

# Monthly Policy Note

June 2021





## EAM visits the US | How deep is our relationship?

Last week saw External Affairs Minister (EAM), Dr Jaishankar, visit the US. On Friday (May 28), when he met his counterpart, he said, and I quote, "This is the first Cabinet-level visit from India to the new administration, and I'm of course delighted that I see someone as a counterpart with whom I've worked for many years. We have many issues to discuss". In diplomacy, words are crafted to represent a message often – stressing personal acquaintance and issues stands out. In the readout of the meeting with the Secretary of State, it said, "...mentioned several points including where he reaffirmed the administration's commitment to deepening the **U.S.-India Comprehensive Global Strategic Partnership**".

The US side made sure it highlighted all key areas where opportunity exists to work together - QUAD, Vaccine, Climate, UN, etc., along with areas where our position with the US may differ – Myanmar (Burma as the US still refers in the readout) and Afghanistan. The visit also saw EAM meeting a handful of US CEOs who have also been working with the State Department on providing support to India's COVID-19 crisis, besides meeting other senior officials, including in the UN.

**One consistent theme of all US-India meetings has been the commitment to "deepening strategic partnership".** However, the question always remains how is this strategic partnership defined and what does 'deepening' mean - which is beyond the important but rhetorical aspect of democracies, large diaspora, large

market etc. Covering this visit and speaking to a few friends, we were struck by three comments that were made.

**# How the US mainstream media did not cover the visit**, given this was the 1st Cabinet visit from India to the US in the middle of a raging pandemic. The comparison is often with other countries, which the US considers as strategic. It is possible (perhaps likely) that the Indian delegation did not want media appearances owing to recent coverage by the mainstream US media of India in the last few weeks. But this could be a missed opportunity to present our point of view.

**# How few specific deliverables exist between India and the US**, and how many of the US CEOs who attended these briefing and virtual conferences in the last four weeks have concerns about India. These concerns range from what Atmanirbhar means to the draft eCommerce policy, tax-related issues, protecting investments into India, new rules for technology companies, and no movement on A&D deals, despite commitments to two administrations etc.

**# Surprised at no announcement of a summit meeting** between the two leaders and despite being an important economic partner, with significant US interest, India's sovereign rating is under threat. Many feel India's rating needs to be better than what agencies, most headquartered in the US rate. **As we have consistently argued, India and the US need each other for strategic reasons, but the question remains if our relationship is strategic, and if not, what will it take to be strategic.**



## 'Is data really the new oil?' – Arguably yes, but synthesized and analyzed data not exactly raw data

'Data is the new oil', i.e., a key and precious resource. The quantum of data being generated can be gauged from the fact that there are more than 3.5 billion searches every day on Google and more than 600 billion tweets every day on Twitter. This has been further accelerated by the pandemic and the need for more and more people to adopt digital means.

However, another point to ponder over is whether raw data is equivalent to the new oil or is it the more synthesized and analyzed data. **The COVID-19 pandemic has taught us something. While data was available on the count of cases etc., limited testing coupled with false negatives and potentially many untested cases do not give the complete picture. Raw data without ensuring its completeness, accuracy and timeliness is not as useful in making key decisions.**

As we are embracing digital in our everyday life, cyber attacks and cyber crimes are becoming rampant. Cybercrime is one of the biggest challenges that humanity is facing today, and the situation would become more alarming in days to come. According to the WEF, cyberattacks rank first among global human-caused risks. Cybercrime is expected to cost the world more than \$10tn by 2025, which is more than the GDP of

all countries except two and hence requires urgent attention.

If we look at some of the recent instances, we will see that cyber-attack is becoming more serious, more complicated and more threatening, thereby impacting every dimension and facet of life.

No country is immune to cyberattacks, including India, which saw 1.16 million cyber attacks in 2020 – 20x times compared to 2016. While India has a dedicated organization in the form of CERT-In to handle cyber-related threats, looking at the magnitude and scale of the issue and the expected increase in attacks over a period of time, Government may look at further strengthening the resources and mechanisms available to track, address and mitigate cybercrime and cyber-attack related challenges.

