

# GST: Avert Disputes of Classification

Have uniform rates for broad categories

The Centre and states have done well to arrive at a consensus on the goods and services tax (GST) rates for at least 6,000 items. The fitment is reportedly in sync with the current effective rate for products based on the harmonised system of nomenclature (HSN) codes, a globally standardised system of names and numbers to classify traded products. The RBI's latest report on state finances too wants the initial GST rates to be "suitably calibrated to avoid disruptions to economic activity and macroeconomic stability". To avoid category confusion and disputes, it is advisable to have the same rate of duty on all goods under a six-digit code. At any rate, a common rate must apply to all things under an eight-digit code.

In India, there is a tendency for governments to show their commitment to various social goals such as equity and state empathy by lowering the tax rate on certain goods that are deemed to be consumed by the poor. This would result in, say, biscuits that cost less than ₹5 a packet bearing a lower rate of tax as compared to biscuits that cost more, although both kinds would come under the common HS Code 19353100. If the tax rate is based on a common HS code, this practice would have to be given up. But it would greatly enhance business efficiency and avoid administrative disputes, litigation and the scope for administrative discretion and the scope for purchasing favourable administrative discretion. The higher efficiency would translate into faster growth and job creation, denting poverty far more surely than marginally cheaper biscuits would, in the presence of administrative discretion. Some pain is inevitable in the short term if rates go up for some products and services, but there is scope to lower the rate once the tax base widens.

Ideally, all products and services — including items of mass consumption — must attract GST that creates audit trails in the income and production chain. States must see reason and agree to bring large chunks of the economy that includes petroleum products under GST. Most products must be covered by the standard rate.



Depending on their policies, emerging markets will be the next driver in the global recovery

# Some Out-of-the-Box Action



Chetan Ahya

2017 will be the first year of synchronous recovery in emerging markets (EMs) and developed markets (DMs) post-2010. DMs are exiting the deleveraging phase and EMs are recovering from a period of macroeconomic adjustment. This synchronous recovery is creating a positive feedback loop, with the pickup in DM aggregate demand supporting EM exports and reduced underlying disinflationary concerns in EMs helping to reinforce reflation in DMs.

While a broad-based global recovery is expected, for the first time since the early 2000s, EMs except China (EMXCs) will be the largest contributor to the acceleration in global growth in 2017 and 2018. At the same time, there should be a modest growth deceleration in China with improved debt management, as well as a slight pickup in DM growth accompanied by a steady rise in core inflation.

In purchasing power parity (PPP)-weighted terms, EMXCs now account for 40% of global GDP (in dollar terms, their weight is at 24%), more than twice the size of China (18% of global GDP, 15% in dollar terms) and similar to DMs at 42%.

EMXCs should achieve average GDP growth of 4% over 2017 and 2018. Indeed, it will be the first meaningful acceleration in EMXCs since 2010. High-frequency indicators such as exports, composite purchasing mana-

gers' indexes, industrial production and capital goods imports have all moved up, signalling a meaningful revival in EM growth momentum.

Import volume growth in the G3 — the US, Japan and the EU — picked up from close to zero in May 2016 to close to 5%, pointing to a better external environment for EMXCs. A recovery in exports tends to play a critical role in the EM recovery, as EMs emerge from the adjustment phase with relatively low capacity utilisation in the manufacturing sector. Exports, therefore, provide the growth equity that helps to repair corporate sector and banking sector balance-sheets.

## Platform for Policy Play

The adjustment phase in EMs entails aggressive tightening in monetary conditions and a reduction in real wages. This has led to an improvement in macro-stability, characterised by a sustained increase in current account balances and the build-up of real rate buffers. As macro-stability improves, monetary conditions begin to normalise, while real wage growth rises along with productivity growth. The steady rise in consumption growth and exports should, therefore, support an increase in capacity utilisation and a turn in the investment cycle.

Growth expectations for major EMXCs hinge not only on assumptions for the external environment but, more importantly, also on domestic policy actions. As output gaps in EMs start narrowing, domestic policies will play an increasingly important role in avoiding renewed deterioration in macro-stability.

Indeed, the focus on macro-stability will help ensure that growth is accompanied by a rise in (private) investment growth and productivity, thereby avoiding a premature end to the growth cycle. This will be particularly



Emerging, piece of cake

important against a backdrop of more hawkish, or less dovish, DM central banks and tightening of global financial conditions.

