

India: Between the Fed & a Hard Place

Country needs innovative policy, as liquidity ebbs

Friday's sell-off in India's equity markets was a reaction to the end of the longest period of easy money, in the history of the world's largest economy, the US. The Federal Reserve has taken a subtle approach to end the nine-year-old 'quantitative easing' that began in November 2009. From October this year, it will start selling bonds and absorbing dollars, leaving policy interest rates untouched. From now to 2020, the consensus in America's Federal Open Market Committee (FOMC) is this: unemployment will fall from 4.3% to 4.2%, inflation rise from 1.5% to the Federal Reserve's target of 2% and growth cool from today's breakeven 2.4% to 1.8%. Through this, the Federal Reserve expects to raise lending rates from 1.4% to 2.9%. Tighter money will achieve most of these goals but for inflation, which could go either way.

As money gets tighter and rates creep up, the attraction of zero-risk US Treasury bonds will increase, compared to other assets. The glut of liquidity that has driven most equity markets to dizzy heights will run dry. India's stock market, in the face of steadily falling company margins, very little productive investment and falling growth, has been driven by liquidity. With global liquidity set to fall, so will equities. Another worry is the effect of tighter money on India's external debt and the rupee. Between March 2016 and 2017, foreign debt fell 2.7%, driven by a near-8% fall in NRI borrowings as instruments matured. Corporate debt, which at 37% is the largest component of foreign debt, also fell around 4% in March. But a weaker rupee would raise the cost of servicing debt.

But the cost of Indian companies' overseas borrowing costs will jump in rupee terms with a rise in US rates. Companies with falling margins have no appetite to invest for growth. With higher overseas interest cost, they will be in a bind if Indian banks, already saddled with bad loans, refuse to refinance foreign debt. The rupee will come under pressure, inflating import costs, but probably boosting exports. But India is a net importer and higher import costs are bound to pinch. This is the time for reform and Reserve Bank action.

How to Get on With Women's Reservation

The letter written by Congress president Sonia Gandhi to the Prime Minister, asking him to pass the long-pending Women's Reservation Bill, is a clever political move, but not really a move to materialise reservation for women in legislatures. The intent is to put the Congress party's legitimate claim as the initiator of the quota Bill upfront, and deny the government full credit for such a move, if it is, indeed, inclined to pass the Bill. The fact is that while Sonia Gandhi is among those who want the Bill passed, it is not a key objective for most who give it lip support. This is for the practical reason that the way quota for women has been incorporated in the Bill rules out long-term nurturing of a constituency by any one MP, because the seat reserved for women would rotate among constituencies. The lack of enthusiasm for the Bill cuts across parties.

The most sensible way to raise women's representation in elected legislatures is for political parties to put up more women candidates in seats they are confident of winning. After the 73rd and 74th Amendments to the Constitution initiated by Rajiv Gandhi that mandated elections to rural and urban local bodies, complete with reservation of at least a third of the seats for women, a large group has emerged of women with experience of holding and running political office. This is so, even after discounting a great many women members of Panchayats who have held office as proxies for their male relations. So, there is no scarcity of potential women leaders for parties to choose from. What holds them back is age-old patriarchy.

Things have progressed from the time when parties claiming to champion subaltern groups dismissed women's quota as a ploy to bring in more elite women. The Bill could well pass, if the government tried.

Kim and Trump both appear to have lost it, as their language suggests

Between Dotards and Neukdaris

Vocabulary—or the lack of it—can be very revealing. So, it is interesting that in the so far only-verbal slugfest between the lexically limited US President Donald Trump and the mentally unfettered North Korean supreme Kim Jong-un, a less-used word has come to the fore: "dotard". Potus is, of course, not averse to coining a few words of his own, deliberately or by mistake, but the corpulent Korean appears to be remarkably well-read. After all, dotard—meaning old and senile—harks back to Middle English and was used by Chaucer in *The Canterbury Tales* as also by Shakespeare in *The Merchant of Venice* and *King Lear*, both in appropriately uncomplimentary contexts. As it has even been used before to unflatteringly describe a Potus—Andrew Jackson, for his dogged support for Martin Van Buren for President in 1836—as also an American Civil War-era general and a US Congressman during that same century, it seems Mr Kim has been doing a lot of reading while his scientists crank up the missiles.

Of course, dotard's revival could be ascribed to Kim's translators using outdated Korean-to-English dictionaries, as many believe. However, the pejorative Korean word Kim used for a doddering old person—neukdari—sounds even more appropriate in the current situation. It should be co-opted into the English lexicon.

