Opinion

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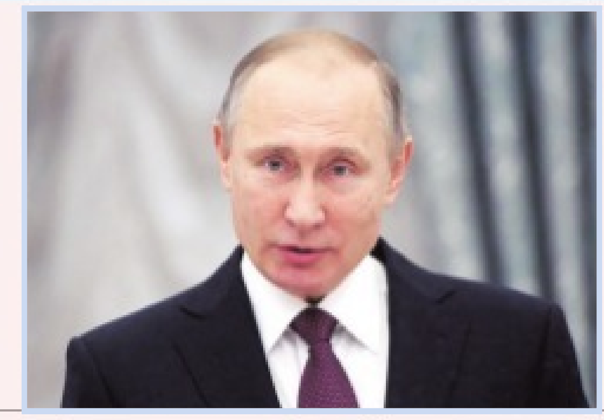

DIALOGUE ONLY WAY OUT

Russian president Vladimir Putin, on the US-N. Korea stand-off

"Russia believes that the policy of putting pressure on Pyongyang to stop its nuclear missile programme is misguided and futile. The region's problems should only be settled through a direct dialogue of all the parties concerned without any preconditions"

More govt spending critical for GDP growth

Part of latest GDP slump is one-off due to GST etc, but the overall trend suggests a long haul, especially for jobs

GIVEN THE ECONOMY has been losing pace for several quarters now, and that the trend was noticeable even before demonetisation, the June quarter was never really expected to see a big bounce-back. However, the very sharp deceleration in GDP, at 5.7% y-o-y, and in GVA, at 5.6% y-o-y, are below even the most conservative forecasts. In fact, even during a very difficult time in Q4F17, GDP had clocked a reasonably good 6.1% y-o-y while GVA had grown at 5.6% y-o-y. This time around, the GDP has decelerated more than the GVA partly because of a big jump in subsidies during the quarter, up 40%-plus.

Not surprisingly, the manufacturing sector has borne the brunt of the GST roll-out with companies compelled to resort to production cuts and to staying lean on inventory ahead of the new indirect tax regime in July. The poor profitability of the corporate sector during the quarter reflects the acute stress; for a sample of 1,410 companies, revenue growth was the slowest in three quarters while operating-profit margins contracted 105 basis points y-o-y, leaving operating profits flat. Agriculture, too, performed way more poorly than was expected to; while the rabi crop was a good one, the fairly sharp fall in prices of foodgrains and other crops has hit farmers' incomes. That, in turn, would have hurt rural consumption. The return of cash into consumers' pockets, in general however, appears to have pushed up spends on the services. The increase in private consumption, however, was subdued, growing at 6.7% y-o-y in Q1FY18 versus 7.1% in Q4FY17. Anecdotal evidence suggests purchases in consumer durables, in particular, were being put off until after GST. Again, government spending, although growing in double-digits, was slower than anticipated.

There was little change in the investment story. Investments have been crawling for more than a year now and, after contracting in the March quarter, saw a very slight revival in Q1FY18. On the whole, the headline numbers are far from encouraging—they may even seem depressing. However, the data for July and August are better. Automobile sales, for example, have seen a big jump across categories indicating that companies are scaling up production. The PMI for August is at 51.2, up from 47.9 in July. Even if consumption picks up, as we head into the festive season, the very sedate start to the year would warrant a re-look at forecasts for 2017-18. Going by current indications, GDP is at best likely to clock 6.5% this year, and there are many who believe even 6% is a tall ask. The bad news is that government could be very short on revenues with collections from telecom and RBI dividends not coming in as budgeted. That then could necessitate cuts in expenditure if it is to meet the fiscal deficit target. Even trimming expenditure at a time when the private sector is investing very little will hurt. Which is why the government may want to overshoot the expenditure limits. Without some serious assistance—financial and regulatory—the informal sector, which accounts for 80% of the economy has been badly hit by demonetisation, cannot recover. And unless that happens, it will be difficult to create jobs. There's a real need now to step up spending because otherwise the economy could slip further.

