Looking forward to 2019

Higher capacity utilisation should lead to corporate capex picking up, leading to broader revival in the investment cycle and earnings growth

ANAND RADHAKRISHNAN

The year 2018 was one tumultuous year for the Indian equity investors, which brought along euphoria as well as despair. Domestic frontline equity indices scaled life highs in early 2018, outperforming the mid- and small-cap segments. Equities initially rallied on positive macroeconomic data, encouraging corporate earnings and robust global trade growth trend. However, faster growth in the US economy triggering concerns of quicker rate hikes by the US Federal Reserve and tighter monetary regime moderated the rally in global equities. The culmination of factors including persistence in global trade conflict, surge in crude oil prices and weakening of the emerging market (EM) currencies against the US dollar dampened global risk sentiments, dragging Indian equities in the latter half of the year. The introduction of long-term capital gain tax on equities, state election-related volatility and weak macroeconomic parameters continued to weigh on domestic equities.

Tighter global rate regime and an increase in domestic inflation triggered a couple of rate hikes by the Reserve Bank of India during the year. Further, pre-election volatility, weakness in macroeconomic parameters placed a drag on domestic equities. IT, FMCG, banks and frontline indices ended the year positive whereas realty, small and midcap segments lost heavily.

Some key trends defined the year 2018 for Indian market. Corporate earnings improved through the quarters in calendar year 2018 initially on base effect and later, driven by domestic consumption, a revival in industrial production and global demand. Macroeconomic parameters weakened but relatively positive micro indicators supported growth. On the policy front, continued strengthening and implementation of the Insolvency and Bankruptcy Code (IBC) and asset quality clean-up for banks was a positive.

Foreign portfolio investors flows into Indian equity markets for CY2018 were negative at $4.5billion (positive $7.7 billion in CY2017). Domestic institutional investor flows remained robust at ₹1.09 trillion ($15.6 billion) for CY2018 (₹90,830 crore in CY 2017).

Focusing on India, domestic positives drove equity market valuations high during 2018 despite global risk-off sentiments towards EMs in general. However, the recent correction in global and Indian equities has brought respite by moderating the domestic equity valuation levels towards the close of the year. While global equities continue to adjust to the new interest-rate environment (away from ultra-low rates of post-global financial crisis era), strong fundamentals coupled with moderating valuations bode well for sustainable growth for India.

Elections in India have always played a significant role in shaping near-term investor sentiments. State elections in this year and general elections just a few months away have understandably lent volatility to markets over and above the global factors. But the rhetoric on competitive populism by political parties on loan waivers, subsidies, reduction in the goods and services tax (GST), unemployment allowances etc, is alarming. If implemented, these populist measures could boost rural consumption, but at the cost of lower funds available for infrastructure and capex growth. Inflation too might rear its head again after being benign for a long period of time. But these are more of risks than the most probable outcomes. Another cognizable risk is the possibility that persistent weakness in global markets in general and continued uncertainty in the Indian markets could affect domestic flows going forward, making Indian equities once again vulnerable to foreign portfolio investment (FPI) capital flows.

Though markets could experience interim volatility in the run-up to the Lok Sabha elections in 2019, on the growth front, the policy reforms undertaken by the government to improve productivity dynamics in the economy — GST, IBC, JAM trinity, improving the ease of doing business, bank recapitalisation, increasing FDI limits across sectors, to name a few, are expected to have a lasting positive impact on economic growth. At present, growth recovery is aided by consumption and exports growth. Prudent policy mix along with a pick-up in private sector capex should further sustain the growth momentum.

Additionally, as global growth moderates in 2019, pressure on commodity prices and hence inflation in general is expected to stay benign, paving way for benign monetary conditions. India's banking sector is expected to drive better credit growth as it recovers from a significant provisioning cycle, leading to improving demand conditions. Higher capacity utilisation should lead to corporate capex picking up leading to broader revival in the investment cycle and earnings growth. In summary, we expect 2019 to be a better year for equities when compared to 2018. From an investment perspective, diversified equity funds with core exposure to large caps and prudent risk-taking in mid/small-cap space may be well positioned to capture medium- to long-term opportunity presented by the equity markets.

The author is managing director & chief investment officer, Emerging Markets Equity, Franklin Templeton Investments India

CHINESE WHISPERS

Low profile *surya namaskar*

The Bharatiya Janata Party in Madhya Pradesh lost no time in pointing out how the ruling Congress goofed when it failed to organise the customary singing of *Vande Mataram* in the state secretariat in Bhopal on the first working day of January. Singing the national song in the Mantralaya on the first working day of every month has become an event of sorts since the time Babulal Gaur was chief minister in 2004-05. To make good perhaps, the new state government has decided to organise a mass *surya namaskar* on January 12 to mark the birth anniversary of spiritual leader Swami Vivekananda. Educational institutions in the state are being urged to organise *surya namaskars* in their premises but a state level mega event is unlikely. The previous BJP government used to organise a similar event at the Lal Parade ground in Bhopal with former CM Shivraj Singh Chouhan in attendance.

