Opinion

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E-MOBILITY

M Venkaiah Naidu, vice-president of India

Standalone metro systems are not effective and need a holistic approach. Globally, the mobility sector is acquiring new paradigms. Shared mobility, electric vehicles, bicycles, connected vehicles are taking the centre stage and India must also follow the same

RationalExpectations

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GST magic dulls, big tax shortfall likely

After ₹1 lakh cr GST shortfall, ₹50,000 cr in direct taxes in FY19 expected; low average tax paid means compliance remains poor

EVEN WHEN THE budget was presented, the much lower projection of a 13.5% growth in FY20 tax collections suggested the government also realised that the expected boom in FY19 collections—taxes were to rise by 17.2%—was a one-time event, driven by more people paying income tax due to the fear of being caught out by the surveillance mechanism in-built into GST or by those who restated their taxes after being caught on the wrong foot by demonetisation. Whatever the reason, though, a near-20% hike in the tax-to-GDP ratio since Narendra Modi became prime minister—from 10.1% in FY14 to a projected 11.9% for FY19—is quite impressive. Indeed, this went well with the other narrative of the sharp hike in the number of taxpayers, especially the e-filers, from 2.97 crore in FY13 to 6.75 crore in FY17.

Despite this, however, it appears all is far from well. As *FE's* Sumit Jha has pointed out earlier, while the number of e-filers rose 2.3 times, what really mattered is the increase in overall taxpayers, and this rose a smaller 1.4 times, from 5.28 crore to 7.41 crore—this includes those who file their returns, whether electronically or physically, as well as those who pay TDS but don't file returns. More important, despite the 1.5 times hike in nominal GDP between FY13 and FY17, the average tax paid across individuals and companies rose by a mere 7%, from ₹104,704 to ₹112,604.

Indeed, at 140,139 in FY17 for all taxpayer groups—individuals, HUFs, AoPs, companies—and 81,344 for individuals, the number of *crorepatis* is quite small compared to the PRICE estimate of one million *crorepati* households in the country; PRICE's data is for households, but that translates to around 6.6 lakh individuals with an annual income of more than ₹1 crore a year. This means that just around an eighth of eligible *crorepati* households are declaring their incomes. The tax data for FY17 shows 1.4 million taxpayers declared an annual income of more than ₹20 lakh; 1.3 million in the case of individual taxpayers. Once again, this compares poorly with PRICE's estimate of 8 million households or 5.3 million individuals with an income of more than ₹20 lakh per annum. In other words, even as the number of taxpayers is rising, there is considerable scope for greater compliance. In FY17, the tax data shows a total of 4.7 crore individuals filed their incomes and declared their incomes to be ₹28.2 lakh crore; the time-series data shows they paid a total tax of ₹3.5 lakh crore at an average rate of 12.4%. In FY14, a total of 3.7 crore individuals paid a tax of ₹2.4 lakh crore on an income of ₹18.4 lakh crore, making the effective tax rate for that year 13.2%.

> A ₹45,000 crore shortfall on income tax alone despite GST and DeMo makes it clear that getting tax thieves to fall in line is not going to be as easy as we thought

While the government had already said it was looking at a ₹100,000 crore shortfall in GST collections—in the budget, it pencilled in GST of ₹643,900 crore for FY19 as compared to the earlier projection of ₹743,900 crore—it appears there could be a ₹50,000-60,000 crore shortfall in direct taxes too. Till now, the government narrative has been one of making up part of the GST shortfall via an increase in direct tax collections. Indeed, when the budget was presented on February 1, the government increased the estimates of direct tax collections by ₹50,000 crore, primarily by raising estimates for corporate tax collections.

