

## BusinessLine

WEDNESDAY, NOVEMBER 6, 2019

## India, post-RCEP

India's move to 'exit' the deal was appropriate. It may lead to other countries sweetening their offer

India's decision to officially 'exit' from the Regional Comprehensive Economic Partnership (RCEP), at least for the time being, seems to have been the best course of action under the circumstances. The Prime Minister was right in observing that "opening the vast Indian market must be matched by openings in some areas where our businesses can also benefit." Indeed, as a NITI Aayog report and Economic Survey 2015-16 have pointed out, India's free trade pacts with ASEAN have widened the trade imbalance with these countries. Since India has FTAs going with almost all RCEP nations (the government has rightly agreed to review the ASEAN deal), signing RCEP would, in effect, have meant entering into an FTA with China, with some added benefits thrown in for the rest. A July 2018 Parliamentary Standing Committee Report on the impact of Chinese imports on Indian industry identifies unorganised retail, textiles, pharmaceuticals, solar panels, bicycles and firecrackers as badly hit sectors. Lax rules of origin (ROO) have led to Chinese imports

through third countries, as a result of which the \$90 billion or so trade deficit (which is 40 per cent of India's total trade deficit), may seem an underestimate. India's demand at RCEP that auto-triggers in terms of higher tariffs kick in after a certain threshold, and that ROO be tightened did not cut ice at the RCEP meets. It was under pressure to loosen its data localisation laws, while not being promised anything concrete on the services front. For a country with a huge market to offer, the terms ought to have been more attractive. An exit could prompt the RCEP countries, keen to tap into India's market, to reshape their offer.

The argument that free trade is a 'win-win' is true, provided the countries operate on an equal footing. As Surjit Bhalla (who led a panel that recently submitted its report on trade policy) has observed, India's economy needs to be competitive before it can take on the rest. A Make in India policy that promotes areas of excellence needs to be put in place, besides improving the business ecosystem. Logistics, contract enforcement and harassment by the State machinery are huge concerns. As for dealing with RCEP and others, India should seek investment in greenfield projects, replicating the automobiles success story.

However, the government could have managed its RCEP talks better. From offering a three-tier tariff structure, with 42.5 per cent of free tariff lines for China and above 80 per cent to ASEAN, and the rest in the region of 65-70 per cent, India inexplicably promised 80 per cent plus free tariff lines to all less than two years back. It did not help that the Centre remained wedded to secrecy all along, when it could have held all-party consultations. That would have led to a more consistent articulation of its position, saving the country this embarrassing about-turn on the global stage.

## FROM THE VIEWROOM

## Learning about the environment

The New Education Policy fails to shine much light on this subject

The draft National Education Policy 2019 (NEP), which was finalised recently, has suggested some significant changes in India's education system. While it covers various aspects, from medium of instruction to examination cycles, in detail, there's only a mention of a subject whose study is becoming more imperative: the environment.

It is obvious now that our future leaders are worried about the planet they will inherit. Children around the world, led by Greta Thunberg, are taking to the streets, demanding action from leaders to tackle the worsening environmental conditions. Environmental studies ought to be regarded with a new sense of urgency in the context of climate change and its palpable impacts. Deforestation and soil degradation pose existential dangers; it is no longer possible to regard environmentalism as some sort of fad. It ought to be at the centre of education in both science and social sciences. The draft NEP does mention integrating the subject in higher/professional education. And there has been progress earlier as well. In 2003, environmental education was mandated at all school levels by the Supreme Court. A great idea, which led to the birth of what students now know as 'EVS' (environmental science). Only, EVS teaching rarely goes beyond drawing diagrams of rainwater harvesting and how to — theoretically — prevent air pollution.

Environmental education should stimulate practical solutions. This does not just mean celebrating the student who took the initiative to build a water purifier, but enabling all potential planet-saving ideas to take shape in school itself — not put them on hold till engineering college. One can argue that this puts the burden of learning one more subject on the children; on the contrary, theories learnt in maths and science could be put to practical use in the new EVS to encourage interest, and also make it fun.

Though EVS has been a school subject for years, it has not been given the attention it deserves. The NEP could have addressed this and recommended solutions.

