Opinion

MONDAY, JULY 17, 2017

TRUMP SYNTACTIC GAFFE

US president Donald Trump, undone by an incorrectly placed adjective

Republicans Senators are working hard to get their failed ObamaCare replacement approved. I will be at my desk, pen in hand!

Time to re-look inflation forecasting

With RBI consistently getting it wrong & CPI below even the lower bound, cutting repo is just the first step

IT IS NOT clear whether CPI inflation at a historic low of 1.5% in June—the last time we saw such low inflation was in 1999 and before that in August 1978—and well below RBI's lower bound of 2% will convince the central bank to cut repo rates next month. But more than that, RBI needs to do some serious introspection over its inflation forecasting methodology. The chief economic advisor doing an I-told-you-so when the data came out may not look graceful, but he has a point when he talks of a 'paradigm shift in the inflationary process' and of 'large, one-sided and systematic inflation forecast errors'. In October 2016, RBI projected March 2017 inflation at 5.3%, by December this was lowered to 5% and in February 2017, it was lowered to under-5%—with the actual at 3.9%, this meant RBI got it wrong by 110 bps for a forecast being made for just one month down the line. The forecast for June, made in April, was 4.2% whereas the actual has come in at 1.5%, suggesting the element of error is rising. Not surprisingly, while RBI had forecast 4.5% CPI-inflation in H1FY18 and 5% in H2, it slashed these by 175 bps for H1 and 100 bps for H2 in its June outlook.

What is amazing is that, despite all evidence that inflation is in a new zone, RBI continues to want to 'remain watchful of incoming data'. Certainly, with inflation starting to fall off from August 2016, the base effect will mean inflation over the next few months will be higher than it would have been normally – will RBI then use that as a reason for not cutting rates? Keep in mind, RBI's own CPI forecast for the year averages below 4%, suggesting it should be cutting rates since the economy is in deep trouble and there is little sign that inflation will spiral out of control. So far, the monsoon has been good and sowing (till July 14) was 8% above last year—24% in the case of pulses. The global outlook for crude oil has worsened and even lower prices are being forecast. With May IIP once again collapsing, to 1.7%—this is the fifth month of negative growth in consumer durables—it is obvious the output gap continues to rise, ensuring little or no pricing power in the manufacturing sector. Indeed, with manufacturing first being disrupted by demonetisation and then by GST, the supply chain will take some months to recover—so, it is likely the output gap will continue to remain large and inflationary pressures limited.

RBI is right when it argues it will take more than interest rates to revive investment since there is the twin balance-sheet problem as well as large infrastructure bottlenecks. But arguing interest rates are not the only factor that determine investment is not the same as arguing they don't matter at all. After all, if real interest rates are, as they are, at a 20-year high, with no signs of any great revival in demand, this will ensure no one will invest at all and it will also dampen consumption. With the economy in desperate need for a stimulus and interest rates completely out of whack, it is not clear why RBI is refusing to cut repo rates since inflation remains firmly under control.

Aadhaar & privacy, not *vs*

Why wait for a Constitution bench to pronounce on it?

THOUGH THE GOVERNMENT contends, in line with Constitution benches of the Supreme Court, that the right to privacy is not a fundamental right, with another Constitution bench going to examine the matter afresh, the government would do well to review its stance. For one, while SC said, in 1954 and then 1962, that privacy was not a fundamental right—the first was an eight-judge bench and the second a six-judge one—the law is not static. In today's day and age, it is difficult to argue privacy is not a basic or a fundamental right. Indeed, various SC judgments have veered around to this view. In 1975, in *Gobind vs the State of Madhya Pradesh & Anr.*, the Supreme Court ruled "there can be no doubt that privacy-dignity claims deserve to be examined with care and to be denied only when an important countervailing interest is shown to be superior. If the Court does find that a claimed right is entitled to protection as a fundamental privacy right, a law infringing it must satisfy the compelling state interest test. Then the question would be whether a state interest is of such paramount importance as would justify an infringement of the right." So, if the new Constitution bench was to weigh in on the side of privacy, the government will be in a soup since it has, over a period of time, made an Aadhaar linkage mandatory for a variety of services from ration cards to PAN and even phone numbers.