It turns out, however, that with just a week or so to go for the year to end, a member of the Central Board of Direct Taxes has written to all principal chief commissioners of income tax saying that the government collected just 85.1% of the budget's ₹12,00,000 crore direct tax target by March 23; the letter points to 'regular collections' contracting at an increasing pace and says "this is an alarming situation which needs immediate attention". Given this, and the fact that tax officers have been asked to "take all possible actions urgently, especially with respect to recovery of arrears and current demand", it is possible that firms will be arm-twisted to pay unreasonable taxes and then make a refund after April—the CAG documented such instances when it pointed out that, in March 2016, an extra demand of ₹5,853 crore was levied on SBI by incorrect calculations of its advance tax and the bank was refunded the amount on April 2; several other examples were also given to show this seems to be a routine exercise since, in FY16, such inflated demands amounted to 10% of the Mumbai region's corporate tax collections for the year.

Even if the taxman is able to arm-twist corporates, an analysis of the April to January data that is available on the CGA website suggests that most of the shortage in direct taxes will take place in personal tax collections. If you assume 68% of the year's collections are made in April-January—this is a rough average based on the actuals over the past few years—personal income tax collections for FY19 will be ₹485,000 crore versus the target of ₹529,000 crore and, at ₹669,000 crore, corporate collections will be very close to the upwardly-revised target of ₹671,000 crore.

If there is a ₹150,000 crore shortfall in overall tax collections, this implies an FY19 tax-to-GDP ratio of 11.1% as compared to the target of 11.9% and FY18's 11.2%. At a time when GDP is growing as fast as it is today and after all the efforts made to increase compliance—from demonetisation to GST and with several other measures in between—this is quite disappointing. All eyes will now be on Project Insight, a computerisation of all databases with extensive search and matching facilities; once this is done, and the Aadhaar-linking of PAN numbers takes place, the taxman will have a very good estimate of expenditure and will match this with income statements.

Though GST has inbuilt compliance systems—these have, though, been mostly kept in abeyance so far—and demonetisation meant all cash moved to bank accounts, getting those used to decades of tax non-compliance to fall in line isn't going to be easy.

AIBreakthrough

The newest winners of the Turing award pioneered development of technology that is already so integral to our daily lives

THREE PIONEERS OF artificial intelligence (AI) have won one of the most prestigious awards in computer science, the $1-million Turing Award. Yoshua Bengio, Geoffrey Hinton and Yann LeCun won the award for work they did on deep neural networks. Their work over the past several years incorporated the usage of algorithms to recognise and institutionalise patterns in data that recognised languages, environments and objects and led to breakthroughs in speech recognition, robotics and machine learning of digital images and videos. Neural networks are a critical component of robotic systems that are automating a wide range of human activity through machine learning and form the conceptual base of AI.

In recent years, deep learning methods have been responsible for astonishing breakthroughs in applications across the breadth of human endeavours. These days, everyone with a phone can see the tangible experiential advances in natural language processing and computer vision that were not possible just 10 years ago. Other application fields that utilise the technology are healthcare, medicine, astronomy, education, urban development, transportation, etc. Indeed, as per NITI Aayog estimates, AI could mean a 15% boost for the GVA for the economy by 2035—the government think tank estimates AI could potentially add $957 billion to India's $6,397 billion dollar GVA projected for that year. Worldwide, according to a study by IDC, AI represented $12 billion in market investment in 2017. By 2021, that figure is expected to rise to $57.6 billion. It is also predicted that 40% of digital transformation projects will be based on AI technology by 2019 and, in addition, 75% of business tools will use this technology by 2021. If anyone deserved the prestigious Turing award, it is indeed Bengio, Hinton and LeCun.

GROWTH TARGETING

CREATING A NEW PRICE INDEX THAT ALIGNS WITH THE GDP COMPOSITION IS THE ONLY WAY TO MAKE MONETARY POLICY EFFECTIVE AS IT CAN CURB EXCESS DEMAND FORCES ACROSS THE ECONOMY

Should MPC framework be reviewed?

MADAN SABNAVIS

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Views are personal

IS IT TIME to revisit the mandate of the MPC? The MPC had to target CPI inflation at 4% within a band of 2% on either side. Over the last two years or so, interpretation became hard for the market as different decisions and stances were taken on this number based on the distance from this norm. Further, inflationary expectations, too, kept the market guessing as policy outcomes would be different based on the same conjectures. To top it all off, the MPC also provided a stance which could be viewed as either neutral or one of calibrated tightening. The earlier lament of slow transmission exists even today. And, above all, singular targeting of inflation had, at times, led to growth being given a pass which was a view expressed by industry. It may hence be useful to relook at the principles.