**The role of the private sector shall also be important here in tackling this challenge. It will require capital investment, specialized skill set coupled with daily evolving technology interventions, along with the appetite to fund research and development activities where returns may be available only in the long term.**



## Mirror, Mirror on the Wall – Which is the best of them all? Allopathy vs Ayurveda vs Homeopathy

In the current pandemic era, almost 100% of attention on medicine is being taken up by Covid-19. In this article, we try to provoke thoughts on what system of medicine works. And the answer is neither easy nor conclusive. While science and medicine have progressed tremendously over the years, it is quite common for people not to find cures. There are many cases where diseases and conditions keep lingering on, and the patients look for what system of medicine will help them. Broadly classifying the treatments/medicines, it is either (1) **'allopathy'** (scientific, chemical-based, usually to get rid of symptoms and suited for all diseases and conditions) (2) **'Ayurveda'** (traditional, 'herbal' based, more to get the body to balance and works better with lifestyle conditions like cough and cold and (3) **'homoeopathy'** (more of alternative medicine, relies on the essence, gets rid of root cause and works better more for allergic or chronic conditions).

In terms of efficacy, the variables which are important in choosing the type of medicine largely depends on how the response has been historically coupled with the kind of disease or condition and also personal conviction.



Going by the size of the market in INR terms, allopathy surely is a much bigger segment among the three as it possibly relieves symptoms faster, and hence there is a premium associated with the treatment. A branded medicine would, in all probability, be costlier vis-à-vis a generic medicine with the same composition, and this is due to the number of players involved and the infrastructure set up to manufacture such medicines.

However, alternative medicine is also very popular in India. **Hence rather than choosing one discipline over another, the way forward should be to progress on all three systems in terms of infrastructure, medicines, medical colleges, research, SOPs, etc., so that benefits of all can be reaped.** Also, in some cases, 'hybrid' approaches may also work better. **"One Nation, One Health System" is one such initiative undertaken by the government where treatment can be decided basis the severity of the condition. What is important is the end objective - good health.**



## Childcare in the times of COVID-19: A National Emergency

The second wave of the COVID-19 pandemic has hit children hard, bringing with it a new concern – **children losing one or both parents to the virus. In addition to the trauma of losing parents, the care and affection that comes from family and their economic sustenance**, such children are often vulnerable to violence, abuse and child labour. Other children remain without parental care and supervision when parents are in hospital/COVID-19 care. Community care of such children is often constrained due to fear of disease. It is imperative to identify such children in a timely manner. Their immediate, as well as long-term needs must be met through the provision of optimal shelter, mental health support, education, healthcare, support for developing livelihoods and other means for a successful future.

**Multiple ministries and levels of Government need to work in convergence with one another to provide adequate support.** Indeed, Government has made it a priority to support children who have lost their parents. The PM CARES fund has announced support for school and higher education, health insurance, and fixed deposits accessible once children turn 18 years old. Many State governments have announced free education, scholarships, sponsorships, monthly subsistence allowances etc.

For immediate support, in a move that will have long term benefits, hospital admission forms now seek details

**about trustworthy persons with whom children can be entrusted if required. Indeed, in addition to institutional care at Child-Care Institutions (CCIs), an area that requires further strengthening is non-institutional care.** In the event of losing both parents, it is important for children to be rehabilitated into a home environment, for instance, through kinship care or foster care, where they will be supported and nurtured with empathy. This is essential as research finds that the development of children cared for in home environments is better than that of those raised in institutional environments. Tax or other financial benefits may be considered for families (and even employers) taking care of Covid-impacted children.

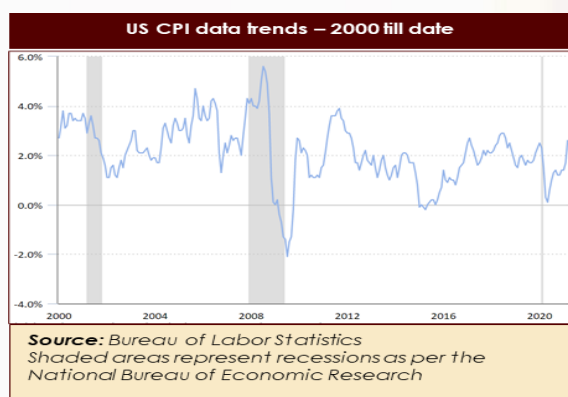
**Finally, it is also imperative for the Government to strengthen follow up on the children in both institutional and non-institutional care.** Currently, the ChildLine (1098) number has been deployed to be the first point of contact and support for any child in distress. This is then responsible for alerting concerned authorities and dispatching any immediate relief to the child. Follow up post-reporting can be further strengthened through calls and visits, continued counselling support and M&E via national level dashboards and digital interventions. These would close the loop and provide immediate needs as well as long term care and a nurturing environment necessary for children's growth and development.





