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Opinion SATURDAY, AUGUST 12, 2017



THANKS, PUTIN

Donald Trump, on Russia expelling US diplomat

I want to thank him (Putin) because we're trying to cut down our payroll, and as far as I'm concerned I'm very thankful that he let go of a large number of people because now we have a smaller payroll

Reaping DeMo or GST bonanza?

Finance ministry projections suggest GST will be the larger contributor, but the targets are steep

ON THE FACE of things, if the government is able to achieve its FY20 tax-to-GDP target of 11.9%, up from a projected 11.3% for FY18, this will be nothing but going back to the levels achieved way back in FY08. Within two years of this, however, tax-to-GDP levels were down to 9.6% and then stabilised at around 10% from FY10 to FY15.

Some part of this jump is due to personal income tax collections rising with more attention being paid to getting taxpayers to e-file their returns which allows computers to do a lot of the matching that the taxman may not be able to catch—as a share of GDP, personal income tax collections rose from 2.1% of GDP in FY15 to a likely 2.6% in FY18.

The biggest contributor to the FY15-FY17 increase was excise duty which, as a share of GDP, rose from 1.5% to a whopping 2.6%. As global oil prices collapsed, finance minister Arun Jaitley didn't pass them on to consumers but chose to mop up the lion's share through massive hikes in petroleum excise.

Moving beyond consent

Making data controllers accountable is a good start

WHETHER OR NOT the Supreme Court reverses its stand and concludes privacy is a fundamental right remains to be seen, but in either event it is critical to secure the data being given to a plethora of organisations like Apple, Google and Facebook and countless apps, and not just to Aadhaar though the public imagination seems to have got fixated with it.

Takshashila argues that true data protection can be secured through a "rights-based model" based on accountability of the data controller, autonomy of the user over her data and security of the data. The model will guarantee certain broad rights to individuals, with the onus on the controller that these are not violated.

Supporting SURROGACY

Parl panel examining Surrogacy Bill makes some progressive recommendations

THE PARLIAMENTARY STANDING Committee on Health and Family Welfare's recommendations on the proposed legislation surrogacy reflect the kind of progressive thinking policy-making in India needs. The 31-member panel, with 12 from the ruling BJP, favoured allowing single persons, live-in couples, divorcees, widowed(-red), and homosexual persons to become parents via surrogacy while the original Bill only kept that window open for Indian heterosexual couples who had been married for at least five years and were childless.

The panel was also critical of the provisions that made surrogacy 'altruistic' and limited the option of the surrogate to a close relative of the couple. This, as the panel argues, ignores the reality of patriarchy in India. The close-relative clause meant that women could be pressured by families to bear children for relatives even when they don't want to, and get nothing in the bargain.

REGIONAL COOPERATION

THE BLOC'S HISTORY SUGGESTS IT WILL BE ABLE TO WEATHER THE STORMS THAT COULD RESULT BECAUSE OF ESCALATING TENSIONS IN ITS NEIGHBOURHOOD

Southeast Asia's Asean advantage

WE LIVE IN troubled times, with pessimism clouding even the most prosperous parts of the planet. Many are convinced that the international order is falling apart.

Yet, amid the gloom, Southeast Asia offers an unexpected glimmer of hope. The region has made extraordinary progress in recent decades, achieving a level of peace and prosperity that was previously unimaginable.

Southeast Asia is one of the world's most diverse regions. Its 640 million people include 240 million Muslims, 120 million Christians, 150 million Buddhists, and millions of Hindus, Taoists, Confucianists, and Communists.

This diversity puts Southeast Asia at a distinct disadvantage in terms of fostering regional cooperation. When ASEAN was founded in 1967, most experts expected it to die within a few years.

At the time, Southeast Asia was a poor and deeply troubled region, which the British historian CA Fisher had described as the Balkans of Asia. The Vietnam War was underway, and the Sino-Vietnamese War was yet to be fought.

KISHORE MAHBUBANI

Dean of the Lee Kuan Yew School of Public Policy, NUS



Malaysia, the Philippines, Singapore, and Thailand—as dominoes, set to be tipped over by a neighbour's fall to communism or descent into civil strife.

But ASEAN defied expectations, becoming the world's second most successful regional organization, after the European Union. Some 1,000 ASEAN meetings are held each year to deepen cooperation in areas such as education, health, and diplomacy.