Dakshiani Palicha Sub Editor

## How the market reacts to policy changes

The stock market is sentiment-driven. Major policy changes should be eased into the system to avoid adverse consequences



GN BAJPAI

On May 17, 2004, the stock market went into a tizzy. The BSE Sensex and NSE Nifty fell by more than 17 per cent. This happened when the Indian economy was rolling at 8 per cent GDP growth, the macro- and micro-economic factors seemed strong, the corporate balance sheets were robust and the prospects for the coming quarters were encouraging.

The immediate cause was the election results, and the possibility of the UPA forming the government with the support of the Communist parties. While the fundamentals of the economy did not change, the sentiment had turned negative and market cap worth trillions of rupees was wiped out in just two sessions of the same day. It took months for the market to recover from the sensitivity shock.

## Market sensitivity

Recently, one of the top team members of the current government's think-tank — the NITI Aayog — made a public statement of a likely (definitive) change in policy with regard to the automobile sector. Even though the government's policy is still under formulation and it was only the voice of one think-tank member, 5 per cent of the market cap of auto manufacturers — including ancillaries — was wiped out.

This was over and above the impact of a significant contraction in domestic demand for new motor vehicles. Road Transport and Highway Minister Nitin Gadkari and Finance & Corporate Affairs Minister Nirmala Sitharaman had to hurriedly issue statements to control the damage.

The capital market is very sensitive. It responds to the known-unknowns as well as the unknown-unknowns. It's influenced by both fact and fiction. The intermediaries of the market are like birds, who discern the onset of a storm by the rustle of leaves and the whispering sounds of winds, and then rush for cover. The markets predict better than polls and other devices that are globally accepted (as stated by Wolfers and Zitzewitz, 2004). The efficient capital market hypothesis outlines that share prices fully and instantly reflect all information, fact or fiction.

The enterprise value of companies rises and falls more due to sentiments than by the fundamentals. If the market does not trust numbers, even those which are factually correct, the valuation of the company goes down and vice versa; the impact of sentiments.

The sensitivity of the market is the underpinning of an obligatory regulatory direction that every price-sensitive information has to be first announced to the market, so that all the participants are able to assess the likely impact on sentiments simultaneously and person/s privy to information do not inherit first-mover advantage. Pre- and post-market hours announcement is a well-merited concept.

The rationality of the market is often questioned. Morck, Shleifer and Vishny (1990) noted: "Fascinating as it may seem, the debate over market rationality is not as consequential, if stock prices do not affect real economic activity." We can debate till the cows come home about the rationality of the market or its consequences. That the capital markets are sensitive and market valuations have a pro-

portionate impact on the economic activity has a broader universal acceptance.



Direct effect The fact that market valuations proportionately impact economic activity is universally accepted ISTOCKPHOTO

portionate impact on the economic activity has a broader universal acceptance.

## Rising wealth effect

"Wealth effect" is an aspect of behavioural economic theory. It suggests that people tend to spend more as the value of their assets rises. The reasons for the change in the behaviour stems out of the increased confidence with a sense of reliability from the increasing value of wealth.

The rising wealth effect enhances the confidence to invest, spend, borrow and even take a risk. In fact, increases in consumer spending are directly correlated with increases in the value of stock portfolios.

Currently, the Indian economy is in a spot. The GDP growth has been decelerating quarter-on-quarter. The aggregate demand has substantially contracted. Equity indices are significantly lower. Global headwinds are strong. The geopolitical situation is nebulous. Oil prices are unstable. The Twitter posts of US President Donald Trump periodic-

ally add fuel to the fire which is melting the pot of the global economy.

A number of sectors and a large number of balance sheets are in distress. The entrepreneurs are finding it hard to pool in additional risk capital. The Centre has been at pains to announce 'whatever it takes' kind of measures to resurrect the economy. The impact, in particular of the once-in-decades (pleasant) surprise reduction in corporate income tax, has cheered the sentiments and stock price indexes have nearly wiped out all the past losses. A positive mood has been ushered in. The corporate voices are laudatory.