Most EMXCs have already made significant corrections in macro policies. But they still need to stay on the path of gradual implementation of three key policy reforms: fiscal consolidation, public infrastructure spending, and management of financial stability risks.

For major EMXCs, fiscal policy reform remains the most critical issue given limited progress for most. Fiscal deficits across major EMs remain high due to slow tax revenue growth. In addition, amid efforts to consolidate fiscal deficits, there is also a need to direct unproductive fiscal spending towards boosting capital expenditure. Although efforts by policymakers should continue in the right direction, risks from potential political events may slow down the pace of consolidation in some countries.

In major EMs with lower per-capita income levels (less than \$5,000), supportive demographic trends and rising needs from rapid urbanisation have meant that infrastructure shortcomings are in focus. However, public infrastructure spending has been hit by the slowdown in growth and tax revenues in the last 3-4 years. As tax

revenues pick up with the cyclical recovery in growth — in addition to a renewed focus on productive fiscal spending — infrastructure spending should pick up over the forecast horizon.

## Greener Balance-Sheets

A slowdown in growth during the macro adjustment period has adversely affected corporate and banking sector balance-sheets in some EMs. As demand for investment improves, healthy banking sector balance-sheets will be important to support funding. This issue is prevalent in several major EMs, including in India, Brazil, Indonesia and South Korea, to different degrees.

To sum up, major EMXCs have made substantial progress in improving macro-stability in the last three years following a period of past excesses. As domestic demand continues to pick up against the backdrop of a better external environment, the group will be the main driver of growth in the ongoing global recovery. Sustainability of the current upswing in EMXCs will largely hinge on domestic policies that uphold macro-stability, as well as enhancing productivity growth going forward.

The writer is co-head, global economics, Morgan Stanley

# How Should Parties Handle Opportunists?

On Monday, this newspaper reported that Shankersinh Vaghela, Congress leader in Gujarat, a former RSS-BJP stalwart, might go back to the BJP. He denies it, but apparently wants to be declared the Congress' chief ministerial candidate. Another Congress senior, S M Krishna, joined the BJP in Karnataka. Earlier, the Congress lost an influential leader in the north-east, Himanta Biswa Sarma, who is widely credited with not just the BJP victory in Assam but the party's growth in the northeast as a whole. How should parties deal with leaders who threaten to change sides if their conditions are not met, regardless of what this means for the party?

Defections from the Congress are signs of a rudderless party, working without direction, strategy or thought. It is easy to blame the Gandhi-Nehru family for all its misfortunes, but one must note the institutional chaos that has seeped in at the ground level. In many states, where Congress is out of power, it has no organisational ability; in states like Punjab, where it won elections this year, it did so on the overhang of graft and mismanagement of the previous regime — and the charisma of a local leader, in this case, Amarinder Singh. The GOP needs to nurture local leaders, rather than treat them with imperial disdain. At the same time, it cannot allow itself to be blackmailed into changing a decision that is in the party's best interest.

If changing parties is as easy as changing clothes, parties clearly do not stand for a given set of values and practices that articulates those values strongly enough. Values are not what a party preaches but are revealed in its practice. The only way to rid turncoats of any value is for parties to be active round the year upholding their specific values. In the absence of such conduct, Krishnas will find takers and Vaghelas will threaten.

It isn't alien life we're really after. It's planets we can settle in

# Living in Outer Space, the Final Frontier

Over the last few months, it has come to our notice on Planet ET that there seems to be a growing effort to locate and identify another planet that has Earth-like conditions. (No, as you may have guessed, Planet ET does not.) In February, we were given reliable news that there is affordable real estate available not on one planet but seven circling a star named Trappist-1 about 40 light years away from both Noida and Gurugram, we now have potential property closer to civilisation. A veritable stone's throw away, 4.2 light years away from Versova and orbiting Proxima Centauri, the closest star to the Sun, scientists from the University of Exeter, Britain, now believe there to be a planet that may contain liquid water. Not bottled mineral water yet, but even this would.

The planet, discovered last August and rather unimaginatively named Proxima B — we would have named it Paanipuri, if we had a stake in its naming — has been described possibly having an 'Earth-like' atmosphere. As always, scientists have displayed their excitement by stating that Proxima B could, because of water and atmosphere, support 'alien life'. But we know what they really mean. Let's just say when Christopher Columbus became the first European to 'find' America, he wasn't looking for 'alien life'. He was looking for a new world to have Europeans settle in.

