Opinion

SATURDAY, FEBRUARY 9, 2019

RAFALE CONTROVERSY

Congress chief Rahul Gandhi

You can investigate any of our members. Launch a probe against Robert Vadra, P Chidambaram or anyone in the party. But investigate Rafale deal

And no one goes to sleep hungry anymore

Akshaya Patra celebrating its 3-billionth meal is a big milestone and points to how welfare-spend must evolve

PHILANTHROPY OF ANY sort is to be encouraged and celebrated, but when it is married to scale, its impact increases manifold. The Akshaya Patra Foundation commemorating its 3-billionth meal, on Monday at Mathura with prime minister Narendra Modi present, is one such example of the societal impact of philanthropy-with-scale. What began as feeding children of just five schools in Bangalore—the school authorities thought it was a one-off like many people do on the birth or death anniversary of a loved one—in 2000 grew impressively, and became an integral part of the government's mid-day-meal scheme. Today, Akshaya Patra feeds 326.5 million meals (in FY18) through 37 kitchens and the plan is to raise this threefold by 2025; the 1.75 million children are spread across 15,786 schools in 12 states. And, apart from the children, Akshaya Patra feeds the beggars' colony in Bangalore, widows in Vrindaban, and it used to feed prisoners in the Bangalore jail, some 50,000 people every day during the Nepal earthquake in 2013-14 and 10,000 people every day during the Chennai floods in 2015. There are even mobile kitchens to feed 5,000-7,000 people every day during the Kumbh Mela, the NTR canteens in Andhra Pradesh feed 60,000 people at just ₹5 per meal and 2,000 homeless are even fed every day outside the London School of Economics in the UK. The model is a mix of government subsidy—Akshaya Patra gets wheat and rice free from the Centre and some states pitch in with money—and donations; in FY18, government support worked out to ₹204.5 crore as compared to ₹252.6 crore of donations.

While states like Tamil Nadu have a long history of the government providing heavily subsidised meals going back to Kamaraj and MGR, what makes Akshaya Patra different is the sheer scale of operations and automation; to put the Akshaya Patra numbers in context, the RSS runs over 17,000 schools across the country with over 2.2 million children studying there. Because of its scale, Akshaya Patra has been able to automate its kitchens and put in place almost corporate-style standard operating procedures—one SOP is that the food has to be cooked at 90 degrees and be served to the kids in their schools at 62-65 degrees. The automation ensures not just volume and speed, but also hygiene, since there is very little human intervention—one automated cauldron of rice cooks enough for 1,000 children in 15 minutes, sambhar for 6,000 kids in 90 minutes and the roti-maker churns out 40,000 rotis per hour.

While Akshaya Patra is even looking at running schools and other forms of educational programmes in the future, its NTR-canteens offer a glimpse into how governments can shape their welfare programmes; the state government gives Akshaya Patra ₹73 per day for three meals a day, so if some other government wants, such canteens can be a good way to ensure that no one in the state goes to bed hungry. A reasonable split between the Centre and the state and CSR-funding should make it affordable. Indeed, a welcome addition to this is the kind of subsidised insurance-based social security—like Ayushman Bharat insurance for medical treatment and Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) for accident and life insurance, respectively—being done by the Modi government; while 13.48 crore people have bought the accident policy, 5.33 crore have bought the life insurance one. With great scale of the type Akshaya Patra has for delivering freshly-cooked meals, and Aadhaar-based solutions to prevent theft and to deliver benefits more efficiently, India's social security is poised for a dramatic leap forward.

Get teacher training right

Shrinking funding a worry, as is absent course correction

EVEN AS THE CENTRE'S spend on education, in real terms, has increased by more than a quarter over the last six years, there has been a steady decline in the spending on teachers' training, an analysis of Budget numbers by the Centre for Budget and Policy Studies published in *IndiaSpend* points out—from ₹1,158 crore in FY15, the Budget estimate for FY20 is ₹150 crore. Given how the right kind of teacher training is imperative for pushing up India's dismal learning levels that successive Aser reports have pointed to—that the drop-out ratio jumps from 7% at the primary level to 25% at the secondary level is proof of the learning deficit getting worse over the years—the shrinking spend should be a cause for worry. The shortage of qualified teachers is one of the chronic ills afflicting India's schools. The Right to Education (RTE) Act mandates that all government school teachers must possess the minimum qualification laid down by the National Council of Teacher Education. RTE guidelines from November 2010 called for teachers falling short of the level required of them to complete training by March 31, 2015; yet, in 2015-16, of the 6.6 million teachers at the elementary level, 1.1 million didn't have the requisite training, and around 0.28 million of the 2 million secondary school teachers, too, lacked professional qualifications. The problem was particularly acute for the worst-peforming states on education like Bihar, Uttar Pradesh and Jharkhand, according to a 2018 study by the Centre for Budget and Governance Accountability—typically, these states spend very little on teacher training.

At the same time, the government needs to re-imagine teacher training. The NITI Aayog Three Year Action Agenda calls for enabling teachers for "pedagogy that focuses on teaching at the right level". This means pre-service training can no longer take a back seat. It must be put on par with in-service training that has become the sole focus of the existing teacher training vision. The National Council on Education Research and Training (NCERT) has criticised the degree programmes for aspiring teachers for not allocating enough time and exposure for prospective teachers to get prepared for the realities of the classroom. The short duration of the programme also hobbles future-teachers' ability to learn through non-academic methods. The curriculum too, NCERT believes, is deficient since it only imparts basic skills and leaves a teacher to train herself in an *ad-hoc* manner, in the classroom. Given the defined school-terms, this means an egregious waste of the student's time. The government's education vision is failing on in-service training, too. A 2016 NCERT report says the in-service "training cycle" is incomplete given the lack of evaluation and follow-up—out of 238 teacher training programmes, "only 89 programmes have evaluation and follow-up mechanisms adopted by them". Such a lack of focus on correcting teacher training to bring in more effective pedagogy puts the future of millions of students in the country at jeopardy, and thereby, exacts a significant economic cost, in terms of unrealised productivity potential and poor employability.