India needs data-protection laws in place before changing ownership rules of information utilities

Standing Guard at the Gates



Hema Ramakrishnan

There is growing demand for India to write laws on data protection and privacy in the wake of the Supreme Court ruling privacy to be a fundamental right. Concerns over cybersecurity, data protection and privacy have increased manifold, with the alarming rise in incidents of breach in India and the world over—the most recent case being the data breach at Equifax, the credit monitoring firm that handles sensitive financial information. Reportedly, the pilfered data includes credit card and social security numbers of 143 million, mostly US citizens, leaving them vulnerable.

Earlier, India witnessed disruptions from cyberattacks through a ransomware, WannaCry. These attacks and breaches threaten to trigger heavy damages, including loss of data and disruptions in business. They could also involve regulatory compensation. So, policy, rules and practices must address cybersecurity and data breaches in sensitive sectors and areas critical to national interest.

Take the new breed of information utilities (IU). Set up under the Bankruptcy Code, IUs are meant to authenticate and store sensitive information on debts and defaults. The idea is to cut delays in establishing debt and default, and speed up the resolution process. These utilities do so by connecting information systems of stakeholders through IT infrastructure, and aggregate and curate relevant data in a traceable and authentic way. It will give a true picture of the bad loans in our banking system.

As repositories of financial cont-

acts, are IUs any different from credit information companies that maintain credit files of individuals and businesses? A big difference is that the data authenticated by IUs will be accepted as evidence by courts and tribunals. The National Company Law Tribunal for companies and debt recovery tribunals for individuals take the final call to accept or reject an insolvency plan.

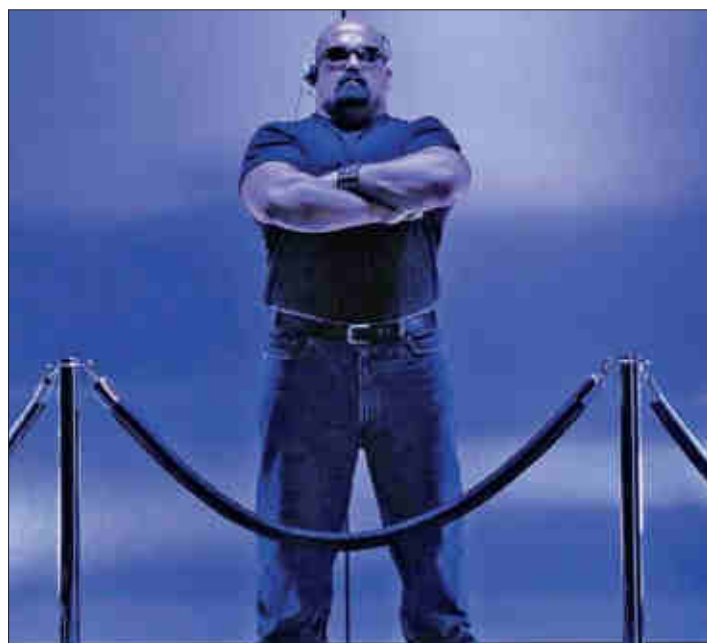
A government-owned information utility is already up. A working group on IUs had recommended more players and a progressive legislation to let the industry grow. Understandably the underlying principle is to nurture competition and innovation. It will create a robust database that will help decision-making by lenders and encourage discipline among borrowers.

Don't be Sensitive

The question before policymakers is now on the ownership structure of IUs. In March this year, regulation had capped foreign ownership of IUs at 49%. A discussion paper by the Insolvency and Bankruptcy Board of India (IBBI) has proposed easing the rules to allow majority foreign ownership in these utilities. That's surprising, given that little experience—positive or negative—has been gained over the last five months.

Meanwhile, public concern in India on cybersecurity and data privacy has heightened. Globally, data classification is based on established standards and principles. Systems dealing with sensitive data need special attention in terms of technology, processes, institutional ownership and people. India, as the fastest-growing economy, is a magnet for foreign capital. The government has liberalised FDI in many sectors. So, are the concerns over foreign ownership of IUs justified in a rapidly growing economy like India?

What are the arguments of naysayers? One, that it poses an extra vulnerability to the security and privacy of data stored in IUs. There are fe-



So what's today's password?

FILE PHOTO

ars that data on debts and defaults could move outside the country. And this, in turn, could pose a risk of individuals moving courts to exercise data-protection rights and to protect themselves from unlawful use or disclosure of the information.

It is vital to ensure that the data does not fall into the wrong hands. The need is to create a law on data protection that must leverage on global best practices. Ideally, our regulation should be modelled on the EU's approach to privacy. The EU not only has common rules to ensure that personal data enjoys a high standard of protection across member states, but it also mandates organisations that collect and manage personal information to protect it from misuse.