Getting taxes smartly

Taxman analysis suggests catching tax-cheats will be easier

NOW THAT IT is official that almost all the currency that was demonetised has come back into the banking system, the only way for the government to retrieve lost face is to ensure it is able to catch tax-cheats who thought they had got away. With the government saying it is probing ₹1.75 lakh crore of suspicious deposits, there is fear a raid-raj will be unleashed and that, after all the tax demands, this will not amount to anything. After all, between FY11 and FY16, disputed tax claims rose 3.6 times while total tax collections rose 1.8 times—as a result, from 23.7% in FY11, disputed taxes as a proportion of collections in that year rose to 46.9% in FY16. While only time will tell if history will repeat itself, the taxman looks better prepared this time around.

So, when 18 lakh persons were identified as having made cash deposits not in line with their tax profile, email/SMS queries were sent to them to keep the process low-key and unobtrusive. Advanced data analytics were used to identify another 5.6 lakh cases, and around 200 high-risk clusters of persons were identified for further action. While salaried persons depositing an average of ₹4.3 lakh seems excessive, it is difficult to track down so many people; and if corporates deposited ₹1.4 crore per unit, how does the taxman prove this is excessive? Well, for one, the taxman found that over 36% of those who had deposited cash had never filed their tax returns.

Further analysis is even more interesting for the 13.3 lakh accounts for which the taxman got an immediate response—these accounts had deposits of ₹2.9 lakh crore. Nearly 60% of people declared their cash as having come from sales. How do you proceed from here? The taxman then looked at sales patterns—how high were the deposits compared to monthly sales, did traders have PAN numbers for those to whom sales were claimed to have been made, how did their cash sales compare to their previous returns; all this resulted in creating a database of 1 lakh persons who were high-risk and had made large deposits. Some individual investigations also helped finalise the risk-parameters—a Hyderabad-based jeweller, for instance, claimed he had taken cash advances worth ₹90 crore on November 8 from 5,200 customers but he had issued IoUs to just 65 people; in the case of a Patiala-based jeweler, forensic imaging of the digital data showed sales invoices had been backdated; for a Delhi-based bitumen and jewellery trader, it was found all invoices—backdated—were for the same amount of ₹199,500 and two people who were supposed to have bought gold from him did not exist... In other words, there are many checks the taxman has devised to trap tax-cheats in a relatively unobtrusive way.

Spreading RESISTANCE

Use of antibiotic-fed poultry's untreated litter as manure has emerged as a new route for drug resistance

AS IF POULTRY pumped with antibiotics were not doing enough damage when it came to antimicrobial resistance, the poor disposal of their waste is compounding the problem. A study by the Centre for Science and Environment has found that unsafe disposal of chicken litter and use in agricultural fields as manure has opened up a new route for the spread of drug resistance. Litter and soil samples from 12 randomly selected poultry farms in four top poultry states in north India—Uttar Pradesh, Haryana, Rajasthan and Punjab—were tested against 12 control samples of soil collected from land that was 10-20 km from the respective farms. A total of 217 isolates of *E. coli*, *Klebsiella pneumoniae* and *Staphylococcus lentus* were tested for resistance against 16 antibiotics—100% of the E. coli, 92% of the *Klebsiella sp.* and 78% of the *Staphylococcus sp.* were found to be multi-drug resistant with 40% of the *E. coli* and 30% of the *Klebsiella* isolates resistant to at least 10 of the antibiotics. Dangerous levels of resistance to carbapenems, a "last-resort" class of antibiotics.

A considerable degree of similarity in resistance pattern for *E. coli* was noticed in both the litter and the farm where the waste had been used as manure. The use as manure is especially threatening because not only does it mean farm produce becomes a channel for spread of resistance, but the mutations that are likely to be sparked off as the pathogens try to cross the species barrier—in, say, trying to make straying cattle a possible host—carry a spectrum of unknown dangers. While there is a National Action Plan on countering antibiotic resistance, the complete lack of awareness at the grassroots puts paid to any such efforts. There is a need to make farmers in these states aware of the less risky manure alternatives available, perhaps even facilitate easy access. Use of untreated chicken litter in farms and in aquaculture could lead to full-blown resistance crisis if left unchecked now.

