJWADE

The theoretical rationale underlying market-determined exchange rates is that markets are efficient in pricing assets taking account of all "fundamentals". One example of how questionable the assumption of fundamentals determining asset prices is of course gold, a metal with few usages (except for making ornaments) and little intrinsic value based on fundamentals and yet valued a hundred times more than steel, aluminum and copper, all metals far more useful for economies. Another one in the news lately is the bitcoin, an artificial currency.

Bitcoin is a digital currency, described as a peer-to-peer version of electronic cash, which would allow online payments to be sent directly from one party to another without going through a financial intermediary. It was invented eight years back, but awareness at the mass level is a matter of only the last few years. Bitcoin transfers take place by means of a computer-generated string of "0"s and "1"s (a computer does not "read" anything else in any case), which transfer bitcoins from one wallet (or account) to another, the accounts being maintained on a giant electronic ledger. The wallets are anonymous. Each string of numbers can be used only once (comparable to each currency note having a unique number?). The anonymous holder of the wallet can be anywhere in the world, thus making bitcoin a truly global, if electronic, currency: Transaction costs are negligible to zero.

A user needs to install a bitcoin "wallet" on his computer or mobile phone. The wallet generates an "address" on which bitcoins can be paid in, or paid out (the latter only if you have adequate balance in your wallet). All transactions are included in a "blockchain" whose integrity and chronological order are protected by cryptography. The wallet can be stocked by purchasing bitcoins on an "exchange" for real money. The price of bitcoins has been extremely volatile — ranging from a few cents at the start to over $4,000 currently. The number of bitcoins in circulation is limited to 21 million. But each bitcoin can be traded or transferred in fractions, as small as 0.0005. At the current valuation, the market capitalisation of bitcoins is $50 billion.

Perhaps, the simplest conceptual parallel to bitcoin transactions is shares of a company traded on an exchange through demat accounts with which we are all familiar. The "ownership" and transfers are evidenced only by entries in the giant ledger of the National Securities Depository Ltd. Other similarities:

- The number of shares of a company outstanding at any time is limited, as is the number of bitcoins;
- The price is determined by demand and supply on exchanges, so is that of bitcoins.
- Some start-ups wishing to develop and market a new cryptocurrency are raising capital not through initial public offerings but initial coin offerings, where the investor pays traditional money and receives a certain allotment of the new cryptocurrency.

There is one major difference between shares and bitcoins: Equity shares represent a claim on the assets of the issuer company, while bitcoin has no intrinsic value. But neither does gold, and yet gold was the standard medium of exchange for a long time, in both domestic and cross-border transactions. (John Maynard Keynes once characterised gold as a barbaric relic of human irrationality.)

As of now, only a very limited number of sellers of legitimate goods and services accept payment in bitcoin, which today is more a speculative asset than a medium of exchange. The US Revenue Department has ruled that bitcoin is property (or asset), not currency, and regulators have permitted bitcoin futures to be traded on an exchange. And, there are bitcoin investment funds.

Bitcoin is not the only cryptocurrency, like gold being just one of the "precious" metals — the newest is bitcoin cash, bitcoin's offshoot, although bitcoin is by far the largest being traded. In yet another parallel, just as gold has been traditionally used for hiding undeclared wealth, for the last few years bitcoin is in demand for illegal trades, in drugs, for example, though its use as a means of exchange also seems to be growing. Both Visa and Master Card are offering to exchange bitcoins for real money.

The prices of precious metals and cryptocurrencies suggest that the value of an asset is what somebody is willing to pay for it — and has little to do with fundamentals. As for the current price of bitcoins, remember the dotcom boom in the 1990s?

The author is chairman, A V Rajwade & Co Pvt Ltd; avrajwade@gmail.com

CHINESE WHISPERS

Date speculation on Cabinet rejig

Several members of Narendra Modi's Council of Ministers are currently a bundle of nerves. A Cabinet reshuffle and expansion looks imminent and there is speculation that some of the ministers could get dropped. Some say the reshuffle is unlikely to take place on August 25, the day of Ganesh Chaturthi. Others conjecture it could occur on August 27, the day Rashtriya Janata Dal chief Lalu Prasad holds his "Opposition Unity" rally in Patna. News of the reshuffle would neutralise the media space the Opposition rally might occupy. Amid all this, a meeting of the Council of Ministers has been called on August 30. This has led some within the ruling Bharatiya Janata Party to surmise that the reshuffle can take place only after August 30 but before September 3, when the Prime Minister leaves for China to attend the BRICS Summit. What is certain is that the process will be complete by September 5, when the fortnight-long *pitru paksha* or *shraadh* begins, which is considered an inauspicious period.