'Cheat India' – I

Film actor Emraan Hashmi's forthcoming Hindi movie "Cheat India" has got a new name after the Central Board of Film Certification reportedly raised concerns regarding the title. According to the producers of the film, the movie is being renamed "Why Cheat India". "We had an extensive conversation with the Examining Committee and Revising Committee regarding the proposed change as the film has been in public domain for a year, and more importantly, because the theatrical teaser, trailer and television promos had already been certified with the original title... The duress of lack of time left us with no choice but to mutually agree to the new title..." said a prepared statement issued by the producers. The film has been co-produced by Hashmi along with T-Series Films and Ellipsis Entertainment. In what may seem as a dig at the decision, Hashmi also changed his name on Twitter to 'Whyemraan Hashmi'. The actor tweeted the new poster of the film and captioned it: "Don't ask WHY! But it's WHY! #WhyCheatIndia."

'Cheat India' – II

Participating in a debate in Parliament on Wednesday, on the Constitution amendment Bill to provide 10 per cent quota in jobs and education to economically weaker sections in the general category, Trinamool Congress member Derek O'Brien *(pictured)* termed Narendra Modi government's various measures, including demonetisation, as instances of "cheat India". He said other instances were the promise to double farmers' incomes by 2022, housing to all by 2022 and Skill India. Concluding his speech, O'Brien quoted from the lyrics of a song in Rajesh Khanna starrer *Roti*, "*Yeh jo public hai sab jaanati hai/aji andar kya hai bahar kya hai/yeh sab kuchh pahchaanti hai*".

Why the Citizenship (Amendment) Bill is bang on

But we need safeguards to address Assam and north-east identity concerns

R JAGANNATHAN

The National Democratic Alliance's (NDA's) Citizenship (Amendment) Bill, passed by the Lok Sabha earlier this week, is unlikely to pass muster in the Rajya Sabha, given the weight of opposition in the upper house. It is just as well, for the Bharatiya Janata Party (BJP) has many fires to put out in the north-east, where the Bill is seen as an attempt to legitimise the residency of illegal immigrants in these states, posing threats to local identities.

The Bill seeks to fast-track citizenship for persecuted minority groups in Bangladesh, Pakistan and Afghanistan, and these minority groups have been specifically identified — based on common sense — as Hindus, Jains, Sikhs, Buddhists and Christians. The exclusion of Muslims from the ambit of the Bill's coverage flows from the obvious reality that the three countries are Islamist ones, either as stated in their own constitutions, or because of the actions of militant Islamists, who target the minorities for conversion or harassment.

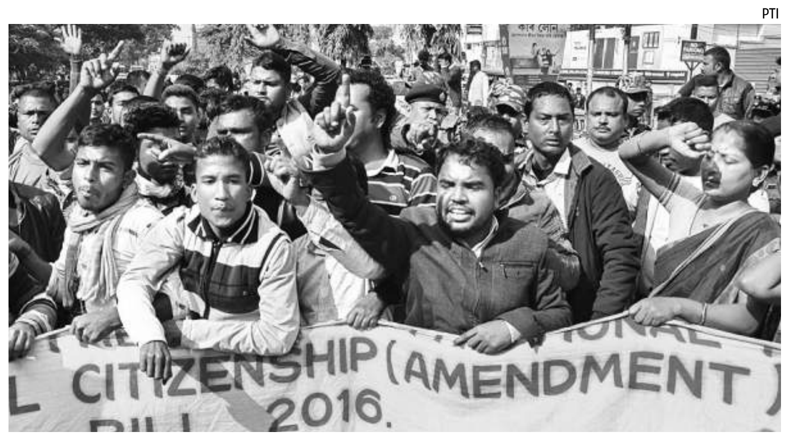
But the north-east views the Citizenship (Amendment) Bill as an effort to settle more Bangladeshis in their territories, and the Assamese, in particular, see it as an attempt to subvert the Assam Accord, which calls for the identification and deportation of illegals who came in after 1971.

The Asom Gana Parishad, hitherto a partner in the BJP-led Assam government, has pulled out, and the BJP government in Tripura is facing dissidence from its tribal partner, the Indigenous People's Front of Tripura, for the same reason. In three other states, Meghalaya, Nagaland and Mizoram, where the state governments are led by parties that are part of the NDA, opposition to the bill is threatening to blow apart the BJP's painstakingly built dominance in the north-east.

The problem emanates from three realities, and each viewpoint involves some unwillingness to see reality.

First, the National Register of Citizens (NRC) has excluded nearly four million alleged illegal migrants from the rolls. Even though these numbers may come down after those left out were given more time to provide proof of residence before 1971, the truth is that you cannot deport so many millions to Bangladesh. And two-thirds of those left out are Bengali Hindus.