What makes the government position especially odd is that data security is something it too is concerned about, and this includes private data—recall the recent episode of one website claiming it had data for RJio's customer base. At a time when India is getting more digital, and not just in payments, securing data is critical, and for that, a stringent privacy law is a must. Arguing against privacy, in any case, makes little sense since the government stance has always been that, first, the Aadhaar database of biometrics is completely secure and second, as the database does not keep information on financial or other transactions, it can never be used to breach privacy. If the government brings in a comprehensive privacy law soon and is able to demonstrate its claims on the Aadhaar database being fully secure and that it does not store transactions data, it has nothing to fear—even if the new Constitution bench says the right to privacy is a fundamental right, this will not upset the usage of Aadhaar. On the other hand, the privacy law will make citizens feel that much more secure about, for instance, digital payments and even about their data that is routinely collected by their phones and the Googles and Facebooks of the world.

PersecutingDEMOCRACY

Liu Xiaobo's death is a stand-in for the desecration of democratic values

THE CONDITION IN which Liu Xiaobo, Chinese democracy activist and 2010 Nobel Peace Prize winner, died last Thursday speak volumes of what modern China is and what the modern world risks becoming. Liu, who had been in jail since 2009 for "inciting subversion of state power", was given medical parole on June 26 after the cancer in his liver became terminal. It might have been the Chinese state that incarcerated him, but he died a prisoner of conscience of the entire modern world. He had learnt of his liver cancer in May, but he was consistently denied permission to travel abroad for treatment. Token protests were raised, but not one state leader in the free world faced up to the Chinese government to let him seek treatment for the fear of angering an important trade/military/strategic partner—meanwhile, China turned his death into a near Kafkaesque tragedy, allowing foreign doctors to examine him only days before he died.

A scholar, writer, poet and social commentator, Liu was instrumental in drafting of a reform manifesto that spoke of direct elections in China and an end to the single-party rule in the country. Liu had dedicated his life to peaceful political change—during the 1989 Tiananmen Square protests, he negotiated the retreat of student demonstrators as thousands of armed personnel of China's People's Liberation Army stood by to strike. China's repression of pro-democracy activism has only gotten more trenchant as it has risen to become a world superpower. The present dispensation has been known for its pronounced dislike of internal and international criticism over human rights and democracy. Even in Liu's death, its disdain for him has been unsparing—answering questions regarding his death, the state observed, "Liu is a prisoner who was sentenced to imprisonment in accordance with Chinese law... Conferring the (Nobel Peace) prize to such a person goes against the purposes of this award. It's a blasphemy of the peace prize." If Liu's forlorn death is to stand in for anything, it must for the desecration of democratic values.

FROM PLATE TO PLOUGH

PUNJAB HAS LESS THAN 3% OF CROPPED AREA UNDER FRUIT AND VEGETABLES, THIS NEEDS TO BE 10% OVER THE NEXT FIVE YEARS

Getting Punjab agri back on high-growth path

ASHOK GULATI & SIRAJ HUSSAIN

Gulati is Infosys chair professor, Agriculture and Hussain is former secretary, agriculture, GoI and now senior visiting fellow at ICRIER

PUNJAB HAS BEEN a star performer in agriculture during the heydays of the Green Revolution. Its agri-SGDP growth rate was 5.7% per annum during FY72 to FY86, more than double of the all-India average, 2.3%. But thereafter, the Green Revolution started greying, and growth rate of Punjab agriculture fell to 3% per annum during FY87 to FY05, almost same as all-India's 2.9%. However, during FY06 to FY15, Punjab agri-growth slipped to just 1.6%, less than half of the all-India average of 3.5% (see accompanying graph). During this period, some states like Madhya Pradesh delivered an agri-growth rate as high as 9.7%.

It is not that Punjab has highest value of agri-output per ha, which is slowing down its growth rate, as the state has also fallen way behind in this ranking (see accompanying graph). So, how the state can get back to a 5%-growth path is a matter of serious concern. It is interesting to note that Punjab always had highest per capita income among the 21 large states of India till FY03. Not any more now. It has already slipped to the seventh position, and unless some drastic policy changes take place, it is going to slip further.