ASEAN has signed free-trade agreements (FTAs) with China, Japan, India, South Korea, Australia, and New Zealand, and established an ASEAN economic community. Today, ASEAN comprises the world's seventh-largest economy, on track to become the fourth largest by 2050.

As I explain in my book The ASEAN Miracle, several factors have underpinned the bloc's success. At first, anti-communism provided a powerful incentive to collaborate. Strong leaders, like Indonesia's Suharto, former Malaysian prime minister Mahathir Mohammed, and Singapore's founding father Lee Kuan Yew, held the group together.

It helped that as ASEAN was getting off the ground in the late 1960s and early 1970s, the strategic interests of America, China, and the bloc's members converged. But even when the Cold War ended, the region did not erupt into conflict, as the real Balkans did. ASEAN countries maintained the cooperative

habits that had become established in Southeast Asia in the 1970s and 1980s. In fact, ASEAN's erstwhile communist enemies—Cambodia, Laos, and Vietnam—decided to join the bloc. So, too, did Myanmar, ending decades of isolation. ASEAN's policy of engaging Myanmar attracted criticism from the West, but it helped lay the groundwork for a peaceful transition from military rule.

To be sure, ASEAN is far from perfect. Over the short term, it seems to move like a crab—two steps forward, one step back, and one step sideways.

Yet ASEAN's long-term progress is undeniable. Its combined GDP has grown from \$95 billion in 1970 to \$2.5 trillion in 2014. And it is the only reliable platform for geopolitical engagement in the Asia-Pacific region, unique in its ability to convene meetings attended by all of the world's great powers, from the United States and the European Union to China and Russia.

ASEAN continues to face serious challenges. Territorial disputes in the South China Sea have created deep divisions, and the intensifying geopolitical rivalry between the US and China poses a further threat to cohesion. And domestic politics in several member states, including Malaysia and Thailand, is becoming increasingly chaotic.

But ASEAN's history suggests that the bloc can weather these storms. Its impressive resilience is rooted in the culture of musyawarah and mufakat (consultation and consensus) championed by Indonesia.

Its impressive resilience is rooted in the culture of musyawarah and mufakat (consultation and consensus) championed by Indonesia. Imagine how other regional organisations, such as the GCC or the Saarc, could benefit from adherence to such norms

the gold standard for regional cooperation. But it continues to struggle with a seemingly never-ending series of crises and weak economic growth.

Add to that the impending departure of the United Kingdom, and it seems only prudent to seek other models of cooperation. ASEAN, however imperfect, provides an attractive one.

The EU was awarded the Nobel Peace Prize in 2012. But ASEAN's approach may turn out to be the way of the future, enabling other fractious regions to develop sturdy bonds of cooperation, too.

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Is the rupee at a fair value?

The question of 'valuation fairness' is from a different standpoint—that of giving a level playing field to two-opposing set of views

TCA RANGANATHAN

Former CMD, Export Import Bank of India



THE RUPEE HAS been behaving differently from most of the important world currencies. A medium-term review indicates that the dollar has strengthened against most international currencies in the post-global-financial-crisis period. In 2013, the euro ended December at a value of 1.3779 dollars per Euro, but currently fetches 1.12 dollars.

The Indian rupee has, however, appreciated against the dollar, and by implication, against most other currencies as well. It had touched a low of almost 69 rupees to the dollar during 2013, but had stabilised thereafter at around 67. In the recent months, it has gained value as it currently trades around 64 to the dollar.

We are not going into the standard debate about whether this appreciation is good or bad for the economy. Undoubtedly, Indian exporters are hurting as rupee appreciation reduces their profitability—at times, significantly. Indian exports are mostly of low-/mid-tech items and have low profitability margins, unlike the technology-rich exports of richer countries or even China. A 'high' rupee deters investment in our manufacturing sector and is concurrently negative for our farmers.

thus better liked by the consumers than a weaker one. It also makes foreign travel cheaper than a weaker currency. So, there are two sides to the story and both points are widely propagated. The main question is thus better examined if one asks whether the rupee is getting 'fairly' valued.

Here, we are not getting into the 'nominal' versus the 'real exchange rate' or the REER debate. It is rather narrowly technical and you have two equally plausible but opposing views on the subject, going by the RBI and Economic Survey analytics. Thus, again, the picture changes depending on which side of the fence looks out. Instead, we raise the question of 'valuation fairness' from a different standpoint—that of giving a level playing field to the two-opposing set of views. A form of equality of opportunity, if you will.