Second, the Assamese groups and the BJP have different approaches to the issue: The former wants exclusions based on ethnicity, while the latter wants exclusion of illegals on the basis of religion. This point was explained by Assam Finance Minister and BJP pointman for the north-east, Himanta Biswa Sarma, who defended the Citizenship (Amendment) Bill the other day by pointing out that if the Hindus are not given citizenship, power will pass to Muslim groups, including Assamese Muslim Badruddin Ajmal of the Assam United Democratic Front.



PTI

DEMOGHRAPHICALLY CHALLENGED The Assamese have a difficult choice to make

Sarma was blunt when he said that the "Prime Minister has now entrusted 17 assembly seats (where Bengalis dominate) in the hands of Assamese and not Muslims. Without this Bill, these 17 seats would have gone to Badruddin Ajmal."

Third, the non-BJP "secular" parties, including the Congress, are playing a double game, for they benefit from the Assamese disquiet over the Bill, even as they benefit from the polarisation of Muslim votes in their favour due to the BJP's efforts to leave them out of the Bill's provisions.

The Congress and the Left would like to pretend that there are very few Muslim illegal immigrants, when Muslims have a huge 34 per cent share in Assam's population and several districts adjoining Bangladesh have a Muslim majority. Their numbers grew particularly fast in the last census. If these trends persist, demographics will tilt further in favour of Muslims.

The Assamese clearly have a difficult choice to make, and both are losing ones. One, they can seek deportation of all illegals, but they may find that you can't pack off four million people without violence or the cooperation of the Bangladesh government. The other option is to accept the religious demarcation as a lesser evil, and accept Bengali Hindus as inevitable citizens, while disenfranchising the rest. This will lead to communal trouble, and it is not clear that the courts will allow this.

Is there a way out?

The BJP can offer two guarantees to the Assamese to address their twin fears of being demographically challenged either by Bengalis, or Muslims, or both.

1: The BJP should legislate majority seats in the Assam assembly and in the Lok Sabha for the ethnic Assamese and other smaller tribal groups that fear marginalisation. This should be done by amending the Constitution.

Such guarantees already exist for the SC/STs in terms of seat reservations. Even in linguistic terms, the southern states get Lok Sabha seats that are disproportionate to their current population numbers.

2: The BJP must also guarantee that those who qualify for citizenship under the amended act, will not all be settled in Assam. Some of them will be incentivised or asked to shift to other states, and provided financial assistance for the same. A million people moved to other states will ease the concerns of the Assamese.

3: The real option when it comes to illegals identified by the NRC process is disenfranchisement, not deportation. If the illegals are struck off electoral rolls, their residency and livelihoods will not be threatened. They can seek citizenship after a much longer period of waiting for naturalisation. This again needs amendments to the Citizenship Act.

4: The BJP has a communications challenge in the short term. It must ask the Home Minister, Rajnath Singh, and Sarma to address lots of public meetings in Assam to explain why they are doing what they are doing, and what safeguards for Assamese identity they will provide. They should also meet chief ministers of other north-eastern states to assure them that the Bill will not threaten local identities, and, if needed, safeguards will be put into the Constitution.

The BJP has extended its dominance in the north-east after a lot of effort and sweat; it makes no sense to blow it all up by poor communication on the Citizenship (Amendment) Bill.

(By special arrangement with Swarajya)

The author is editorial director, Swarajya. Twitter: @TheJaggi

DECODED

The northeastern state of Sikkim could become the first Indian state to implement a Universal Basic Income (UBI) scheme to cover all its residents. State Chief Minister Pawan Kumar Chamling, who is seeking re-election in the coming Assembly polls, has proposed a UBI for all its residents by 2022 if voted back to power. **Ishan Bakshi** and **Archis Mohan** explain the genesis of the idea and whether the Sikkim plan can be implemented nation-wide.

The answer to poverty?

What is the origin of the idea of UBI in India?

One of the earliest proponents of shifting to a UBI architecture in India was economist Pranab Bardhan. In an article in the *Economic and Political Weekly* in 2011, Bardhan made a case for UBI which could be funded by doing away with subsidies.

In 2016, Bardhan made a strong case for a UBI of ₹10,000 (at 2014-15 prices) that would roughly cover three quarters of the population below the poverty line for that year. Extending this to the entire population would entail a cost of around 10 per cent of GDP. This cost, Bardhan argued, could be met by doing away with "regressive subsidies" (these account for 9 per cent of GDP) and clawing back part of the revenue forgone by the Centre (this amounts to 6 per cent of GDP).

Economist Vijay Joshi, made a similar proposal in his book *India's Long Road: The Search for Prosperity*. Joshi proposed a cash transfer of ₹3,500 per person or ₹17,500 per household (at 2014-15 prices). Extending this to the entire population would cost the exchequer roughly 3.5 per cent of GDP, he estimated.

Another proposal was put forth by former chief economic advisor, Arvind Subramanian. In the Economic Survey 2016-17, Subramanian proposed a transfer of ₹7,620 in 2016-17 — the amount needed to lift the poor above the Tendulkar Committee poverty line. Extending this to three-fourths of the population would cost the exchequer roughly 4.9 per cent of GDP, he estimated.