The decrease in the stock prices of a company and/or a sector has a negative wealth effect and adds to the challenges of raising resources. A number of entrepreneurs have pledged their holding to raise resources. They are receiving calls for margins and/or find their stocks being sold. The stories of sale of shares by the pledgees are resulting in disastrous consequences for entrepreneurs and enterprises are being

reported almost every day.

A policy change can wreck the organisational design, business model and/or revenue structure of an enterprise or the industry as a whole. The inevitability of policy changes in a dynamic environment needs no debate. However, a change in policy or its stance has to be well graduated and its pronouncement sagaciously calibrated. Premature announcements, if ever necessitated, should be well thought-out and made with a clear understanding of the positive and negative impact on a segment and/or the market as a whole. And depending upon the broader environment, it has to be well-timed. Self-goals must be avoided in such a scenario.

There may be a need to test the waters by voicing the eventuality of changes in policy and/or stance. However, such endeavours have also to be crafted well. Policymaking and execution apparatus should be alive to the market sensitivity.

The writer is former chairman of SEBI and LIC

## WhatsApp hacking: The lessons to be learnt

The security implications of the breach are daunting. It is important to invest in tech that prevents unauthorised surveillance

SUBIMAL BHATTACHARJEE

Possibly one of the biggest stories that broke in cyberspace recently has been WhatsApp's reports that 1,400 of its users were hacked by Pegasus, a spyware tool from Israeli firm NSO Group. A significant number of these Indian users include journalists, academics, and human rights/Dalit activists. Further, the timing of such a surveillance — late April to mid-May — rakes up another set of worries about the motive behind the hack.

While WhatsApp has taken the NSO Group to court, India's Ministry of Electronics and Information Technology (MeitY) has in turn issued a notice to WhatsApp and its parent company, Facebook, to explain the privacy breach in detail. For now, the NSO Group has washed its hands off the matter, saying that it sold the spyware tool to governments only, but it definitely cannot escape a larger responsibility.

## Encryption override

The pertinent questions are, who is behind this surveillance and hacking incident; and has this intrusion

of privacy reached a level that has not been fathomed by the legal and technical communities?

Stretching this further, is this a vulnerability ignored by WhatsApp's management? Clearly, the potential revelations are worrying a large section of social media users about the confidentiality and integrity of the networks, which is the basis of trust for most users who prefer WhatsApp over other messaging platforms.

Security and privacy breach apart, the possibility of an external surveillance code like Pegasus overriding the in-built end-to-end encryption that WhatsApp features generates more fear and affects users' trust. At the same time, the NSO Group's claim about only working with specific security agencies across the world brings to the fore questions about the role of such agencies, and whether they are operating beyond the purview of the existing laws in their respective countries.

WhatsApp's legal recourse against the NSO Group might show its tactical response, but the larger strategic focus should be on plugging the apparent holes in the soft-



Must keep snoopers at bay REUTERS

ware and reassuring its users. Particularly, the fact that Pegasus was able to override the end-to-end encryption should be investigated. As recent as July this year, the global head of WhatsApp had reiterated the integrity of this encryption to IT Minister Ravi Shankar Prasad, even as the latter — and MeitY — have been following up for access to WhatsApp data for law-enforcement purposes.

There is a lot of work to be done by WhatsApp, as well as many other popular social media platforms, since they are also reported to be vulnerable to the Pegasus' same exploit code.

Clearly, this issue should also be taken up by US regulators (as WhatsApp and Facebook fall under their

jurisdiction), to ensure the world that such platforms remain safe for usage by individuals across the world.

## Global cyber cooperation

The other angle to this whole episode is the role of the perpetrators behind the hack. With access to technology increasing, networks can be intruded from any part of the world provided the encryption can be broken.

Since this attack involves users from a quite a few countries, there is a greater need for global cooperation for a concerted and coordinated investigation. This incident has called attention to the lack of a global agreement for cyber security cooperation, as well as the problem of precise attribution in cyber security investigations.

At the same time, the offering of products such as Pegasus and their misuse or proliferation has the same, if not more, ramifications as advanced nuclear technology falling into the wrong hands.