The foreign exchange market has two parts: current account and capital account. Till 1991, we had relatively closed exchange markets and, consequently, witnessed not only low growth rates but all the ills of smuggling/black-markets. The 1991 liberalisation was well modulated, current accounts, including gold, were liberalised first. This resulted in the economic boom we now celebrate. Both imports and exports surged. A lot of fresh investment in manufacturing capabilities also got created. There was therefore all-round growth. These successes facilitated graduated capital account openness. FDI rules for inward investment were liberalised, but, concurrently, Indian corporates were permitted to expand overseas. Investments by outside players in our debt and capital markets were permitted, but, concurrently, Indian individuals were permitted to remit money overseas via the Liberalised Remittance Scheme (albeit with a ceiling of \$200,000 per year). Alongside, maybe with the intent of wanting to retain savings within India, a modest beginning of permitting resident to maintain 'resident foreign currency' accounts in their local banks was also started in 2002. There was, thus, an attempt to permit this equality of opportunity to the two possible opinions on the value of the rupee.

The liberalisation of gold imports had two main consequences: there was a boom in our gems-and-jewellery sector. This sector became the second-largest exporting sector. However, as the process of opening/maintaining RFC accounts was kept complicated with various rigidities and user unfriendliness, and as investment growth potential overseas fell post the 2008 global financial crisis, individuals wanting inflation protection or having a contrary view on rupee valuation, started mainly buying gold. So, gold imports shot up. Current account imbalances started getting enhanced in response to capital inflows. This additionally facilitated large dealings for our 'black market' operators, apart from adding to our already large import bill. The attempt to delink 'inflation protection' from gold purchases via issuance of 'inflation indexed' and 'gold linked' bonds failed for reasons like the failure of the RFC scheme, i.e., user unfriendliness.

The recent drive against black money by placing restrictions on gold holdings has, thus, admittedly curbed black money operators, but has also created a piquant condition of preventing adapting of contrapositions on the rupee via gold purchases, even when an additional instrument permitting foreign individuals to take positions on the rupee from the safety of their own markets has been offered via the newly and aggressively positioned masala bonds/rupee denominated bonds issued by the best Indian corporates/PSUs in overseas bond markets. This raises afresh the question of whether the imbalances in the number of players is artificially inflating rupee values.

A simple solution to recreate market balance without relaxing curbs on tax avoiders would be to seek a capital account solution to the capital inflow problem. Why not re-visit, simplify and popularise the existing RFC scheme within the existing LRS ceilings? Aadhaar and PAN card linkages would prevent misuse. It would also provide access to low-cost foreign currency funds for our domestic banks, reducing their dependence on the overseas bond markets/rating agencies. It can be a win-win solution.

LETTERS TO THE EDITOR

Bank of India rides past tough times

Apropos of "Change in composition of assets should help us improve margin" (FE, August 10), the interview with Bank of India's MD & CEO, Dinabandhu Mohapatra, made for nostalgic reading. BOI deserves kudos for turning black in the quarter ended June 2017, with a profit at ₹87.7 crore, driven by strong other income, operating income and lower provisions. It is nice that provisions for bad loans halved to ₹2,245 crore, from ₹4,736 crore on sequential basis, and have declined 19% year-on-year. BOI's operating profit is very robust and net interest income is strong. It had been making losses as well as making higher provisioning for NPAs. Asset quality improved on sequential basis as gross NPA (non-performing assets) fell to 13.05% (from 13.22% q-o-q) and net NPA declined to 6.7% (from 6.9%) in the quarter ended June 2017. Bank of India's name is now a household name and synonymous with growth, development and efficiency. The bank has the best of technology and best of capabilities. It has several firsts to its name and has always been in the forefront for bring about new concepts and changes in the Indian banking scenario. There is no doubt that BOI continues to have a commanding presence in the nation's corporate-industrial realm. — Vinod C Dixit, Hyderabad

Kudos, EC

The decision of the Election Commission invalidating the votes cast by the two rebel Congress MLAs in the Rajya Sabha election in Gujarat is just desserts for the Congress defectors and the BJP. It is alleged that the BJP encouraged horse-trading to grab the third Rajya Sabha seat from Congress. It is unfortunate that the BJP, whose parent organisation RSS is considered as a very disciplined entity, should stoop to this level to grab power. The Election Commission which went by the rule book and stood steadfast in its decision unimindful of the Himalayan pressure exerted on it by the ruling dispensation deserves accolades. — Tharcus S Fernando, Chennai

Write to us at feletters@expressindia.com



POLITICS IN INDIA

And the game goes on...