Is the idea fiscally feasible in a country like India?

Some economists consider the UBI to be a better alternative given the well-known problems of inclusion and exclusion that plague the current welfare system in India. Shifting to a UBI-type welfare architecture means doing away with certain existing subsidies in order to create the necessary fiscal space.

The government subsidies can be divided into merit and non-merit subsidies. Merit subsidies include subsidies on account of food, education, health etc, while non-merit subsidies include those such as fertiliser, power etc.

A study by economists at the National Institute of Public Finance and Policy shows that while merit subsidies have risen over the past few decades, non-merit subsidies have fallen. Despite the decline, non-merit subsidies account for roughly 5 per cent of GDP — in line with the fiscal space needed to provide a UBI as was proposed by Subramanian.

Is there a global model India can take cues from?

A few years ago, Finland made headlines when it announced its intention to launch a basic income scheme, Europe's first national government-backed experiment of the kind. The project involved giving 2,000 unemployed Finns 560 euros per month starting January 2017. It was hoped that over time this project could be extended as it would be less costly compared to the social welfare architecture that the country was running. However, in early 2018, it was decided that the project would not be continued in its current form 2019 onwards.

What are the basic tenets of the UBI model proposed by Sikkim?

According to Sikkim Lok Sabha member Prem Das Rai, the proposed UBI in the state would cover each of its seven-lakh subjects. The ruling Sikkim Democratic Front (SDF) is in the process of working out the modalities of the scheme, including the monthly amount its next government would deposit in the bank account of each beneficiary. Rai, the MP from the lone Lok Sabha seat of Sikkim, said the primary objective is to "future proof" the youth of the state.

The UBI would subsume all current social welfare schemes, those provided by the state government as well as the Centre, including old age pensions. The SDF hopes it would be able to raise sufficient revenue from tourism and export of hydropower to support UBI. It is mulling a small tourism cess to raise more resources, if needed. Pawan Kumar Chamling-led SDF has ruled Sikkim since 1994. It is confident of returning to power in the Assembly polls, scheduled simultaneously with the 2019 Lok Sabha elections.

Can this model be used as a template for a national UBI plan?

Currently, state governments and the Centre run several schemes aimed at helping people with financial assistance. These include old age pensions, cash assistance to farmers and for the education of the girl child, maternity benefits and others. A UBI would entail subsuming these and extending these to not just specific demographic groups, but to all.

LETTERS

Stop fund misuse

The editorial, "Tip of the iceberg" (January 10), about the findings of the Comptroller and Auditor General of India (CAG) related to government spending is very disturbing. This reminds one of the old corporate joke about companies' balance sheets hiding more than what they reveal. Is the government resorting to "creative accounting", and camouflaging the real position?

I think the much bigger issue here is the alleged misuse of the National Small Savings Fund. That savings given to the government as a trustee are being used to prop up public sector undertakings is a scathing comment on the powers that be. Lending this money to Air India is adding insult to injury. Passing on the food subsidy burden to the Food Corporation of India is sacrilege.

Hopefully the mandarins in the North Block will make amends in the upcoming interim Budget.

Krishan Kalra Gurugram

Make use of idle gold

This refers to the report "RBI expands ambit of gold-monetisation scheme" (January 10). The revised instructions give a new avenue for productive deployment of idle domestic gold stock. This is a welcome move by the Reserve Bank of India (RBI). The new entities that have become eligible to invest their gold stock under the scheme need to be educated about the advantages of mainstreaming their gold stock. The issues of trust, faith, emotion and sheer laziness to take responsibility need to be addressed with care and deftness.

Past experience shows, organisations do not spontaneously volunteer to part with gold, even if the investment fetches substantial returns. Perhaps, Tirupati is the only temple that earns substantial income from gold deposits. Other temples/religious bodies are sometimes secretive about even the quantity of gold in their vaults. The governments' eye on every asset as an income source (read tax) also is behind this fear complex.

If the Centre is serious, massive efforts will have to be made to create awareness among the people about the benefits. The availability of sovereign guarantee for the gold invested, professional handling of the conversion of gold and timely payment of interest and return of gold or value of gold, will have to be publicised in a business-like manner.

M G Warrier Mumbai

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE

BY MIKE FLANAGAN

Business Standard
Volume XXIII Number 107
MUMBAI | FRIDAY, 11 JANUARY 2019

Another sop story

GST Council's relief to MSMEs is welcome

The Goods and Services Tax Council, the apex body with representation from the Centre and all states, announced a series of sops for taxpayers on Thursday. The prime beneficiaries are the micro, small and medium enterprises (MSMEs), as the GST Council has doubled the exemption limit to ₹40 lakh annual turnover. For the Northeastern and hilly states, this exemption limit has been increased from ₹10 lakh to ₹20 lakh. The Council has also significantly altered the composition scheme, which allows businesses to pay tax at a concessional rate, and makes GST compliance easier. The Council has decided that the threshold for availing the composition scheme will now be ₹1.5 crore instead of ₹1 crore. Further, the Council has introduced a composition scheme for the services sector as well. This will benefit small service providers with an annual turnover of up to ₹50 lakh as they can now pay a composition rate of just 6 per cent. The Council has also allowed Kerala to levy a calamity cess of 1 per cent on intra-state sales for a maximum period of two years, but has deferred some of the other contentious issues, which have been referred to two separate groups of ministers.

