INSIGHTS

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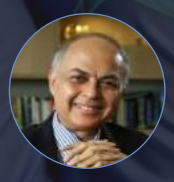
RE-IMAGINING A POST COVID ECONOMY

Webinar excerpts from industry experts

Pindar Wong
Internet Pioneer, Former Chairman of ICANN



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THE REAL GOLD OF CYBERSPACE

Cryptocurrency could create a transparent, decentralised medium of exchange, challenging the very concept of sovereign fiat currency

PINDAR WONG is an Internet pioneer, who co-founded the first licensed Internet Service Provider in Hong Kong in 1993 and is the Chairman of VeriFi (Hong Kong) Ltd., a discreet Internet Financial Technology infrastructure consultancy. He chairs the Internet Society's Blockchain Special Interest Group. Previously, he was the first Vice-Chairman of ICANN; Chairman of the Asia Pacific Internet Association; alternate Chairman of Asia Pacific Network Information Center; Chairman of APRICOT; Commissioner on the Global Commission on Internet Governance; and elected Trustee of the Internet Society. From 2010-2015, he served on the Digital 21 Strategy Advisory Committee of the Hong Kong Government and the Task Force on Industry Facilitation.

Pindar Wong was the key speaker at the 11th Synergia Foundation webinar 'Digital Fool's Gold? Cryptocurrencies and National Insecurity', moderated by T.M. Veeraraghav and Megha Vishwanath (Technical Editor, CNBC).

A cryptocurrency is a digital asset that functions as a medium of exchange. Individual ownership records are stored in a digital ledger or computerised database (blockchain) using cryptography to secure these transaction entries. This also allows to control the creation of additional digital coin records and to verify the transfer of ownership. It does not exist in a physical form (like paper money) and is not issued by a central authority. The crux of cryptocurrency is that it is based on a decentralised network of all users who are involved in dealing with cryptocurrencies.

In the original whitepaper by Satoshi Nakamoto (developer of the bitcoin), the use of terminology like 'coin' and 'wallets' suggested that the developers attempted to use this as a substitute for the direct transfer of cash for payments or other financial assets. This had the added advantage of affording transparency to the process of transfer, along with privacy from more centralised institutions.

There are two main features about cryptocurrency which distinguishes it from sovereign currency. One, it focuses on a network rather than the usual geographical perspective of transferring value. People all over the world, if linked to the bitcoin network, can trade with each other without the need to be present in the same country. On the other hand, in traditional credit systems, an exchange takes place when people are in the same geographical location and have the same currency to exchange.

Second, cryptocurrency is both transparent and private, while traditional credit systems come under a centralised regulator and are at best opaque to all but the state regulator. Digital currency claims transparency in the sense that it is being based upon an open-source network allowing wider participation. However, bitcoins are created only when the previous transactions have been validated and approved.

ARE CRYPTOCURRENCIES HERE TO STAY?

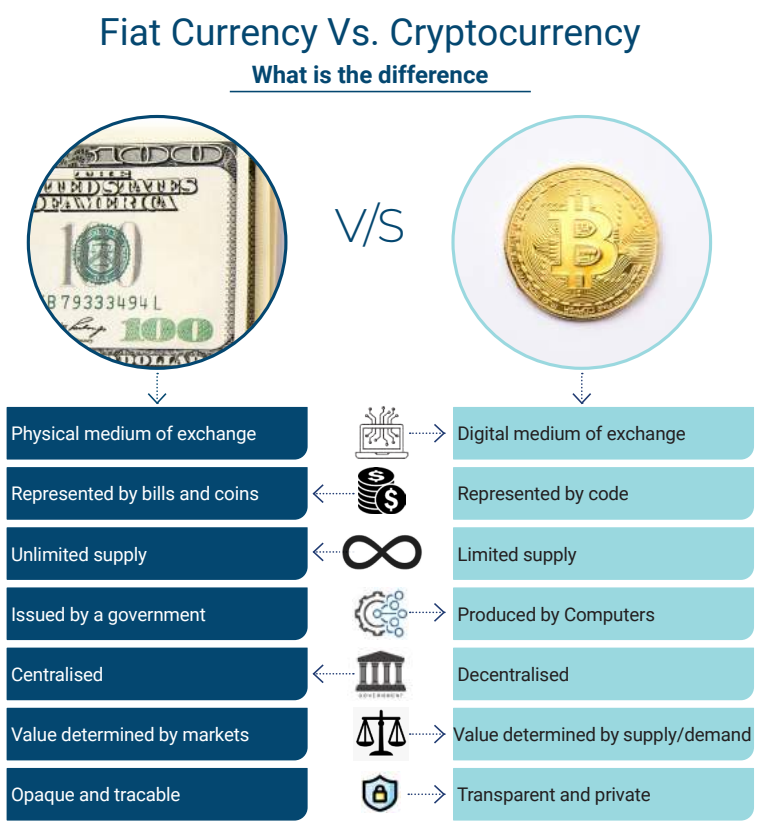
Cryptocurrencies have grown over the years. Close to 180 are accepted by the U.N, and by 193 countries. Technological companies like AliBaba (AliPay) and WeChat have introduced their own cryptocurrencies in China. Facebook is also considering Libra, although the currency and network do not yet exist, and only a basic experimental code has been released.

The congruence between digital technology and currency has given rise to a new sector -- the 'techfin' -- where new digital platforms with a network-centric view are being created for use across borders. This could disrupt the prevalence of conventional fiat currencies, although there is no threat of a total replacement, as yet. Forex continues to dominate with over US$5 trillion transactions a day in comparison to US$ 270 billion of cryptocurrency.

Assuaging the concerns of decentralised cryptocurrencies, Mr. Wong called it a case of censorship resistance, i.e., once you submit a transaction, it will be processed without judgement. However, the transaction is hard to track. With networks like the SWIFT system in the U.K., there could be political policy objectives that may arise. From the states regulators' perspective, it is all about losing control.

CENTRAL BANK DIGITAL CURRENCIES

Due to the growing popularity of cryptocurrencies, governments have started experimenting with Central Bank Digital Currencies (CBDC). These would be digital forms of fiat money. The central bank of Sweden is the closest to consider its implementation through its e-krona initiative. China has introduced its digital currency in a centralised manner called the eRMB. These forms, however, move away from the basic libertarian idea of cryptocurrencies, where anonymity allows people to buy and sell without leaving a digital trail. CBDCs by themselves are not really cryptocurrencies. There is the question of whether CBDCs could themselves be destabilising through the digitalisation of fiat currencies since it turns a geographical view to an electro-centric one. Unlike onshore and offshore trading, it would be part of a network now.



Source: Synergia Foundation

Since currencies are programmable, a prime concern is their weaponisation, such as the USD in Hong Kong, warned Mr. Wong. There needs to be a combination of traditional regulators with digital currency electronic payments, which is where CBDCs could be successful. This can be seen through People's Bank of China's (PBoC) attempt to set up their digital currency payment as an experiment against the two prominent modes of payment in China right now - AliPay and WeChatPay. When it comes to the question of privacy, the transactions could be private between users, but not from the Centre. Privacy is also something that needs to be properly defined. Other concerns are how to manage taxations and other monetary tools like capital controls, money supply, and interest rates, as well as financial crimes such as money laundering, tax fraud, and financial irregularities.

THE FUTURE

Countries have the option to accept cryptocurrencies or ban it. Central banks feel threatened by cryptocurrencies because they are not used to competition, and fear the unknown. Value is stored in currency, and it is a medium of exchange. Bitcoin has survived so far. Rather than looking to ban it, there is a need to understand it, and how it could interact with the economy. It is a meandering road because it is still in development, but could win in the long term.