The Indian Political League (IPoL) is the greatest spectator sport for the 10 months of the year when the Indian Premier League (IPL) is not being played

THE MATCH WENT down to the wire ... ultimately, the winner was decided by the third umpire. No, I am not referring to a close finish in a cricket T20 match, but to the results of the Rajya Sabha polls in Gujarat. Like its acronymic twin the Indian Premier League (IPL), the Indian Political League (IPoL) is, today, the greatest spectator sport for the 10 months of the year that the cricket IPL is not in operation.

I thought we Bharatवासि had had more than our fill of political spivis and thrills after the Yadav father-son battle in Uttar Pradesh, the coronation of a religious head as the CM in the same UP, the internecine struggle for power in Tamil Nadu after Amma's departure and the "about-turn" change of government in Bihar. I was wrong: we are now in a perpetual silly season, where political shenanigans in different states dominate the public consciousness, titillated by the blow-by-blow descriptions given on a round-the-clock basis by screeching reps of the electronic media.

The IPL is, of course, still in its childhood (nine years and counting) as compared to its hoary grandfather, the IPoL, which has entered its 66th year of life. The IPoL, in the first 15 years of life, was somewhat staid in appearance, resembling Indian cricket of that time, when test matches were the only source of entertainment for the masses.

But it is the similarities in the IPL and IPoL that command our interest and attention. An examination of these highlight both the features that the two have in common as well as the ways in which, with its infinitely superior financial resources and experience, the IPoL has managed to straddle universes that are outside the reach of a modest IPL.

Everything starts with the auction of players. However, unlike the annual or bi-annual auctions in the IPL, the IPoL auctions are continuous in nature. These auctions are conducted by the team managements themselves and are held on camera. Unlike

the IPL, there is no way to know the cost of each player to the team. In earlier days, especially after anti-defection laws were passed, auctions took place only at specified intervals, when elections or by-elections were due. Nowadays, the trend is towards mass auctions of large portions of a team, rather than individuals. After a match (read election) is over, even an entire competing team can be merged with the existing team (think Goa and Manipur).

What keeps the players in the IPoL engaged continuously are the opportunities given to them to twist the rules of the game to keep adding to the moolah already given to them at auction time. Even before the match starts, there are chances available to

seduce the ground staff to prepare a pitch conducive to one's strengths. These could include freebies distributed recklessly prior to the election or illegally transferred just prior to the start of the match. The players would not be averse to nobbling the on-

field umpires as well: to their eternal regret, the umpires (the Election Commission and its paraphernalia) have proved immune to blandishments. But nothing stops the players of one team from influencing the opposing team