The relief for the MSMEs is welcome as the sector has been reeling from the twin effects of demonetisation in November 2016 as well as the hasty rollout of the GST in July 2017. What is also healthy is that the GST Council seems to have finely balanced the need for providing relief with the concern about slipping revenue collections. Indeed, the ₹40 lakh exemption limit is only slightly more than half of what many were asking — ₹75 lakh. Moreover, the GST Council has also clarified that most of these exemptions will come into effect on April 1, that is, the next financial year. As such, the hit on revenue collections for this fiscal year has been deftly avoided.

Having gone this far, the GST Council should hit the pause button on tinkering with the rates and allow things to settle down. Repeated interventions in the form of exemptions and other reliefs can create confusion. A better idea will be to go in for real reforms by bringing petroleum, the electricity duty and real estate under the GST. This will cut out the cascade of taxes, raise transparency and widen the tax base. There is also no reason to keep an intermediate item such as cement in the 28 per cent bracket.

There has also been a growing worry with the rising level of frauds (especially those involving claiming input tax credit) and tax evasions in the GST. For instance, according to the government, compliance has steadily declined over the past one year, as 29 per cent of regular taxpayers have not filed returns in November 2018 — a three-old jump year-on-year. Indeed, in the current financial year, monthly GST collections are trailing the Budget targets by around ₹15,000 crore per month. The GST Council should now focus more on these issues so that the process works smoothly, leading to greater revenue mobilisation.

Not inclusive

Citizenship Bill does not align with the idea of India

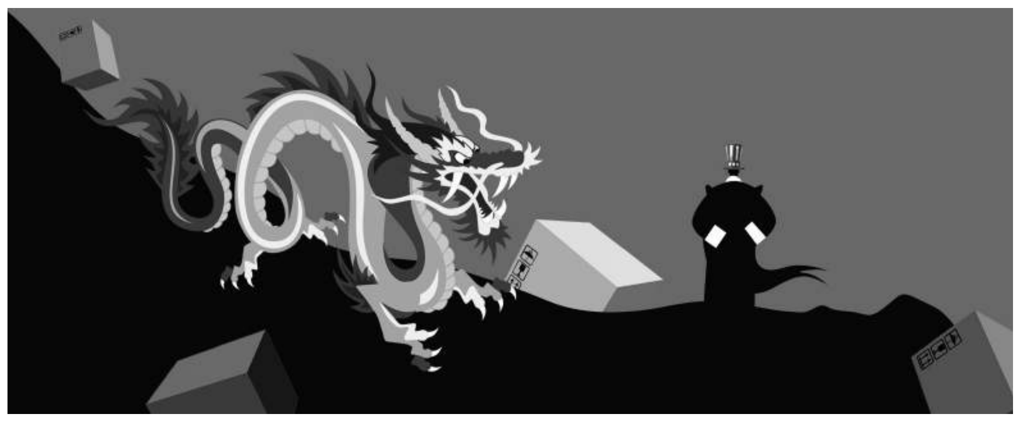
The Lok Sabha on Tuesday passed the Citizenship Amendment Bill, which seeks to grant Indian citizenship to Hindus, Sikhs, Jains, Parsis, Christians and Buddhists in Bangladesh, Pakistan and Afghanistan who come to India to escape "religious persecution" in those countries. The Bill has also dialled down the period of residency for any such person (even if they do not have any document) seeking Indian citizenship, from 12 years to six years. The introduction of a religious criterion in the process of granting citizenship has led to leaving out Muslims, the second-largest religious group in the Indian sub-continent.

While there has been a broad-based consensus across most political parties that India should be more considerate while dealing with refugees and migrants seeking asylum because of persecution in their native land, the latest amendment has justifiably led to protests from several political parties, which have accused the government of resorting to dog-whistle politics and dividing the country on religious lines. There is merit in the argument that the basic premise of the Bill violates the fundamental constitutional principle of secularism, as it appears to equate citizenship with specific religions only. The Indian Constitution proposes an inclusive idea of citizenship and does not allow any discrimination on the basis of an applicant's religious identity.

Piloting the Bill in the Lok Sabha, Union Home Minister Rajnath Singh argued that persecuted minorities had no place to go to except India. By the same logic, there could also be several Muslims such as those belonging to the Ahmadiyya sect in Pakistan or the Rohingya Muslims in Myanmar, who deserve to be beneficiaries of India's large-heartedness. How can the granting of citizenship selectively rule out one religious community? The truth is that while the Hindus are the largest religious constituent in India's population, the country is not just for them. After all, India has the second-largest Muslim population in the world. The amendment Bill, therefore, does not sit well with the idea of India. Besides, the definition of religious persecution in foreign countries itself can be a problem. Does the government really have the wherewithal to discriminate between those facing genuine religious persecution and economic refugees pretending to be persecuted for their religion?