VocationalDILEMMA

Letting students choose vocational courses instead of repeating a year after Class VIII is a fraught proposition

THE DELHI GOVERNMENT has set up a committee to examine if allowing students who fail in Class VIII to shift to a mix of mainstream and vocational courses and get promoted, instead of repeating the year, can be an acceptable alternative to the no-detention policy after the latter was scrapped because it perpetuated learning gaps. But, the vocational studies option has not worked for Delhi in the past . Delhi University doesn't allow students who had opted for more than one vocational course in Class XII to get admitted into undergraduate courses in mainstream subjects that they had passed. That means such students have to continue with either further learning in these courses, if available, or seek employment on the basis of the training already received. This could have worked if India had treated vocational courses like the developed world treats them. Instead, vocational education, except in a few courses like management, has received rather poor focus in higher education and competition means school-level training does little for employability.

Also, industry is already in the midst of the automation revolution. Work that could have been done by a aperson with with basic/intermediate vocational education—CBSE, to which Delhi government schools are affiliated, offers courses such as accounting, food production, diagnostics, textile design, etc—is being done by machines and artificial intelligence (AI). To be sure, some vocational courses will remain safe for the time being, but there are factors that dampen the prospects of students opting for these. There are not as many jobs in these areas as there are students opting for relevant courses. Moreover, the education ecosystem in India doesn't offer much scope for specialisation in such areas that could give a competitive edge to students. In such a scenario, the Delhi government must tread a fine balance—encouraging students to opt for vocational courses should happen in tandem with the state and the Centre working towards opening up higher education, with specialisation options, to students of these subjects.

LESS BRITAIN, LESS TRADE

THE EU'S POLITICAL LEADERS MIGHT BE WELL PREPARED FOR A NO-DEAL BREXIT, BUT NOT THE BLOC'S BUSINESS LEADERS, AND THIS MIGHT HELP THE BRITISH PM

Theresa May has one potential ally in Europe

LEONID BERSHIDSKY

Bloomberg

AS PRIME MINISTER Theresa May continues to bang her head against a hard Brussels wall, the probability that the UK will leave the European Union without an orderly separation agreement increases with every wasted day. The biggest loser, if that happens, would be the UK, but the EU countries also have a stake. They haven't neglected preparations for a no-deal Brexit, but there appears to be a sizable gap in preparedness between governments and businesses, which are still having a hard time believing in a no-deal outcome. Last year, a team of International Monetary Fund researchers published an estimate of Brexit's long-term economic impact on EU member states: An output decline of up to 4% for Ireland but no more than 1% for the others if no deal is reached. Other studies have also predicted a comparably small impact. Perhaps the best way to understand what a hard Brexit is going to do to European economies is to estimate the trade losses that will result from applying World Trade Organization tariffs. Irish economists Martina Lawless and Edgar Morgenroth have done the calculations using sector-level data.

The more important trade is for a country, the more these losses will hurt. Ireland has a higher trade-to-economic-output ratio than all EU countries except Luxembourg. Combined with a high estimated trade loss, that means Ireland is the most exposed country, followed by Slovakia, Belgium and the Netherlands. Not coincidentally, Ireland, the Netherlands and Belgium have been especially focused on Brexit preparedness. Ireland's contingency plan is 70 pages long. It shows a thorough understanding of the anticipated change. Funds have already been allocated for hardware and software to produce the extra documentation needed if trade shifts to WTO terms. Provisions have been made for extra inspection bays and truck parking at ports, as well as for extra staffing where new border barriers will require it. The government, with the European Commission's help, has identified the legislation that will need to be amended by the end of March if the UK appears ready to crash out of the EU as now scheduled on March 29.

It is impossible to fully insulate Irish businesses from the consequences of a hard Brexit, but the government has tried. For 2019, it created a 300 million-euro ($342 million) loan scheme to help affected companies in addition to another, shorter-term 300 million-euro programme started last year. Farmers are getting subsidies to compensate export losses and deal with the potential increase in red tape at the border. The Irish government even runs a special Twitter account for preparedness updates. But anecdotal evidence suggests that Ireland's actual readiness for a hard Brexit at the end of March may not be all that high. The ports' expansion hasn't gone fast enough, and disruptions are likely in the first weeks after the rules of trade change. Transport companies haven't hired the new staff necessary to deal with customs declarations. "We are, to put it bluntly, screwed" in the event of a cliff-edge Brexit, Simon McKeever, head of the Irish Exporters' Association, told an industry conference in January.

> **Entrepreneurs who didn't take enough precautions strengthens May's hope for a last-minute compromise**

The Dutch and Belgian governments have created special web portals on Brexit preparedness, including versions of a "Brexit impact scan"—a questionnaire that businesses, and in the Netherlands also local officials, can answer to get recommendations on how to prepare. As in Ireland, thousands of people in the Netherlands and Belgium have attended Brexit orientation events. Tens of thousands have gone through the "scan". One might think Dutch and Belgian businesses would know enough to be ready.

And yet, at the end of 2018, the last time the Dutch Chamber of Commerce updated the "Brexit Barometer" it uses to assess the preparedness level of its businesses, 58% had made no preparations for a no-deal scenario and 34% said they had no idea what it would mean for them. In Belgium, finance minister Alexander De Croo said last month that 80% of local companies that do business with the UK weren't ready for a new customs regime.

In some countries that will be hit relatively hard by a cliff-edge Brexit, such as car-industry hub Slovakia, not even the government is doing much beyond adjusting some legislation in line with EU recommendations and deciding on the status of stranded Britons (in most EU countries, they'll be given a year or more to apply for residency). Slovakian prime minister Peter Pellegrini has said the country's economy will keep growing fast regardless of Brexit. "If many companies decide to leave the United Kingdom as a result of a hard Brexit, it may even be an advantage for Slovakia", he said. Like neighbouring Poland, Slovakia is also hoping its citizens will come home from the UK after Brexit to help alleviate a labour shortage; it's even held events in London calling on Slovaks to return. Bigger countries will feel a smaller impact and face higher absolute losses. But Germany, France and Spain also face gaps between their governments' strong awareness of what a cliff-edge Brexit would mean and skepticism by businesses that such an event is plausible.