Some in India have been quick to jump the gun and blame the government and its 'snooping' networks. But, that is definitely not

proven to be the situation yet, and both the MeitY and Ministry of Home Affairs have clearly said they played no role and did not instruct surveillance on any of the Indians who have been the targets of this malicious attack. Also, any form of online interception, monitoring and decryption are well defined as per the provisions of the Information Technology Act 2008 (IT Act) and the concomitant rules set therein.

As it is evident that the current set of attacks — at least in the Indian context — has not been authorised by government, this is a clear case of wilful hacking whose proportions entail it to be seen as a cyber terrorism attempt; it calls for application of Section 66 (F) of the IT Act to deal with the perpetrators.

Social media providers must also start investing in attribution solutions and be honest with users about the risks involved in their products. Needless to say, a relook at laws, technology and ethics is needed, preferably sooner than later.

The writer is a former country head of a defence multinational

## LETTERS TO THE EDITOR

Send your letters by email to [bleditor@thehindu.co.in](mailto:bleditor@thehindu.co.in) or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

## Reviving the economy

This refers to the editorial 'Core problems' (November 5). The fall in the output of core industries exemplifies the need for optimising the utilisation of the installed capacity in the sector. The continuing litigation against units in the power generation and transmission, manufacturing and infrastructure-related sectors by financial institutions for the resolution and recovery of the elevated bad assets is affecting job creation and income distribution.

Although the government is enforcing reform measures, yet the impact is not adequate enough to propel economic growth. While the rural population is predominantly engaged in farming, their demand for goods and services is invariably dependent on the disposable income generated from their vocation. The excess monsoon in many parts of the country has affected production at

a time when the farmers are yet to recover from the hardships of the past droughts. The Central and State governments have to look for more effective reforms to enhance the income of the farmers and, thereby, spur consumption demand for goods and services.

The bad assets crisis in the banking sector is also contributing to the dismal performance of manufacturers and enterprises engaged in infrastructure activities, more particularly MSMEs which are still to get over the impact of demonetisation and GST. The government must execute measures for ensuring the resolution and recovery of bad loans within the timelines stipulated.

The capacity of NCLTs needs further strengthening. Although India has decided to keep out of the RCEP pact to protect our trade, commerce, and agriculture from possible dumping of goods by the other member-countries, it is im-

perative to strengthen the efficiency and competitiveness of our industries to boost the sluggish export sector. Holistic reforms are required to push the economy towards growth and development.

VSK Pillai  
Kottayam

## Glaring wage gap

The most alarming finding in 'Is public employment moving in the right direction?' (November 5) is the glaring gap between the wages of male and female workers in public employment in rural and urban areas. While the wage gap in regular jobs is huge, the wages in public works are too low for both genders and the wage gap is as high at 44.1 per cent.

It is inequitable and regressive in terms of social impact. Women in rural areas do much more work than men on the job, plus they have to cater to the family needs too. They wake up early in the

morning and go to bed late in the night. The low wage is in conflict with the government policy of 'save daughters, educate daughters'.

YG Chouksey  
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## Staying out of RCEP

Apropos 'India refuses to sign up for RCEP...' (November 5) on the ground that its core concerns remain unresolved will be welcomed by domestic industries and agriculture. By not joining the global forum that accounts for 39 per cent of global GDP, India would prevent the inflow of tariff-free goods from the member-countries which could hurt our domestic industries. The RCEP nations keeping the gate open for India's entry shows that they are keen to tap our huge market. Since the core issues have not been resolved and India is already part of a number of free trade agreements

that are not yielding any benefits and only augmenting the trade deficit, the decision not to join the RCEP is sensible.

NR Nagarajan  
Sivakasi

## A wise decision

India refusing to sign up for RCEP is a wise step. Though the RCEP is formed by some 15 countries, they have not properly assessed the impact of joining the group on economies like India. The pact would be more beneficial to smaller economies and the significantly developed ones. In the case of India, those employed in the MSME, agriculture and dairy sectors will be badly affected by huge quantities of goods that are likely to flow in from member-countries duty-free. India's decision not to sign the RCEP has saved the country's vital sectors.

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