Musical chairs at Infosys?

If two elephants clash, the grass will be crushed. The talk among senior employees at Infosys, in the midst of a battle between the boardroom and the founder, is about who will lose out when the next dispensation comes in. A few long-term employees, who were sidelined during the three years that Vishal Sikka was chief executive, are looking to get back the plum posts they were occupying earlier. While a solution is yet to be arrived at, a game of musical chairs for some key positions seems to have already begun.

Collateral damage

The violent debate over statues of Confederate leaders in the US has an unlikely victim — football announcer Robert Lee. ESPN has said that he will not be broadcasting in the University of Virginia's first football game of the season next month, as he shares his name with Confederate general Robert E Lee. The channel has cited safety reasons. Last week, trouble erupted at the university after white nationalists and neo-Nazis marched across the campus, armed with burning torches after Charlottesville city authorities decided to remove a statue of the controversial 19th century general. Another march held earlier ended in a clash between right- and left-wing groups, and a national debate in the US, with President Donald Trump failing to condemn racist slogans of the first group. Announcer Lee, who has a degree in broadcast journalism, began announcing football games last year, after 17 years as a basketball announcer.

Data is more than just numbers

With data-driven governance it is possible to have all the information needed to make important decisions

PRUKALPA SANKAR

"I have your dashboard open. Can you explain the reasons of the rejection chart to me?" Minister of State for Petroleum and Natural Gas, Dharmendra Pradhan was curious.

He was referring to a real-time dashboard that pulled and compiled data from each of the country's 18,000 LPG distribution centres every day to drive faster and better execution of the Pradhan Mantri Ujjwala Yojana, launched to provide LPG subsidies to women living below the poverty line. The dashboard compiled key metrics — how many new applications oil marketing companies had received under the scheme, how many had been accepted or rejected and how many women had finally been given LPG connections. This allowed the scheme administrators to dive deeper to identify where processes were getting stalled and needed to be fixed.

The chart the minister was referring to laid out in detail why distributors were rejecting applications. The reasons were many, ranging from incomplete information to applicants not having an Aadhaar card. A big reason that came to light was that women lacked bank accounts, a mandatory requirement under the Ujjwala scheme. Pradhan immediately suggested: "Why can't we carry out Jan-Dhan Yojana camps in areas where women are getting rejected due to the lack of bank accounts?"

The solution was ridiculously simple. Today, the number of women getting rejected due to lack of bank accounts is down to almost nil.

This is data-driven governance at its core — having the information you need to make important decisions at your fingertips.

Around the world, data science is remaking governance; hard data — rather than opinions, lobbying or influence — is driving policy decisions. With all the data they need readily available — always — policymakers and other strategic decision makers can identify focus areas, increase transparency and track the actual outcomes of their initiatives. Be it designing a national health scheme, identifying the best locations for opening new stores, or investing in female empowerment initiatives, data can transform anything.

In 2010, when New York City attempted to make data an intrinsic part of its strategy, it hired a chief analytics officer, Mike Flowers. His initiatives, driven by insights gleaned from the city's large amount of untapped data, were a success and led to the creation of the Mayor's Office of Data Analytics (MODA) that today unifies data across city agencies to tackle everything from crime to disaster response to strengthening anti-poverty initiatives.

India is steadily following MODA's lead as key administrators across ministries and governments increasingly championed on data-driven initiatives. Though tentative, the move to make data-driven governance mainstream is certain.

It may seem improbable but data has always been part of government decision-making. The celebrated *Arthashastra*, the Principles of Government, which prescribed that population statistics be collected for taxation, describes the methods to conduct demographic, economic and agricultural censuses. However, most government data today is based on small samples of population or is outdated — the Census of India happens only once in 10 years. In today's world of real-time data, that just isn't acceptable any more.