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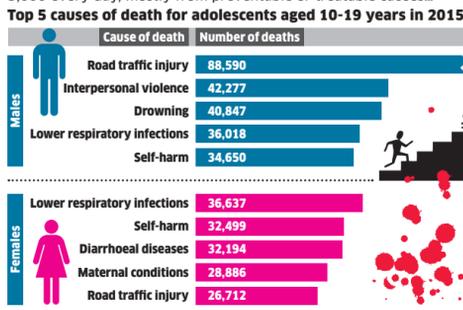
**WIT & WISDOM**

“Boldness is a mask for fear, however great.”

John Dryden  
Poet

## Adolescents at Risk

Around 1.2 billion people, or 1 in 6 of the world's population, are adolescents aged 10 to 19. Most are healthy, but there is still substantial premature death, illness and injury among this age group. In 2015, an estimated 1.2 million adolescents died, or more than 3,000 every day, mostly from preventable or treatable causes...



## MEME'S THE WORD



## SOLAR ENERGY

# It's the Future, Sunshine



Sumant Sinha

A recent article by Swaminathan S A Aiyar ('Roll Out the Sun, But Gently', [goo.gl/73sl8M](http://goo.gl/73sl8M)) and an editorial ('Solar Power Calls for New Accounting', [goo.gl/SgMGCM](http://goo.gl/SgMGCM)) on this page have cast doubts on the Centre's 100 GW target for solar energy by 2022. The writers have argued that solar prices are going to drop further on account of long-term interest-rate reductions and improvement in module technology, and that the costs of managing intermittency are steep. So, investments in 'expensive' solar today are questionable. But this thesis is fundamentally wrong for a few reasons.

First, compared to any other source of power today, solar prices are lower. The 500 MW Bhadla Solar Park auction in Rajasthan that closed on May 12, saw prices drop to ₹2.44 per unit, well below new thermal tariffs, or even the average ₹3.20 per unit rate at which the National Thermal Power Corporation (NTPC) sells electricity from its coal plants. On this simple economic comparison alone, all new capacity addition ought to be solar-based.

Second, solar was priced at ₹15 per unit only four years ago. That is how the technology cost curve evolves. New technologies are expensive in the beginning. But with continued investments and resultant ecosystem development, they stabilise over time. The then-Gujarat chief minister Narendra Modi promoted the first 1,000 MW of solar that kick-started this entire industry. Had somebody not taken this bold initial step, all this progress would not have taken place.

The cost of everything other than the modules — inverters, cables, module structures, etc, that make up more than

50% of the entire cost of a solar project — will reduce only if a market for them is nurtured. And that is what successive governments have done. The National Solar Mission must surely rank as one of the public policy success stories in recent years.

To argue that solar prices will reduce even more and, therefore, we should not lock into tariffs today is specious. First, solar is already 'cheapest' today. On that score alone, it should be the preferred source for new capacity addition. Second, it doesn't degrade the environment.

We need to sensibly plan for risk and uncertainty by making regular investments over time, and not put all our eggs in one basket. Installing 10-20 GW of solar capacity annually over the next five years is entirely reasonable.

As far as the issue of intermittency is concerned, yes, solar is dependent on the sun, and the sun does not shine at any given place 24x7. Intermittency will be a basic problem when solar generation starts accounting for 15-20% of overall supply of power. So, we are some distance away from that. Still, many low-cost smart policy and technology improvements can be initiated today to improve the grid for tomorrow.

Take hybridisation of solar and wind



Soak it up

energy. Combined solar-wind projects have capacity utilisation factors of over 50%, close to those of coal-fired power plants, drastically reducing the intermittency challenge.

Second is the development of robust ancillary markets. Ancillary services are backup services that smoothen out the variable nature of energy supply. Germany has close to 3% of spinning, storage and other reserves to support its grid infrastructure. India has none.

Third, higher investments in high-voltage transmission lines to transport large amounts of energy over vast distances quickly and efficiently. Yes, transmission investments would be needed regardless of renewable capacity addition, to ensure the grid is flexible and able to meet our growing power needs.

Fourth, investments in software solutions to optimise grid-level operations and consumer-level behaviour. The creation of demand response programs, for example, can prod industries to shift their loads to times during the day when more energy is available on the grid.

Storage is another important area. If storage costs come down — which they will — that will be another way to manage intermittency. But storage is only one among many tools to ensure the smooth integration of renewable energy in the grid at prices that don't fundamentally change the economics of solar.