There are other problems as well with the Bill. The entire Northeast has been protesting the move, albeit for a different reason. Most Northeastern states contend that they have faced the brunt of illegal migration from Bangladesh and therefore cannot accept any plan to give citizenship to Hindu Bangladeshi migrants who have entered the country till December 2014. These states are unhappy about the government relaxing citizenship laws for non-Muslim migrants because it will threaten the balance of power in their relatively small states. Nowhere is this more evident than in Assam. Predictably, the Asom Gana Parishad, the BJP's ally in the state's coalition government, has broken its ties because it feels the Bill violates the 1985 Assam Accord, which had set March 25, 1971, as the cut-off date for foreigners entering the country. It is best that the government reconsiders the amendment to make it egalitarian.

ILLUSTRATION BY BINAY SINHA



How serious is China's economic slowdown?

Losing this engine, which has been shoring up global growth, may be more disruptive than we imagine

SHYAM SARAN

The outcome of the ongoing US-China trade war is closely linked to the assumptions regarding China's economic growth trajectory. A China capable of sustaining a 6-6.5 per cent gross domestic product (GDP) growth rate over the next decade is unlikely to make significant policy changes to resolve the trade war. Its effort would be to offer tactical concessions in the form of enhanced purchases of US goods, improved access to the Chinese market and providing assurances of an even playing field to foreign investors and companies vis-à-vis Chinese entities. Structural changes demanded by US negotiators would likely be resisted. The latest round of US-China trade talks in Beijing concluded on January 9. Statements from the American and Chinese sides suggest that while China has conveyed its readiness to increase its purchases of agricultural products and energy from the US, they were still far apart on structural issues relating to intellectual property, industrial policy and cybersecurity issues. A Reuters report, quoting US sources, said that the "two sides were further apart on Chinese structural reforms." There was also no announcement that these talks will be followed by a more senior level engagement in Washington which would have been expected if progress achieved warranted them. We may have to await President Trump's next tweet to know what happens next.

China's economic growth has steadily declined from 10.6 per cent in 2010 to 6.9 per cent in 2015 and 6.5 per cent in 2018. This deceleration is reflective of a complex transition which the economy is going through. One, China's demographic dividend, which drew upon a large and growing working-age population in relation to the dependent population, peaked around 2012 and has been declining since. This is the well-known Lewis turning point. Two, exports which have been a major driver of growth, are now flat. Having become the world's largest exporter, China will find it harder to expand its global market share, currently 17 per cent, particularly when its major markets are putting up protectionist walls. Three, total factor productivity (TFP), which was fairly high in the catch-up phase of development, has now declined from an estimated 3 per cent in the 2008-11 period to only 1 per cent currently. Thus, the slowdown in China's economy is not due to cyclical factors but the result of the structural transformation taking place. Unless there are new drivers, GDP growth is likely to decline to progressively lower rates converging with other advanced economies. "China will not be exempt from the iron law of regression to the mean in the long run." This mean is said to be 2-3 per cent per annum.

But how long will this long run be? It is only through significant technological advancement that descent to the mean can be pushed further into the future. Future growth will intrinsically depend upon whether China makes the grade as a generator of intellectual property rather than its user. The Made in China 2025 initiative, which is aimed at making China a leader in advanced technologies, is critical to sustaining Chinese growth momentum and, therefore unlikely to be modified to assuage American and Western concerns.

Despite the commitment to realising a high-tech future, China seems unable to undertake a relatively speedy transition to higher value-added economic processes. This is apparent, for example, in the continuing overcapacity in steel, cement and coal industries. China's debt overhang is estimated to reach 275 per cent of GDP this year. It has now become clear that there is a significant foreign exposure in this debt. Total foreign debt currently stands at $1.9 trillion of which the short-term component is 62 per cent. Of this $1.2 trillion will need to be rolled over this year. Interestingly, a substantial part of this foreign borrowing is reportedly on account of lending for projects under the Belt and Road Initiative, some of which have questionable viability. The commitment to deleveraging this mounting risk to economic stability has been repeatedly compromised in order to shore up flagging growth, which, it is feared, may have political and social consequences. In 2018 alone the Chinese Central Bank cut banks' reserve requirements on four occasions and recently local governments have been permitted to launch a new tranche of bonds to revive investment in infrastructure projects. Growth in consumption has declined from 12 per cent per annum in the recent past to about 8 per cent at present despite a steady increase in per capita incomes. The efficiency of investment is steadily declining. It now takes 4 yuan of investment to produce just one yuan of output.