TWO TO TANGLE

ANY ACTION BY THE US AGAINST CHINESE IMPORTS WILL EFFECTIVELY TRANSLATE AS A TAX HIKE, AND COUNTER-MEASURES BY CHINA WILL HIT US EXPORTS HARD

The US and China's codependency trap

STEPHEN S ROACH

Faculty member at Yale University and former chairman of Morgan Stanley Asia

SEEMINGLY AT ODDS with the world, US president Donald Trump has once again raised the possibility of a trade conflict with China. On August 14, he instructed the US Trade Representative to commence investigating Chinese infringement of intellectual property rights. By framing this effort under Section 301 of the US Trade Act of 1974, the Trump administration could impose high and wide-spread tariffs on Chinese imports.

This is hardly an inconsequential development. While there may well be merit to the allegations, as documented in the latest "USTR Report to Congress on China's WTO Compliance," punitive action would have serious consequences for US businesses and consumers. Like it or not, that is an inevitable result of the deeply entrenched codependent relationship between the world's two largest economies.

In a codependent human relationship, when one party alters the terms of engagement, the other feels scorned and invariably responds in kind. The same can be expected of economies and their leaders. That means in a trade conflict, it is important to think about reciprocity—specifically, China's response to US action. In fact, that was precisely the point made by China's ministry of commerce in its official response to Trump's gambit. China, the ministry vowed, would "take all appropriate measures to resolutely safeguard its legitimate rights".

Caught up in the bluster of the US accusations being levelled at China, little attention is being paid to the potential consequences of Chinese retaliation. Three economic consequences stand out.

First, imposing tariffs on imports of Chinese goods and services would be the functional equivalent of a tax hike on American consumers. Chinese producers' unit labour costs are less than one-fifth those of the US's other major foreign suppliers. By diverting US demand away from Chinese trade, the costs of imported goods would undoubtedly rise sharply. The possibility of higher import prices and attendant spillover effects on underlying inflation would hit middle-class US workers, who have faced more than three decades of real wage stagnation, especially hard.

Second, trade actions against China could lead to higher US interest rates. Foreigners currently own about 30% of all US Treasury securities, with the latest official data putting Chinese ownership at $1.15 trillion in June 2017—fully 19% of total foreign holdings and slightly higher than Japan's $1.09 trillion.

In the event of new US tariffs, it seems reasonable to expect China to respond by reducing such purchases, reinforcing a strategy of asset diversification away from US dollar-based assets that has been under way for the past three years. In an era of still-large US budget deficits—likely to go even higher in the aftermath of Trump administration tax cuts and spending initiatives—the lack of demand for Treasuries by the largest foreign owner could well put upward pressure on borrowing costs.

Third, with growth in domestic demand still depressed, US companies need to rely more on external demand. Yet, the Trump administration seems all but oblivious to this component of the growth calculus. It is threatening trade sanctions not only against China—the US's third-largest and fastest-growing major export market—but also against NAFTA partners Canada and Mexico (its largest and second-largest export markets, respectively). As the reactive pathology of codependency would suggest, none of these countries can be expected to acquiesce to such measures without curtailing US access to their markets—a counter-response that could severely undermine the manufacturing revival that seems so central to the Trump presidency's promise to "Make America Great Again."

It is sheer political chicanery to single out China, the US's NAFTA partners, or even Germany as the culprit in a saving-short US economy. The US does not hold the trump card in its economic relationship with China

In the end, China's economic leverage over the US is largely the result of low domestic saving in the US. In the first quarter of 2017, the so-called net national saving rate—the combined depreciation-adjusted saving of businesses, households, and the government sector—stood at just 1.9% of national income, well below the longer-term average of 6.3% that prevailed over the final three decades of the twentieth century. Lacking in saving and wanting to consume and grow, the US must import surplus saving from abroad to close the gap, forcing it to run massive current-account and trade deficits with countries like China to attract the foreign capital.