But even so, the problem of intermittency is overblown as there is an essential difference between capacity and generation. Every 4 MW of solar capacity is equivalent to roughly 1 MW of coal capacity because of lower load factors in solar. So, while it may seem like we are galloping ahead on annual solar capacity additions, the actual generation is only a fraction of that.

In other words, even though solar is about 6.5% of India's current capacity, it provides roughly only 2% of actual electricity. So, when Aiyar et al suggest that solar can bankrupt coal companies and strain the banks that finance them, it is a bit absurd.

The writer is CEO, ReNew Power

## Citings

# Numbers Game

## KEVIN MOLE ET AL

Machine learning is one of many tools in the advanced analytics toolbox, one with a long history in academia and supercomputing. Recent developments, however, are opening the doors to its broad-scale applicability. Companies, institutions and governments capture vast amounts of data as consumer interactions and transactions increasingly go digital.

At the same time, high-performance computing is becoming more affordable and widely accessible. Together, these factors are having a powerful impact on workforce automation. ... Payments providers are familiar with machine learning, primarily as it pertains to credit-card transaction monitoring, where learning algorithms play important roles in near-real-time authorisation of transactions. These include everything from using web-sourced data to more accurately predict borrower delinquency to using virtual assistants to improve customer service performance.

Rapid growth in the availability of big data and advanced analytics will have a significant impact on virtually every part of the economy, including financial services. Machine learning can be especially effective in cases involving large dynamic data sets, such as those that track consumer behaviour.

Machine learning can even identify data anomalies and treat them as directed, thereby improving predictability. These unique capabilities make it relevant for a broad range of payments applications.

From 'Beyond the Buzz: Harnessing Machine Learning in Payments'



# Our Inner Stillness

## RAJINDER SINGH JI MAHARAJ

A soul infuses 'life' in the human body for a certain period of time. When the soul inhabits the body, it is still one with God. The soul, however, is overpowered by powerful forces, such as the mind, the body and the outer world, which cause it, over time, to forget itself. The soul slowly begins to identify itself with the body, mind and world outside. It is attuned to only one channel: the channel of the world.

This physical planet is not a separate offshoot from all of creation and God. Most religions believe there are higher regions of existence to which the soul goes after it dies. Scientists and doctors have tried to verify this by documenting accounts of people who were declared clinically dead but had near-death experiences and described something in the nature of after-life.

The question is, where are these realms? They are not zones in outer space delineated by borders. These realms exist concurrently with the material or temporal realm. The reason we are not aware of them is because they operate on a different frequency or vibration.

The saints and mystics tell us that we have the choice to either stay tuned to this physical world or to tune in to the channels of God. For this, we must stop identifying with the body, mind and temporal world, and identify with the soul instead. Once we identify with the soul, we will pick up the frequencies the soul is capable of receiving. God has not made it hard for us to become aware of our true Home. It is we who have made it complicated.

## Chat Room

# Transparency in Poll Funding

Appropos 'It's the System, Not Just Lulu' by T K Arun (May 17), the sheer diversity of India with its humongous range of parties and groups adds to the complexity of institutionalisation of political funding to bring in transparency. There is no disagreement on the importance of eliminating corruption in politics, but is there an effective and implementable solution? Is there a transparent model of political funding successfully tried out in other democracies? If not, the matter needs wider and deeper discussion to thrash out practicable options.

GRAJAGOPALAN NAIR  
Kochi

# Business Ties on Our Terms

This refers to 'Client State, Escort Service' by Ashok Malik (May 17). The details of the CPEC master plan published by the Dawn portray a virtual takeover of Pakistan's economy by China. India, in contrast,

boycotted the BRI Forum. However, this should be seen as a temporary turbulence. India is a huge market that the aspiring

global superpower cannot afford to ignore. Undoubtedly, we must continue to do business with China. But, unlike Pakistan, this should be on our terms and without sacrificing our economic sovereignty.

PRAMOD PATIL  
Nashik

# United Firewall to Block Attacks

Cyber attacks on our digital universe is but a flip side of human ingenuity. The stress must be on united efforts to build firewalls that must go far beyond individual attempts to develop anti-viruses with an intent to monetise them. A token cess on data usage would be ample to seed and sustain a global initiative to tackle cyber terror: A basic security module heavily subsidised to meet most general needs would also help insulate larger and more data-sensitive systems, notably the massive Aadhaar data. Ransomware is a blinking red signal.

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