At the annual Economic Work Conference held last month, the Chinese Communist Party leadership acknowledged that "the external environment is complicated and severe and the economy faces downward pressure." This obviously points to the trade war with the US, the intensifying protectionism in developed country markets and the growing restrictions on Chinese acquisitions of high-tech firms in the West. But this adverse external environment is only adding another layer of risk to an already vulnerable domestic situation. Will the Chinese leadership be able to manage both these risks simultaneously and successfully? These dynamics are likely to play out in 2019.

China's economic trajectory over the next decade will determine the shape of the new international order which is in the making. If China is successful in managing the twin risks and continue to grow at rates higher than the long-term mean, it will emerge as the world's largest economy by 2030 — perhaps double the size of the US economy with India a distant third. It would have avoided the middle-income trap and joined a select group of high-income advanced economies. More importantly, it will be the only country in history to achieve this status while remaining a one-party authoritarian state. It has already begun to alter the rules of the game which an international order must operate under. Its influence in this regard will only increase. If the Chinese economy stalls under the weight of these multiple risks then we will confront a different kind of challenge but no less serious. The world has become addicted to an expanding Chinese economy shoring up global growth. Losing this engine of growth may be more disruptive than we imagine.

The writer, a former Foreign Secretary of India, is currently Senior Fellow, Centre for Policy Research

Flying into headwinds

STRATEGIC INTENT

INDRAJIT GUPTA

In October last year, I was happy to hear the news on the telly about a spanking new airport at Pakyong, near Gangtok, in Sikkim. My wife and I had made the somewhat arduous journey to Gangtok back in 1996, taking an overnight train to New Jalpaiguri from Kolkata. And then enduring a five-hour uphill bus journey from Siliguri to Gangtok, past the meandering emerald green waters of the Teesta.

I've always wanted our family to visit Sikkim— and the prospect of a direct flight from Kolkata was alluring. The airport is, in many ways, an engineering marvel. Perched between the Himalayan ranges at 4,500 feet above sea level, the land for the airport was carved from a mountainside using modern engineering methods. Built at an estimated cost of ₹605 crore, the airport is expected to boost tourism, trade and commerce, and connect the North-Eastern region to the rest of the country and also to neighbouring countries such as Bhutan and Nepal.

But what's more important is that it is also an important test case for Udan, India's game-changer in the civil aviation space. Launched with much fanfare in October 2016, Udan's mandate is to build both greenfield airports and restart defunct airports in far-flung locations, and open up new air routes that address the issue of regional connectivity, in order to make air travel accessible for all Indians. Hence, the acronym Udan. Or, Ude Desh Ka Aam Nagrik.

A new breed of regional airlines and existing mainline airlines would bid for these new routes and the winner would enjoy exclusive access for three years. And by capping the price of half the inventory of seats, airfares would remain affordable. And this would be achieved by creating a viability gap fund for the airline operators, through a combination of a cess imposed on the tickets in the main routes. Plus, there would be certain tax concessions in ATF fuel from both the Centre and the states—and waivers of landing charges from airport operators.

On the face of it, it looks like a neat plan. But there are some flies in the ointment. Consider a few key ones:

- Building a greenfield airport isn't enough, unless flights are able to take off and land. Inclement weather conditions make it difficult for flights to land in Pakyong on most days. And the airport does not have the somewhat expensive instrument landing systems (ILS) in place. Cancellations are therefore common. And the repeated cancellations make it difficult to build traffic on the route on a sustained basis. Most people end up flying to the nearest Bagdogra airport, which has an ILS in place, and then driving up to Gangtok. How that will make the Pakyong airport sustainable is anybody's guess.
- While the infra challenge might be easier to fix, the bigger challenge is putting in place an ideal network design. The key is to discover routes where there is sustained traffic, not just in a few months of the year, but all round the year. That's why it is far easier to generate steady, predictable traffic, by following a hub and spoke design by connecting the large metro airports to the new Udan routes, as opposed to a point-to-point service say, from Jalgaon to Indore. India's metro airports, Mumbai, Delhi and to a large extent, Bengaluru are choked. They have run out of capacity in terms of landing and parking slots. To make matters worse, passenger traffic continues to gallop at nearly 18-20 per cent every year. And the existing airlines have responded to the market demand by ordering aircraft that could almost double the existing aircraft capacity in another three years. This will stretch India's airport capacity in the metros even further. And the biggest casualty will be the Udan routes, for which the airport operators are expected to waive off landing and parking charges. They reluctantly agreed in the first two years, but now, they're asking for a share of the viability gap fund.
- Take for instance, the Durgapur-Delhi Udan route that Air India resumed last year, after a gap of two years. The traffic has been strong from the steel and mining centre, given that earlier passengers had to travel all the way to Kolkata for a flight to Delhi or rely on the more time-consuming train service. Most businessmen prefer to fly to their destination, wrap up their work and preferably return the same evening, thereby saving money on hotel accommodation. Initially, the Delhi airport was able to offer a flight to Durgapur at 4:30 AM (which meant passengers would have to check-in around 3:30 AM), but later, after much persuasion, settled for a 5:50 AM departure. Finding convenient time slots will be a challenge. Because the number of runways isn't increasing (except to some extent, Delhi, which will have a fourth runway in the next two years.) Things could improve a wee bit once new airports come up near Delhi (Hindon and Jewar) or Mumbai (Navi Mumbai), but the capacity will still possibly lag the growth.
- While IndiGo and SpiceJet have made headway, the new regional airlines have faced a major challenge connecting the two key metro airports to the new Udan routes since they don't have pre-existing slots in Delhi and Mumbai. No wonder Air Odisha and the relaunched Air Deccan were stripped off their licenses on Udan routes in November when they were unable to start operations for more than a year.