> **"The root problem with conventional currency is all the trust that's required to make it work"**
> *- Satoshi Nakamoto*

As regards the longevity of cryptocurrency or CBDC, Mr. Wong recalled a fitting Chinese proverb, '*Real gold doesn't fear the test of fire*'. So the question is, what is that fire?

ASSESSMENT

- *The main attraction of a digital currency stems from the possibility that it allows the settling of international payments without involving the US dollar. While reservations about cryptocurrencies stand valid, a state-backed digital currency may go a long way in yielding good economic results*
- *Thanks to COVID-19, a decline in cash usage has taken place, and this may be the most opportune moment for cryptocurrencies to flourish. The need for cashless transactions was never felt more*
- *This is another area where China is the frontrunner. The Chinese CBDC is poised to play a major role in furthering China's Belt and Road Initiative by implementing 21st century trade parameters to it. Payments, both from and to China, with other countries will become direct and controlled by the PBoC once it fully resorts to the e Rmb*

Source: Synergia Foundation

THE CASE FOR SOVEREIGNTY IN CURRENCY

The push towards cryptocurrency is gaining ground. Can it replace legal tender?

Bitcoin was the original cryptocurrency when it was created by its pseudonymous developer Satoshi Nakamoto in 2009. More than a decade later, with almost 5,500 cryptocurrencies in existence, the controversy around its usage as a fiat currency rages on.

The Reserve Bank of India banned trading in cryptocurrency in 2018 to curb the "ring-fencing" of the Indian financial system. Its argument was based on the virtual form of Bitcoin and other cryptocurrencies and the fact that the government had not "stamped" them. Giving its judgment on a petition filed by assorted interest groups, including the Internet and Mobile Association of India, in March this year, the Supreme Court overturned the RBI ruling. Since then, the crypto market has gathered momentum. But throwing a spanner in the works is a proposed Bill (that is now under inter-ministerial consultations) that could kill the market and may make dealing in cryptocurrencies a criminal offence.

There is ambiguity with respect to cryptocurrencies in the U.S. Laws governing transactions in cryptocurrencies varies from state to state as also the very definition. The Financial Crimes Enforcement Network, while permitting their exchange as money transmitters, does consider them as legal tenders. For the Internal Revenue Service (IRS), cryptocurrencies are property to be separately taxed. The Commodities Futures Trading Commission allows them to be traded publicly as "a commodity". Bitcoin is legal in Japan, the U.K., Canada, and most other developed countries.

Countries are considering the use of Central Bank Digital Currencies (CBDCs) to fine-tune the usage of digitised money. These digital forms of fiat money are fundamentally different from cryptocurrencies as they are centralised and can be regulated. The central bank of Sweden is the closest to consider its implementation and has started testing technical solutions for its e-krona this year. China has also stepped up its development of the e-RMB, which is going to be its digital currency. CBDCs are simply digitised forms of currencies, thereby not as volatile as cryptocurrencies.

WHY THE RESISTANCE?

Pindar Wong (former chairman of ICANN), speaking at a Synergia Foundation webinar said the decentralisation of cryptocurrencies is what draws the suspicion of established state-controlled central banks. The fact that it is steered by all those who are participating in it, and the lack of authority of the central bank to regulate it, the way fiat money is, has inhibited central banks from giving their approval. The central banks are concerned, naturally enough, that if it becomes impossible to track currency ownership and transactions, the entire currency system of a nation could be jeopardised.

SOVEREIGN CURRENCIES VS CRYPTOCURRENCIES

Bruno Le Maire (former diplomat and now France's Minister of the Economy and Finance) questioned the overrated emphasis on the concept of sovereignty while dealing with cryptocurrences. He wrote in the Financial Times: "*When 11 countries in Europe joined the Euro in 1999, they freely relinquished their national currencies. They didn't just say yes to a new currency as a medium of exchange; they consciously decided to transfer part of their sovereignty to the European level.*" However, the U.K. refused to toe the line and hung on to the venerable pound.

Currencies often serve as a medium of national communication in many ways. Before the advent of national currency, there was an assortment of mediums of exchange for business transactions. One country had multiple circulating currencies in different towns and regions. National currencies joined erstwhile geographic and social barriers to create a combined experience of trade and economy. François Gianviti, the former General Counsel with the IMF, in one of his many publications, highlights that the central bank's right to issue currency allows it to conduct the country's monetary policy. Nations have continuously monopolised currency through the 19th and 20th centuries (the European Monetary System and the Central African Monetary Unions) and they have had the chance to use the currency as a way to achieve state goals, both economic and political.

Legal tender, or fiat money, rests heavily on the trust that being the sovereign legal tender, its usage will be backed by the modern state and its laws.

Academics Unwin and Hewitt, referenced in Currency, Identity, and Nation-Building: National Currency Choices in the Post-Soviet States, sum up the case for currency as a sovereign identity. "Paper money is therefore not only a way of reinforcing internal cohesion and identity, but it is also a way of depicting that identity to the outside world in a very tangible and often beautiful form."

With cryptocurrencies, however, this is not the case. Mr. Pindar Wong opined that the meaning of money was getting unbundled, which was bound to put a few people on guard. Cryptocurrencies fail to generate a national identity – they lack the tinge of nationalism and ownership and a sense of participating in the national economy. Cryptocurrencies are a means for wealth accumulation without any geographical or sovereign limitations. This dissonance, however, does not have to be a bad thing.

CRYPTOCURRENCY NETWORKS

Since cryptocurrencies are network-centric rather than geographical, it is bound to change the way people access money. It would allow anyone on the network to perform transactions with another, irrespective of their respective locations. This is what Facebook plans to do with its Libra project.

According to an article by WIRED, roughly 2.7 billion people use Facebook, along with its products WhatsApp and Instagram. If all these people are to adopt Libra as their primary medium of exchange, it would then be used by almost a third of the world's population, which is a whole country by itself. There would then be a new financial system, overseen by no government.

ASSESSMENT

- *What the future holds for cryptocurrencies is yet to be seen, but it could change the way monetary policies function. What is certain is that cryptocurrencies are going to be around for a while, illegally or legally*

- *The world is still far from its Utopian dream of being one large global village. Whatever may be the advantages of using blockchain to resolve day-to-day issues, government control over central currency remains critical to the financial well-being of a state. Cryptocurrencies would operate with very little state supervision. The question arises, during times of financial hardship, who will take the decision to print more currency to tide over the situation?*

- *Vesting the power of monetary policy in a private player has never been experimented with, and would perhaps change the way countries form their policies*