## US April 2021 CPI data – When the US sneezes, the world coughs

The US CPI inflation numbers rose 4.2% YoY in April 2021 on the back of a 2.6% YoY increase in March 2021, which was the highest since August 2018. The April number is reportedly the highest increase since October 2008, and even the most pessimistic of estimates would possibly not have expected this yoy increase in inflation rates. However, while rising prices have been a key driver for inflation, the current reported figures are basis comparison with a very low base of April 2020, which had a 0.3% YoY increase only. Hence an apples-to-apples comparison is unlikely in this case.



There have been many reasons for the increase in inflation, including high energy prices (+25% YoY) and used car and truck prices (+21% YoY). Also, the \$1.9 tn **American Rescue Plan** largely focused on alleviating the COVID impact on the US economy and the '**Build Back Better – The American Jobs Plan**' aiming to invest ~1% of US GDP per year over eight years into the economy during this decade.

More purchasing power in the hands of people is an obvious outcome of the above stimulus packages. However, the resultant price increase from this activity is more supply chain driven rather than a yoy broad-based phenomenon. Hence it is advisable to look at this as a one-off period of the spike in rates. More importantly, because the Base Effect has been most prominent in this year and/or month than ever before.

Treasury yields of 10-year T-bills were up 7bps in the US as an immediate response to the high inflation numbers. With higher yields resulting in higher borrowing costs for companies, there is a concern about whether companies will be able to sustain valuations if the trend continues. However, while the trend may continue for some more time, **it is important to look at the data with a normalized lens**. The FOMC had also announced maintaining an accommodative stance given the global pandemic situation and also continue its bond buying program. In fact, the full-year core inflation for 2021 was projected at 2.2% and 2.0% in 2022. Moreover, unemployment has been projected to fall from the current 6.2% to 4.5% a year ahead.

**To answer a few questions: (1) Is this a transitory event? – Yes (2) Is this a precursor of future developments? Time will tell**

The risk, however, remains that if the inflation continues to be sticky (which does not seem to be the case as of now), it may well result in Fed's intervention. Asset allocation is a factor of yields and interest rates; hence a Fed intervention could result in capital flight out of emerging markets (not just India but many others also) into the US markets. But it does not appear to be the case as of today.



## PLI in specialty steel

PLI is a policy instrument with great intent to achieve 'Import Substitution'. However, inadequate focus on increasing exports by leveraging PLI may not augur well in achieving the overall objective of increasing India's participation in global trade.

The Government of India is in the process of formulating a PLI scheme in the specialty steel sector with a prime objective to increase India's participation in global supply chains by removing sectoral disabilities, creating economies of scale, and ensuring efficiencies.

India's import portfolio of steel comprises high-grade steels such as Alloys, Super Alloys, etc. However, the export portfolio comprises a basic grade of steels. This is primarily because Indian steel players operate at the lower end of the value chain.

Therefore, the PLI scheme correctly envisages increasing the local production of Alloy Steels and achieve Import Substitution in high-grade steels.

However, there are high-grade steels that have a huge global demand, and India is currently competing with countries like China and Brazil to cater to global demand.

**In view of the above, it is extremely pertinent to put in place an incentive structure in the PLI scheme, which balances the objective of Import Substitution and Export promotion. Skewed allocation of funds towards a particular objective may dent India's prospects of achieving a higher share in the global trade in the steel sector.**

About Primus Partners

Primus Partners has been set up to partner with clients in ‘navigating’ India, by experts with decades of experience in doing so for large global firms. Set up on the principle of ‘Idea Realization’, it brings to bear ‘experience in action’. ‘Idea Realization’— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).



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