It is sheer political chicanery to single out China, the US's NAFTA partners, or even Germany as the culprit in a saving-short economy. Fostering policies that encourage an economy to squander its saving and live beyond its means makes trade deficits a given—as are the seemingly unfair trading practices that may come with this Faustian bargain for foreign capital.

The US ran trade deficits with 101 countries in 2016—a multilateral external imbalance rooted in its chronic domestic saving problem. The fix for this problem cannot be made in China. Ironically, with the Trump administration's policies likely to lead to larger budget deficits that put national saving under additional downward pressure, the need for Chinese and other foreign capital will actually intensify and the codependency trap will only close more tightly.

The US does not hold the trump card in its economic relationship with China. The Trump administration can certainly put pressure on China, and, on one level, there may well be good reason to do so. But deep questions concerning the consequences of such pressure have been all but ignored. Getting tough on China while ignoring those consequences could be a blunder of epic proportions.

Searching for an ideal voting system

While FPTP offers the possibility of a strong government, proportional representation is more fair in terms of voting share

MEGHNAD DESAI

Economist and Labour peer

PARLIAMENT IS ABOUT to investigate the merits of different voting procedures. This has been long overdue. In the UK and the European Union countries, voting systems are constantly being debated and experimented with. The UK had a referendum six years ago about moving its voting system for the House of Commons from First Past the Post (FPTP) to Single Transferable Vote (STV). The STV proposal was rejected. In many European countries, Germany for example, the system is Proportional Representation (PR).

In India, there has been no debate about this. Parties often get a substantial vote. Take the UP elections last March. BSP got 22.23% of the vote and only 19 (4.7%) seats. The SP-Congress coalition got 28.07% votes and 54 (13.5%) seats BJP got 41.35% votes and 325 seats (80). In a PR system, seats would be exactly proportional to vote share. Unlike in the FPTP system, the constituency would not be the deciding arena. Each party would put up a list of candidates in order of their own preference. Thus, if BJP put up 403 candidates, then by PR, the first 165 candidates would be declared elected, SP 112 and 76 of the BSP, etc. Thus, PR treats the entire state as a single constituency and divides up seats by the overall share of the total vote.

Obviously, while proportionality is fairer to parties scoring votes but not winning seats than under FPTP, the constituency connection is lost. FPTP retains that connection. If there were only two parties contesting in each constituency, the results would not be very different between FPTP and PR. But once more than two parties contest, it is not majority but plurality (largest single vote) which wins. Typically, in a multi-party poll, the proportion of seats diverges away from the proportion of votes if a Party goes above 30% in its total share. No party which won majority in the Lok Sabha—Congress mostly and BJP in 2014—got more than 50%. Rajiv Gandhi got 49% in 1984. During the interim period of 1989-2014, India came very close to proportionality between seats and vote shares. The French Presidential elections take place in two rounds. In the first round, many candidates contest. Then, the top two contest in a second round. Thus the winning candidate has a majority of votes cast.

The disadvantage of PR is that most governments would be coalitions, often of rival parties, as happens in Europe. Strong, single-party governments become impossible. This, plus the loss of the constituency connection, tilts opinion in favour of FPTP. The STV Vote operates at constituency level. Each voter is asked to rank all the candidates in order of preference. Then the first preferences are added up. The candidate with the lowest first preferences is eliminated and her votes are allocated to the remaining candidates in proportion to her second preferences. This continues till one candidate emerges with majority of total preferences. This is a complicated, but fair system.

It is not clear which system is best for India, voters understand the FPTP system. It would be difficult to try out STV if there were more than about four candidates. PR would lead to coalitions as well as sever the connection with constituencies. Fairness is in conflict with intimate contact with MP as well as the possibility of a strong government. One compromise tried in some parliaments, for example the Scottish Parliament is to have FPTP system for a substantial proportion of the total seats but then use PR to 'top up' with the remaining seats. Thus, for example for UP one could say that in addition to the 403, seats at present, there would be 100 extra seats which would be allocated by PR. Then, the BSP would get 19 plus 22 seats, etc.