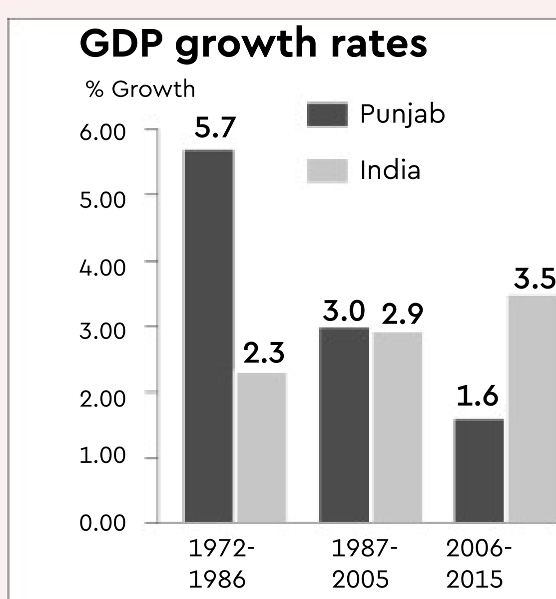
Punjab is endowed with one of the best possible infrastructure for agriculture in the Indian context. It has the highest irrigation cover amongst all states of India, with 98.5% of its cropped area irrigated. Almost 80% of irrigation is from groundwater sources, which is supported by highly subsidised power. The provision for power subsidy in the FY18 budget has crossed ₹7,000 crore, much higher than any other program in agriculture and allied sector. It is this large power subsidy—much of which goes for rice cultivation, as rice needs about 25 rounds of irrigation—that is causing the water table to deplete fast. It receded at the rate of 70 cms per year during 2008 to 2012, and 110 out of 132 blocks have been declared as over-exploited. This is the biggest bane of Punjab agriculture today. As far as other infrastructure go, almost all villages are connected with all-weather *pucca* roads. The network of regulated *mandis* is one of the best one in the country. A robust and fast-moving procurement system erected over years has reduced the market risk of wheat- and paddy-growers in the state by procuring almost 90% of market arrivals at minimum support price (MSP). It is this system that has made Punjab farmers risk-averse and is the biggest bottleneck for diversification away from wheat-rice, which occupy more than 83% of the state's cropped area. What is it that can be done to Punjab agriculture, which can help raise farmers' incomes with sustainable agriculture, especially with respect to its groundwater resources? Diversification from common rice to hybrid maize is one option, which can save power subsidy and groundwater, and yet give almost the same income as paddy. But in the absence of any procurement of maize, farmers are reluctant to switch. Our suggestion to the Punjab government is to use the potential savings in power subsidy, with farmers switching from paddy to maize, amounting to roughly ₹10,000/ha, for covering the risk of maize farmers by promoting feed mills for poultry, silage units for milch cattle, and starch industries using maize.

Hopefully, with the new GST regime and rationalisation of taxes, the food processing industry will be incentivised to buy agricultural raw material from Punjab, in preference over other states. Initially, any losses on account of procurement may be borne by the Centre in the interest of attaining ecological balance in the state.

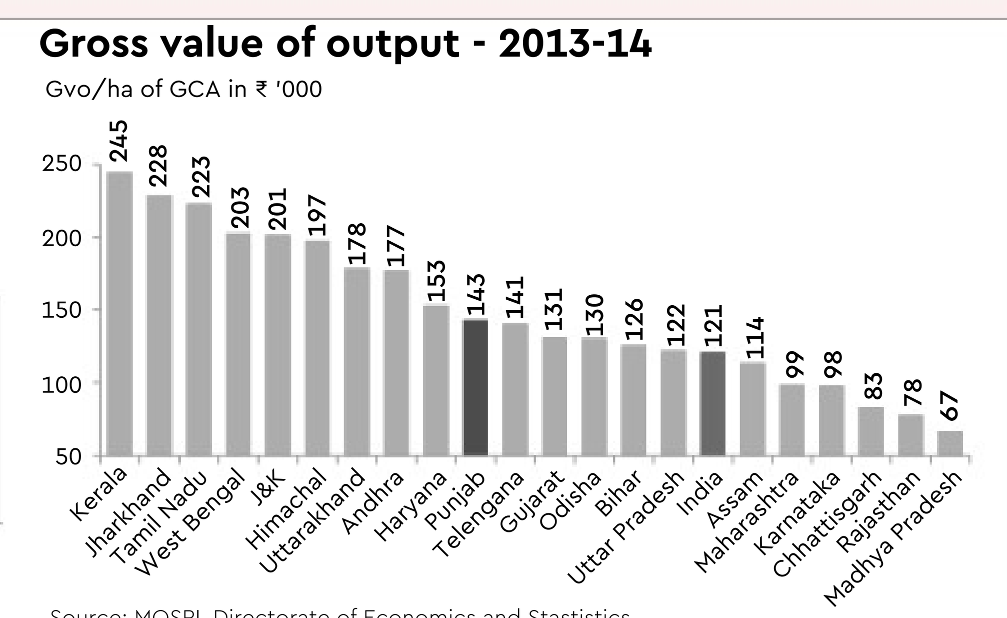
Reduction in area under paddy in Punjab (except basmati, which delivers much higher price to farmers) has to be matched by vigorous efforts to increase productivity and procurement of rice in eastern states which get much higher rainfall and are more suitable for paddy. Simultaneously, Punjab should promote use of micro-irrigation, especially for sugarcane and fruit and vegetable (F&V) crops. Another source of diversification of agriculture in Punjab is dairy and meat industry. Punjab has the highest yield of milch animals in the country, and its per capita consumption is also the highest, but it processes just about 10% of its milk production while Gujarat processes about half of its production. Punjab needs to incentivise both private and cooperative dairies to invest in processing of milk and milk products, taking this ratio of 10% to 30% in five years. Further, 67% of milch animals in Punjab are buffaloes, which are also reared by landless labour. With restrictions on transportation of buffaloes for slaughter in UP, which has largest number of Agricultural and Processed Food Products Export Development Authority (APEDA) approved, export-oriented abattoirs, a lucrative export market of meat is waiting to be tapped by Punjab. If the state can eradicate foot and mouth disease, the buffalo meat from Punjab can be sold at premium rates in international markets, ultimately benefitting the dairy farmers.

