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Apple's fading India dream

Ultra-premium iPhones alone will not work

Is Apple giving up on India, allowing a free run to Chinese handset companies? It certainly looks that way at first sight. This week, in his traditional keynote speech, Apple CEO Tim Cook launched the newest versions of the company's flagship product, the iPhone. The highlight was the iPhone X, with various top-of-the-line features such as facial recognition and a bezel-less screen. It is priced at $1,000 in the US market. This means that, in India, it might cost close to, or even over, ₹1 lakh. Alongside the iPhone X, two other iPhones were announced, which will be regular upgrades of the current flagships, the iPhone 7 and iPhone 7 Plus. In the US they will be more expensive than their predecessors, suggesting that they may retail at only ₹25,000 or ₹30,000 less than the iPhone X in India, making them again the most expensive phones in the Indian market.

Meanwhile, Chinese phone companies are pricing phones with equivalent features at a fraction of the price. Some of these phones even come in boxes with "Make in India" written on the top, along with the campaign's trademark lion. Apple has a negligible share in the Indian market; its investors will expect it to increase that share if its sky-high stock price is to be justified. The North American and, to an extent, the European markets are saturated; China is slowly maturing; growth will come in India and Africa. And finding that growth is important for Apple, which is clearly showing signs of strain. The company's first locally assembled device, the iPhone SE has managed to get just 2.4 per cent of the mid-range (₹15,000-30,000) smartphone market in India in the quarter ended June this year. Apple sells around 30,000 units of the iPhone SE in India on a monthly basis, utilising less than half the capacity of its contract manufacturer. Worldwide, according to the market research firm Gartner, Apple was the only phone company to actually see sales decrease in the first quarter of the 2017-18 financial year. As a result, it has a 12.1 per cent share of the smartphone market, against a 12.7 per cent share in the first quarter of the 2016-17 financial year.

But does the giant company have a plan to deal with the price-sensitive Indian market? The answer may be in the negative. In the past, at least, it accepted the fact that it needed to consider specific Indian conditions. It released, for example, the lower-cost iPhone 5c a fewer years ago, which had colourful plastic cases instead of brushed metal, in order to grow beyond its traditional clientele. More recently, it produced the iPhone SE, which was shaped like the iPhone 5 but had an upgraded microchip. But this year there was no such emerging market-focused variant of the iPhone on offer. This is an extraordinary omission.

Perhaps it suggests that Apple is returning to its roots; its founder Steve Jobs was always strongly against the idea of a "cheaper" variant of any Apple product, arguing that the power of the Apple brand lay in its premium image. But it must be said that Jobs had little or no understanding of markets beyond those in developed countries, and Apple needs to grow beyond its founder's vision. A ₹1 lakh phone might be what Jobs had in mind but it will not be what Apple shareholders need if the company they own is to break into India, a country where rival Samsung already has a 24 per cent market share and Chinese companies are nipping at the South Korean behemoth's heels.

Apple has had a good 10 years; it has ridden the iPhone's success to become the largest company in the S&P 500 by market capitalisation. To keep that status, it needs new ideas and not just new iPhones.

The defence minister's challenges

The armed forces have their share of both strengths and shortcomings, and the country's first woman defence minister has her work cut out

PREMVIR DAS

With the appointment of Nirmala Sitharaman as defence minister India has a woman in that pivotal position for the first time. The notion that Indira Gandhi had preceded her is not entirely correct. While then Prime Minister Gandhi had, indeed, held additional charge of defence for awhile, the ministry was de facto run by the minister of state, or MoS, for defence. In later years, Prime Minister Rajiv Gandhi held charge of defence but the ministry was run by the MoS, Arun Singh. So, Ms Sitharaman is, indeed, our first de jure and de facto full-time woman defence minister and full marks to her for saying that, for her, it will be a full-time job. It needs to be.