In the Lok Sabha, the 545 seats are covering an electorate of 850 million voters which gives you more than 1.5 million voters per seat. One way to reform the system would be to say one MP per million. But another way would be to say we add 305 seats (or whatever number necessary to bring it up to one member per million voters for 2019) and choose them by PR as 'top up'. Thus, the current system of choosing constituency MPs by FPTP can stay as voters understand it. The top up then can bring a system of fairness. If you wanted to introduce extra fairness, we could restrict the top up MPs to be women and increase women's representation in Lok Sabha.

One way to reform the system would be to add 305 seats (or whatever number necessary to have one Lok Sabha member per million voters for 2019) and choose them by proportional representation as 'top up'

There will be no immediate change in the election system. Parliament can initiate a national debate, that itself will be educational for citizens who can learn about the different voting system and the issues of fairness. When the total number of seats are adjusted to take into account the larger number of voters, these considerations of fairness can be taken on board.

LETTERS TO THE EDITOR

PSB privatisation, bad bank go hand in hand

The proposed merger of 27 PSBs into 6 is not a bad idea. One big concern for the six well-run anchor banks viz SBI, Punjab National Bank, Canara Bank, Bank of India, Union Bank of India and Bank of Baroda into which the rest of the PSBs are going to be merged is the huge NPAs amounting to lakhs of crores of rupees that will come on to their books. The anchor banks have a fear that such a merger might result in chaos in their financial discipline as well. Why can't the government consider creating an exclusive public sector entity to which all these non-performing assets could be transferred and an effective recovery process put in place and severe action against taken against the erring borrowers including take-over and auctioning of the collateral securities offered to recover the dues to the banks? This way, the balance sheets of all the banks would get cleansed and the anchor banks can also start their business with a new slate and with no capital adequacy problem as they need not make any provision for the NPAs. They can also concentrate on lending to deserving borrowers maintaining good quality of the assets.

— Tharcius S Fernando, Chennai

India growth outlook

The WEF has predicted that rising income inequality and the polarisation of societies will have an adverse effect on the global economy in 2017. Thanks to demonetisation, the Indian GDP growth now stands at 5.7%—the lowest in three years. We must take such predictions with the necessary pinch of salt but there doesn't seem to be anything which is going to derail growth in the future. The Economic Survey pegs FY18 GDP growth at 6.75-7.5%. Deflationary tendencies are weighing on an economy yet to gather its full growth momentum. There is no excuse for delaying radical reforms.

— Seetharam Basani, Hanamkonda

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The typical outsourcing business will continue to decline

The executive vice-chairman of Cognizant India shares with Sushila Ravindranath that outsourcing, which is 80-90% of the total business today, will come down to 50-60%, and digital will account for the rest

I HAVE BEEN TRYING to fix lunch with Chandra, as R Chandrasekaran, the executive vice-chairman of Cognizant India is known, for many weeks. With his travel schedule, it has been near impossible. As one of his trips gets postponed, he agrees for a quick lunch at the Mahamudra, Isha Foundation's spacious and bright vegetarian restaurant in Mylapore, Chennai. As it is a favourite of us both, we don't waste much time ordering. We ask for their tiny crisp banana flower vadas and iced lemon tea.

Chandra is one of the professional co-founders of Cognizant, which was established in 1994. He is also a long-standing member of the Executive Council at NASSCOM, the Indian IT industry body, and was its chairman during 2014-15. He has been a member on the Board of the NASSCOM Foundation, its social arm, and has played a major role in the National Digital Literacy Mission (NDLM) initiative. He is a passionate advocate of skill development and employability, and works closely with educational institutions in making the curriculum relevant for today's industry needs.

I have been wanting to talk to him about his take on the transformation that the IT industry is going through—all the things that are making headlines, such as artificial intelligence (AI), Internet of Things (IoT), machine learning, deep learning and so on. There are reports saying that the IT services industry alone is set to lose around 6.5 lakh low-skilled positions to automation by 2021.