The next, demand-driven diversification has to be towards F&V. Punjab has less than 3% of cropped area under F&V, which needs to be pushed to, say, 10% over the next five years. However, the government will need to invest in marketing infrastructure for F&V, as it did for grains in creating *mandi* infrastructure. With protected cultivation and an integrated cold chain, backed by robust food processing industry, Punjab can tap market for fresh and processed produce in Middle East and central Asian countries also. A modern expressway from Khanna to Kandla could be helpful in faster transportation of F&V.

Can it move in that direction with the new government? Only time will show.



Source: MOSPI



Source: MOSPI, Directorate of Economics and Stastistics

Accounting it right

GST calls for a behavioural, infrastructural and technological change among enterprises so that they can reap the potential gains

ACHAL CHAWLA

Tax partner, EY India
Views are personal

THE GOODS AND SERVICES Tax (GST), a radical step towards the country's transformation into a common market, became a reality at the stroke of midnight on July 1, 2017, and its implication on the industry extends well beyond tax. GST affects every part of the business, right from financial reporting and tax accounting to supply chain, technology enablement and contracts redesign.

The need of the hour is to ensure that the GST registration process is complete and the IT, billing and enterprise resource planning (ERPs) are suitably rejigged to fulfil statutory obligations.

The first key action point is to update the customer and vendor masters. This requires collection of information in terms of the GST Identification Number (GSTIN) of suppliers and vendors, determining the Harmonized System of Nomenclature (HSN)/ Service Accounting Codes (SAC) of goods/services to be supplied and their applicable GST rates. Second, all the existing documents, such as tax invoices, credit/debit notes, delivery challan, which are to be issued under the GST regime, need to be modified to capture additional information required under GST. There is a requirement for issuing certain other documents, such as payment vouchers at the time of making payment to vendors for supplies on which tax is payable under reverse charge, receipt and refund vouchers related to advances and a self-invoice in case of procurement from unregistered dealers. All these documents need to be incorporated in the IT system. Further, all internal reports and periodical MIS reports also need to re-aligned from GST perspective.

Another significant requirement in terms of GST is payment of taxes on advances. The law requires that GST is to be paid in the month in which advance has been received, but the same can't be adjusted either fully or partly at the end of the month. GST is payable only on the amount of advance which is pending at the month end. In such cases, though the tax is paid on advances, the tax invoice will be issued only when the goods are being supplied. Customers can get the credit only when the goods are received by them. There are separate reporting requirements under GST for taxes paid on advances and their adjustment. IT systems should be able to track down the month-end advances on which GST is to be paid and their adjustments made in subsequent months.

Companies have to rethink their organisation structure for GST compliance, as to whether they can undertake all compliances at a central level

The readiness of internal IT system is one of the key requirements for successfully continuing the business with minimum glitches. Further, eligibility of input tax credits are dependent upon the electronic reconciliation of the sales information uploaded by vendors and purchase information uploaded by the recipient on the GSTIN system. This creates a significant onus to correctly upload the sales and purchase data in order to ensure electronic reconciliation between the information uploaded by vendors and customers. Further, each assessee will be able to download the information uploaded by her/its suppliers and reconcile the same with the information uploaded by them.