PHOTO: iSTOCK

The PM Ujjwala Yojana is arguably one of the largest and fastest executed programmes nationally. Within nine months of being announced, it received applications from 20 million women. The scheme involved drawing upon the machinery of the three oil marketing companies in 13 states, drilling down to 18,000 distribution centres for marketing, receiving and processing applications, and mobilising over 50,000 field mechanics to install connections in houses that need clean cooking fuel the most.

So when the petroleum ministry wanted to promote universal LPG coverage, it saw value in using big data. Rather than struggle with incomplete and outdated existing databases, or guesstimates, it brought in data science to make sense of information across six levels of hierarchy — senior management from head offices > state offices > district nodal officers > distributors > field mechanics > citizens.

This is how data intelligence helped tackle the problem. First, the ministry used 6.4 million data points about LPG penetration, income and population growth, which was transformed into a dashboard identifying locations with the greatest reach. The next stage was monitoring. Data on LPG applications was transformed into an interactive dashboard with the state, district, and village-level comparisons for applications received and rejected and connections installed. In one snapshot, the minister now had all the information he needed on the performance of every state.

Armed with this, he was now able to check the dashboard on his tablet every morning, take stock and call officers, particularly those whose performance was marked "red". During the launch phase, he conducted video conferences directly with the district nodal officers (DNO) — hour-long meetings to strictly discuss data. In one such meeting, DNOs from the remotest corners of Uttar Pradesh tuned in. The minister called out every district by name and asked the officer to provide a quick update, which he then cross-checked with key parameters on his tablet. One officer was praised for his efficiency — the district had cleared the maximum number of connections. Then, another DNO, who claimed that he faced no challenges in execution, was reprimanded — he had processed so few applications!

As 500-plus representatives in Parliament decide on matters of governance and development for 1.2 billion people, it is easy to see how these decisions must be taken in silos, with little real-time assessment of the ground reality. However, that is changing with that ubiquitous tool — the Android phone. Leaders can now tune into the voices of millions in real time. Big data is at hand to aid decision-making.

So when the minister is questioning the data, he is in effect giving voice to the silent majority and closing the vast gap between the corridors of Shastri Bhavan and the remote villages of Baliya.

Data is more than just numbers.

The author is co-founder of SocialCops, a data intelligence start-up. She has worked on the PM Ujjwala Yojana

BUSINESS LIFE

We live in fear of the online mobs

Internet shaming spreads everywhere and lives forever. We need a way to fight it

MEGAN MCARDLE

James Damore, the author of the notorious Google memo, has had his 15 minutes of fame. In six months, few of us will be able to remember his name. But Google will remember — not the company, but the search engine. For the rest of his life, every time he meets someone new or applies for a job, the first thing they will learn about him, and probably the only thing, is that he wrote a document that caused an internet uproar.

The internet did not invent the public relations disaster, or the summary firing to make said disaster go away. What the internet changed is the scale of the disasters, and the number of people who are vulnerable to them and the cold implacable permanence of the wreckage they leave behind.

Try to imagine the Damore story happening 20 years ago. It's nearly impossible, isn't it? Take a company of similar scope and power to Google — Microsoft, say. Would any reporter in 1997 have cared that some Microsoft engineer she'd never heard of had written a memo his co-workers considered sexist? Probably not. It was more likely a problem for Microsoft HR, or just angry water-cooler conversations.

Even if the reporter had cared, what editor would have run the story? On an executive, absolutely — but a random engineer who had no power over corporate policy? No one would have wasted precious, expensive column inches reporting it. And if for some reason they had, no other papers would have picked it up. Maybe the engineer would have been fired, maybe not, but he'd have gotten another job, having probably learned to be a little more careful about what he said to co-workers.

The internet did not invent the public relations disaster. What it did was change the scale of the disasters

PHOTO: iSTOCK

Compare to what has happened in this internet era: The memo became public and the internet erupted against the author, quite publicly executing his economic and social prospects. I doubt Damore will ever again be employable at anything resembling his old salary and status. (Unless maybe a supporter hires him to make a political statement.)

This kind of private coercion is not entirely new, of course. Community outrage cost plenty of people their jobs or their businesses in the old days. But those were local scandals. Rarely would someone's notoriety follow them if they moved to another city.