Certain questions need to be posed. Firstly, is the CPI inflation the best inflation index to target or should we look at another indicator? Secondly, how often can the stance of policy change and can it be parameterised? Thirdly, should there be an inflation forecast every two months or should it be not more than twice a year? Fourthly, should growth enter the mandate of the MPC so that it is not just inflation that is being targeted?

Using the CPI for tackling inflation through monetary measures runs the challenge of targeting a number over which monetary policy has little control. The weight of food items in this index is 46%, which is not affected by interest rates as rarely does one borrow to buy food. Other components like clothing, rent, medical, entertainment, education, fuel, etc, also are not driven by credit. Therefore, in a situation of rising inflation, increasing the repo rate with very good transmission is unlikely to bring inflation down.

The anomaly is stark when one looks at the factors that drove core inflation up in recent months. Rent is actually reckoned on the basis of cost of government employees that went up due to the Pay Commission's recommendations. It is notional and is not reflective of inflation *per se*. More recently, the health and education indices increased which also cannot be tackled by monetary policy. These charges get revised periodically where fees of professional institutes are increased as are medical service charges.

The WPI is always a better inflation target because it is influenced by cost of funds as around 64% of its weight resides in manufactured goods. It, however, excludes services which can add to inflation as has been the case with the rent, health and education indices. Alternatively, it may be useful to create a new price index that reflects all sectors and aligns with the GDP composition (see attached graphic). This is the only way to make monetary policy effective as it can curb excess demand forces across the economy. Presently, most of the inflationary impulses emanate from the supply side where costs increase.

The stance of the policy has come to be interpreted as the possible change of direction in the coming months. Ideally any 'stance' should remain for some time unless there is a shock of an immense nature. The idea of a stance is that it has to be forward-looking and a precursor of future action taken before the change is invoked. Presently, there has been a tendency to make a change in rates accompanied with a change in stance which then makes the concept of stance amorphous. The third part of the policy is the inflation forecast. Can the forecast change every time the policy is announced? Ideally, such forecasts should be once or twice a year with the second one being a review along the way. The forecasts cannot be changing every two months, especially if there is a range being provided. Constant changes in forecasts cause volatility in the market that then tries guessing future rate actions as these forecasts have had a bearing on policy.

Curiously, ever since the monetary policy framework has been put in place, by a matter of coincidence, inflation has remained low at around 4% which was not the case earlier when CPI witnessed successive increases in the range of above 8% (2009-13). The policy, stance and forecasts have worked well so far as the inflation number has gravitated to 4% with the market guessing whether rate cuts happen when actual inflation comes down or expectations come down. It would be interesting to see how rates react when inflation soars, which is possible if there is a monsoon shock or oil prices start moving up.

The last consideration is whether inflation targeting should be the only variable that is looked at or should growth be as well. It has been seen that the critique of monetary policy has often had political language that borders around obsessions with inflation to the neglect of growth. If that is the case, should there be change in the legislative action that also includes growth as a variable to be targeted? It may be recollected that, in the past, monetary policy always spoke of growth and inflation and while there was no overt target for inflation, the general direction of movement of prices provided a clue on what the policy would be like.

The growth versus inflation dilemma has also been witnessed in the US where its president has been vocal in pointing a finger at the Federal Reserve. It is normally believed that interest rates are a panacea for growth. But this did not quite work out post the financial crisis where the Fed had to resort to unconventional measures to stimulate growth through quantitative easing programmes. If it is to enter the frame then, it would be necessary to state specific numbers that have to be targeted, which can be 7.5% or 8%. But then, balancing the two targets will be more complex.