INSIGHTS
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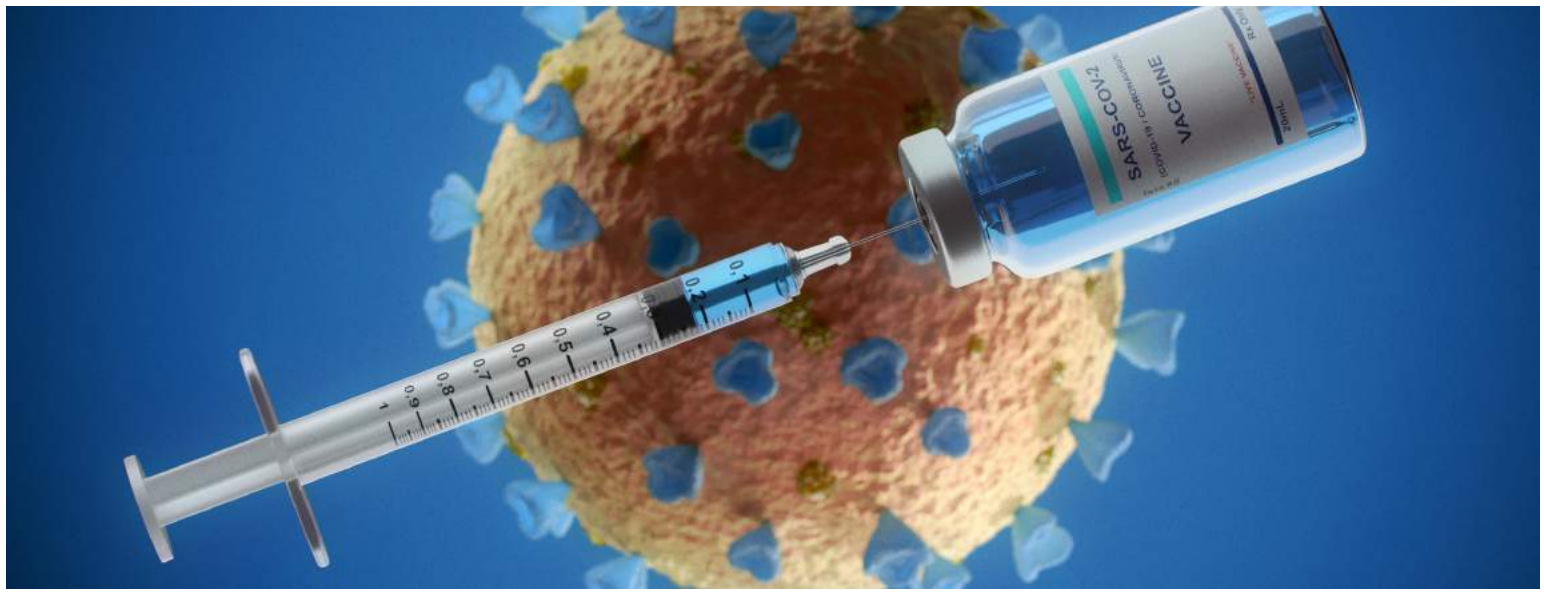
'PHARMA, THE WHITE KNIGHT OF THE PANDEMIC'

COVID-19 has thrown up challenges and opportunities to pharmaceutical companies. Will they rise to the overriding need efficiently and humanely?

RANJIT SHAHANI began his career with Imperial Chemicals Industry in India, where he later became General Manager responsible for the Asia Pacific and Latin America. He was later CEO of Roche Products, followed by a stint as Managing Director and Vice-Chairman at Novartis India Ltd. Shahani was President of the Organisation of Pharmaceutical Producers of India till 2013 and is presently the President of the Swiss Indian Chamber of Commerce India.

He was a participant in the 10th Synergia Foundation webinar that focused on 'Reimagining industry in an asymmetric, post-COVID world'.



Anticipating a flood of causalities in the coming campaigns, President Franklin D. Roosevelt very early on during World War 2 called upon pharmaceutical companies to produce a "miracle drug" that would save wounded GIs. Nineteen companies volunteered but it was Pfizer whose fermentation process to create penicillin was finally approved. Pfizer was to ship close to 90% of the penicillin used during that war.

Today, a similar race for a vaccine is being witnessed. It is reported that 159 vaccines are in the development stage. Of these, two are in Phase 2 trials (dose-testing in humans), five in Phase 1 to 2 (safety and efficacy trials) and four in Phase 1.

As regards an antiviral drug specifically to tackle COVID 19, around 69 drug candidates have been shortlisted, of which 41 are either already approved by the U.S. Food and Drug Administration or are currently in clinical trials for other uses. So far, Gilead's Remdesivir, a broad-spectrum antiviral medication is the frontrunner and is already in use on patients with severe symptoms in the U.S. and Japan.

TAKING A PROACTIVE STAND

Pharmaceutical companies have been extending a helping hand to consumers facing economic difficulties in accessing critical medication. Eli Lilly, a U.S. company, has offered support to many insulin-dependent diabetics whose loss of income has left them unable to access life-saving medication.

The Indian government took proactive measures to avoid supply-chain disruptions in the pharma industry. To monitor transportation and delivery of essential commodities in real-time, the Department for Promotion of Industry and Internal Trade (DPIIT) set up a control room with the respective state drug controllers providing operational data on a daily basis. "*There's a lot going on in this space [pharma], which will hopefully give some succour. Indian companies have upscaled their manufacturing for HCQ, clinical trials for which are still going on to see its usefulness; there are companies which are producing re-purposing medicines to see whether they can help in COVID. There's a lot of creative work going on,*" say Shahani.

THE MANY LAYERS OF DRUG MARKETING

One major issue is the licensing protocol for newly introduced drugs. Recently, Gilead's Remdesivir was sanctioned the 'orphan drug' status by the U.S. Food and Drug Administration, which was quickly revoked due to severe criticism.

The 'orphan drug' designation is granted in situations where the disease affects fewer than 2,00,000 patients whereas in the U.S. far more people have been infected by this virus. This status comes with seven-year market exclusivity to the company, which means Gilead would have had an exclusive right to manufacture and market the drug, giving it a monopoly.

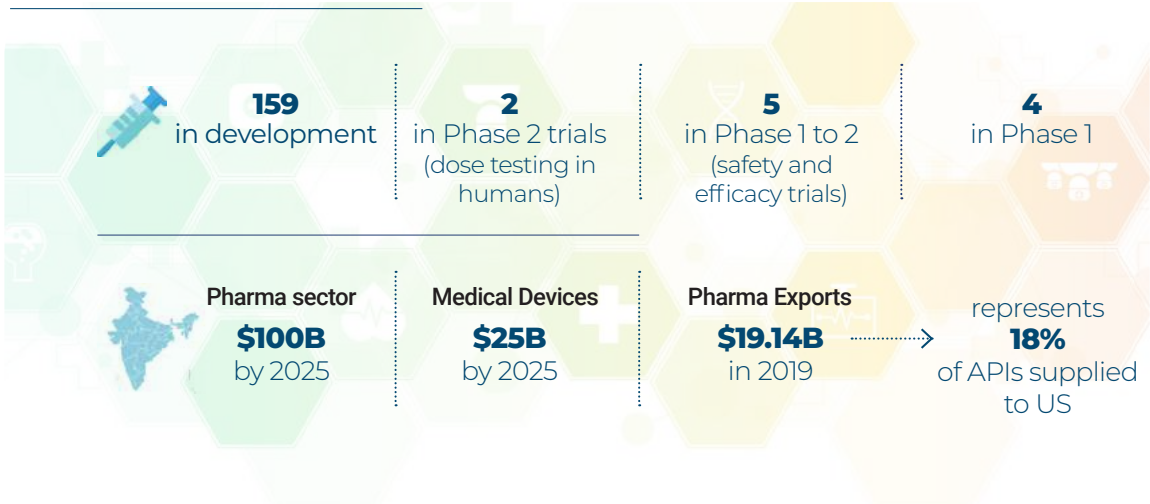
'Doctors Without Borders' has urged global leaders to accord patents to privately developed COVID treatments to "ensure availability, reduce prices, and save more lives." Creating a vaccine for a virulent virus like COVID-19 is extremely hard work, and ensuring it is accessible to all will be even harder. Shahani succinctly explains the dilemma. "*Access has more than one dimension. People focus on it only in relation to price. Access also relates to availability and quality. You may have the product but not the right quality, then that's poor access.[...] Now, either the government does the research, and a pharma company does the manufacturing to distribute it. But if you are a listed company, and you are my shareholder, then you'll want a reasonable return on the investment. This is always the challenge. Americans pay the highest amount for innovative products, followed by the Europeans where the pricing is 20-30% less than the U.S., followed by Asia where the price drops by around 50%. When it comes to India, it is one-fifth of the pricing sold globally. Yet, we have six hundred million people here who have an income of about two dollars a day or less. Now, that's the challenge. One way is to distribute these through government outlets, like ration shops. The government can buy these in bulk and sell it to them or give it for free.*"

THE API CONUNDRUM

Sourcing of active pharmaceutical ingredients (APIs) for drug manufacturing became a serious issue once the supply chains from China collapsed suddenly. The Indian pharma industry has a dependency of over 70% for API from Chinese suppliers. The prices of most of the APIs have risen sharply.