India's armed forces have come a long way in the last seven decades. From less than 300,000 in early the 1960s, the Army now numbers 1.2 million. In this same period, the Navy has grown from a motley dozen-odd sea-going ships to a force that fields more than a hundred long-range vessels including an aircraft carrier, ships and submarines, at least two of them nuclear-propelled and one capable of launching nuclear weapons. Our Air Force now operates hundreds of contemporary aircraft of different types which have extended our "reach" very considerably. All three wings have Special Forces which can perform the most complex tasks and are equipped with modern weapons.

In these 70 years the armed forces have fought three full-scale wars, a rather unfortunate one with China in 1962, another with Pakistan in 1965 with honours more or less even, and one in 1971, again with the same country, this one leading to bifurcation of that country. There was another war with Pakistan in 1999 in which some of our posts captured by its troops in the Kargil mountain ranges were recaptured by use of force. Add to this some tense moments with the Chinese in the mid-1980s and one standoff that has just ended at Doklam, and it becomes apparent that our military is a battle-hardened one.

This is quite aside from almost continuous deployment in counter-insurgency operations, which is unlikely to cease anytime soon. In short, India's armed forces have seen seven decades of almost continuous combat and are battle-proven. On land, at sea and in the air, they rate among the top five or six military capabilities in the world. This is the power that the incoming minister is inheriting.

Yet, there are some serious inadequacies to our defence preparedness. From two aircraft carriers in the mid-1980s the Navy is down to just one; from 20-odd submarines of contemporary technology at that time, it is now down to a dozen, the most modern of which is more than two decades old; their replacements will only now begin to make their appearance. The indigenous aircraft carrier being built at Kochi will not see operations for another few years and multi-purpose helicopters essentially required for ocean-going ships, whose numbers are not enough, are nowhere in sight.

Union Defence Minister Nirmala Sitharaman inside the cockpit of a MIG-21 Biscon during her visit to the Uttarlai Air Force Station in Gujarat, soon after assuming office PHOTO: PTI

The strength of fighter aircraft squadrons in the Air Force has fallen to less than 35 and dwindling, against an authorised strength of 45; the indigenous light combat aircraft (LCA) continues to struggle for operational certification. In the Army, the indigenous Arjun tank is heavier than specified and, therefore, constrained in its deployment. The 155 mm artillery gun is three decades old. There are shortages in important ammunition categories which have been articulated often; all this when the Army Chief seeks readiness for a two-front war.

The public sector's expertise is unmatched and it would be unwise not to exploit it fully. At the same time capacities should be built in the private sector, so that the two together produce the desired results

"Make in India" is one of the priorities identified by Minister Sitharaman and this is our great weakness, leave aside some strengths in ship design and construction. Draft policies in process centre on identifying some groups in the private sector as "strategic" agencies that can tie up with foreign vendors for transfer of technology and production. Following this direction of the government some of them have already entered into joint venture arrangements with those Indian private sector companies which, in their assessment, might enter this "strategic" space. This is a great idea were it to be practicable.

None of these parties, even the largest, have any experience in the manufacture of sophisticated platforms or equipment needed by the military and the last thing that the country can afford is to waste time in getting them to learn these sophisticated processes. The public sector may not have produced the most efficient value for money invested, but its expertise and capabilities are unmatched and it would be unwise not to exploit them fully. It would, therefore, be advisable if "Make in India" policies involve the public sector more proactively. Concurrently, measures could be taken to build capacities in the private companies so that the two, together, produce the desired results.

The men — and women — of our armed forces, despite the occasional unfortunate incident that comes to light, are among the most motivated and their professional skills unmatched. They constitute a very important arm of our military power and their needs, not many, require considerate and sympathetic attention albeit consistent with "good order and military discipline". Finally, at less than two per cent of GDP, the funds allotted for defence are not enough but, in absolute terms, ₹2.74 lakh crore is not a small sum. Inability to utilise even the small amount allotted for modernisation — year after year, including in the last three — is a cause for serious concern.

There is neither enough clarity on the fundamentals of our national strategy nor articulation of the required interfaces that it must generate with military and economic imperatives. A visibly inefficient higher defence organisation which essentially follows practices passed down decades ago continues to bedevil our system and absence of time-bound implementation of even funded projects adds to this negative baggage. The border roads infrastructure limps along and its inadequacy imposes limitations on deployment. In sum, the new defence minister inherits a well-trained and professional armed force with capabilities as well as shortcomings. It is now her job to look at some things afresh and to fill in the blanks.