Over time more and more people have suffered national stigma that outlasts their 15 minutes of fame. Cable news accelerated this: Think of Monica Lewinsky in 1998. The internet transformed the degree of scrutiny, the extent of its reach, and the shelf life of the scandal, so much as to make it different not just in degree, but in kind.

Whenever a new form of power arises, we need to think about how to safeguard individual liberty against it.

In the early days of Twitter, I used to say that it was a bit like I imagined living in a forager band to be: You were immersed in a constant stream of conversation from the people you knew.

Ten years later, I still think that's the right metaphor, but not in the way that I meant it then.

Back then I saw Twitter as a tool for building social bonds. These days, I see it as a tool for social coercion.

Forager bands do not have or need police. They have social coercion so powerful that it is just as effective as a gun to the head.

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LETTERS

RBI needs to act firmly

With reference to Gajendra Haldea's article, "Monumental failures of RBI" (August 23), I fully agree with him that the Reserve Bank of India has failed to perform its role as regulator of the banking system in India. One reason might be the invisible intervention by vested political and government agencies and people.

Besides, with respect to demonetisation, the implementation of which was a mess, the RBI virtually followed the dictates of the government.

One wonders what the RBI was doing when non-performing assets (NPA) were piling up even as banks were writing off bad debts. There is a growing demand for fixing culpability for the granting of bad loans and the failure to recover them.

Haldea has rightly focused on the dilemma facing honest taxpayers. Let us hope the RBI will rise to the occasion and maintain its autonomy and act firmly to tackle the NPA crisis, otherwise the national financial system is bound to collapse.

No wonder, we are being dragged towards imposition of a financial emergency under Article 360 of the Constitution.

M K Bhandari Mumbai

Easier export financing

The editorial, "Strong rupee, weak exporters" (August 23) points out the woes of the labour-intensive textiles and leather sector caused by rupee appreciation and declining profit margins and export strength.

It is impossible to correct the situation through exports unless the government devises initiatives to lessen the burden on exporters and help raise their profit margins. At the same time export prices should remain competitive with those of currency-depreciated countries such as Bangladesh, Vietnam and Indonesia.

There is still a yawning gap between what is said and what is done. Efforts to push exports have been one-sided so far; what is needed is easy capital for exporters to deal with the situation, as controlling exchange rates is not in the hands of the government. Trade financing should be made easier and could be along the lines of ease of doing business in India. Finance should be available to exporters on easier terms so that their cost of production is reduced. Import-intensive export products have a fractional benefit as imports of inputs are available cheap due to rupee appreciation.

For making export finance available at affordable rates, the government should rope in Export Promotion Councils (EPC) and Commodity Boards to play the role of trade financiers. These days some shipping companies provide trade finance to importers and exporters; still the cost of availing trade finance — be it LC, SBLC, discounting LCs, transferring LCs, pre- and post-shipment finances via banks — has increased due to rupee appreciation and high bank rates due to the large volume of non-performing assets. EPCs and Commodity Boards in collaboration with banks and lending institutions should get bulk finance at zero rates and this should be provided to member exporters of repute as trade financing facilitators on agreeable terms.

The commerce ministry, which is granting Market Development Assistance to EPCs, exporters and importers, should have a separate fund to facilitate trade financing to importers and exporters via EPCs and Commodity Boards. The suggestion to set up such a fund is similar to that of the Trade Infrastructure for Export Scheme; it can correct the imbalance brought on by rupee appreciation and help exporters become competitive.

A Sathyanarayana via email

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 • E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

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Not what the doctor ordered

Many aspects of the new pharma policy need to be improved

The draft pharmaceutical policy, released last week, seeks to balance the interests of patients and the pharmaceutical industry, and makes the right noises about improved quality, greater affordability and 'Make in India.' It is true that there is much in the policy that represents a significant step forward. For one, the insistence that manufacturing of drugs be subject to World Health Organization standards is an important improvement. This will, of course, require beefing up the cadre of inspectors under the Drug Controller General of India. And it is welcome that the policy says that the Drug Price Control Order will be "reoriented to move from price control to monitoring of drug prices, their availability and accessibility". Direct price control is a backward-looking strategy that cripples choice, quality and innovation, and hurts patients as much as it does companies. Further, it opens the door to lobbying and rent-seeking with all the attendant dangers for competition and for corruption.