As we wait for the starters to arrive, I ask him about the jobs being lost. "The world needs 15-18 million people in the IT industry. There are 6-8 million job requirements in the digital and new technology area. Even if we aspire for 15-20% of these, it means 1.5-2 million jobs. India is not in a bad space. It depends on how agile we prove to be. We have to shift gears, and work on scaling up and creating talent," he says.

Chandra adds that innovation time is shrinking. "The agricultural revolution lasted for centuries. Industrial revolution lasted one century. Information technology revolution lasted 30-40 years. And internet revolution lasted barely 15-20 years. Now is the time of IoT, AI, machine learning and related revolutions. How quickly you spot the change will make a difference. Once you could make a career out of Cobol programming for 30 years. To survive today, you have to unlearn and relearn new skills. At the same time, there are many opportunities. We must make adjustments faster. It's not the first time that the industry has been challenged by innovation. The invention of the steam engine did not stop the creation of new jobs," Chandra says.

Why is there so much unrest and fear in the IT industry? Chandra says it is unnecessary fear-mongering. "There are more technology and IT jobs now available than ever. Large IT outsourcing firms continue to hire. In the month of June, attrition rates are always higher. A lot of young people change their minds, directions, go for higher studies. There really has been no reduction of staff or layoffs. People are being given the option of golden handshakes. Those who opt out can move on and do other things. Organisations too need to renew talent."

We decide not to order the thali meal and instead ask for Mahamudra's excellent uttapams with toppings and pesarattus (whole gram dosas). What kind of new jobs is Chandra talking about?

"Today, every start-up is tech-based. All global companies continue to want a toehold in India. They want to tap the talent here. They are creating jobs," he tells me. "Today, all end-user organisations are technology dependent. Earlier, technology was not seen as mainstream. Companies had MIS (Management Information System) departments. Now, the demand for technical skills is increasing in government, citizen services, mobile services and many other areas."

Chandra sees tremendous potential in healthcare. "Doctors per population are so low in the country. Technology can step in. Technicians can be trained to determine results of diagnostic tests. The diagnostic equipment is getting more and more advanced. Patients can be monitored in different locations and information can be passed on. Many more primary health centres and satellite centres can be set up," he adds.

Technology not only creates jobs, but the quality of work also gets significantly enhanced, he says. "An Ola or Uber driver has to be digitally literate. He has to understand GPS, payment systems. Technology adds value to jobs. The tourism industry can create so many jobs with the help of technology. Geo-tagging can help users find a wide variety of location-specific information from a device. Agriculture is another area where technology can make a great difference. We can actually create more jobs in each sector."

As we are about to finish the dosas, I ask Chandra about AI replacing humans and overtaking them. "We are going through a transition period. There is bound to be a churn here and there. Any new development has a negative side, sometimes. AI based on self-learning algorithms make the product better and better. People may put it to wrong use. At Cognizant Technology Solutions, we have developed a deep learning algorithm for detection of diabetic retinopathy. After getting the results from 1,000 retinas, it keeps getting better and better. The algorithm defines itself. Machine learning is the extraction of knowledge from data. As we lack enough doctors, these kinds of products are very useful in primary health centres. Technology becomes a part of all of us."

We ask for Sukku coffee, a concoction made of dried ginger, coriander seeds and palm sugar, instead of dessert. How has Cognizant been able to do better than its peers, based on its quarterly results? "We are in a fairly advantageous position. We moved to digital technology fairly early. We have been making acquisitions to speed up our share of business in the digital space. Our share of digital revenue keeps going up."

And what is going to happen in the immediate future, according to Chandra? "The typical outsourcing business will continue to decline. We will be doing more with less people. Delivery models are changing. The turnaround is fast, with the next cycle beginning in two weeks. We will retain our margins through the value we deliver. Outsourcing, which is 80-90% of the total business, will come down to 50-60%. Digital will account for the rest. You improve and deploy."

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ONLINE RETAILERS

How can they retain customers

KEYOOR PURANI

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WITH PRO-DIGITAL GOVERNMENT policies, demonetisation-triggered e-wallet usage and reduced data costs, online commerce is making rapid strides. The Meeker 2017 report on internet trends in East Asia concurs this by highlighting Amazon India's 300% year-on-year growth both in number of SKUs and sellers. But it underlines the beginning of aggressive competition among e-commerce players.