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It's now easier to do business in India

ATUL PANDEY, SATISH PADHI & SHREYA GULATI

The Modi government has carried out a series of regulatory reforms to facilitate the ease of doing business in India and create a favourable investment climate. These include initiatives to do away with various compliances under the Companies Act (such as the minimum capital requirement for company incorporation and the requirement of obtaining a certificate to commence business operations); the Commercial Courts, Commercial Divisions and Commercial Appellate Divisions Act of 2015, aimed at resolving commercial disputes in a time-bound manner; and the enactment of the Insolvency and Bankruptcy Code 2016 to introduce global insolvency practices and a quick redressal mechanism for the increasing number of non-performing assets.

The government has also liberalised its foreign direct investment policy in order to attract investors. Such liberalisation has taken place in the defence sector, in brownfield pharmaceuticals, and in both greenfield and brownfield airports.

In this backdrop, the report of the NITI Aayog-IDFC Institute on Ease of Doing Business in India ("NITI-IDFC Report"), based on an enterprise survey of 3,500 manufacturing firms across Indian states and Union territories is a timely endeavour to assess the impact of these initiatives at the ground level. This article critically analyses the NITI-IDFC Report and examines India's recent regulatory progress in order to evaluate the efficacy of such reforms.

There may be questions about the efficacy of the regulatory reforms carried out so far, but there is greater positivity about India among investors and the coming years will see faster growth with a lower compliance burden on companies

The criterion adopted for determining the ease of doing business is the efficacy of these reforms.

Single window clearance: This system was introduced under the government's "Make in India" initiative in 2014, and mandates the routing of all approvals required by an enterprise to set up a business through a common application window. Only 20 per cent of the enterprises surveyed used the single window clearance system, which suggests either lack of awareness on the part of enterprises or ineffective implementation of the system.

Access to finance: Most enterprises rely on borrowings from banks and financial institutions as sources for finance. Sixty-one per cent of the enterprises surveyed reported that access to finance has either remained the same or worsened over the last year.

Time for clearances: The average time taken to set up a business in India is 118 days, varying widely across states — from 63 days in Tamil Nadu to 248 days in Assam. On average, the time incurred for land allotment to an enterprise is 156 days and for getting a construction permit it is 112 days. The average number of days for completing labour-related compliances is 74 and for renewal of such compliances it is 62.

Dispute resolution: The survey showed that the time taken for dispute resolution by enterprises varied across states, from less than one year to 13 years. For pending legal disputes, the enterprises surveyed reported an average duration of four years once the matter is taken to court.

Also, the sector-specific comparisons laid down in the NITI-IDFC Report throw up some interesting statistics. The average time taken by manufacturing start-ups to set up business is about 87 days, compared to 101 days for manufacturing companies other than start-ups. Similarly, young enterprises take 20 days less to set up a business, 46 days less for land allotment and 18 fewer days for construction permits, compared to older enterprises. Furthermore, labour-intensive industries face major obstacles in setting up a business, getting land and construction-related permits and tax-related compliances compared to capital-intensive industries.

Where are the bottlenecks?

There is an imperative need for the government to ensure effective implementation of the reforms introduced across all states uniformly. The NITI-IDFC Report states that the reforms and their impacts can be seen in big cities but are not clearly noticeable in smaller cities. Also, it is imperative to create awareness of the reforms introduced, so that the enterprises for whose benefit these reforms are introduced are in a position to avail of these benefits. For example, among start-ups that are of recent origin, only 20 per cent report using single-window systems for setting up a business and only 41 per cent among the experts have reported that they know about the existence of the single-window facility.

One of the other findings of the NITI-IDFC Report is that labour-intensive sectors experience greater difficulty than those in capital-intensive sectors and this requires government attention and calls for regulatory reforms in this area. Labour compliances need to be further eased. In this context, the proposed Model Shops and Establishments (Regulation of Employment and Conditions of Service) Bill, 2016 is a step in the right direction and should enable labour-intensive industries to achieve higher productivity.

