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Improving ICOR: Enhancing Capital Efficiency and Capturing Value in India

Supporters as well as critics of ModiNomics agree that the target of $5 trillion economy is challenging but achievable. The issue is not just about achieving the target of a particular size of the economy. It's a wider issue of how do we achieve it and in the process what happens to the critical challenges that the country faces like poverty, inequality and jobs. The road to $5 trillion economy should be used to create a highway for reaching the next level of expansion, say $10 trillion and $20 trillion in a particular time-frame. Towards the end of 2018, *India 2030: A Socio-Economic Paradigm* book, published by SKOCH Group, pitched for $10 trillion target by 2030.

This requires a two pronged strategy. First, accelerating the growth to the level of 8-9 per cent in order to reach the magic figure of $5 trillion by 2024-25 and the next level of $10 trillion by 2030. Exact required growth rate can not be determined as it will also depend to a great extent on the rupee-dollar exchange rate. In the recent years, the economy has grown in the range of 7-8 per cent. Clearly, the growth rate needs to be substantially accelerated. SKOCH has been arguing that improving ICOR or capital efficiency is an important factor that could accelerate the GDP growth.

There is a strong correlation between ICOR and GDP growth. During the financial year 2016-17, the GDP growth accelerated to 8.17 per cent while the ICOR declined to 4.07. The ICOR rose to 4.69 in the fiscal 2017-18 leading to a sharp drop in the GDP growth to the level of 7.17 per cent. The ICOR rose further to 5.07 leading to a further slowdown in the growth rate to the level of 6.81 per cent in the year 2018-19. In the past one decade the ICOR was highest at 6.6 in the year 2012-13. During that year the GDP growth was the worst at 5.46 per cent. All the above mentioned data is as per the new 2011-12 series. A close look at the ICOR and GDP growth indicates that whenever there is decline in ICOR, the economic growth accelerates.

There could be two ways to ensure efficient utilisation of capital. The first is 'less-capital, high-return' and the other one is 'high-capital, very high-return.' Technology and innovation-led businesses often result in very high returns. Although, it may not be very job generative. But, huge number of jobs can be generated in the downstream businesses over a period of time.

> "Large multinationals like Apple, Google, Amazon, Microsoft, Uber and Facebook hardly pay any taxes in India but make billions of dollars in business every year. It is necessary that all pay taxes commensurate to their business operations."
>
> **Ashwani Mahajan**
> National Co-Convener
> Swadeshi Jagaran Manch

L to R: **Bibek Debroy,** Chairman, Economic Advisory Council to the Prime Minister; **Prakash Javadekar**, Minister of Environment, Forest & Climate Change, Minister of Information & Broadcasting and **Sameer Kochhar**, Chairman, SKOCH Group

The second equally important aspect to keep in mind is sustainability. For example, Indian tech professionals are being used extensively to feed Machine Learning (ML) or Artificial Intelligence (AI). It has created few jobs even in Tier 2 and Tier 3 cities. It is good to see that some people have got jobs. But, are those jobs sustainable? The companies sitting in the US and Europe and even China are using Indian human resource to develop ML models. Once the machine learns, it will start functioning independently and those who are feeding in the intelligence of the machines today would become redundant. Here we are not arguing that we should not adopt AI and other modern technologies. We must do that. But the control of the machine intelligence created by the Indian human resource must remain in the Indian hands.

There are two aspects to the businesses – one is value creation and the other is value capture. While a large number of Indian firms have succeeded in value creation, they have largely failed in value capture. Take the example of Indian aviation industry. It has created value for the customers, employees and the economy as a whole. But the carriers have not been able to capture the value. As a result two leading airline carriers have gone bust. Financial condition of other airlines is also not good. In fact, Boeing and Airbus make more money than all the carriers of the world put together. Clearly, Boeing and Airbus have captured higher value of aviation business.

Similarly, IT and IT-enabled services firms like Infosys, Wipro and TCS have created huge employment and value for the economy. However, they have not been able to capture the value, the way it has been done by the companies like Microsoft, Google, Apple and Amazon.

In some areas, we have managed to create high value businesses but the control is lost. Flipkart and Paytm are classic examples. These businesses were created by Indian entrepreneurs but are now controlled by foreign firms.

Addressing the 60th SKOCH Summit, Union Minister Prakash Javadekar echoed the concerns

> "The government plans to release a cybersecurity strategy in 2020. Efforts by SKOCH in promoting cyber patriotism and organising multistakeholder consultations are critical. The role of private sector and think tanks in this will be important."
>
> **Lt Gen (Dr) Rajesh Pant**
> National Cyber Security Coordinator

raised by SKOCH Group saying the control of the firms created by Indians must remain in Indian hands to ensure sustainable and long-term benefits to the economy. "In every team of Google, in every team of Facebook and in other places also wherever there have been innovations in the world, there have been Indian scientists and technical people. We are contributors to innovation but we are not owners of innovation, that is our problem.

"The second issue is that how we will sustain our own innovation. Paytm or Flipkart are Indian innovations; Indian ownership, but taken over by foreign entities. By doing so, such innovation has closed its doors of making sustainable profit for the next 50-years," Javadekar, who holds portfolios of Ministry of Environment, Forest and Climate Change & Information and Broadcasting, added.

Today, all the major economies of the world including the US and Europe are giving primacy to the domestic national interests. China has always been inward looking. Russian President Vladimir Putin recently remarked that liberalism has "become obsolete". While Putin's comment may sound very alarmist, the global trends confirm to his contention. When all the world powers are pitching for economic nationalism, India can't afford to be an outlier. Our policies and interventions should be focused on promoting and protecting the national economic interests.