Quite clearly, there is a need to revisit the framework. Firstly, the economic conditions have been quite congenial so far and have not tested stressful positions. Hence, if inflation starts going up due to a bad *toor* crop, and inches towards 6%, should there be a series of increases in rates? Further, if inflation moves towards 10%, then should the repo rate be closer to 8% or 9%? These questions would arise when the situation gets sticky. Secondly, the current battle against inflation is out of sync with the power of monetary policy. Higher rates cannot change prices of food, or medical treatment or education or rent. Therefore, a new index can be considered. Thirdly, continuous revisions in forecasts of inflation can create uncertainty in markets and hence should be limited. Lastly, some growth perspective should also be part of the monetary policy package if the government feels it is important.

The experiment, so far, has worked well under virtually no stress conditions. It may be useful to revisit the framework and make alterations if required to make it more inclusive. This would mean moving away from exclusively being monetarist to the neo-classical.

	GDP share	CPI share	WPI share
Agriculture, forestry, allied activities	14.3	48.2	19.3
Mining	2.9		13.3
Manufacturing	18.2	13.6	64.2
Electricity	2.2	6.8	3.1
Construction	8.2		
Trade, transport, restaurants, hotels	19.1	8.5	
Finance, real estate, professional services	22.0	10.1	
Public administration, defence, others	13.1	12.8 (misc)	
Total	**100.0**	**100.0**	**100.0**

Cars will be first victims of tech cold war

Smaller US companies that can't afford the rigmarole of export compliance may give up on the Chinese market. China has reason to worry, too: deepening tensions will indicate a breakdown of the world's most consequential bilateral relationship

ANDREW BROWNE

Bloomberg

THESE ARE TESTING times for Detroit's big automakers as they puzzle over where to place their bets. Pickup trucks or driverless cars? Internal combustion engines or electric motors? Hardware or software? Now, an even larger question looms, just as a mobility revolution reshapes the industry: America or China?

Tensions over technology, if not an outright cold war, are threatening to become a permanent feature of the US-China relationship. In an extreme case, as White House hardliners press to limit advanced technology exports to China, some US companies operating on the mainland could be forced to retreat to their home market. Hank Paulson, the former US Treasury Secretary, recently warned of an economic "Iron Curtain" falling between the two countries.

US auto executives have as much reason as any to worry. Indeed, their dilemma illustrates how any serious US effort to block high-tech exports to contain China would be both delusional and self-destructive. While it would almost certainly fail in the long-run, it would cause a good deal of needless disruption along the way. Realistically, US automakers can't afford to detach from China. They have been borne along by the country's extraordinary growth for decades; booming sales there saved General Motors Co. from going belly-up in the 2008 financial crisis. And, while the pace of expansion has slowed lately, sales of new passenger cars in China are still far higher than those in the US, Japan and Germany combined.

No other country offers the same manufacturing scale. Without armies of low-paid Chinese workers, Apple would never have been able to make an affordable iPhone. The same pressures apply to next-generation cars. The driverless vehicles of tomorrow will essentially be smartphones on wheels, devices for delivering entertainment, shopping and other internet services. Like the iPhone and most of the world's other electronic gadgets, they will be mostly made in China and rolled out globally. US restrictions on tech exports can slow, but not stop, this industrial march.

Indeed, China is well on its way to an all-electric future. In their planned economy, Chinese regulators simply command automakers to produce electric cars and offer sweet deals to consumers—subsidies and hard-to-get licence plates in megacities such as Beijing—to induce them to buy. By 2020, China is targeting annual sales of two million electric cars, 20 times the US number. Rideshare giant Didi Chuxing Inc. currently has 550 million riders, more than five times Uber Technologies Inc.'s worldwide total. What the US should really worry about is falling behind in this technology race. Although more and more urban millennials are opting for rideshares, America as a whole is addicted to owning cars—and will be for the foreseeable future. The gas-guzzling SUV remains a prime symbol of freedom.

China, meanwhile, is installing lightning-fast 5G networks at least a year ahead of their planned rollout in the US, giving it a jump on applications such as roadside sensors and radars that support autonomous driving. Increasingly, China will set industry standards. Much of the developing world will follow its lead. It is a telling fact that today, while all the top-selling internal combustion engine sedans in China are foreign, every popular electric model is local.