Two, foreign investment is capped at 49% in stock exchanges and depositories. So, there is no rationale to allow foreign control, given that a higher level of sensitive data resides with the IUs. The database would cover a large corporate to a farmer in a remote village.

Three, the concept of IUs is new and germane to India. Foreign ownership does not guarantee any immediate and specialised knowhow. But

the IBBI says it has taken a close look at the regulatory framework governing similar facilities in financial markets that include credit-rating agencies and credit information companies. There are fears that the data breach could impact India's sovereign ratings. Votaries of foreign control would debunk these arguments as liberal foreign investment is the way forward in all sectors.

Solving Insolvency

But the FDI policy does not cover information utilities, leaving policy prescriptions and commitments still open, at least for now. As the insolvency law is being put to test now by lenders, it would be pragmatic to wait and watch before easing of rules on the ownership structure of IUs.

The ongoing process in the country to legislate data protection laws must be completed before any change in the ownership rule on IUs. India may well need binding pacts with other nations that offer similar protection and guarantees of protection to the data of Indians too.

Let us not rock the boat too soon.

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WIT & WISDOM

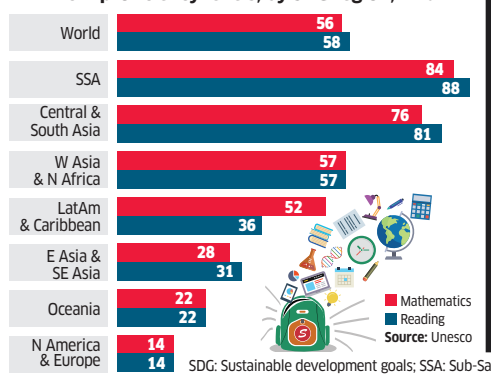
"I'm tired of all this nonsense about beauty being only skin-deep. That's deep enough. What do you want, an adorable pancreas?"

Jean Kerr
Writer

Learning Crisis

Globally, almost six out of 10 children and adolescents are not achieving minimum proficiency levels in reading and mathematics, says a report put out by Unesco. The reasons: no access to education, dropping out of school, and poor education quality...

Proportion of children and adolescents not achieving minimum proficiency levels, by SDG region, in %



MEME'S THE WORD



MAKE DEFENCE IN INDIA

Let Them Choose Their Partners



Amit Cowshish

India's quest for single-engine fighter aircraft for the Indian Air Force (IAF) has taken a somewhat strange turn with both the main contenders signing agreements with local companies to make the aircraft in India. While Lockheed Martin signed an agreement with Tata Advanced Systems in June to set up the assembly line for its F-16 Block 70 aircraft in India, SAAB quickly followed suit by signing a similar agreement with the Adani Group earlier this month to manufacture JAS-39 Gripen-E.

Fighter aircraft manufacturing is one of the four segments identified by the ministry of defence (MoD) to unroll the 'strategic partnership' scheme. This scheme entails the parallel selection of the platforms that meet IAF's operational requirement and the Indian private sector entities that could be invited to bid for the programme after tying up with the original equipment manufacturers (OEMs) of the chosen platforms.

Selection of the platforms will be comparatively easy, especially if these are subjected to trials only in respect of the changes made after these were last trial-evaluated in the context of the now-aborted programme for the acquisition of 126 medium multi-role Combat Aircraft, assuming that it is feasible to do so. It is the shortlisting of the Indian companies that could pose a challenge. No wonder the process has not even begun.

With these pre-emptive tieups, the two OEMs in the fray have outmanoeuvred the MoD. It will now be superfluous to go through the cumbersome process of identifying the Indian companies that could be invited to bid. More to the point, it will be surprising if the terms of the agreement between the OEMs and the Indian companies would permit the former to be wooed by—and to enter into a production agreement with—any other Indian entity.

For sure, the MoD could 'out-outmanoeuvre' the OEMs by laying down the selection criteria for the Indian companies that wish to participate in this programme, which the companies already chosen by them do not meet. Apart from being very unlikely, such an act could only queer the pitch for everyone without there being a reasonable chance of the issue getting resolved any time soon.

It is difficult to think of any reason why the MoD would indulge in such pettifoggery. The main objective has to be to ensure that the chosen platform is made in India, rather than to have a say in deciding who makes it.

This pre-emptive action could well be a blessing in disguise for the MoD. It has had problems in the past in shortlisting Indian companies through a somewhat similar process, at least in one big-ticket programme. The Futuristic Infantry Combat Vehicle (FICV), which was given a go-ahead sanction almost a decade back, is stuck because, apart from other reasons, the MoD has not been able to shortlist two development agencies—as originally envisaged—out of the five odd contenders who are in the fray.