In March, the Joint Drugs Controller of the Central Drugs Standard Control Organisation (CDSCO) had to step in with a package to replenish the API industry. In fact, in 2014 the present National Security Adviser Ajit Doval had warned that India's dependence on China for APIs could be a national security threat. Shahani cites the example of Switzerland, which follows a rule of maintaining a two-year stock of critical supplies. *"79% dependency on one country, China, is just not on,"* he says. In sum, Shahani feels that there is great opportunity for the pharma industry in coming times. He says, "*Pharma is going to be the White Knight as we go ahead*"

Race for a Vaccine



Source: Synergia Foundation

ASSESSMENT

- *The fear of pandemics will ensure that health care would emerge as a singular focus for both rich and poor nations around the globe. Health care, while becoming a global public good, will ensure soft power, influence and greater commercial outreach to countries which have a flourishing pharma industry, coupled with comparative medical expertise. On both counts, India scores high*
- *Post-COVID the Indian pharmaceutical industry has the potential to expand both regionally and globally, by investing more in R&D and supporting research in Indian medical colleges and institutions*
- *The devil of the API dependency has to be overcome first. Development teams must start research from basic chemicals upwards and not from advance intermediates, and give impetus to in-house manufacture of APIs. In this, government support would be critical through tax sops, dedicated zones for chemical industries and fast-tracking of environmental clearance*

CHANGING BEHAVIOUR AND RISK IN INSURANCE

The pandemic has spurred insurance companies to have a much broader view of 'threats' and to sensitise themselves to the changing lifestyle of customers

TAPAN SINGHEL, MD & CEO Bajaj Allianz General Insurance, began his career with the New India Assurance Company Ltd. He has been working with Bajaj Allianz since its inception in 2001 and has been involved in various international projects. He has to his credit multiple accolades, including the 'India's Most Trusted CEO' award by WCRC Leaders Asia in 2017 and 2018 and the 2019 'Personality of the Year' by the Asia Insurance Industry Awards.

He was a distinguished speaker at the 10th Synergia Foundation webinar on the 'Reimagining industry in an asymmetric, post-COVID' where he talked about consumer behaviour and risk-taking in the wake of the pandemic.

As the lockdown gradually eases in different parts of the world, businesses and organisations are slowly and unsteadily struggling to reach pre-COVID levels of economic activity. In the face of the dire financial landscape, and perhaps tragedies due to deaths from the virus, people are now looking to insurance companies to make good their promises. Both industries and consumer behaviour have been altered by the economic meltdown, and insurance companies are faced with new challenges. Insurance coverage will entail a fresh outlook in evaluating and mitigating risk and making informed decisions in order to meet the aspirations of their policyholders.

ADAPTING TO CHANGING CONSUMER BEHAVIOUR

The pandemic has fundamentally changed the way the world works, in just a few months, including how people live and think. The changes in lifestyle and habits have long-term implications for the market and industries. Instead of brooding on the negative ramifications of the pandemic, Mr. Singhel views it through the prism of endless possibilities and opportunities for change and growth. "*In Wuhan, I think the sale of private vehicles went up after the lockdown eased. People want to use private vehicles; nobody wants to use public transport anymore,*" he says. China is home to the world's biggest car market, which was paralysed by the pandemic-induced economic freeze. According to the China Automobile Dealers' Association, about 99% of China's auto showrooms were back in business as of April 3, and consumer traffic was back at about 66% of normal levels. Anecdotal evidence points towards safety concerns driving this renewed interest in private car purchases, as public transport is no longer considered safe.

Consumer preferences across the world are being transformed. Transactions have moved online, with people increasingly relying on online services for financial transactions and essentials. Non-essentials/luxury products have taken a hit as customers remain obsessed with COVID-related essentials — hygiene, sanitation, cleaning, and staples. People are once again buying local, patronising small corner shops as a matter of routine. Understanding this shift in consumer behaviour, the market has to be sensitive to their emotions in these trying times, "*going that extra mile to be with them [customers]*".

RISK MITIGATION IN A POST-COVID WORLD

With crises and natural calamities turning out to be regular occurrences, insurance covers are becoming increasingly important. It also calls for individuals as well as businesses to reassess their risk exposure, to better protect themselves against unforeseen losses and financial distress in the future. But, do individuals and businesses invest in insurance covers in the wake of disasters? Based on previous experience, Mr. Singhel was of the view that people generally consider insurance to be a cost rather than an investment.

"*The human brain is not wired to see risk; otherwise, we would be staying in*," he added. Recalling his experiences post the 2015 Chennai floods, Mr. Singhel said the conversation about insurance takes place while a disaster, natural or otherwise, is already taking place, and there is a dip in interest as soon as normalcy is restored. However, there could be a shift in attitudes with the COVID-19 crisis as the damage caused has been rather drawn out, with immense losses and prolonged distress.

Today, the world is interconnected like never before, with events crossing the oceans at an unparalleled pace. Industries have moved online, employees are working from home, and the majority of work is being done remotely. With these changes, new risk factors come into play, like cybersecurity.

With the dependence on digital platforms, there has been a spike in cybersecurity threats, with a reported rise in phishing attacks, malspams, and ransomware attacks. These threats are prompting insurance companies to match their pace with evolving risks. Organisations are in the process of reviewing their cyber risk management measures, remote work processes, and downsizing to save costs.

On the brighter side, the massive changes taking place now could be great opportunities to transform industries to become more resilient in the future and emerge stronger than ever before.

Changing consumer behaviour

A new normal

Pandemic has fundamentally changed the way the world works

Customers obsessed with COVID-related essentials — hygiene, sanitation, cleaning, and staples

People increasingly relying on online & digital services for financial transactions and essentials

Customers obsessed with COVID-related essentials — hygiene, sanitation, cleaning, and staples

90% employees WFH during lockdown

65% employees WFH in metros

35% employees WFH in small towns

Changes in lifestyle and habits have long-term implications for the market and industries

Source: Synergia Foundation

ASSESSMENT

- *Industries could use their experiences from the COVID-19 crisis to evolve for the better, by studying altered consumer preferences and purchase patterns. Online marketing of insurance will grow in importance as customers will increasingly prefer online channels to enquire, assess, interact, and buy insurance, just like other necessities of life. Insurance providers will have to upgrade their systems to meet consumer preferences and invest in state-of-the art digital capabilities*

- *Innovation is the route to survival in the new realities. Insurance companies have to play on fears of pandemics that are here to stay, by encouraging individuals and businesses to invest in pandemic covers and business interruption (BI) covers*

- *Corporate boards and risk management teams need to keep reviewing external as well as internal risks to stay a step ahead and be prepared for potential and unannounced risks*

INSIGHTS
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RE-IMAGINING INDUSTRY POST COVID 19

The pandemic brings challenges and opportunities for pharma companies provided they are ready to face up to them