By all indications, it is a complex problem to solve. And hopefully, one that, as a former McKinsey partner, the minister for state for civil aviation Jayant Sinha, might relish.

The writer is co-founder at Founding Fuel

Pride and prejudices

BOOK REVIEW

SHREEKANT SAMBRANI

The attics of our minds contain memories, good and bad. Gradually, the edges of the bad ones become less sharp, much as old photographs get blurred. The sepia hues of the good ones become alluring by themselves. We bring them out from time to time, share them with those we think may be interested in them and then put them back, until they fade away. That is nostalgia.

Some people polish these and arrange them for public display, as autobiographies or memoirs. But not all such exercises yield treasure troves. Very often, they are just trash, fit only for the scrap heap. The book under review is a prime example of this. The title suggested that it would look back on India of the seventies, and eighties, both significant decades for the political economy. Instead, it turned out to be a self-admiring memoir of little consequence.

For the record, the author, R M Rajgopal, "has extensive experience in human resource management and has served in different corporate houses for over 40 years…[He] is a company man-turned-writer (*sic*)," to quote the blurb.

We learn, in no particular order, that: He grew up in Thrissur in Kerala; was related to the ruling family of the erstwhile Cochin state; his father was a professor of English and a connoisseur of whiskey; he studied science but before he was 20, joined on graduation a major company — DCM disguised as Yamuna Mills — as a management trainee; served a tediously long apprenticeship at Kota; rose through the ranks, spent long years in Madras (now Chennai) and Delhi; is well connected through family to both bureaucratic and political elite; travelled widely and although took his first flight when he was 28, made up for the late start by taking 2,000-plus flights over the next 35 years (that is a hair more than a flight a week, an impressive achievement at any time but especially so since in the first 10 years of that time, the wretched Indian Airlines with its limited connectivity and flights was the only domestic carrier).

Talking of his once immensely wealthy and powerful family, Mr Rajgopal says, 'Today only the past glory remains. Along with plenty of conceit and arrogance.' No reviewer of the book could have described it better

With becoming modesty, he hints at being the soul of the party, a host *nonpareil*, having the ear of his bosses through his smart ways (some may consider them too smart-alecky) and had a role in major decisions (we know not which) from early on. Most of what we gather of his professional experience comprises handling cases of what would be termed petty chicanery of colleagues (not uncommon even now) and fixing things with officials, mostly at local levels (again, not in the least unusual).

All of this is narrated in what could be called rambling sketches (calling them vignettes would be monumental exaggeration), not always complete or related to those that precede or succeed them. Some of them have pompous-sounding prelude paragraphs. They are of the kind and length of some of the contributions to the Saturday *Eye Culture* feature of this paper, although I hasten to add that almost none of these would pass the editorial muster for that column. Their banality is exemplified by one midway through the book describing a trek in the scrub jungle near Kota under hot sun for a game shoot, culminating in the killing and eating of one duck and one hare (I have not made up these details). A sketch titled "The Icon and the Bania" is unspeakably racist.

Mr Rajgopal describes his prodigious drinking and eating all through the book. That makes him more of a glutton than a gourmet. He is also obsessed with elaborate descriptions of all those who appear in the book, including those only on the periphery, especially their height and clothing. All of this, we are told, is without the help of notes, the feat of a prodigious memory we are supposed to admire. But that does not make him Ved Mehta, because he has none of Mr Mehta's mastery over prose or the ability to use the nuances of the descriptions to further his main point.

The blurb says that Mr Rajgopal is a "full-time writer." He appears to fancy himself to be some sort of a wordsmith, who uses visitation for visit, circumvent for circumnavigation, insensible for idiotic, indulges in phrases such as "The veracity of this cricketing story is unverified," and "overgrown acres where …the undergrowth was forest," to cite a few that come readily to mind. Almost every page has such gaucheries.

The writing is meandering. Long asides interrupt the narrative out of the blue. References to events yet to be described appear with regularity. The small size of a not particularly attractive font makes reading the book, none too charming to begin with, even more tiresome.

Talking of his once immensely wealthy and powerful family (we have his own word to vouch for it), Mr Rajgopal says, "Today only the past glory remains. Along with plenty of conceit and arrogance."

No reviewer of the book could have described it better.

RETRO INDIA
R M Rajgopal
Manipal Universal Press
310 pages; ₹350