For filing the GST returns, assesses will have to access the Goods and Service Tax Network (GSTN) portal and upload the information in requisite formats. GSTN has appointed GST Suvidha Providers (GSPs) who would assist in filing of returns as IT conduits. In order to work with GSPs, there is a requirement of Application Service Providers (ASPs) solution. Some GSPs have developed their own ASP solution to provide an end-to-end solution to assesses.

ASPs will focus on taking taxpayers' raw data on sales and purchases and converting it into GST returns (in case of multiple registrations, it is a huge task manually). These GST returns, or GSTRs, will then be filed on behalf of the assessee with GSTN via the GSP network.

GSP provides a secured tunnel which feeds in data from ASP (in other words, ASP's output becomes input for GSP) to the GSTN and generates acknowledgement.

Companies dealing with large number of invoices every month need to automate and upgrade their ERP software to provide data points on a timely basis to cope with the increased number of returns. A good ASP-GSP is required to make the process of reconciliation under the GST regime seamless and hassle-free.

Relooking the manpower requirement to carry out the tax compliances is another area which needs consideration by organisations. Companies have to rethink their organisation structure for GST compliance, as to whether they can undertake all compliances at a central level as much of the work is online or if they still need to work at a decentralised level as in the pre-GST regime.

GST calls for a behavioural, infrastructural and technological change among enterprises so that they can reap the potential gains of its implementation. In this context, information technology/ERP software are going to play a pivotal role.

LETTERS TO THE EDITOR

Fanning language chauvinism

It was very sad that Hindi-speaking people streamed out of a concert by AR Rahman in London. In doing so they betrayed their language chauvinism. To add insult to injury, they demanded a refund of the cash they paid. The walk-out from the concert came as a surprise when the 'Mozart of Madras'' sang more Hindi songs than Tamil songs. This indicated that they were more anti-Tamil than pro-Hindi and provided evidence of growing linguistic intolerance. In a multi-lingual society no one language can claim primacy or superiority over other languages. Non-Hindi speaking people are not naive to not understand that Hindi imposition is an effective way of imposing a certain culture at the cost of their own cultures. While we do not undervalue any language, we pride ourselves on our language with its rich literature and expect the Hindi-speaking people to be proud of their language without trying to belittle other languages. AR Rahman spoke in Tamil when he received the Oscar award in Cannes. If numerical superiority is any reason to exalt a language to the status of the national language, by the same token, the crow should be our national bird. What would happen if non-Hindi speaking MPs stage a walk-out from the Parliament when someone speaks in Hindi?

— G David Milton, Maruthancode

Institutional graft

Looking at the way corruption stands institutionalised, the accusation of Karnataka DIG (Prisons) D Roopa that her seniors in the prison department have accepted a ₹2 crore bribe from the imprisoned VK Sasikala to give her preferential treatment appears genuine. If it is true, it is against the verdict of the Apex Court and a mockery of the concept and spirit of the judgment delivered against Sasikala. and the other two.

— Tharcius S Fernando, Chennai

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ILLUSTRATION: SHYAM

TEJINDER NARANG
Grains-trade expert

A rice in prowess

India's farm produce is private; mills are private; traders are self-employed who arrange financing privately; market risk of profit and loss is private; buyers/importers too are largely private. Rice inflation is under control. The lesson is that the less the government the better the trade

RICE (BASMATI+NON-BASMATI) export of 75 million tonnes (mt) in a decade between 2007-17 with forex earnings of ₹2,76,000 crores—which as per current $/rupee parity equals $42.5 billion—is one of the most notable features of India's trade thrust. This would be even more in dollar terms if lower rupee-dollar is factored for previous years. Thailand stands at number one with export of 90 mt rice in the same period while India at number two (see accompanying graph) and Vietnam with 62 mt at number three.

India would have surpassed Thai's highest figure—but for the three year ban (from 2008 to 2011), imposed by the then government on export of Non-Basmati rice. India suffered "export loss" of atleast 16-17 mt of rice during prohibition period, while there was no scarcity of cereal in that triennium. India has never imported rice on government account for last 25 years or so, and thus has a record of self-sufficiency. All rice exports are from private stocks—thus keeping food security fully insured through FCI and its agencies.

If data for the last five years is analysed, then India shipped out @10.9 mt each year—54.5 mt versus 47.5 mt of Thailand—because no ad-hoc tweaking in export policy was done by the government. That is how it should be. Exports require unrestricted access to markets and any ban or change in policies entail handing over clients to competition. Thailand, due to its government's irrational paddy pricing policy of 2011, outpriced itself from African/Asian markets. Its rice quality suffers due to processing from old-damaged paddy.