The German Association of Industry and Trade Chambers has created a Brexit preparedness questionnaire similar to those used by the Dutch and Belgian governments, and a representative of the association said in late January that it had been downloaded 23,000 times in the previous two months. But when asked whether German business was prepared for a hard Brexit, Martin Wansleben, the group's head, replied that he couldn't understand how that was possible: You don't know exactly what is going to happen with the customs duties. You also don't know, and this is a very important point, whether you can actually put the customs duties, which increase the price of your products for England, on top of the prices. Will the English pay more in the future, or will that be on their margins? And you don't know what will happen to economic development in England, because there are difficulties there. So I don't think you can really prepare for chaos. The preparedness gap between governments and businesses is likely to affect the outcome of May's negotiations with the EU.

Irish and continental political leaders and the top EU officials feel they've done a lot to prepare for every Brexit-related eventuality. Indeed, it is difficult to expect more from them than they've already done. They've analysed the necessary regulatory changes, drafted and passed legislation, put aside funds and conducted outreach. Their well-deserved confidence that they've done their homework helps them negotiate firmly with May. As far as they're concerned, disaster won't strike them even if no deal is reached—and indeed, while a hard Brexit would cost the EU many billions of euros, its impact is unlikely to be devastating.

On the other hand, as Brexit Day approaches, it is likely that increasingly anguished cries from business executives will reach the political leaders' ears. Entrepreneurs who didn't take precautions because a hard Brexit seemed too insane to contemplate will finally get worried, too late to avoid losses and chaos. That prospect strengthens May's otherwise weak hand and bolsters hope for a last-minute compromise.

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GST challenges for the service sector

Advance rulings and the approach adopted by advance ruling authorities have caused additional burden on the industry due to their ambiguity

MAHESH JAISING

Partner, Deloitte India

CHANGE IS ALWAYS easier to talk about than to actually pioneer. India witnessed a tectonic change in the landscape of indirect taxation with the introduction of the GST. The government, business and the common man alike, were all cognisant of the initial bumpy ride that GST would show in its implementation. Adding credence to the above is the fact that the GST Council has had 32 meetings, which resulted in over 900 decisions and the issuance of over 290 notifications by the Central government. This is also a testimony of the government's resolve and dogged efforts towards addressing the concerns and challenges faced by the trade and public.

The services sector, often credited as the feather in the cap for India on the global stage, has had to deal with a plethora of changes in the backdrop of the implementation of GST. For starters, given the fundamental shift in taxation of services at a state level, service providers have been required to seek state-wise registration where they have their offices. This is in contrast to the previous regime where invoices could have been raised from a central location, with a single centralised registration, irrespective of the number of states of operations. Obtaining registration in each state of operation of the company has led to an increase in compliance for the industry as returns ought to be filed for each registration. This is also in the backdrop of a monthly return concept under GST whereas the service tax law had 2-half-yearly returns a year.

The largest issue that the services industry would have to deal with, in the backdrop of state-wise registrations, is the issue of explaining business operations, tax positions, tax credits, etc, before multiple state authorities undertake audits, assessments, etc, at a state level. Another related issue which is being dealt with by the services industry is the accumulation of input credit in different states on account of varied proportions of billing patterns raised from different locations. Hence, it has been important for the services industry to determine such credit accumulations and appropriately address them. Another challenge has been to understand the principles laid down by various advance rulings issued by different state authorities. Constant changes in the tax positions adopted by the industry, on account of contradictory and pro-revenue advance rulings issued by various state authorities, has not helped the industry either. Some of the key contentious rulings include the following:

- For long, India has been in the forefront of back office support services with IT/ITES exports crossing $165 billion. The IT/ITES industry has historically treated supply of back office support services to overseas clients as export of services and this position has seldom been disputed. However, in a recent judgment, the advance ruling authority shook that foundation by holding that back office support services would be taxable in India on the premise that the Indian entity is engaged in facilitating supply of goods and services whose taxability shall always be in India, in case of an Indian service provider. This decision has created confusion in the BPO industry whose tax positions are not likely to be challenged in various states of its operations. This decision, if not clarified to be incorrect by authorities, could have far reaching implications
- The advance ruling in another case has observed that an employee is tagged to a particular branch and not to the company as a whole. As a result, activities undertaken by employees for different branches would be subject to GST. The very premise that an employee is tagged to a particular location and not to the company as a whole is not correct and needs to be set right
- It is a common phenomenon across any industry to incorporate penal clauses in case of shortfall of services or breach of contract. Revenue authorities are increasingly looking to take a broader view while determining taxability of liquidity damages and penalties. While a penalty under a contract is levied on account of shortfall of services or on account of breach of contract, which is penal in nature and not a service per se, there are advance rulings stating otherwise

The above rulings and the approach adopted by advance ruling authorities have caused additional burden on the industry as such rulings have increased the ambiguity in the minds of the industry. The recent announcement by the GST Council of a centralised appellate advance ruling, which would address situations of conflicting state appellate advance rulings, is a welcome one. However, the same does not seem to be an option in the case of an advance ruling from only one state, though appearing to be incorrect. Despite the above, from an impact of tax cost to businesses, the industry has benefitted immensely from the introduction of GST. Due to the structure of the law, the services industry is able to avail input tax credit of tax paid on goods and traders have been availing credit of services. As a result, tax leakages in the system have been plugged. Refunds of credit have been an important element for exporters and the government has supported the industry immensely by initiating special drives for fast tracking of refunds. This has ensured that the industry has minimal working capital blockage.

While it has been an action-packed 18 months, the industry is hopeful that the ambiguities that have emerged due to the advance rulings will be addressed by the government in the near future. With a stable GST in place, the services industry would benefit immensely in the long-run.

(Article authored with inputs from **Mamatha Anand**, director, Deloitte India and **Ankush Surana**, manager, Deloitte India.)