It will be better if price monitoring focuses on essential drugs (about 200), and avoid strict price control that makes a drug unviable and discourages production, as has happened in the past. Imports are almost always more expensive, so it is better to have domestic production even with some price cushion. The government should also consider specific steps against price gouging, as has been seen in stents though these are not drugs, but such a provision should be used rarely.

Much work needs to be done on the draft policy. For example, many pharma companies have suffered, and exports with them, because of poor standards at production facilities, and fudging of efficacy data; this needs to be addressed. It should not need the US FDA (Federal Drug Administration) system to inspect and show up the problems. It is proposed that "loan-licensing" be deprecated — this is when manufacturing is sub-contracted. The Department of Pharmaceuticals fears this reduces quality. But the structure of the industry (with many small units) makes it more difficult to monitor quality as well as the rampant problem of fakes. Sub-contracting is therefore a good system, as it brings small units under the quality control of large companies. The other issue that should be looked at closely is the fact that there is zero effective control of chemists, most of whom do not ask for prescriptions when selling schedule drugs; this facilitates the sale of fakes. It would help to encourage the setting up of large drug store chains, to make the distribution system more organised and quality conscious.

Finally, despite its initial protestations, the draft policy seeks to give bureaucrats more power when it comes to controls, at the expense of independent regulators. Instead of an appellate authority examining regulatory orders, as recommended by the National Pharmaceuticals Pricing Authority, the draft says appeals will go to the department directly. This is an unfortunate power grab. In general, the best way to keep life-saving medicines affordable is through the government being a big and active consumer, and bargaining collectively with companies as part of an overall healthcare strategy. In other words, drug availability and affordability are a subset of better public provision of healthcare.

Revival of *desi* cotton

It has some innate advantages over the GM variety

The resurgence of *desi* cotton, which was shoved out of cultivation by the genetically modified (GM) Bt-cotton, is least surprising and highly welcome. Bt-cotton's gradual loss of resistance against the devastating bollworm insects – also the main factor behind its meteoric ascent – coupled with the emergence of new enemies of this cotton, such as whiteflies, has spurred farmers to revert to *desi* cotton, which can withstand most of these pests, besides some common diseases. If this trend endures and is backed by public policies, it will bring about the much needed diversity in cotton farming that is sorely missing with GM cotton occupying nearly 95 per cent of the crop area. Lack of heterogeneity invariably leads to the development of immunity among pests and pathogens and facilitates their mutation into newer and relatively more virulent avatars. In any case, plant varieties or hybrids do not have an unlimited effective life span. They need to be replaced with newer, better-yielding and more pest-tolerant strains to face emerging challenges.

This, sadly, has not happened in the case of Bt-cotton thanks to the government's misguided reluctance to approve new gene-engineered seeds with different pest-resistant traits. The revival of interest in *desi* cotton and, more so, the evolution of its new high-yielding hybrids and non-hybrid varieties – whose seeds need not be bought afresh by farmers every year – can end the unwarranted monopoly of the transgenic Bt-cotton. The resultant varietal diversity can help stabilise cotton production and prices to secure India's position among the world's top cotton producers and exporters.

Desi cotton, indeed, has some innate advantages over GM cotton. Having evolved indigenously, it is better acclimatised to local agro-ecological conditions and is hardy enough to combat prevalent pests and diseases. It needs lower amounts of inputs like fertilisers and pesticides and is, on the whole, less costly to cultivate. Besides, because of the small staple length and absorbent nature of its fibre, *desi* cotton is in demand for surgical and medical use. It is also noteworthy that some Bt varieties of indigenous cotton, developed by public-funded research institutions, are now available that can outcompete the private sector's Bt-hybrids. These, being early maturing, are harvested before pests like bollworms and whiteflies become active. Moreover, *desi* cotton is amenable to closer planting to accommodate more plants in a field — an easy way to raise crop yields and net profits.

The downfall of Bt-cotton is, indeed, attributable to the follies committed by almost all stakeholders in this sector — technology developers, technology appraisers and approvers, seed companies, farmers, and policy makers. None of them has meticulously observed the rules of the game. Technology developers and seed companies have failed to diversify pest-repellent traits. Seed appraisers and policy planners are guilty of adopting discriminatory seed approval protocols that discouraged public sector research bodies from entering this field. All of them, collectively, failed to take due notice of the development of resistance among pests and take timely remedial action. Farmers, on their part, erred in not observing the recommended precautions in cultivating Bt-cotton. Such mistakes should be avoided in future to let *desi* cotton coexist with other kinds of GM and non-GM cottons to ensure a healthy varietal mix and to meet the divergent fibre quality demands of different end-uses.