We're reaching a critical moment. Last year, the US Commerce Department proposed export restrictions on a host of technologies, among them artificial intelligence tools such as neural networks, as well as positioning systems used in driverless cars. Officials are now debating how widely the ban will be enforced. Expansive or limited, the effect will likely be the same: China will source more know-how from Europe, Israel and Japan, and double-down on efforts to become self-sufficient in areas where it lags, such as advanced semiconductors.

Smaller US companies that can't afford the rigmarole of export compliance may give up on the Chinese market. Silicon Valley start-ups have already taken a hit as a result of new restrictions on inbound Chinese investment in sensitive technologies that took effect late last year. Howard Chao, the former Asia chairman of O'Melveny & Myers LLP, a law firm, says that in recent months, Chinese-backed venture capital deals have "fallen off a cliff".

China has reason to worry, too. At the very least, deepening tensions will indicate a catastrophic breakdown of the world's most consequential bilateral relationship. It is beyond time for China to address the root causes of US frustration, including closed markets and forced technology transfer. Removing caps on foreign ownership of auto joint ventures was a good first step. Next, China should throw open the doors to US tech giants, such as Google, who are leading the mobility charge but are now largely excluded from the mainland. Unlike the last one, this cold war will have no winners.

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LETTERS TO THE EDITOR

Low orbit, high aim

Instead of levying focus on the peripheries or the timing of the mission, it is important to appreciate the country's technological advancements and capabilities developed in the segment of space warfare. More important than the granular detail, seemingly and understandably confidential, is the fact that the low-earth orbit where the Indian A-SAT hit its target is essentially in a range where most earth-observation, navigation, weather/path-finder, spy and other military-use satellites operate. A strong political will in conjunction with a successful test on all parameters has allowed the sovereign to join the elite club of space superpowers on account of its capabilities to safeguard its space assets, target satellites in outer space and establish a modern and robust defence mechanism in the digital era. It is prudent to continually improve in the area of space research and invest in large-scale R&D initiatives

— Girish Lalwani, Delhi

Ashwin at the receiving end again

Spin doctor and Kings XI Punjab skipper, Ravichandran Ashwin, found himself at the wrong end of the stick yet again. After the infamous run-out episode in which he 'Mankaded' Buttler, Ashwin's misdemeanour of not keeping the mandatory four fielders in the 30-yard circle cost his team dear. KKR's Andre Russell was yorked by Mohammed Shami when the Jamaican batsman was on three but the lapse resulted in a no-ball. Russell, making full use of the reprieve, plundered a 17-ball 48 to seal the contest in his side's favour