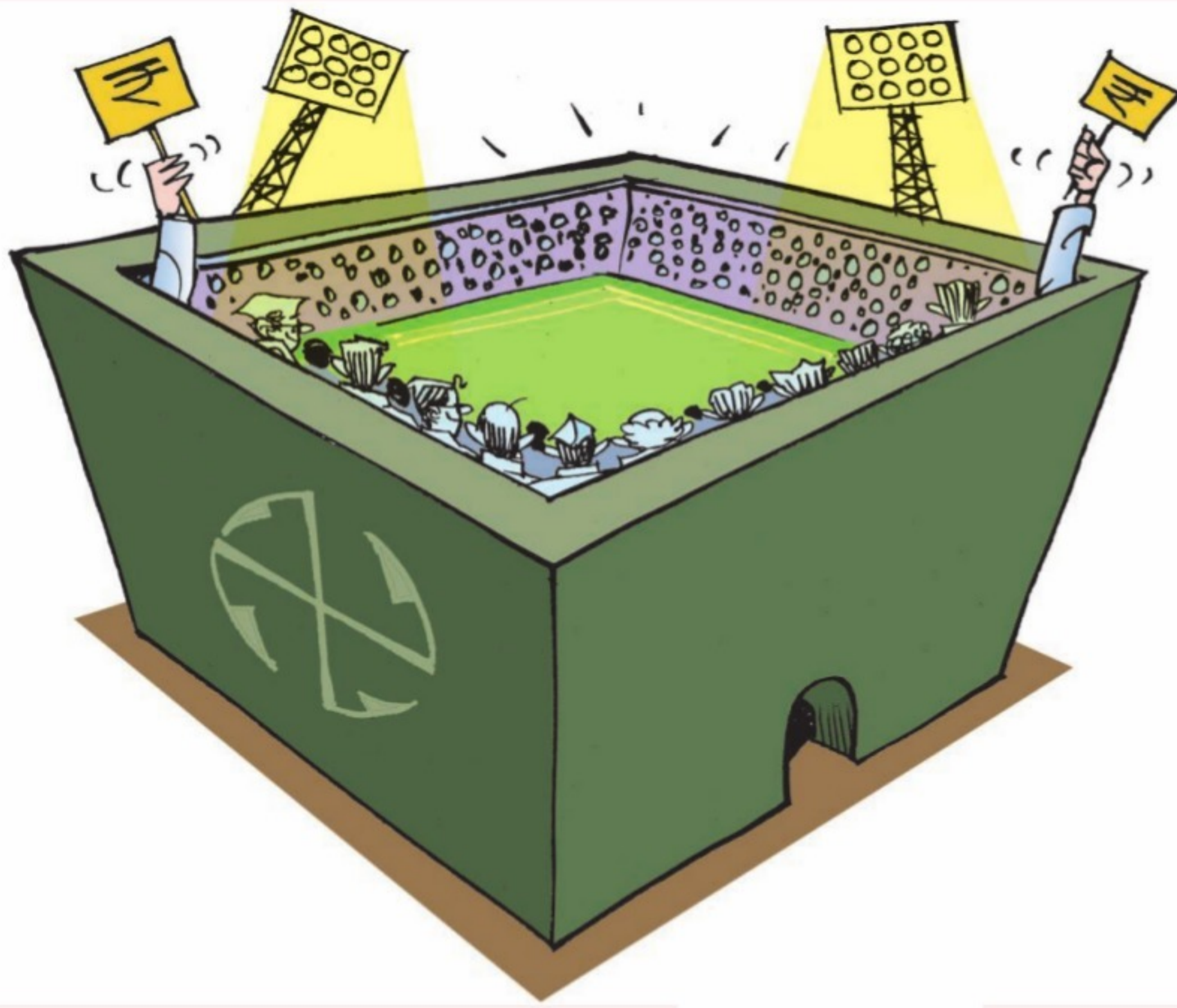


ILLUSTRATION: ROHNIT PHORE

RAMANI

Partner, Access Advisory



batsmen are throwing their wickets away. The match-fixers—the management, the players and their backers and financiers—are reaping the rewards of the crowd attendance, through revenues from crowd payments (taxes, etc) as well as from the extra-legal earnings through inflated infrastructure and supply contracts.

The only flies in the ointment for the players in the IPoL are the oversight authorities in the form of the Election Commission and the courts of the land. The players have a code of omertà between themselves, known more commonly as "honour among thieves". Knowing that matches can go either way, depending on the quality of manipulation by both parties, the best option is to keep silent on the transgressions of one's opponents, in the hope (and trust) that the favour will be reciprocated at the opportune moment.

This then is the "saam-daam-dand-bheda" approach, attributed to the astute

Chanakya, that is the governing philosophy of the IPoL. It starts with friendly advice to opponents to join the current popular dispensation while the going is good. Where moral suasion is insufficient, the lubrication of lucre is added to sweeten the deal, either in the form of upfront payments or deferred gratifications in terms of dabbling in patronage and sharing in the spoils.

The final tool is the "divide and rule" strategy that has been perfected over the centuries by our colonial masters. The IPoL players are masters at winning the support of important segments of the crowd by exploiting differences in language, religion, caste and ethnicity. And so, the game goes on "to the last syllable of recorded time" as lamented by Macbeth. It is apposite that his soliloquy ends with the statement: "It is a tale told by an idiot, full of sound and fury, signifying nothing."