PRASAD CHANDRAN is an Indian businessman who has been at the helm of 12 different companies. He served as the Chairman of the Board and Managing Director of BASF India Ltd. and associate Chairman of BASF Asia Pacific (India) Pvt. Ltd. To pursue his interest in Nation Building, Prasad Chandran opted to superannuate after 37 years of corporate life and founded SEEGOS, a Social Enterprise which acts as a platform for volunteers from the corporate sector, government organizations, educational institutions, social groups to work together to help India become a Developed Nation in the next two decades. He also serves as the Co-Chairman of the National Committee on Chemicals and Petrochemicals of the Confederation of Indian Industries (CII). He is actively involved through TERI with the National Action Plan on Climate Change, and currently heads the Industry Task Force for Sustainable Agriculture and Green India. ***He was speaking at the 10th Synergia Webinar focused on "Reimagining industry in an asymmetric, post-COVID world".***

The chemical industry is the crux of most industries - general chemicals, speciality chemicals, petrochemicals, chemicals used in agriculture, chemicals used in medication, etc. In India, however, the chemical industry was closed down during the Pandemic as it is not classified as an essential sector. This, while chemical factories in the USA, Germany, Japan, and China continued manufacturing.

Indian manufacturers were unable to produce, even if allowed to operate, as their employees were unable to commute due to the total shutdown. Further, essential raw marterials were stuck along the highways, either at state border checkpoints or in trucks abandoned by their drivers.

There is no 'work for home' option in any manufacturing sector. The only way out is to ensure all workers are equipped with essential PPE items and the work floor is re-designed to ensure social distancing or allowing staggered shifts to minimise contact. Post-COVID, we could also see the increasing use of technology in production where human intervention is not necessary.

Mr. Prasad opines that with the opening up of the industry, "*management has to have two sets of teams. One team looks at the here and now, the immediacy of the issue and the other team looks at the long term, opportunities and solutions*." This would help highlight clearly short term goals and long term goals for the company while keeping in mind the background of the pandemic. The short term group would be focused on upstream suppliers and downstream distributors and how to create alternate supply chains, while the long term team could focus on how to turn the sector into an alternative market to China for countries like the US, Australia, and Europe.

AGRICULTURAL CRISIS

India has been fortunate that it's food supplies have not been affected as much. The rabi harvest was safely brought in. Nearly 95% of the harvesting has taken place with the record food production of 225 million tonnes of food grains.

The worry factor is the home bound exodus of the migrant labourers, who felt uncared for as guest-workers in other states. When will it be safe for them to return to agriculture intensive states in the West and the South is a vexing question. Local labourers make farming an unviable prospect. On the legislative side, introduction of three new laws that could help revive the Indian agricultural sector. There are the Essential Commodities Act, the scrapping of APMC (Agricultural Producers Marketing Committee), and the introduction of contract manufacturing into agriculture. "People talk about farmers having one-two acres of very small holdings, but that doesn't matter, "says Mr. Prasad. "We can have contractual manufacturing where a huge value chain in agriculture can take place."

GOVERNMENT CONTROL VS ENTREPRENEURSHIP

The government of India, through its massive financial package to industries, has tried to make the exit from the lockdown as easy as possible. Yet Mr. Prasad opines that the "bureaucracy and the babudom" could come in the way of the full impact. Deep control and licensing should be done away with to allow the sector to grow on its own and at its own pace.

While the Indian government's plan has been to build a self-reliant India throughout the pandemic, there is much work to do to make this a reality. India has a long history of a dominant State and vast swathes of poverty. 'Atmanirbharta' (self-reliance) may seem like a dream when the Centre seeks to control the way production works. The vulnerable citizens end up having to fend for themselves, while those who can afford it seek better alliances overseas to bypass regulations. Remarkably, in this crisis, the non-government civil society has shown that it can help its most vulnerable by providing food, clothes, cash or transport to the stranded migrant labourers.

Mr. Prasad says, "*therefore when money is being given, for example, MSME supports that have been given by the banks, it's now important that this support is given without stakes attached and we must understand that as far as the government is concerned, the important thing to reset our thinking and it must be from a collaborative, cooperative and together approach. If that is the case, governments will want to take more and more and we must resist that. And we must take things forward in a collaborative, cooperative and a manner in which we counter the pandemic together. The government bureaucracy must reset their skill sets.*"

REVAMPING THE AGRICULTURE SECTOR

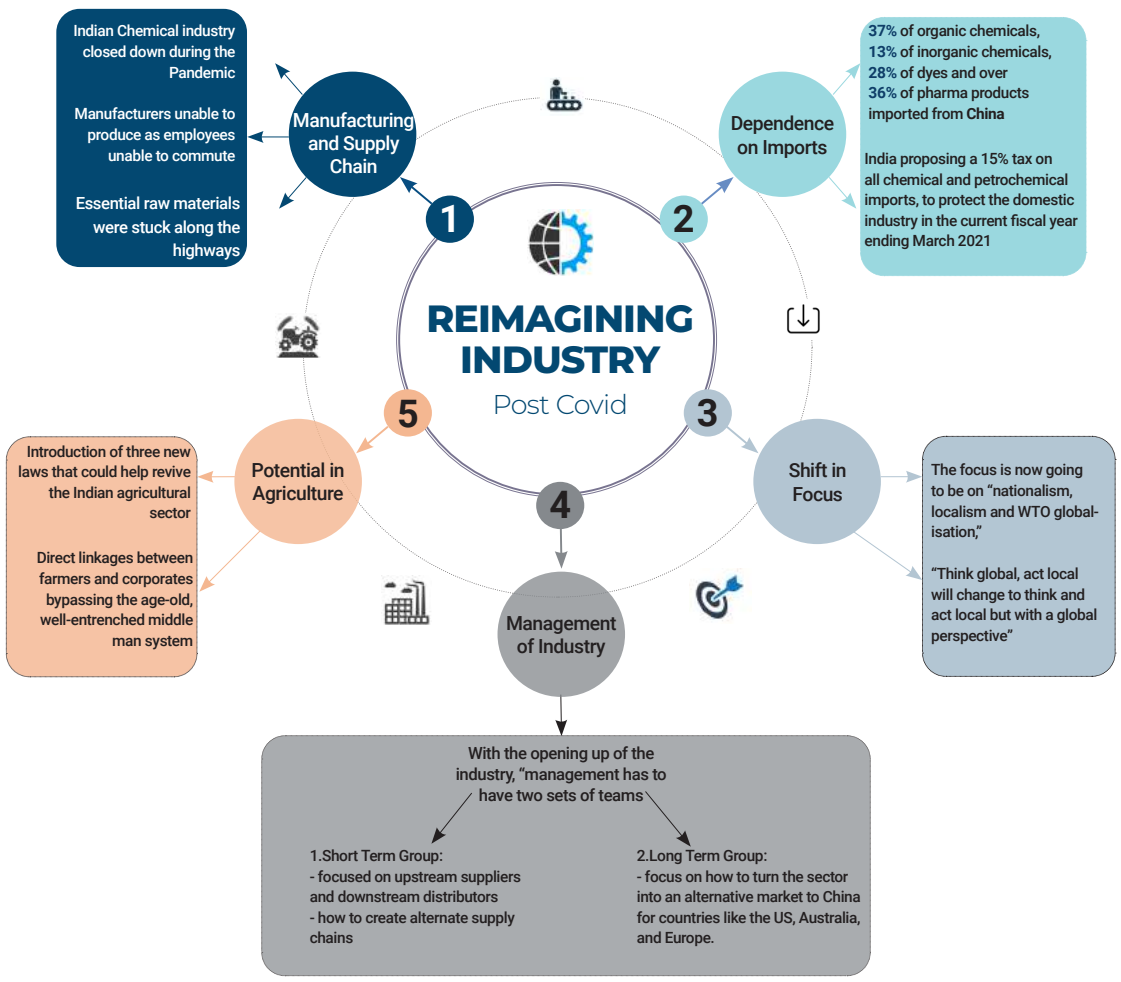
The agriculture system is in dire needs for new legislation to replace those crafted in the 1950s and 60s. Prasad Chandran strongly advocates direct linkages between farmers and corporates bypassing the age-old, well-entrenched middle man system. "*Whereas once you do what the farmer wants, the customer wants and the world market wants. If you can get large industries to come in, if ITC is directly allowed to come in and trade with the farmer, you will find that ITC can get into an NPO and get a price that they want. So, the farmer is benefited, the consumer is benefited, the middle-man gets cut off. So be it. That will change India.*"