ILLUSTRATION BY AJAY MOHANTY

Understanding the new China

The Doklam standoff could be part of a strategy of Beijing bosses to ensure that a rising middle class does not question its legitimacy

ABHEEK BARUA & TANVI GARG

It might be sensible to see the impasse in Doklam as more than yet another example of China's need to periodically rattle India's cage. Chinese nationalism has been on the rise for almost a decade now and its acts of military aggression and the stridency of its state media in legitimising these have grown both in frequency and pitch. While issues such as India's refusal to go along with its northern neighbour on its 'One Belt One Road' plan or the former's overtures to Japan could have been the immediate trigger, Doklam has to be viewed against the backdrop of what is clearly a somewhat different approach that China has to its Asian neighbours than in the past.

It is difficult to exactly figure who or what determine China's foreign policy. However, it would be remiss to overlook the correlation between China's economic slowdown over the last five years or so and the rise in its chest-thumping. The headline numbers are there to see: From recording an average of growth of around 10 per cent in the previous decade, gross domestic product (GDP) growth is down to below 7 per cent and is likely to stay there as the "new normal".

However, correlation, as the first chapter of any statistics next book says, is not causation. Thus it is important, indeed imperative, to look beyond the headline numbers and recognise that China's economic model has changed dramatically over the past few years. This would help avoid two things. First, the tendency to view the slowdown as a sign of things going terribly wrong with China's economic policymaking and instead see deceleration partly as an inevitable consequence of the change in model. Second, the temptation to extend proxies that worked well (electricity consumption for instance) to gauge economic performance in the old regime to the "new China" and arrive at misleading conclusions.

What is the new China all about? For one thing, its growth is no longer the result of massive and often (unviable) investments and aggressive exports. After a period of rapid acceleration in consumption spending, from 2014 consumer expenditure has beaten investment to become the primary driver of growth accounting for about 60 per cent in 2015 and a whopping 73.4 per cent in the first half of 2017. Dig deeper and you will find that consumer demand is coming increasingly from smaller towns and not Tier-1 or Tier-2 cities such as Beijing or Shanghai. The bulk of China's urban population incidentally lives in tier-3 and Tier-4 cities. While Tier-1 and Tier -2 cities house roughly 320 million more than a billion people live in the smaller towns. A surge in incomes in the smaller towns meant that 55 per cent of disposable income of consumers came from them in 2016. While past data is difficult to get, the fact that long-term China watchers like investment bank, Morgan Stanley see this rise to around 65 per cent in about a decade indicates the pace of these incomes.

Part of this rise is due to migration from China's much-neglected rural economy largely into these smaller towns. In 2010, roughly 50 per cent of Chinese were urban. The number is about 56 per cent now. Going by the consensus among analysts, urbanisation is likely to increase to well over 60 per cent by 2020 and close to 70 per cent by 2030.

Interestingly, investment patterns in China are also changing to complement this transformation in income and demand patterns. While private investments are flowing into things like e-commerce, it is surprising to see that governments (Hangzhou province has recently introduced a pilot scheme) are pump-priming the economy not through the clichéd highways to nowhere and ghost towns, but instead through investments in internet access and e-commerce.

This data paints a picture of slower but "better quality" growth stemming from better income distribution. The flipside of this is that of rapidly growing middle class who are likely to be more political aware and critical of a political system run by a less-than-transparent monolith. (In visits to China in the glory days of 10 per cent plus growth, we were surprised by the number of affluent middle class Chinese in Beijing and Shanghai who expressed a visceral dislike for the government). With better distribution of incomes, this problem could have multiplied. The counter from the Chinese establishment to this appears to be aggressive nationalism and the aspiration for unipolar Asia dominated by Beijing's bosses.

That said, it is important to jettison some of the age-old China bogeys that are often raised in diplomatic tussles with China. The most critical of them relates to China's currency, the yuan, and the fact that it "manipulates" its currency. This is misleading.