DATA DRIVE

The insurance churn

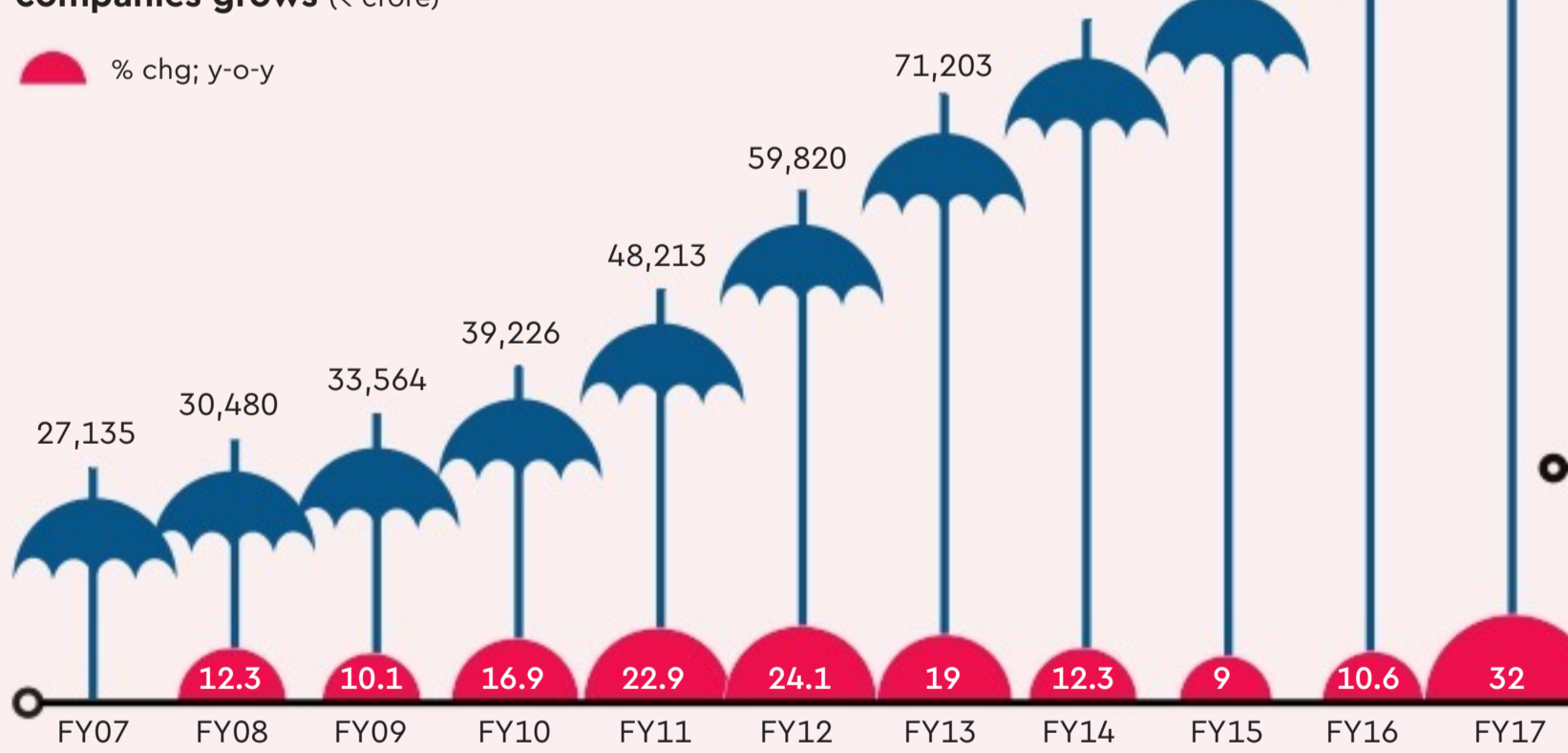
THE GENERAL INSURANCE industry reported its highest-ever year-on-year growth of 32% in premium collection in FY17 because of crop insurance. And in July, for the first time, private sector non-life insurance companies moved ahead of the four state-owned companies in premium collection.

In FY17, private sector general insurers reported smart growth of 35%, driven by crop insurance as they had 73% share in crop insurance business. The government's focus to improve acreage under insurance will continue to drive volumes. State-owned companies reported lower growth of 24.5%. Motor insurance remains the largest segment with 44% market share, followed by health and personal accident cover.

However, despite strong demographic profile, the penetration of general insurance is still abysmally low at 0.72% of GDP. In terms of profitability, private insurance companies have lower claims ratio than state-owned companies.

As part of the government's plans to list non-life insurers in which it holds stakes, New India Assurance Company Ltd has filed the prospectus for its initial public offering (IPO). The share sale of New India Assurance will see a total stake dilution of 14.56%, according to the draft red herring prospectus. Similarly, National Insurance Company will also go for public offering. The country's only state-owned reinsurer GIC filed its draft documents to raise over ₹10,000 crore through an IPO. In private sector, ICICI Lombard General Insurance will also go public.