While the NITI-IDFC Report does raise some questions about the efficacy of regulatory reforms carried out to increase the ease of doing business in India, the fact is that such regulatory reforms are a high priority for this government. The results may not yet be clearly visible, but there is a greater amount of positivity about India among investors and one can safely state that the coming years should witness faster growth with a lower compliance burden on corporates.

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OTHER VIEWS

Taxes on fuel should be used to fund infrastructure projects

Govt must not give in to pressure from consumers to slash excise duties

Petrol and diesel are currently retailing in Delhi at ₹70.39 and ₹58.74 a litre, respectively — or just below their corresponding levels of ₹71.41 and ₹56.71/litre on May 26, 2014 when the Narendra Modi government assumed office. Given that the average cost of crude oil imported by Indian refiners has more than halved during this period — from $108.05 to $53.83 a barrel — consumers have every reason to complain. The main reason for the crash in international oil prices not being passed on to consumers has, of course, been the Centre simultaneously hiking the specific excise duty on both petrol (from ₹9.48 to ₹21.48/litre) and diesel (from ₹3.56 to ₹17.33/litre). For a country short of fossil fuel resources, there is a long-term case for restraining consumption and promoting energy efficient production alongside renewable technologies. The Modi government should, hence, ignore populist pressures to slash fuel excise duties now.

But it could do two things to partly assuage consumer feelings. The first is to convert a portion — maybe even 50 per cent — of the excise on petrol and diesel into a cess, whose proceeds would be used solely to fund railways, metro, highways, irrigation, port and other infrastructure projects.

Secondly, simply allowing oil marketing companies to make automatic price adjustments to import parity levels on a daily basis isn't deregulation. The market needs to be thrown open to independent fuel retailers, who would source petrol and diesel from where it is cheapest, rather than from captive refineries.

The Indian Express, September 15

Bullet trains not a priority

Address Railways' other problems first

The official enthusiasm aroused by the planned bullet train that is meant to run between Ahmedabad and Mumbai from 2023 provides a hint of the glittering life about to be inaugurated for Indians. The magnificent loan from Japan, the apparent fairy-tale rate of interest and the schedule of payback, all promise to be another publicity triumph for Narendra Modi, with high expectations of domestic political benefits. The dazzle obscures the slightly uncomfortable fact that railway accidents keep on happening at alarmingly close intervals — three since the new Union minister for railways took over on September 3 — the latest being the derailment of the Jammu Rajdhani Express. Since as late as last December, a standing committee report on railways' safety and security had concluded that underinvestment was one of the main reasons for the frequency of railway accidents, the enormous investment in a bullet train programme looks a little surprising.

Besides, a smoother, more efficient railway system running on upgraded tracks, not dangerously worn-out ones that repeatedly affect speed, could help increase revenue from freight. By becoming cheap but fast and safe too, the railways could compete fruitfully with roads in this sphere. A bullet train cannot be the subject of political fancy alone.

The Telegraph, September 15

GST course correction vital

Too many procedural glitches so far

India's goods and services tax regime is nearing the end of its first full quarter since roll-out this July. Revenue collections from the first month appear robust, with just 70 per cent of eligible taxpayers bringing in ₹95,000 crore. This initial trend will need to be corroborated by inflows for subsequent months, but with many more taxpayers registering in August, the GST appears to have begun well as far as the exchequer is concerned. However, for businesses the going has been far from smooth, with firms of all sizes across sectors struggling to file their first set of returns under the GST due to significant glitches in the GST Network, its information technology backbone, and issues of connectivity. A group of Central and state ministers has been tasked with resolving the GSTN's challenges.

Amid all this, the GST Council has already changed the announced tax rates on over 100 products and services within about 75 days of the roll-out. An ever-changing policy landscape is hardly conducive for attracting investment. Clearly, a lot of things were not thought through or tested (such as the GSTN) when the government opted for a July 1 launch for GST instead of the September 16 date that the constitutional changes made last year allowed. Admitting to the errors of judgment so far is essential for a genuine course correction.

The Hindu, September 15