For online retailers, increased returns of merchandise by dissatisfied customers has become a concern. According to media reports, the return rate has gone up by 50% in one year. Sellers such as Amazon, Flipkart and Snapdeal have come together to create a fora such as eSuraksha and have even protested against some e-retailers by a putting large amount of SKUs out-of-stock.

A recent research provides interesting explanation of how a buyer's trust, satisfaction and intention to repurchase in an online retailing context are influenced by psychological contract violations (PCV). Businesses have guarded themselves legally with fine prints, but PCV could be critical for e-retailers, suggests my study published along with two other professors from the UK in the *Journal of Business Research* (June 2017). It provides evidence that a mechanism called Structural Assurance (SA) can mitigate the negative influence of PCV on trust and satisfaction, in cases where such violations can't be avoided.

Every buyer-seller interaction in the B2C online marketplace can be characterised by a psychological contract as online buyers are generally governed by their implicit understanding of the seller's transactional obligations rather than by explicit rules in legal contracts. Psychological contracts, unlike expectations, are based on perceived promises, and arise when one party believes that another is obligated to perform certain behaviours. They are much broader than economic and legal contracts, and comprise perceptual aspects that cannot be formally incorporated into legal contracts. There are four seller obligations—deliver the product in a timely manner by the promised method; deliver an item that is identical to the one described and shown in the ad; follow the payment policy promised and accept payment; and follow the conditions of sale and honour a return or refund promise. With concerns over logistics and payment, fulfilling these obligations becomes dicey.

Online retailers need to be mindful of adverse effects of psychological contract violation (PCV) & find ways to mitigate them

PCV is common in online marketplace because buyers and sellers do not engage at a personal level, have non-congruent goals, and may have different understanding of their respective contractual obligations. While a few e-retailers are mindful of this, PCV is central to buyer-seller relationships in e-retailing as online buyers' behaviours are mainly guided by their perceptions of psychological contracts. So, behaviours such as fraud, product misrepresentation, product delivery delay, failure to acknowledge guarantees, and refusal to follow payment policy could be common underlying sources of PCV in India.

Our research found evidences for negative influence of PCV on customers' intention to reuse a retailer's website, and that trust and satisfaction are the mediating mechanisms through which PCV negatively influences the intention to repurchase.

Having known the negative influence of PCV in retaining customers, e-retailers may try to bring down the incidence of such violations that need not be breaking legal contracts but breaching customer trust. However, despite all attempts, it may not be possible to completely prevent PCV.

SA refers to the degree to which consumers believe structures exist to promote the success of online transactions. Credit card guarantee, escrow services (PayPal), 'seals of approval', secure e-transactions, return/exchange policies and cash-on-delivery are examples of SA. In fact, Myntra's try & buy (T&B) is an interesting SA mechanism that is being adopted by e-retailers.

Therefore, it is vital for online retailers to recognise the role of PCV and safeguard customer trust. Also, investments in SA are paramount for preserving buyer trust in the online retailer when PCV occurs. This is important for Indian e-retailers and other emerging economies for two reasons—e-retailers are competing intensely for too few customers, and they are grappling with problems related to logistics and payment gateways that invariably lead to instances of PCV. Hence, e-retailers should conceive strategies for improving SA as perceived by customers.

Finally, investments in SA should not be considered a panacea, as our findings also indicate that its role in preserving buyer satisfaction is effective only when PCV is perceived as low to moderate. Therefore, e-retailers should pro-actively limit the incidence and magnitude of PCV to a minimum.

Real estate needs a 'real' push

Over Rs 10 lakh crore is held up in real estate projects

KK JALAN

Former Central Provident Fund Commissioner, EPFO, and Former Secretary, MSME

IN PUBLIC PERCEPTION, the real estate sector is notorious, to say the least. Rather, a lot of persons will not hesitate to use all the bad words for the sector because of the many murky deals and developments associated with this otherwise economically-crucial infrastructure sector. It is because of the way it has been allowed to function.