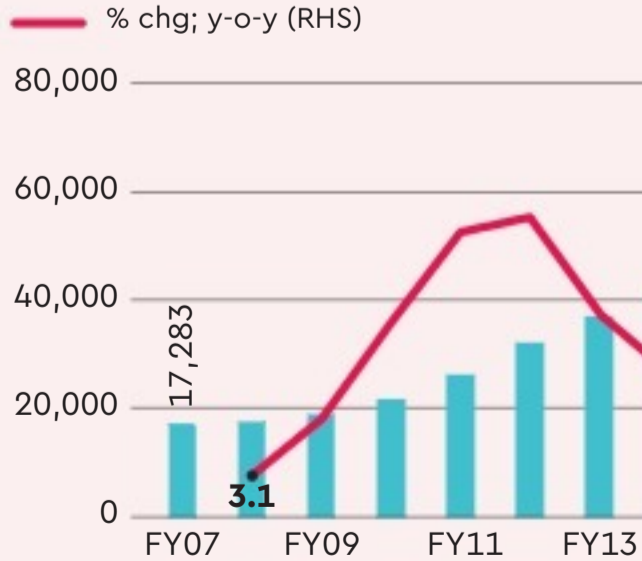
Premium of non-life insurance companies grows (₹ crore)



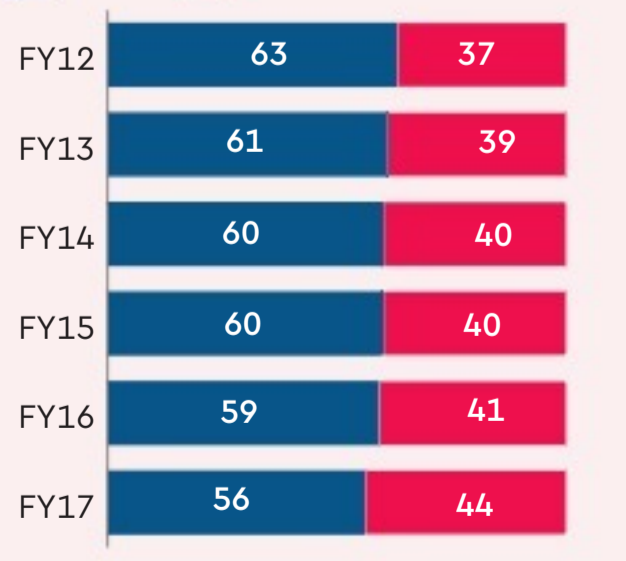
Private insurers reported high premium growth of 35% in FY17 (₹ crore)



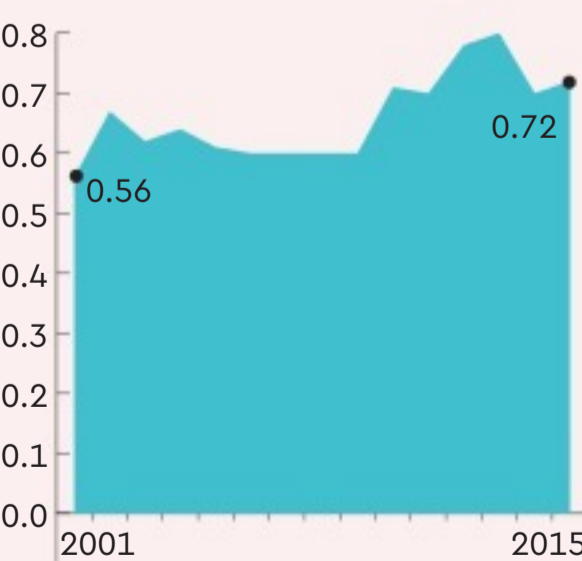
PSU insurers reported premium growth of 25% year-on-year in FY17 (₹ crore)