LETTERS TO THE EDITOR

Welcome move

The Travancore Devaswom Board's decision to allow women of all ages to enter the Sabarimala temple is a welcome move. The board's sudden volte-face after strongly opposing the move earlier has come as a massive surprise to many and given credence to the view that it succumbed to political pressure from the state's CPI(M)-led LDF government. The development has come as a shot in the arm for women's rights and for all those who believed in fair play
— Ravi Chander, Bengaluru

One election

Frequent elections tend to impact policymaking decisions and affect the pace of development projects. Phased consolidation of the polling process across multiple states, although challenging to implement, is an optimal approach which promises to be productive/cost-effective in terms of resources in the long-run. That said, elections at different levels in a federal system focus on civic, state and national issues, respectively. At a time when a collaborative effort to serve the larger public interest is found wanting, the idea of a one-election in the sovereign may soon be the only choice available to ensure that mutual putdowns and vested interests take a back seat. For utilisation of time/effort towards the fulfillment of larger socio-economic goals and to sustain the public cheer, the concept, associated with geo-political stability and expedited execution of welfare schemes, therefore assumes importance. However, due diligence and strategic application of the idea is required to address grass root level problems in a varied demography
— Girish Lalwani, Delhi

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The China threat—science and technology

There are allegations that China's practices force foreign companies to part with technology—a backhanded intellectual theft that has been at the heart of the China-US discord. There have been ethical concerns, too (the 2018 gene-editing trials, for example). But China's strides will, no doubt, be harnessed by the global community, giving billions in the developing world access to quality goods at cheaper prices

ANURAG VISWANATH
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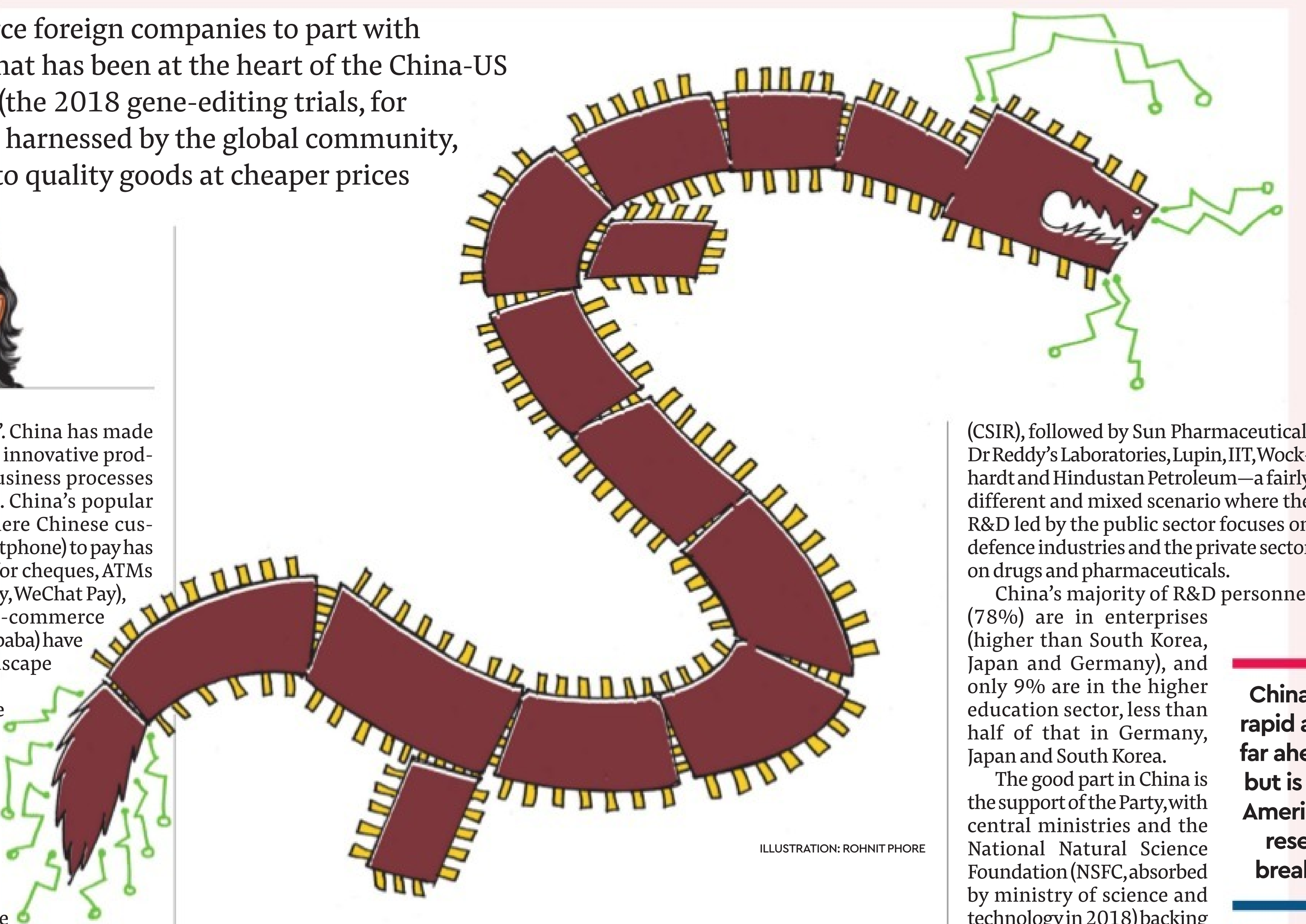


ILLUSTRATION: ROHNIT PHORE

DECADES AGO, SCIENTISTS, engineers and doctors preferred to journey West—to America and Europe. In a quiet reversal of sorts, a trickle—7,600 scientists and engineers—have begun heading East, to China, partly in response to China's Thousand Talents Plan (2008). The lucrative scheme offers Chinese returnees and foreign experts (non-Chinese) generous research funds, opportunities to set up labs, tenured positions and salaries comparable with America. Is China the next big destination for intellectual capital? And what is the import and implication of its growing prowess in science and technology?

China has been catching up—but think past Huawei's 5G technology and MateBook X Pro Laptop. China's satellite Micius made a spectacular breakthrough (2017) with a videoconference between Vienna and Beijing—the world's very first quantum-encrypted intercontinental video link. Chinese scientist Jian-Wei Pan, the man behind the project (who collaborated with Austrian physicist Anton Zeilinger), is the man of the times, feted as China's 'father of quantum'. He is also the man behind the Beijing-Shanghai quantum link (Beijing-Jinan-Hefei-Shanghai) currently in use to transfer sensitive data.