ALIGNING NEW SUPPLY CHAINS TO CONSUMER BEHAVIOUR

Post COVID period will change the way business is done. Established multilateral institutions are being eroded – WTO and NAFTA being two prominent examples and it is still clear where UK stands. Asia appears to be emerging as a front runner in dealing with the pandemic and hence restart its economy before the West.

Mr. Prasad says that the focus is now going to be on "*nationalism, localism and WTO globalisation,*" which is both a risk and an opportunity. India could change the way it imports as well. "For example Punjab, Haryana has sugarcane, rice, paddy and wheat waste; if the GoI can put some money on research and we can find a better use for bio-waste within the next one and one and a half years, you can have an energy system which completely changes our need to import oil," muses Mr. Prasad. "*So, think global, act local will change to think and act local but with a global perspective*."

Consumerism will change and the American dream is going to change with it. "There will definitely be a change because this is a 1% phenomenon where this 1% population owns about 85% of the wealth of the world. That is what finally consumerism is." There will be more conservation and more saving instead, as people look for safety in their transactions.



Source: Synergia Foundation

ASSESSMENT

- *The green revolution changed the face of Indian agriculture raising it from a subsistence level to a driver of economy. Sadly, the sector has failed to adapt to changing times. Considered as a high consumer of natural resources to generate much lesser value, susceptible to climate change with poor flexibility to meet supply – demand variables. It is long due for an overhaul. Hopefully, COVID will provide the necessary impetus*

- *In the disruptive times ahead, building operations resilence will be critical for survival of industry, both service as also manufacturing. Supply chains will need redesigning, there will be rebalancing of assets base and supplier mix and there will be a trend towards regionalisation of supply chains. In fact this trend had commenced earlier, COVID aftermath will only accelerate it*

BEING 'VOCAL FOR LOCAL' PART I

'Be Indian, buy Indian' seems easy to achieve, but in the age of a globalised economy, is it possible to do so? Part one explains how the issue is complicated

Major General
MONI CHANDI
(Retd.)
Chief Strategy Officer, Synergia Foundation

In this two-part series, the author analyses the recent comments of Prime Minister Narendra Modi on being 'vocal (demonstrative) for local (domestic products)'. However, the NDA government is also committed to 'Make in India', which involves both foreign brands being produced in India and foreign investment in Indian brands. Is there a contradiction in the government's stance? Here, the author amplifies on the PM's statement and the government's continued commitment to encourage FDI (Foreign Direct Investment).

Source: Synergia Foundation

On May 12, 2020, Prime Minister Narendra Modi in his address to the nation, urged Indians to be 'Be vocal for local', suggesting that Indians should buy local products with pride.

DEFINING SWADESHI

The main problem with the 'buy local' theme is that it suggests discrimination of businesses, based on an ill-defined criterion. What exactly is a local product? A product manufactured locally from local resources. And, a product manufactured abroad with foreign resources is a foreign product. However, many global products are today sourced from multiple agencies and then either assembled or produced locally. Are those local or foreign?

In free markets, consumers should be empowered to make their own choices on criteria such as price, availability, and quality, no matter where the products are made or sold. Is India's commitment to free-market and globalisation now in question?

The PM's call for self-reliance was clarified by BJP spokesperson and Rajya Sabha member G.V.L. Narasimha Rao while speaking to the news agency PTI. He said there would not be a government directive to only buy local products, but that people may themselves see merit in buying items of good quality, made in our country. He also stressed that the PM's definition of 'local' meant that it was not just about products made by domestic companies, but that any item, as long as it was manufactured in India, fell within the definition.

ASSESSMENT

This clarifies two issues: First, items manufactured by foreign companies and MNCs, are still 'local' products, provided they are manufactured in India. Thus, McDonald's burgers, Levi's jeans, Mercedes-Benz automobiles and LG air-conditioners, qualified as local products, provided they are manufactured in India. Second, while the government would not be issuing any official directive, there is a stated preference for locally produced products of good quality. Thus, while citizens may be encouraged to buy Kanjeevaram handwoven silk saris, Raymond fabrics and Amul ice-cream because of their excellent quality, there would be no compulsion to buy TATA Nano or fly Air India, if their quality were suspect.

'MAKE IN INDIA' POLICY

'Make in India', is the name for the 'swadeshi' movement launched by the government on September 25, 2014, and initially covered 25 sectors of the Indian economy. The intention was to encourage companies to manufacture their products in India so as to promote investment in Indian manufacturing. A year later, India had emerged a top destination for FDI (Foreign Direct Investment) attracting U.S.$60 B. As per current policy, 100% investment is now permitted in 100 sectors of the Indian economy, with exceptions for space (74%), defence (49%) and news media (26%).

CONTINUED GOVERNMENT COMMITMENT

On April 1 this year, the empowered committee of secretaries issued a government notification for Production-Linked Incentive (PLI), to further encourage FDI. In addition to providing additional incentive on exceeding production targets for five years, the committee removed other contentious clauses to make an investment in India more attractive. It is hoped that this push will pave the way for Apple, Samsung, Foxconn, Oppo, Vivo and Flextronics to commence local production of next-gen smartphones in India. The vision is to make India an export hub for next-gen smartphones. Currently, India exports about US$ 3B smartphones every year, and it is hoped that with the additional FDI, India will be able to export US$ 100 B by 2025.

INTERNATIONAL COMMITMENT

Mr Modi, in his 2018 speech at the World Economic Forum, Davos, slammed rising trade protectionism. Unlike other leaders like the U.S. President Donald Trump, Mr Modi did not defy the international global architecture with multilateral institutions like the WTO. Both Mr Modi and Chinese President Xi Jinping have independently championed free trade and open markets at Davos. Mr Modi culminated his speech eloquently with the Sanskrit phrase, 'Vasudhaiva Kutumbakam', meaning the world is one family, and underscoring that belief is key to eradicating the fault lines of today.

ASSESSMENT

The 'Make in India' initiative was a grand proposal, with ambitious targets, particularly in the manufacturing sector. Five years after its launch, many of the initial targets have slipped. The national economic slowdowns, poor implementation of the policy, and global trade protectionism have adversely affected its implementation. Despite this, the policy still holds prospects for India in the long term.

INSIGHTS
SYNERGIA FOUNDATION

BEING 'VOCAL FOR LOCAL' PART II

'Be Indian, buy Indian' seems easy to achieve, but in the age of a globalised economy, is it possible to do so? Part two explains how businesses in India should evolve

In the first of this two-part series, the author analysed the meaning of 'vocal for local' and the government's commitment towards 'Make in India'. Here, he discusses discordant voices, their relevance, and how business in India should evolve, despite the adverse consequences of the pandemic.