China has for some time now moved away from being a low-cost hub for manufacturing cheap goods and using an undervalued currency to flog them to the rest of the world. Yes, China does peg its currency to the US dollar but most measures suggest that it is quite severely overvalued, not undervalued. In fact, over the last couple of years the Chinese central bank has spent a fortune preventing its currency from depreciating. Different versions of the real effective exchange rate, the standard measure of currency valuation, suggests that it is overvalued by about 20 per cent.

The twice-a-decade National Congress of the Communist Party will be held this autumn. This is a major leadership transition bringing in a new politburo. Perhaps some of the sabre-rattling is really a run up to this. If as is almost certain, Xi Jinping is elected again as general secretary of the party, things could settle down a bit for a while. However, it is quite likely that the government will stick to the aggressive nationalist line to ensure that the "new China" does not question the legitimacy of the political system.

Abheek Barua is chief economist and Tanvi Garg is economist, HDFC Bank. Views are their own

The story of Indian business?

SWOT

KANIKA DATTA

Any foreign businessperson seeking investment opportunities in India is unlikely to be encouraged by the reports that appeared above the fold of *Business Standard's* front page on August 22. The lead was all about the Ruias of Essar completing a 98 per cent stake sale of their oil company to Russian giant Rosneft to pay off the enormous debts the group has racked up. The second lead reported the possible closure of 169 outlets in the north and east by McDonald's after it terminated a troubled, two-decade-old franchise agreement with a local realtor. The third was a follow-up to the turmoil at Infosys, following the exit of its CEO as a result of fierce differences with its iconic co-founder.

All three stories are striking because they represent a sobering reminder of the challenges inherent in doing business in India — elements that cannot be captured in a Doing Business index. Yet less than two decades ago, these companies symbolised the soaring hopes embedded in economic liberalisation.

Nobody embodied the brave new world of Indian business better than the Ruia family, which made high-profile forays into capital-intensive infrastructure from the early nineties — steel, power, ports, telecom (briefly) and oil. A glittering 19-floor building came up in Mumbai's Mahalakshmi area, with a rooftop helipad that represented, in those days of seemingly innocent hope, the soaring potential of a country newly opened for business.

The difference between sky-high ambition and strategic overreach is a fine one, but it is fair to say that the Essar group crossed it early thanks to the relatively easy access to capital and poor risk-assessment capabilities of an inexperienced Indian banking system. Till the Rosneft deal took over about $5 billion of Essar's debt liabilities, the group starred among India's most indebted, a major contributor to the bad loans that burden the Indian banking sector. Along the way, Essar Steel became the first Indian company to default on a $250-million international debt obligation – that was back in 1999 – and the group has faced three corporate debt restructuring and two overseas bankruptcy filings. Even after the sale to Rosneft, banks will have to find ways to recover debts from the steel and power businesses (the former is now under insolvency proceedings).

If the Essar-Rosneft deal symbolised corporate hubris of a sort, the McDonald's controversy highlights the risks inherent in entering new markets. McDonald's story is a familiar one: A storied US consumer giant looking to cash in on an expanding Indian middle class market, signs a franchise agreement with an influential local Indian businessman. Everything looks set for a golden future: When the Golden Arches opened its first eatery in Delhi's Vasant Vihar in 1996, the queue stretched for miles around the block.

Eighteen years later, the 50:50 joint venture was in trouble, with disagreements between the US corporation and Vikram Bakshi, the managing director and 50 per cent franchise owner. Allegations of "misconduct" flew as McDonald's terminated the Mr Bakshi's term, and the issue went to the Company Law Board and the London Court of International Arbitration before McDonald's decided to terminate the franchise agreement altogether.

And finally to *l'affaire* Infosys, highly feted symbol of India's global IT prowess, a gold standard for corporate governance and so on and so forth. In the early noughties, its stock had this magical ability to transform humble drivers and maids into millionaires. On Monday, in the space of a day, the stock price plunged almost 6 per cent after the company's first professional CEO resigned in high dudgeon over accusations of governance failures levelled by N R Narayana Murthy, the man who represented India's new breed of ethical billionaires not so long ago, in a battle that has pretty much polarised corporate India.