Other breakthroughs include Zhong Zhong and Hua Hua (the first cloned primates), the cotton seedling that grew on the moon aboard Chang'e 4 lunar lander (in 2019), scientist Tu Youyou (who made a breakthrough in the treatment of malaria with artemisinin and won the Nobel Prize in 2015), deep-sea submersible Jiaolong, the fastest bullet train in the world—all out of China's stables.

China's transformation has neither been an overnight phenomenon nor come without help from the Communist Party (CCP). China has long been positioning itself as a knowledge-based economy and innovator—not a 'me-too' imitator or a 'back office'. China has made remarkable strides in innovative products, technologies, business processes and business models. China's popular mobile payments where Chinese customers tap (their smartphone) to pay has obliterated the need for cheques, ATMs and credit cards (Alipay, WeChat Pay), and home-grown e-commerce giants (JD, Tencent, Alibaba) have transformed the landscape of B2C business.

More than a decade ago (in 2005), China targeted indigenous innovation with a commitment to step up funding in R&D and limit China's dependence on foreign technology. This was through the Medium- and Long-Term Plan for the Development of Science and Technology (2006-2020).

Keeping the ambition apace was growing R&D investment, from 0.9% of GDP in 2000 to 2.05% of GDP in 2014—lower than South Korea, Japan, Germany and America (4.3%, 3.4%, 2.9% and 2.7%, respectively, in 2018), but formidable still. By way of comparison, India's R&D spending is frugal, stagnating at below 1% and hovering at 0.69% of GDP in 2014-15. Back in the day, 1950s till 1970s, China's R&D investment was 1.4% of GDP.

But China's political reforms are stagnating under President Xi Jinping—he sought to implement an innovation-driven development. In 2015 came 'Made in China 2025', a plan inspired by Germany's Industrie 4.0, to initiate China's jump from Industry 2.0 (mass production) to the fourth industrial revolution, Industry 4.0 (technologies). The plan sought out critical focus on 10 selected industrial sectors—information technology, aerospace technology, computerised machines and robots, medicine and agricultural machinery, among others. Xi also sought to shape the 'Chinese Dream' by aiming to make China an innovative nation by 2020, place China at the forefront of innovative countries by 2030, and make China an innovation power by 2050.

Achieving the above may be a possibility. China's R&D statistics are impressive—it boasts of 6.21 million R&D personnel (largest in the world), an enviable R&D spending (approaching the level of OECD countries), citations of Chinese papers exceed Germany's and the UK's (Essential Science Indicators, 2017), and it has the largest number of invention patent applications (2017).

Even a critic cannot ignore the World Economic Forum's (WEF) Global Competitive Index 4.0 (2018), based on the "microeconomic and macroeconomic foundations of national competitiveness." Out of 140 countries, China ranks 28th with a score of 72.6 (India ranks 58th with a score of 62.0). In the Global Innovation Index 2018 (co-published by INSEAD, World Intellectual Property Organisation and Cornell University), out of 126 countries, China ranks 17th and India is at 57th. While China's economic gap with the West, notably America, remains wide, as China is still a middle-income country (with a per-capita GDP of $8,000), there is no doubt that China is getting there.

Interestingly, the highlights of China's R&D, as academic Zhao Litao calibrates, is that the government contributes 20% and enterprises (industry) play a major role with a contribution of over 70%. This is also the case with Germany, Japan and South Korea. In India, the major R&D funder is the government (central and state), not the enterprises that contribute 38.1%.

A simple look at WIPO reveals that the major Chinese patent applicants are Huawei, ZTE, BOE Technology, Le Holdings, Shenzhen China Star Optoelectronics, Alibaba, Tencent Technology, Guangdong Oppo and Xiaomi—names that we are familiar with in India.

In India, the top applicant is the Council of Scientific and Industrial Research (CSIR), followed by Sun Pharmaceutical, Dr Reddy's Laboratories, Lupin, IIT, Wockhardt and Hindustan Petroleum—a fairly different and mixed scenario where the R&D led by the public sector focuses on defence industries and the private sector on drugs and pharmaceuticals.

China's majority of R&D personnel (78%) are in enterprises (higher than South Korea, Japan and Germany), and only 9% are in the higher education sector, less than half of that in Germany, Japan and South Korea.

China has made rapid advances, is far ahead of India, but is still behind America's quality research and breakthroughs

The good part in China is the support of the Party, with central ministries and the National Natural Science Foundation (NSFC, absorbed by ministry of science and technology in 2018) backing R&D expenditure. The Thousand Talents Plan is directly under the heavyweight Organisation Department of the Central Committee of the CCP, which speaks of long-term commitment.

China does have a few disadvantages. As a 'closed' state, its (structured) systems, processes and thirst for immediate results are not conducive for talent; China's lack of respect for diversity, and immigration policy, also needs to reform (several steps are being taken such as the introduction of the R Visa, 2018). Israel, for example, admits that innovation that has made Israel famous, stemmed from the crucible of the 'kibbutzim'—the collective of immigrants that congregated from all over the world, affirming that diversity, collaboration and openness are critical factors. America, too, as the land of immigrants, stands testimony to the enabling power of diversity and democracy over homogeneity and control.

When it comes to China, there is discomfort in the media, with allegations that China's practices force foreign companies to part with technology, a 'forced technology transfer', a backhanded intellectual theft that has been at the heart of the China-America discord. E-commerce marketplaces Pinduoduo, Alibaba and JD.com sell counterfeit goods. There are also allegations that China's technology companies are 'tools of China's intelligence' or 'used in espionage'—and they bear the cross of circumventing ethics, spreading their footprint in Europe via lobbying, donations to trusts, engaging the right people at the top, and hefty scholarships.

There have been other ethical concerns, too. In 2018, scientist He Jiankui (funded by Thousand Talents Plan), in a secret clinical trial, edited the genes of twin girls Lulu and Nana using a gene-editing technology—without adequate understanding of future implications—causing uproar in China and across the world. In 2007, the debris in space emanating from China's anti-satellite test sparked concerns.