Despite clarification by the government on what constitutes 'Vocal for Local' and its policy commitment to 'Make in India', there is still apprehension in many quarters. Some of the concerns are being discussed in this article.

BOYCOTT OF CHINESE PRODUCTS

On June 7, 2020, the Confederation of All India Traders (CAIT), an apex association of traders in India, announced a nationwide boycott of Chinese products from June 10. The organisation's aim was to bring down the value of current Chinese imports from US$ 75B to approximately US$ 13B by December 2021. Baba Ramdev, the cofounder of Patanjali Ayurved, also voiced support for the campaign, declaring that boycotting Chinese products was nothing less than a 'service to the nation'.

ANALYSIS

In 2019, while China's exports to India were valued at U.S.$ 75B, India's exports to China was at US$ 18B, showing a trade deficit of U.S.$ 57B. Chinese exports to India constitute mainly manufactured products -- electrical machinery, electronics, and plastics. India's exports to China constitute mainly raw materials and industrial inputs, including chemicals and cotton.

According to the UNCTAD (United Nations Conference on Trade & Development), in 2019, India was amongst the top 10 destinations of FDI in the world. The U.S.$ 49B FDI inflow was received by companies dealing in services, computers (hardware & software), telecommunications, trading, automobiles, tourism, construction, and chemicals. Significantly, in the report, Singapore and Mauritius were the top sources of FDI, followed by the Netherlands, U.S. and Japan.

Singapore and Mauritius are top sources of FDI because they provide favourable tax regimes for companies investing in India. The India-Mauritius Tax Treaty was signed in 1982, while the India-Singapore Double Tax Treaty was signed in 1994; both the treaties have been periodically updated. Investments originating from Singapore and Mauritius are more likely to be foreign companies, with business presence (shell companies) created to take advantage of the good business environment and tax benefits. In recent years, Chinese businesses have made significant investments in India, possibly through this route. Indian companies like OLA, Hike, BigBasket, Byju's, Delhivery, Dream-11, Oyo, Paytm, Snapdeal, Zomato and TicTok, now have sizeable Chinese equity holdings.

ASSESSMENT

Considering the penetration of Chinese products in the Indian economy, the ballooning India-China trade deficit and the significant presence of Chinese investments in Indian companies, it may be challenging to boycott Chinese products. The boycott call by CAIT may also have been supported by vested interests, who seek to avoid competition from better and cheaper Chinese products.

EMPHASIS ON SELF-RELIANCE

During the late Arun Jaitley's tenure as Finance Minister as well as in the current dispensation of Nirmala Sitharaman, the NDA government has periodically raised import tariffs in critical sectors to promote domestic manufacturing. In November 2019, India took the strategic decision to forego joining the RCEP (Regional Comprehensive Economic Partnership), citing negative impact for farmers, MSMEs, and dairy products. In the wake of the COVID-19 pandemic, the government has stressed the importance of self-reliance by announcing measures to support home industries. Government tenders, up to Rs. 200 cr., are now only reserved for Indian bidders. The FDI policy has been amended to protect Indian companies from "opportunistic acquisitions", by introducing scrutiny under the Ministry of Commerce & Industry, for countries sharing land borders with India.

Source: Synergia Foundation

ANALYSIS

In the 20th century, the people of India were forced to travel in the iconic now obsolete Ambassador car for more than three decades because of misplaced protection for the home industry. After the reforms of 1991, many economists suggested that tariff protection, without specific purpose and timelines, will make the domestic industry less and not more competitive. India's globally competitive info-tech, automobile, and pharma sectors were forged through international competition and now require no further protection.

ASSESSMENT

Already saddled with an adverse balance of trade, there are fears that many sectors of the Indian industry are not ready to face international competition. Further, in view of the disruption caused by the pandemic, it is perhaps prudent to delay the exposure of Indian industry to global competition. However, such protection should be temporary, and our long-term commitment should remain focused on free trade (minimal tariffs) and open markets (no restrictions on sources).

POLICE CANTEENS

On May 13, 2020, the MHA issued a directive that all police canteens, including those of central police organisations, will only sell goods that are 'swadeshi'. In a subsequent clarification, it was stated that all existing canteen products would be classified into three categories: those purely Indian, those manufactured or assembled in India, and those imported. While the first two categories would be permitted for sale in canteens, the third category was to be delisted. On May 29, an order was issued delisting more than 1,000 products from sale in canteens. However, on June 1, the order was withdrawn, stating that it had been erroneously issued and that more deliberation was required to determine the categories of products.

ASSESSMENT

With this logic, an imported Mercedes-Benz and Levi's jeans should be delisted from sale in police canteens. But, if the same products are assembled or made in India, they could still be available in the canteen. With the proliferation of MNC brands in India, it is increasingly difficult to discern purely imported items from those that have been assembled or produced in India. This is perhaps where the serious challenge lies.

IN A NUTSHELL

Governments are obliged to enable citizens to get the best value for their money. There is also the promise of free trade and open markets, to which our leaders have demonstrated commitment. 'Be Indian – Buy Indian' or 'swadeshi', should not mean citizens are required to buy more expensive and less-efficient products, merely because they are produced by Indian companies. In fact, protection of domestic industry, under the garb of nationalism, has been used as a window to serve inefficiency in work standards, corruption in business dealings, and nepotism in accumulation of wealth. There is little merit in misquoting nationalism to justify dependence on poorly-designed, over-priced, and poor-quality products.

The COVID-19 pandemic has disrupted the global economy, and the government might see merit in providing some protection to the local industry. However, such protection should (hopefully) only be a temporary measure, to allow the home-industry to prepare for international competition. Other industries should take a cue from India's info-tech, automobile and pharma sectors, to produce goods and services of world standard.

From a purely nationalistic perspective, 'Indian-ness', should be defined by Indian brand-name, production-in-India, and Indian ownership. However, in modern India, with its integrated economy, the government has wisely decided to define 'Indian-ness', only in terms of production-in-India. In the 1920s, Mahatma Gandhi led a successful people's movement to burn Lancashire textiles in favour of homespun and hand-woven substitutes. In the 21st century India, it may not be so easy to discern 'foreignness', with the multitude of goods & services

THE GIG ECONOMY IN THE PANDEMIC

While the pandemic has destroyed jobs across segments, its impact on the gig economy in terms of fiscal and social deprivation is largely ignored

SYNERGIA FOUNDATION RESEARCH TEAM

WHAT IS GIG ECONOMY?

The term "gig economy" was first used by Tina Brown the then editor of the New Yorker in 2009. It was essentially used for workers engaged n the knowledge-based economy pursuing "a bunch of free-floating projects, consultancies, and part-time bits and pieces while they transacted in a digital marketplace." Since then it has caught on to describe a greater variety of labour market with short-term contracts or freelance work, instead of permanently employed workers.

In fact, Ronal Coase, a Nobel laureate went as far as to predict the demise of traditional large companies in favour of gig workers if there are low costs (money or time) to a customer in the search for alternative suppliers who are small scale, can assure quality and enable easier contracting as compared to large firms. This was proven by the market success of gig platforms focussed on ride-sharing, economy hotel rooms, home deliveries etc. at the expense of big corporations.

What the gig economy companies, such as Uber, Airbnb, Lyft, Etsy or TaskRabbit, do is that they connect the worker and the consumer. They make it easier for workers to find a quick, temporary job (i.e., a gig), which can include any kind of work depending on the industry.