In 2017-18 too, India is likely to maintain annual shipments of 11-12 mt of rice in a world trade of 42 mt. This sustained success should be highlighted in all international fora to build India's brand image as a quality and quantity exporter of rice.

The government's programme to "Bring the Green Revolution to Eastern India (BGREI)" through improved technologies launched in 2010 has realised significant productivity gains in Bihar, Chhattisgarh, Jharkhand, eastern Uttar Pradesh, West Bengal, and Odisha.

India's annual production is about 110 mt of milled rice; opening stocks of 19 mt; total availability is 129 mt versus local consumption of 100mt + exports of 11mt, thereby leaving surplus of 18 mt as of now.

India lacks presence in South-east Asian market of Indonesia, Philippines and China where Thailand/Vietnam dominate because of logistics and historic continuity. China, too, is turned regular importer of 4 mt annually where our presence is negligible.

Basmati

Total annual production of Basmati is about 10 mt. Saudi Arabia, Iran, Iraq, UAE, Kuwait remain prominent markets of 3-4 mt of Basmati rice annually. Basmati Pusa 1121and 1509 varieties released, respectively in 2003 and 2013, by IARI in parboiled form have proved to be a boon for the farmers/millers and buyers in Iran/Saudi Arabia as it is 40% cheaper than traditional Basmati with grain length of 20 mm after cooking. At present, it trades at $1150 fob versus $900 fob last year. Thai fragrant rice competition is subdued with Pusa 1121. Sortexed capacities involving optical and electronic sorting machines have been upgraded by rice millers for uniformity in color/quality. Prominent rice exporters are also targeting the US and the EU—though they keep raising issues of Minimum Residue Levels of fungicide, which adversely affects volume and velocity of exports.

Non- Basmati

Nigeria and Francophone countries of West Africa (Benin Liberia, Mali, Guinea, Senegal, and Ivory Coast) South Africa, UAE are some of the major destinations of Indian Non-Basmati rice exports of 6-7mt per annum. Trade with African nations is preferably done through intermediaries in France/Switzerland/UAE to ensure payment. In addition to 25% broken white rice, India is prime player in 5% parboiled and 100% broken white silky sortexed rice. Multiple varieties of rice like—Pant 4, IR64, IR36, IR8, 1001, Sona Masoori—offer choices for right pricing.

Nigerian/Benin market is of 2 mt per annum where Thai and Indian parboiled rice sell at par in equal ratio; entire Liberian market of 0.5 mt needs Indian parboiled variety only; Ivory Coast has annual demand of 1.3 mt with 50% market share of Indian parboiled/white rice. Senegal demands 1.2 mt annually 100% broken white silky sortexed rice where Indian share is 60%—rest goes to Thai and Uruguay.

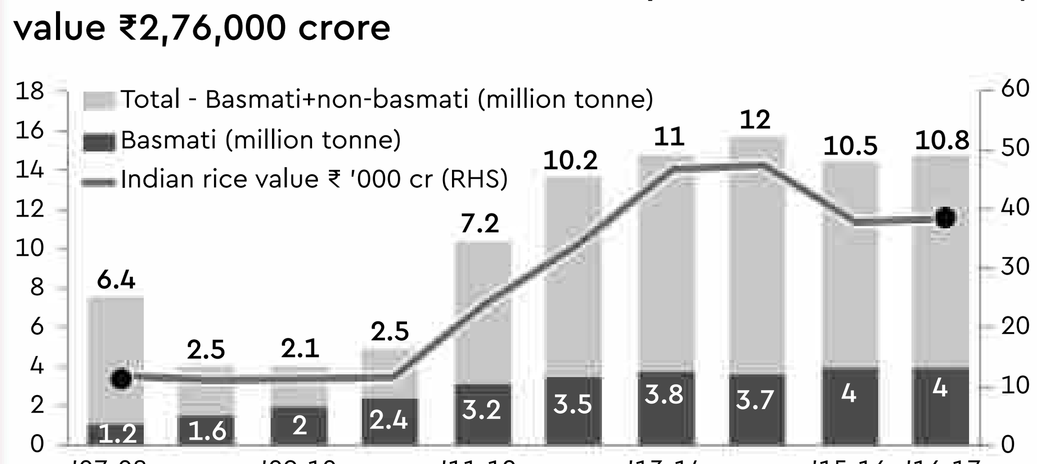
Bangladesh—The new kid on the block

This year Bangladesh needs to import 1.5 mt of Non-Basmati rice-that could go up to 2 mt. Import duty has been reduced by the government of Bangladesh (GOB), to 10% from 28%—thus confirming desperation of demand. GOB has issued five tenders of 50,000 mt each where 0.1mts Indian 5% parboiled rice is contracted at $430 and $445 C&F, while local wholesale price in Bangladesh is taka 45/kg or about $560/mt. GOB also bought 0.2 mt of Vietnamese parboiled rice at $470/mt C&F.