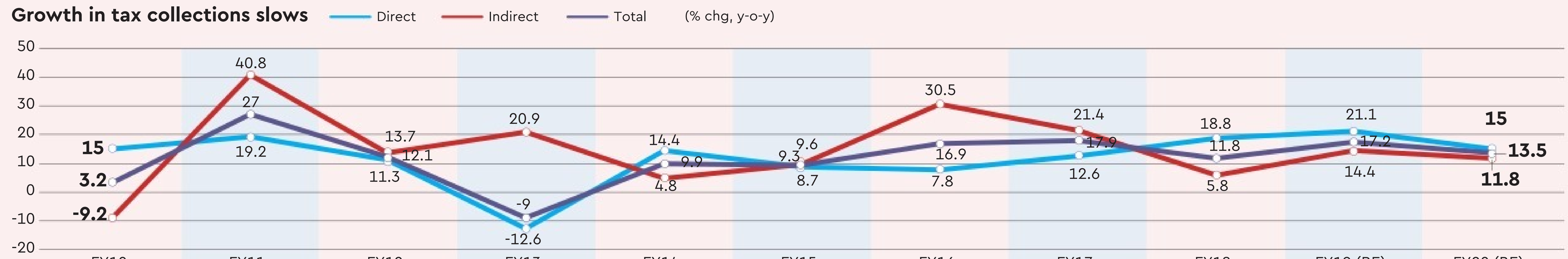
Some of this, no doubt, has come about because Chinese has emerged as the biggest cheerleader—about China. Chinese citizens themselves are sceptical and uncomfortable about China (prematurely) bragging about itself; the documentary 'Amazing China' (2018), which sang praises (about China), created a backlash within. There have been calls for (the once-blue-eyed) economist Hu Angang to step down following his 'China in 2020: A New Type of Superpower'. Some of western media's discomfort is also tied to this.

China has made advances, is ahead of India, but is still behind America's quality research and breakthroughs—including NASA's New Horizons completing the most distant space flyby in history (in 2019). China's strides will, no doubt, be harnessed by the global community—not Chinese citizens in China per se—among others, giving billions in the developing world access to quality goods at better, cheaper prices.

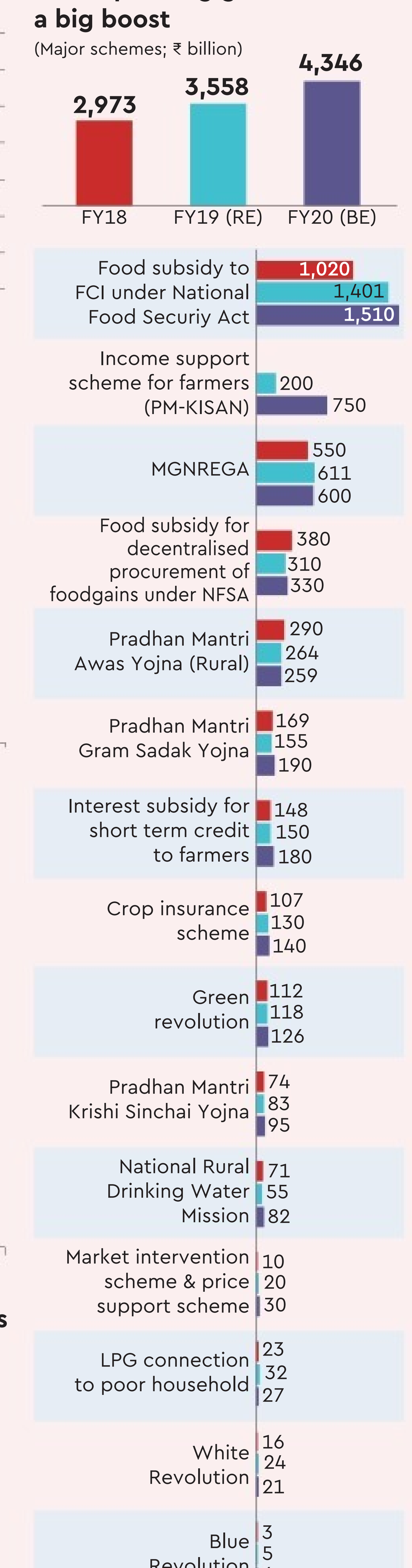
The exaggerated threat—provocative and prognostic—is really not about China's advancements in science and technology or even technology companies per se, but rather comes from the sum of many parts. It comes as a convoluted, backhanded attempt to check and corner minus arms and ammunition—an eye on the future and ahead of two critical eventualities—the looming deadline (March 2) that seeks to resolve the trade dispute between China and America, and the second summit (February) between America and North Korea.