High value capture businesses are heavily dependent on research and development. Our businesses as well as the government lag far behind in R&D when compared with the global peers. There is need to strengthen the intellectual property rights framework. The fruits of private R&D must go to private sector. Needless to say that there is also need for public funded R&D to support MSMEs and Startups.

Whose Data is it Anyway?

L to R: **Prasanto K Roy**, Tech Policy & Media Professional; **Tanuj Bhojwani**, Core Volunteer, iSPIRT Foundation; **Vinit Goenka**, Secretary, Centre for Knowledge Sovereignty; **Sameer Kochhar**, Chairman, SKOCH Group; **Pratibha Jain**, Partner, Nishith Desai Associates; **Ashwani Mahajan**, National Co-Convener, Swadeshi Jagaran Manch; **Rahul Sharma**, The Perspective; **Vidur Gupta**, Partner - Cyber Security, E&Y

All the legislation and debates around data in the recent years have centered around localisation and privacy. These are important but not the core issues. The real issue today is how do we tap the economic value accruing from data and maintain our economic sovereignty. Data is often termed as the "new oil". Oil has been the key source of wealth creation and development of several countries in the last 5-6 decades. Some countries in the Gulf region that have judiciously used their fossil fuel resources have managed to create excellent infrastructure and their per capita income today is amongst the highest in the world. In the coming decades, the wealth creation is not going to be determined by 'oil' but by 'data'. India, a country of 1.3 billion people, is richly endowed with 'data'. The main focus of the policy intervention around data should be on how to turn it into wealth.

Let's first be clear that any individual's data lying with him/her would not generate wealth. We can't just sit idle and say, 'ok, my data is with me, so one day I will become wealthy'! Huge economic value is generated when data is mined and used by the companies or other entities. So, the data must move out from the hands of the individual for it to become a source of wealth creation. While it may be impractical for the individual to monetise his/her own data, the country must monetise it. The most practical and effective way to monetise data is to treat it like an economic commodity, i.e., pay the data owner for use, allow access to any one willing to pay for legitimate commercial use and collect tax from whoever is profiting from this economic commodity.

Today, data is the primary business input for the world's leading companies like Apple, Google, Amazon, Microsoft, Uber and Facebook. These multinationals make billions of dollars out of their business every year in India, but hardly pay any tax as per Swadeshi Jagran Manch. According to a media report, the Ministry of Electronics & IT (MeitY) may allow these companies to further sell the data. If at all, it is true, it is a terrible idea! The ownership of data must remain in India, preferably in the control of those where it belongs. There could be independent data fiduciaries. It may be institutions set up by regulators or multiple partners drawn from public and private sector or a Section 8 company.

The government has already put in place a framework not to allow critical data to leave the country. This is important from the perspective of national security. However, non-critical data could be allowed to be stored or used outside the country. The localisation policy needs to be carefully crafted to take care of these aspects. It is not just about national security and privacy, it is also about creating a level-playing field for small domestic growth businesses or Startups in e-Commerce and FinTech.

The main issue in respect to the movement and use of non-critical data should be deriving the maximum monetary value from it. Part of this value should accrue to the individuals. They could be compensated in the form of profit sharing or licensing. If it is difficult to implement, then tax could be imposed and the resultant revenue could be used to create a common fund that helps all concerned citizens. Both could be done in tandem, if required and as feasible.

Some may argue that selling one's data could be exploitative and create privacy problems. The issue of privacy could be addressed through a proper regulatory framework. The economic value created from licensing data would fulfill felt-needs of the common people, especially the marginalised as even a hundred rupees of additional income could help them.

Data sovereignty is also an important issue. People on the higher end of the value chain often benefit at the cost of those who are at the lower level. This is not very different than colonisation. Therefore, India must aspire and plan to capture the highest possible value in any chain.

So, the current or the proposed legislation as well as the debate surrounding data present incomplete picture. It would be a big mistake to legislate just on data localisation and privacy without settling the issues of taxation, implementation of sovereign function of taxation and capturing the high value of businesses accruing from data and new technologies. Moreover, there is a need to ensure that some part of the value that gets generated from data emanating from India must come back to the country and used for the welfare of those whom it belongs.

CYBER PATRIOTISM

Ravinder Singh
Chief Information & Innovation Officer, Air Vistara

Ankush Chowdhary
Principal Security Advisor, APJ, Amazon Web Services

Ever since the launch of SKOCH Cyber Patriots Initiative in March 2019, SKOCH has conducted several rounds of consultations and organised capacity building workshops and tutorials around adaptive technologies including Artificial Intelligence, Blockchain and Robotics. In a unique and maiden initiative in the country, more than 250 government officers from across the country participated in capacity building and training workshops organised recently in New Delhi.

Global experts including Ankush Choudhary, Principal Security Advisor, Asia Pacific Japan, Amazon Web Services and Ravinder Singh, Chief Information & Innovation Officer, Air Vistara took tutorials around these technologies explaining how to leverage these technologies for growth of the country encompassing various verticals and domains.

This effort will help evolve unique Indian models and use-cases that will spur value creation for Indian businesses and capture value for Indian enterprises to grow. For example, software solutions of foreign firms are being used today for the works like weather forecasting and AgriStack. Similar is the situation in healthcare and education sector. We should either prefer Indian companies being leveraged by other countries for similar solutions or those global technology majors with proven credentials and also commitment to work for India. They should also be happy to work towards technology-neutral capacity building rather than push specific technologies like the way it was done by Ankush and Ravinder. There are end-number of use-cases in India, which could also be referred to. The risks and long-term impact on India's cyber sovereignty resulting from over-dependence on foreign majors, without considering the above, needs to be examined.