Indian private traders are daily making truck dispatches from West Bengal/Bihar to Bangladesh and have dried up market surpluses in these two states. Additional demand will be catered from Jharkhand/ Chhattisgarh by land route or from Kakinada via sea. Price of 5% parboiled rice which was $400 C&F Chittagong in May 2017 is higher by 10% now. Indian prices are under tremendous pressure due to demand pull from Bangladesh that will make rice expensive for African markets as well.

India's farm produce is private; mills are private; traders are self-employed who arrange financing privately; market risk of profit and loss is private; buyers/importers too are largely private. Rice inflation is under control. The lesson is that the less the government the better the trade. Momentum of rice export can be maintained if the government avoids tinkering with current policy profile. Rice is the only agro-commodity that has weathered the test of time in national and international markets.

In a decade (2007-17) Indian rice export 75 million tonne; value ₹2,76,000 crore



10-years of rice trade - major nations exporters/importers

INDO-US TIES

Working on a new deal

RANA KAPOOR
MD & CEO, YES BANK and Chairman, YES Global Institute

Strong Indo-US ties will definitely help India's access to international forums

AS PRIME MINISTER Narendra Modi walked in for the State Dinner hosted at the White House last month, the whole world keenly observed the relationship between the leaders of the two most important global economies of the world.

As true engines of economic and industrial growth, I believe that the India-US relationship will be critical to enhance bilateral trade and investment and to catalyse global growth. The positive energy from the first official meeting between president Donald Trump and prime minister Modi is highly encouraging, and indicative of a successful economic partnership that will be mutually beneficial, and indeed shape global trends for decades to come.

Two way trade between India and the US reached $114 billion in 2016, and with the Indian economy growing at over 7% annually, this number is expected to rise for the current year. India's positive economic outlook and favorable demographics remain key attractions for advanced economies, whereas the import demands of the US act as a catalyst for growing economies. India also enjoys a favorable trade balance of $24.4 billion in goods with US and features among only 12 other countries with whom the US has a trade deficit (though marginal compared to ~$347 trade deficit with China).

While trade and investment relations will also be dependent on evolving immigration policies and technological cooperation in the long run, the two countries have already found synergies in terms of the energy outlook and their respective energy strategies. PM Modi and president Trump have reaffirmed the continued importance of their Strategic Energy Partnership and of leveraging new opportunities to raise cooperation towards developing global energy security. India's standing in the Energy Sector is rising globally, with investments in countries like Russia, Vietnam, Mozambique and South Sudan. As International Energy Agency (IEA) predicts, India will turn a global player in the energy market during the next 25 years and play a pivotal role in various aspects including renewable energy, energy efficiency and developing a balanced approach towards environment and climate policy.

> While Indo-US relationship will depend on US' openness to capacity building, technology transfers and immigration, a lot will also depend on Washington's policies on global counterterrorism

The statement that the two countries will expand innovation linkages across the energy sector and deepen cooperation, including on more efficient fossil fuel technologies, smart grids, and energy storage, is a very welcome strategic move for India. The move is expected to bring in international financing of energy projects, including clean coal projects, with involvement of Multilateral Development Banks towards promoting universal access to affordable and reliable energy.

A conclusion of contractual agreements between Westinghouse Electric Company and the Nuclear Power Corporation of India for six nuclear reactors in India will not only boost the related ancillary opportunities but also bring in opportunities of employment and high level skilling. While increasing market access in areas like agriculture, information technology, manufactured goods and services can only evolve with time, defence ties have been strengthened to an unprecedented level. India's increasingly global profile and deepening bilateral ties with countries like Afghanistan, UAE, Singapore, UK, Japan and others makes it a much more credible entity for US defence exports and technology transfer.