DATA DRIVE

Growth in tax collections slows



Rural spending gets a big boost

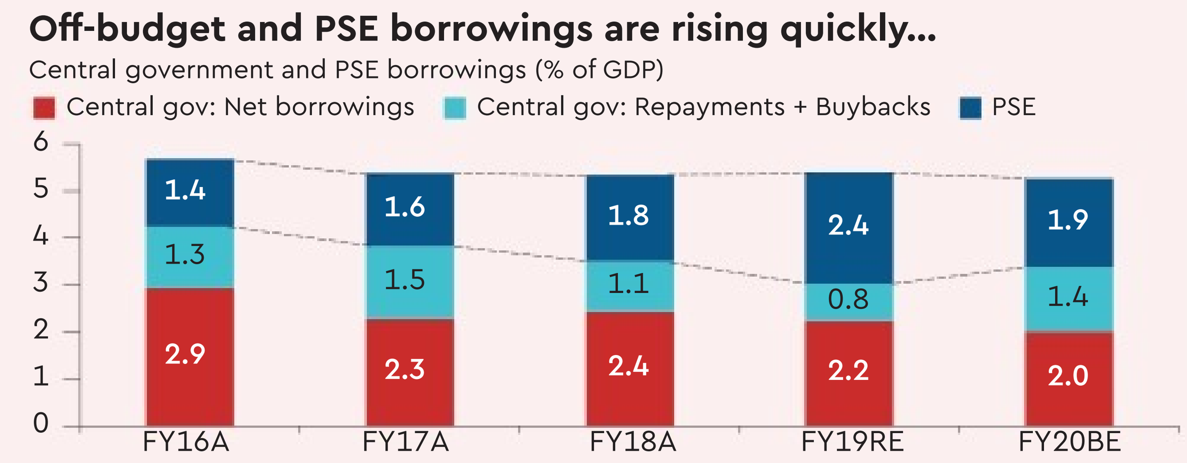


Bond yields to govt-borrowing pressure

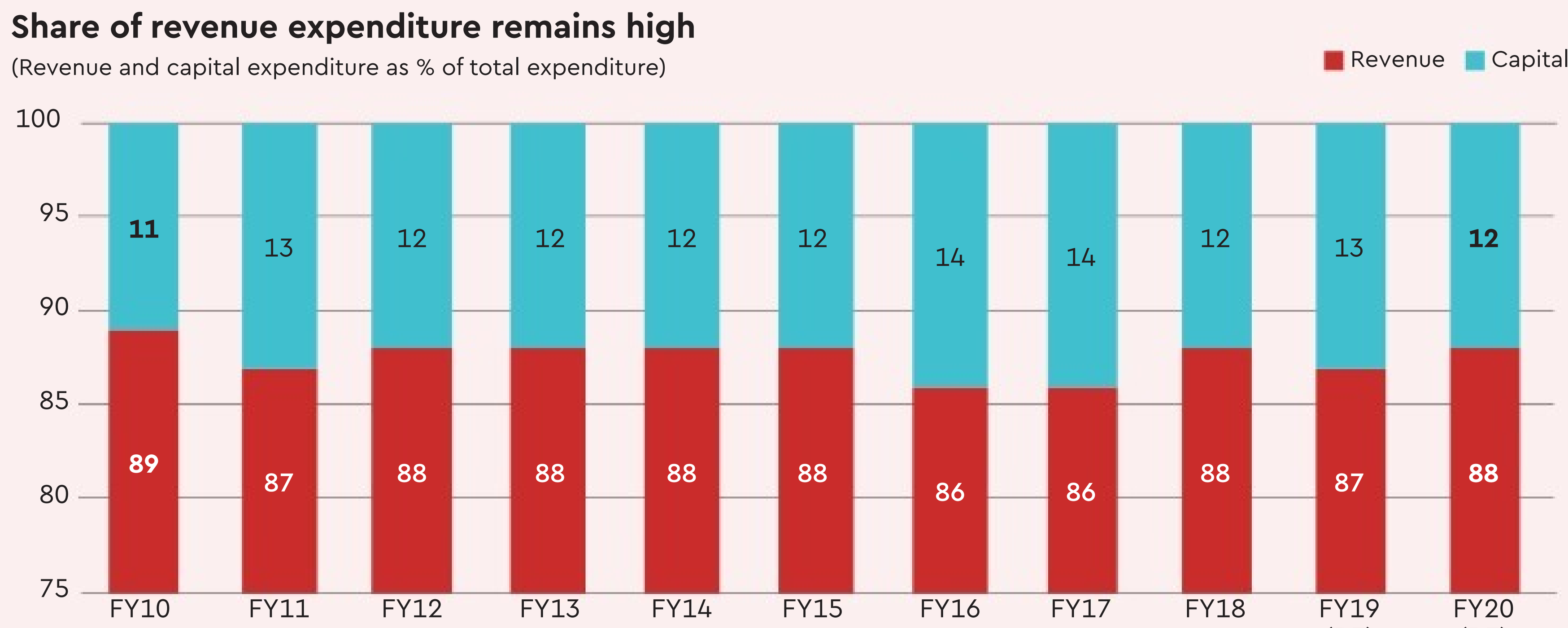
THE INTERIM BUDGET 2019-20 shows that the growth rate in tax revenues will slow down. Total tax revenue is projected to grow 13.5% in FY20 as compared to 17.2% in FY19. While the rural and middle class incentives could have a positive impact on consumption, the Budget shows a fall in capital expenditure. The share of capital expenditure in total expenditure is at 12.1% in FY20. Being an election year, the government focused on the farm sector with an income support scheme called PM-KISAN. The government will provide ₹6,000 a year to around 120 million small and marginal farmers with land holdings up to 2 hectares. The cash transfer will mainly benefit marginal and small farmers in Hindi-belt states such as Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Rajasthan, Jharkhand and Haryana, which are all electorally key for the BJP.

In addition to the new scheme, the government has increased allocation in most rural schemes. In fact, the total allocations to major rural schemes is around ₹4,34,600 crore in FY20, a 22% increase from the revised estimates of FY19. The gross market borrowing of the Union government is budgeted to rise by 27% year-on-year to ₹7.6 lakh crore. This is likely to pressure bond yields. Also, off-budget and PSE borrowings have been rising, which have led to a structural steepening of the yield curve.

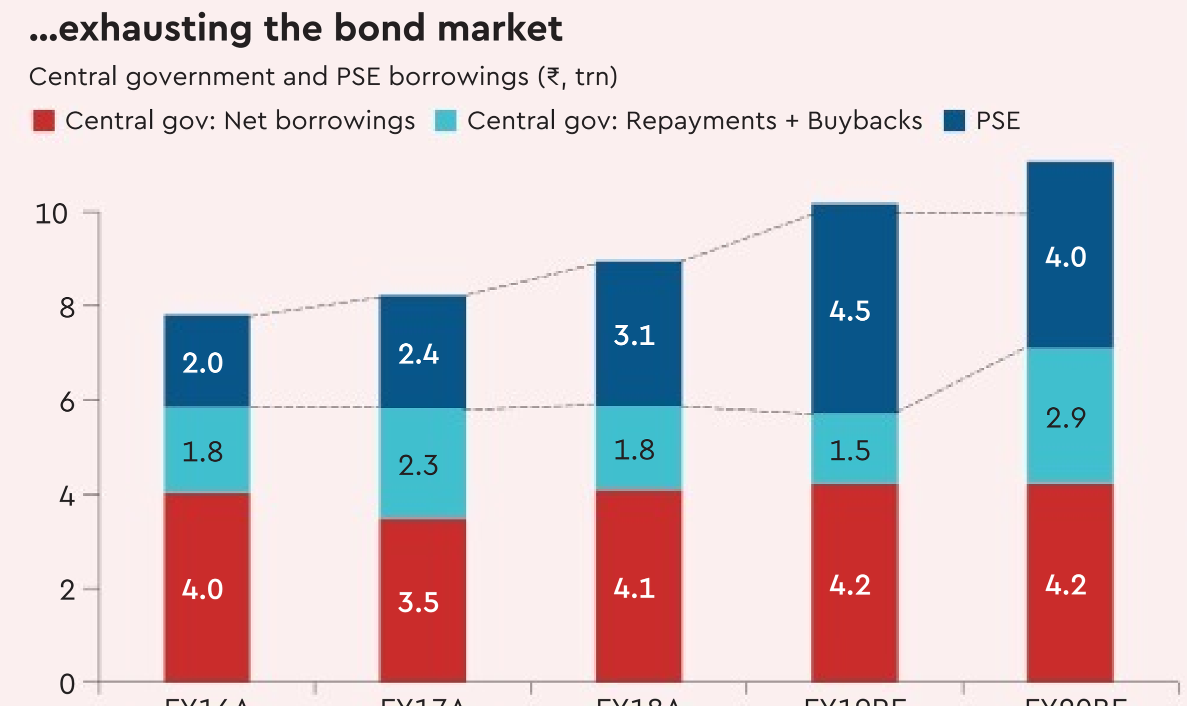
Off-budget and PSE borrowings are rising quickly...