The global gig economy generates $204B in gross volume, with transportation-based services (e.g., ride-sharing) making up 58 percent of this value, according to a survey by Mastercard. Gig workers are not employed solely by people either - companies also outsource tasks to already-trained workers, which also gives workers a chance to work for multiple companies in temporary positions. As per a report from the New York Times, Google employed 121,000 contract-based freelancers in its global operations in March 2019, compared to 102,000 full-time in-office employees.

It is important to note one distinction here - freelancers can be seen as those who mostly associated themselves with companies that have an economic turnout themselves, while gig workers are those who are associated with companies who simply connect workers to customers - the companies don't make any profit through any other means other than contracting employees.

THE FRAGILITY OF GIG ECONOMY WORKERS

The fragile situation of gig workers stands exposed by the pandemic. Lacking the innate protection provided by traditional jobs-guaranteed regular wages, medical cover, insurance etc-they are an extremely vulnerable lot. Businesses like public transportation (Uber, Ola) are bleeding, and the victims are these workers. These human-based businesses depend on real people providing services from end to end. Work from home (WFH) is not a possibility for most in this segment.

What is disconcerting is that this segment involves huge numbers. In India itself, close 1.5 million drivers work for platforms like Uber and Ola. As per a report published by Invest India, the share of the gig economy is as high as 25 percent in the services sector in the urban labour force in a total force that is over 35 million. Before the pandemic, the industry body ASSOCHAN had estimated the growth rate for the gig economy at 17 percent annual to top at around $ 23 billion by 2023.

In the UK, gig work makes up for nearly 50 percent of the income of 35.7 percent gig workers in 2018. During the 2008 recession, gig economy steamrollers like Uber and Airbnb emerged and turned successful, but right now, the pandemic is defeating their business models.

MITIGATING STRATEGIES

Not that all gig businesses have abandoned their workers; efforts have been made to protect them. Swiggy and JustEat have advocated for "contactless deliveries" and have offered free medical consultation to its workers. Uber suspended pool rides in the US, India, and Canada, and offered financial assistance to workers in the event they test positive for the virus. There have also been tie-ups with other retailers to help keep the gig economy working -- with Flipkart, BigBasket and Spencer's Retail to provide essentials to customers. Swiggy, Dunzo, and Amazon have also done the same. Possibly, a similar initiative and reorientation of business model could have been innovated to stem the migrant exodus from urban centres Despite these moves, there has been an increased number of lay-offs. Out of the approximate 450 driver centres, Uber operates worldwide, 40% will shut down. Lyft Inc., the alternative to Uber in North America is said to be dismissing 17% of staff and reducing salaries. Airbnb Inc. has said that the company would be cutting a quarter of its workforce. Only recently, Swiggy announced that it would be laying off nearly 1,100 people in India while providing them with a few months of salary based on their tenure.

Reportedly the Indian government is seized of the matter and is ramping up plans to bring the gig workers and unorganised sectors within the ambit of social security schemes.

REDEFINING LABOUR LAWS AND WORK

Lack of clarity in classification/ definition of gig workers has led to their exclusion from the extended coverage of labour laws and protection. The counter debate is that modern work realities demand labour laws to have greater flexibility and not be hidebound with moribund traditional definitions and classifications; there being no "one size fits all" solution industry-wise.

With the prevalence of the pandemic, workarounds must be found to keep people safe and employed and also to make money. This can be done by minimising contact between consumer and workers, providing safety equipment to workers, and ensuring some form of medical assistance in case they test positive.

FUTURE IN A POST COVID WORLD

Ultimately, despite the havoc it has unleashed, the pandemic has given most digital platforms an opportunity to show that there is the long-term necessity of a flexible workforce. The cooperation between industries, such as Uber and Flipkart, shows how there can be an inherent support network in the gig economy itself, which can work towards providing for its workers and consumers.

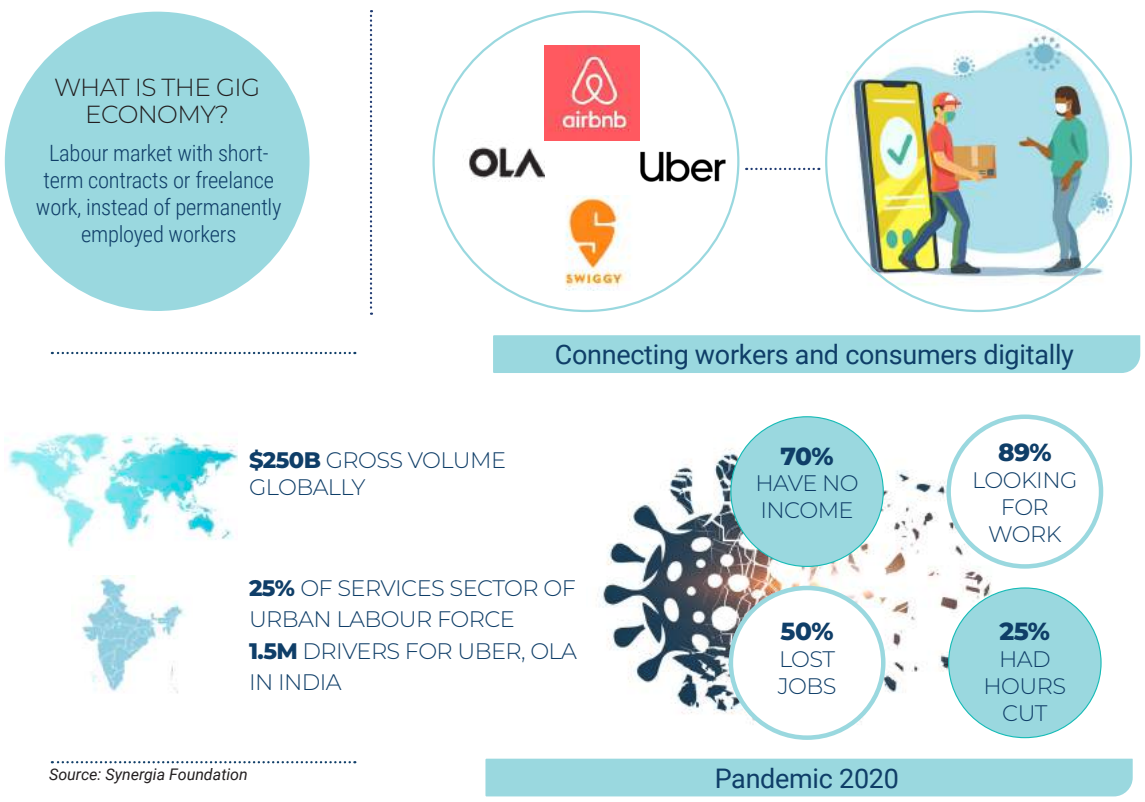
ASSESSMENT

- *The pandemic could well be the turning point for the "gigification" of work. Attracted by the prospects of savings in terms of direct and indirect costs that the gig economy offers, it could well become the normal in years to come. However, since it has till date been more successful in the arena of knowledge work, there is a risk of over-reach and too much investment too early. The segment has to keep pace with the trends in a post-COVID economic environment*
- *There are definitely marked advantages in the gig model, which makes it attractive for a post COVID world where capital would be hard to obtain. If remote workers are going to be the new normal, then whether they are gig-based or full time is of no relevance. During the pandemic, many companies have successfully entrusted knowledge work to external contractors*
- *In the educational field, gig worers could be used as graders, teaching assistants or for pre-recorded online lectures*

Gig economy

A post-Covid future

Will the gig economy withstand the uncertainties caused by the global Covid-19 pandemic or is it too fragile to survive a precarious future?



Source: Synergia Foundation

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