Strong Indo-US ties will definitely help India's access to international forums and position itself meaningfully against or for initiatives like 'One Belt One Road', UN Comprehensive Convention on International Terrorism, Indian Ocean Naval Symposium, etc. India's challenge to build up a strong counter-terrorism leadership across the world needs a strong ally like the US. While Indo-US relationship will depend on US openness to capacity building, technology transfers and immigration policies, a lot will also depend on Washington's policies on global counterterrorism and its willingness to a whole hearted embrace of India's emergence as a global economic powerhouse.

WORLD RECESSION

Do emerging countries matter?

The limits to "outsourcing of time" may have been reached in developed countries

MANOJ PANT
professor, Economics, SIS, JNU

AT PRESENT, THE world is facing a recession which began as long back as 1908. Most economists would argue that this qualifies to be the first "Great Depression" since the 1930s. What is, however, more puzzling is why this recession shows no signs of petering out: so far economists seem to have had the answer to such global demand recessions—Keynesianism. So why is that not working now?

While no accepted definition of a recession exists, we now recognise some important symptoms: a persistent decline in both output and prices over a period of three or more quarters. Producers are stuck with unsold stocks and let go of people who then cut back on expenditure and so on. This actually happened in the 1930s. However, as Keynes had pointed out, the answer to such "bad days" is not "tightening your belt" by cutting expenditures and saving for a rainy day but exactly the opposite: pump priming the economy mainly by government use of fiscal policy which cuts taxes and raises public expenditure to put more money in the hands of the people. This actually worked wonders in the 1930s. The now famous: "New Deal" associated with President Roosevelt did precisely this and by the end of the 1930s recession had ended.

This was also attempted in 2008. Keynesian pump priming measures were taken with a US government stimulus of about $1 trillion and reduction of trade surpluses by China in particular. While the US stimulus was made up of direct government expenditure on infrastructure, health, etc, China's trade surplus as a ratio of its GDP declined from 7% in 2008 to about 2% by 2011, which implied that China was attempting to put some of its excess reserves to work in increasing world demand. India, too, effected some major fiscal pump priming measures like cuts in excise duties and other tax rates. Yet, almost a decade down the line, the global economy is still not out of the woods. Barring the US, developed countries of the EU, Japan, etc, are all in trouble. One feature of the decades after 1980 has been the increasing wage inequality in all countries, developed and less developed. Politically, this has thrown up a Trump presidency in the US while disgruntled middle class workers voted for a UK exit from the EU. What is even more surprising is that most commentators now seem to feel the answer lies in growth of emerging economies and, in particular, the large ones like India and China. So what went wrong with the Keynesian prescription?

One answer is given in terms of technology. It is argued that technology has displaced unskilled workers, and hence job creation envisaged by Keynes has not taken place. However, while the technology argument may explain growing inequality it does not explain why total income growth has also slowed down. Recently, some authors have argued that the problem is the changing demographics. It is argued that only countries which have a reasonable growth of working class population have seen positive GDP growth in recent years so that growth of labour force becomes a necessary (though not sufficient) condition for growth of incomes. Yet, these authors are unable to argue analytically how the demographics story takes away from the Keynesian argument. That demographics are turning against developed countries is undeniable. In recent years, the growth rate of the working population has declined from over 1% to less than half a percent even for countries like India and China. For countries like Japan, the working population is in fact declining. Similarly, overall population growth rates are falling below the replacement level for most developed countries. So how can one relate the technology-demographics argument to Keynes and the continuing recession?

To understand this consider a feature of technology. What technology does is to produce more and more output with the same inputs—productivity increase. In economics, capital and labour are treated asymmetrically. While capital and technology combine with labour to produce output it is only labour which constitutes demand in the Keynesian sense: robots do not need to eat food or buy TVs! In addition, Keynes did not incorporate the role of time in consumption. While increased consumption needs income it also needs time. Consider electronics. The number and types of new products created is increasing exponentially: TVs, phones, washing machines etc. Yet, to consume these products an individual also needs time which is fixed at 24 hours a in a day. It is not surprising that in developed countries many of the initial technological innovations were time (and labour) saving: from smart homes and refrigerators to convergence of TVs and other visual media. This is where demographics comes in. As populations peter out (total and working), time becomes a constraint on consumption particularly in developed countries. Yet, technology continues to throw up new products at an exponential rate.

This is where emerging countries come in. Large, young and still growing populations allow for a multiplication of time. As my income grows many irksome tasks can be "outsourced" to the large army of unemployed. While the limits to such "outsourcing of time" has been reached in most developed countries, this is not so in large developing economies like India.

So, global demand is likely to be constrained by demand growth in large emerging economies. However, this demand growth will depend on how technology and production also shifts to these countries.