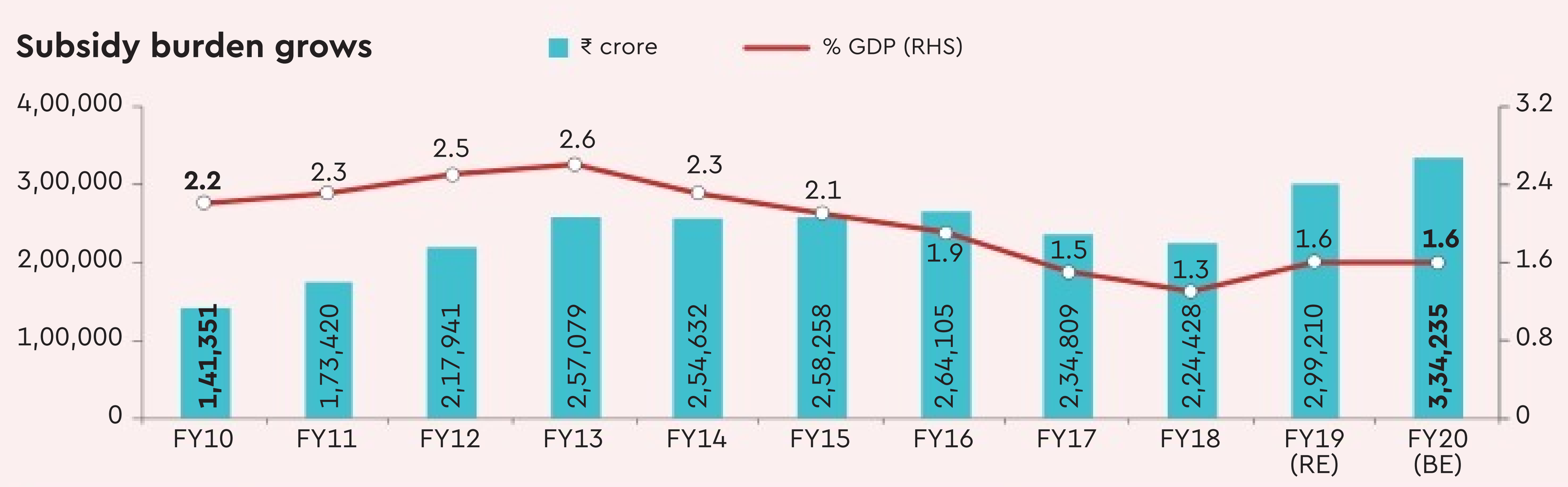
Share of revenue expenditure remains high



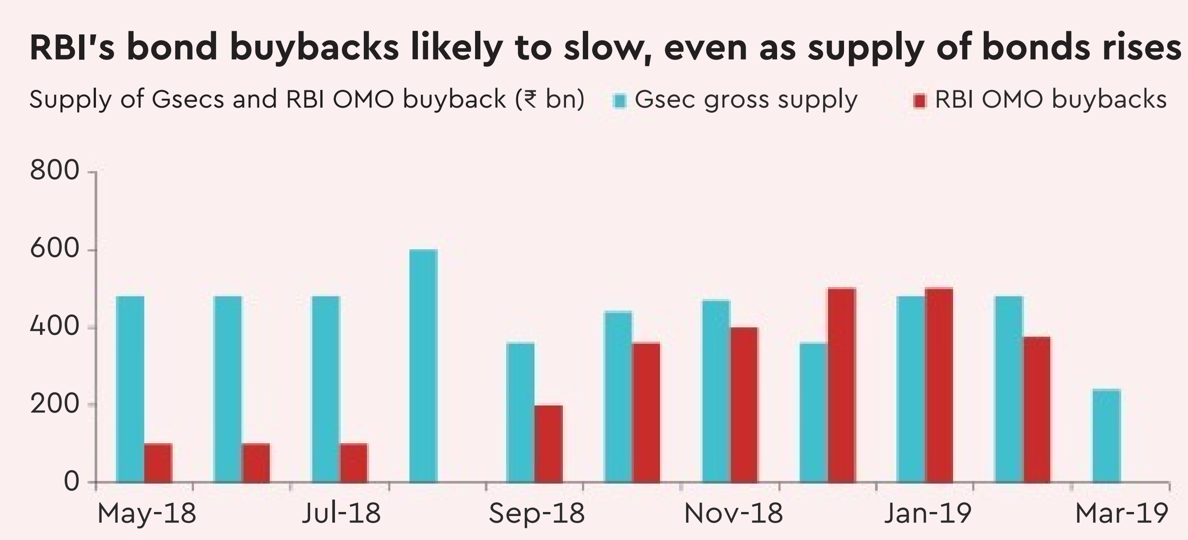
...exhausting the bond market



Subsidy burden grows



RBI's bond buybacks likely to slow, even as supply of bonds rises



Source: Budget documents, HSBC, Kotak Institutional Equities Research