It makes little sense to force the OEMs to choose a partner from among

the Indian companies selected by the MoD, especially because it is the OEM that is required to shoulder a greater responsibility.

The obligation is not limited to only transfer of technology. The strategic partnership scheme makes the OEM jointly responsible along with the Indian partner for certification and quality assurance of the platforms made in the country. In fact, the Indian partner will also require handling the OEM for meeting various other obligations, including Performance-Based Logistics (PBL) for the platform.

With a virtual FDI cap of 49%—although technically it can go up to 100% if the proposal entails access to state-of-the-art technology, or for other unspecified reasons—the least the MoD can do is to cut OEMs some slack by permitting them to tie up with partners of their choice. What should be comforting is that permitting the OEMs to do so does not amount to violation of any statute, rule, regulation or procedure.

This stratagem was adopted in the not-yet-dead Avro-replacement programme of the IAF much before it was formally incorporated in the Defence Procurement Procedure 2016.

The ministry will clearly be on the right side of propriety if it recognises the tieups made by Lockheed Martin and SAAB. By doing so, it will save itself many a hassle involved in the time-consuming—and potentially contentious—process of shortlisting the potential strategic partners and also let the OEMs work with the Indian companies of their choice. It is difficult to see how this would come in the way of achieving the objectives of the strategic partnership scheme.



Accha, MoD may now give selection criteria for Indian companies we can tie up with?



the speaking tree

Why Creation is Real

YOGA VASISTHA

Prince Rama: O sage, even as the cities that we see during our dream are unreal, the world is the dream of Brahma, the creator; is it not, in fact, unreal and illusory?

Sage Vasistha: This creation is no doubt born of ignorance, and belief in creation destroys true perception. Yet, on account of emergence of the ego-sense, it appears solidly real. The dreamer does not realise the evanescence of objects seen in the dream; even so, it is in the case of this cosmic dream of the Creator. The dream partakes of the characteristic of the dreamer. That which is born of the unreal must be unreal, too. Hence, though this world appears to be real, as it is born of the unreal concept (the dream of the Creator), it should be firmly rejected.

In the Self that is the infinite consciousness, this creation appears but momentarily. During that moment itself, the illusory notion that it is of a very long duration arises and so it seems real.

There is naught that is real nor is there naught that is unreal; all is made possible everywhere in this dream known as creation! Just as one who is immersed in the dream sees the dream as utterly real, one who is immersed in this creation thinks that it is utterly real. Just as one goes from one dream to another, one goes from one delusion to another delusion and, thus, experiences this world as utterly real.

Citings

Manufacture Digitally

JON SOBEL

Manufacturers are looking very systematically at everything they do, from the methods they use to make things to technologies like 3D printing and additive printing, all the way to their business models. These large giant factories that have produced things are being broken up and distributed around the world to become much more flexible.

And they're realising that as manufacturing becomes more networked and takes on the characteristics of a system, just like in the virtual world, the key to making the system effective and being strategic about it is the data that is generated in the system. And so, in the same way that a bunch of technology companies spent 15 or 20 years hooking everything up and realising, "now we have to use big data to make sense of it", they are starting to look at all the data that's generated in production as an opportunity.

First, [they want] to improve the efficiency of manufacturing operations: how do we improve quality? How do we keep our factories running? Next, [they want] to improve business processes and then all the way to business model transformation. And so, they are investing in using data that's already there.

There's a huge amount of data on manufacturing that just sits on the floor. One way to look at the market is to see all the people who are touching manufacturing. And everybody from the software supplier for the front office to the logistics or supply chain provider wants to be able to help the customer understand better what's going on.

From "How Big Data and Analytics Can Transform Manufacturing"

Chat Room

JAL, JIL Parties to Contracts

Apropos the Edit, 'Jaypee Insolvency: Quite a Legal Mess' (Sep 22), both Jaiprakash Associates (JAL) and Jaypee Infra-tech (JIL) are liable to the homebuyers, according to the terms of the agreement entered into between the homebuyers and JAL and JIL. Also, JIL's insolvency matter is a fit case for lifting of corporate veil as there appear to be several fraudulent transactions involving siphoning of the funds between JAL and JIL. The Jaypee Wish Town homebuyers unequivocally support the approach taken by the Supreme Court to ensure justice to them.

RAMAKANT RAI

Trilegal Counsel for 10 Associations of Jaypee Wish Town Flat Buyers