In most state governments, this sector was the egregious epitome of political and bureaucratic corruption. When corruption is the norm or the necessary ingredient for state largesse, things will have to go awry. Real estate players could not have improved the climate. It is though true that many of the players also concentrated on maximising their profits, even at the cost (perhaps cheating) of plot/flat owners (perhaps a better word is applicants since most never became owners!).

During the heydays, one could hear a number of incredible stories of rags to riches in the ensuing fashion. A so-called estate developer will go in for an agreement to buy a piece of land. On the basis of this agreement, he will sell plots or flats and gets money, usually more than required for buying the land. A part of the sum received will be used to take the requisite permission (licence). Usually, this person will sell the project, basically land plus licence, at this juncture, making a clean killing. He was nowhere interested in constructing and giving the plots or flats to the applicants (by the way, most of these applicants were also investors). The actual end-users, who were really second or third purchasers, usually have no agreement with the initial licence holder and thus the court case anyway was between second or third purchaser versus second or third developer. Most of the bureaucratic (police included) and political patronage was available to the latter with his deft art of greasing the palms where it matters to him! Wherever, though in a rare number of cases, the association of purchasers also became powerful to flex their muscles to get the needful done from the developers.

The period was such that it was almost criminal to think that land prices can go down at any point of time. Therefore, when it actually happened, the world changed to such an extent that there was no contingent planning by any stakeholder (the government, the politician, the bureaucrat, the developer, the licence getter, the investor, the purchaser) for such a scenario. The scenario, however, varied from state to state, depending upon the degree of opaqueness in the licensing methodology and the degree of corruption in the system. The worst hit was the end-user buyer of plot or flat who, in a large number of cases, had invested all his savings (and even borrowings) with the investor/second or third-hand developer and was not getting anything in return.

It is surprising but true that the government withdrew itself from the scene, thinking that the two warring factions will sort out the things at their own level. A few issues did get sorted out, though in the process the end-use purchasers suffered the major part of the cost of settlement. Finally, as problems started compounding, the government intervened, surprisingly on the pleas from developers or on the directions of the court. These interventions till date have been half-hearted and without taking the views and concerns of the ultimate sufferers, i.e. the end-user purchasers.

To cut the story short, it is not an option for the government not to intervene in the matter. The pain of end-users has become palpably unbearable. Courts have passed many orders requiring state intervention. It is difficult for the developers to face unruly crowds. There are job losses due to stoppage of construction and issues concerning non-payment of wages to the employees working at these construction sites have piled up. Also, micro and small enterprises which acted as suppliers and low-end contractors are stuck with all their money and have become desperate, and the dues of state governments are mounting. However, even in this scenario, most state governments are indulging in the die-hard policy perfected by them, which is plain rent-seeking; hence, no comprehensive policy could come up.

What is desired is that the state interacts patiently with all the stakeholders. The mainstay of the policy shall be to help the end-users to get their dwelling units and to see that the planning process of the state does not suffer. At the macro level, the aim should be to give a kickstart to the sector as such, which is required, as a large sum (more than Rs 10 lakh crore) is held up in such projects, and many industries and the Prime Minister's ambitious Make-in-India initiative is dependent on this sector. It has, however, been observed that the concessions being given or announced are not in the interest of end-user purchasers, but the developers' lobby.

The need of the hour is proper implementation of the Real Estate (Regulation and Development) Act, 2016. Unfortunately, many states do not give positive vibes while finalising the rules. The independence of the functioning of the Real Estate Regulatory Authority (RERA) has been compromised. Almost all states have taken over power to appoint the staff to these bodies. Their promotion is also with the approval of the state government. In such cases, it might become difficult, if not impossible, for RERA to deliver the results it is expected to deliver. Obviously, it will be impossible for even an ace swimmer to swim in turbulent sea with his hand and legs tied up. The selection of personnel as chairmen and members of RERA will also highlight the intentions of the appropriate governments.