The somewhat sordid details of the issue at hand – whether there were shenanigans involved in the purchase of an Israeli company – can be debated *ad nauseum* but a foreign reader may be pardoned for enquiring about the role of the board, comprising stalwarts from the world of business, in all of this. Should it not have played a more proactive and definitive part of stemming a crisis that has undeniably wrought lasting damage on the company?

These three companies are a few examples of inept risk assessment, poor relationship management and weak governance structures that characterise key weaknesses in the Indian business environment. They could be the standard flaws of an economy that is evolving from a state-dominated one to one in which private interests play a larger role. But they urgently need to be addressed if Indian business is to rise to the next level.

Truths about content

BOOK REVIEW

JANMEJAYA SINHA

Professor Bharat Anand, who teaches strategy at Harvard Business School (HBS), has written an important book that can help business managers interpret and react to digital change. While he has located a lot of his research in the field of media, entertainment and education, it creates a framework within which business leaders can think about the implications for their own sector. What I like about the book is the style he has used to cover this fast-moving and unsettled terrain. He approaches the subject with humility and his style is inductive rather than deductive. I believe he follows the HBS approach of analysing live cases rather than trying to prescribe the laws of digital change — and quickly be wrong!

He begins by challenging a very old truism in media and entertainment — that content is king. In fact, the title of the book hints at the fact that not content but the connections that companies create and encourage is actually king. Through numerous case studies he illustrates how business managers who fail to understand this truth struggle to establish digital businesses. Getting heard in the massive din of data in the digital world is a non-trivial exercise and people have to focus on this. After that they need to understand how to monetise their connections — again, not easy.

His inductive approach allows him to take examples in the same sector where alternative strategies have succeeded. So Mr Anand will explain why what works for the *Economist* magazine is different from what has worked for the *Schibsted*, the Scandinavian newspaper. The *Schibsted* story is one of using connections to build an unassailable online position in classifieds. All they did to build their position. He goes on to also examine their approach to reinventing their digital newspaper offering — being live, shorter, punchier and in some senses less deep. A sharp contrast with the strategy that the *Economist* magazine followed of pricing its online offering and refusing to compete with others in either trying to go into breaking news or deep investigative reporting, but rather, always having a consistent point of view on important issues around the globe. There is a clear and sticky market for what they publish with their target base.

He studies Tencent and demonstrates why staying still is not an option, and their continuing evolution. How they have grown by continuing to expand their core and thereby also continuing to deepen the connections they provide. How today "WeChat" is a Chinese habit.

In the end he describes his own journey in respect of creating HBX — HBS's digital 10-week mini MBA program. How they were falling into the content trap and how they worked consciously to avoid it. The method they used to break the compromise between rich content and wide reach at the same time. How to minimise professor time but not dilute the learning experience by understanding the core elements of the program — high-quality content, student engagement, peer learning, and the right insights. How they grappled with the problem and the early results.

The title of the book hints at the fact that not content but the connections that companies create and encourage is actually king

For a rigorous analytical book, *The Content Trap* is actually easy to read. The stories contain the insight. He forces you to engage in the problem and thereby prepares you to analyse your own situation. That in a sense is also his real purpose. Pushing you to understand that connections are critical but also how you need to think about your own business and the real difficulty in monetising connections. He highlights the importance of recognising that businesses that don't scale are unlikely to survive.

The book points out some frightening implications, which it does not address. The monopoly power that strong connections can have and how it may drown out alternative content — even if we agree that in a Gramscian sense there has never been real truth in content (The concept of ideological hegemony). The ability to drown out alternative narratives due to such platform power requires an appropriate policy response. What is their power and how to assess and regulate it? Nandan Nilekani is talking about this in respect to individual data today. But the ability of high valuations and the ability to buy out competitors is a further challenge that accentuates this power (remember the $19-billion purchase of WhatsApp with 55 employees by Facebook). Further, what implications does this insight have for different aspects of a company's strategy? What should its R&D and innovation process incorporate? How does a leader consider and permit smart experimentation and rapid course correction? The answers to these questions are not obvious and require careful consideration so that they do not either throttle innovation or allow monopolies to limit access. All the more, this important book requires a careful read by business leaders and policy makers alike.

The reviewer is chairman, Asia Pacific, Boston Consulting Group

THE CONTENT TRAP
Bharat Anand
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