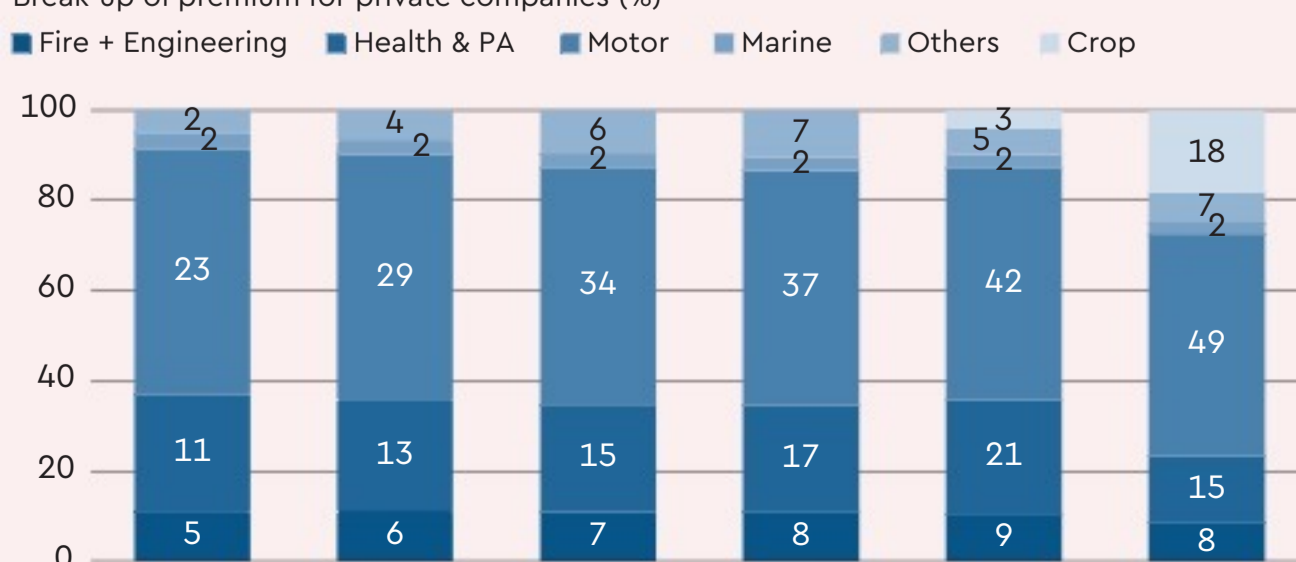
Private sector gains market share



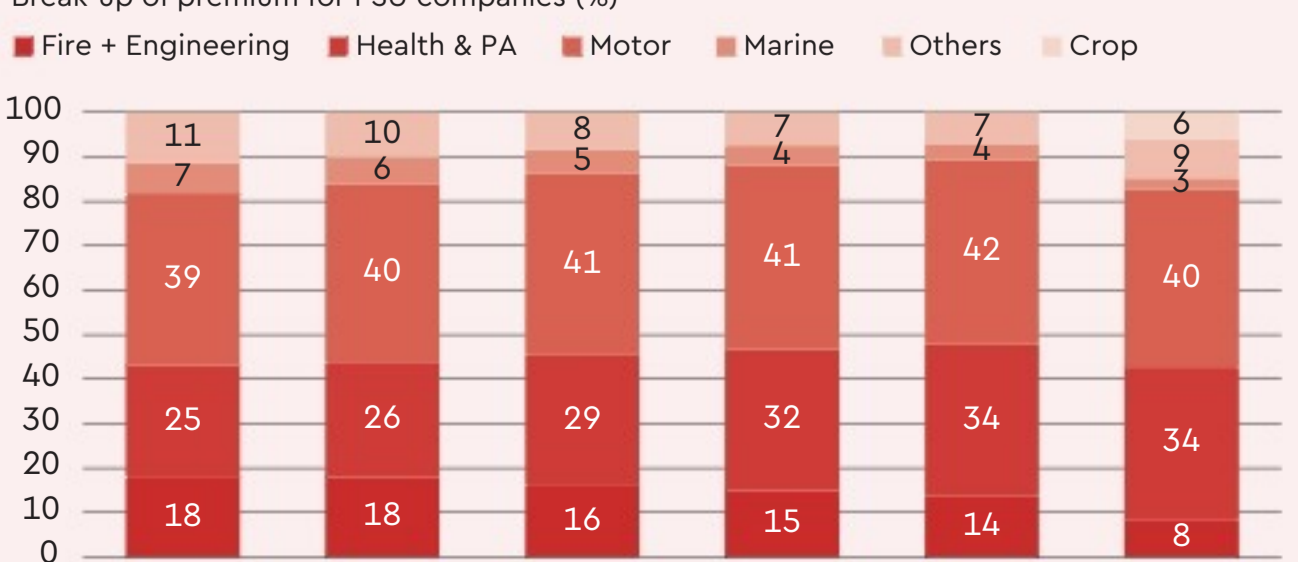
Non-life insurance penetration abysmally low (%)



Crop insurance drives premium growth for private insurers



Motor, health drive premium of state-owned insurers



Profitability of top 10 non-life insurers



Note: PA-personal accident

Source: IRDAI, General Insurance Council of India, ICRA