— Ravi Chander, Bengaluru

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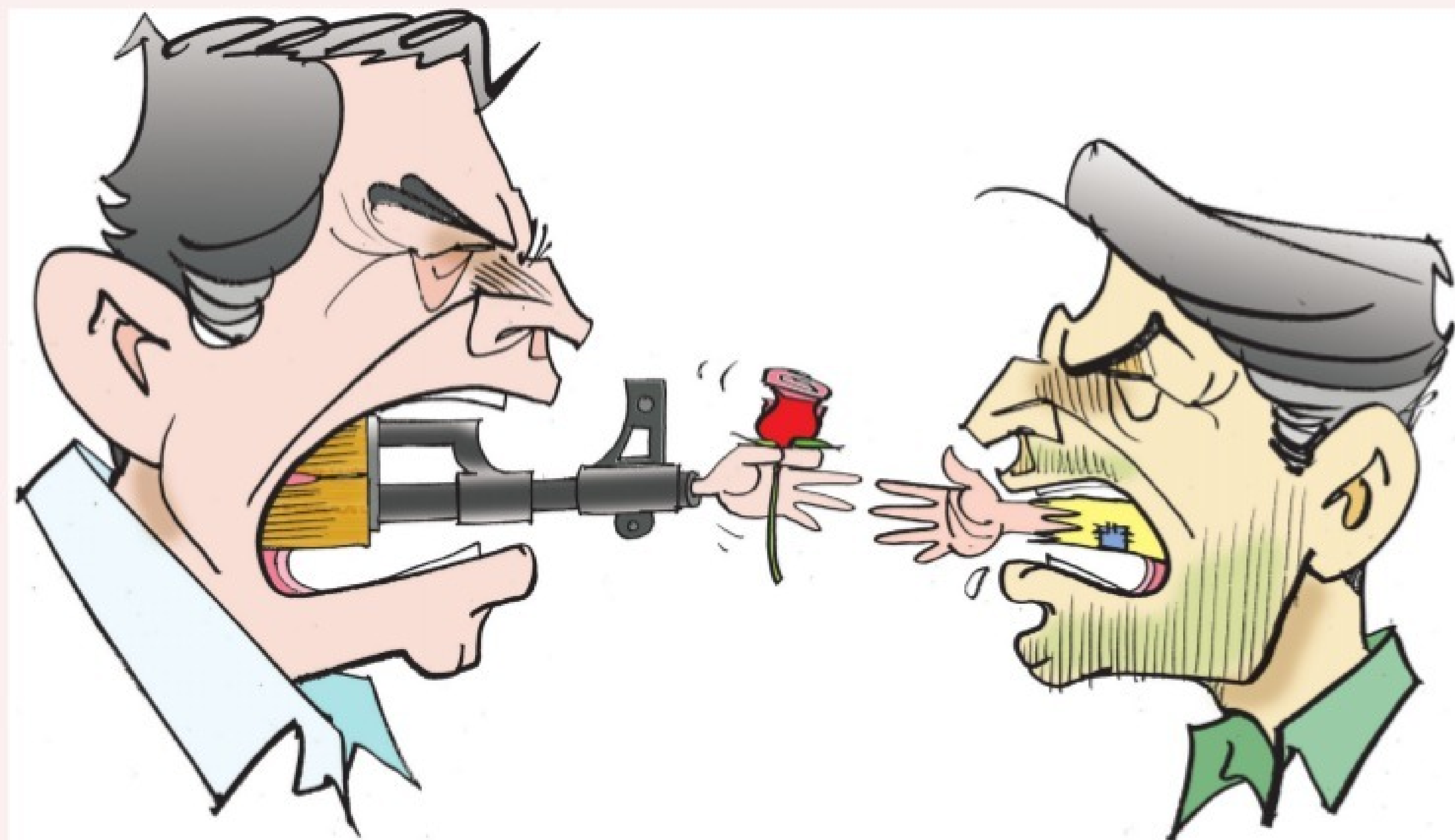

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CONFLICT & DEVELOPMENT

Estimating the costs of conflict

Armed forces are generally not effective in combating terrorism; regional cooperation initiatives work better. The challenge is to form regional partnership forums, with support of donors and national policymakers, and given the flexibility to work with local communities. Such regional platforms should find the right combination and mix of different approaches towards engaging local communities in countering conflict

CONFLICT HAS INCREASED globally during the last decade. It has affected nearly 2 billion people and resulted in a loss of more than 10% of the global economic activity. While the world has made rapid progress in reducing poverty, regions affected by conflict have been left behind.

Conflict is not just one-off events, but cycles of repeated violence. It comes in multiple forms. International ideological movements can merge with local grievances, and different forms of violence can get linked to each other. Local grievances can escalate into acute demands for change, when economic change falls behind the expectations of local community.

No country can afford to ignore areas where repeated cycles of conflict flourish. Unemployment, corruption and social exclusion increase the risks of violence. Governance that gives everyone a stake in national prosperity is the immune system that protects everybody from repeated cycles of conflict.

What is conflict?

Conflict could be external or internal to the country. Internal conflicts can be further classified into two different categories (see Ejaz Ghani and Lakshmi Iyer, Conflict and Development: Lessons from South Asia, World Bank; *https://goo.gl/N1zrzj*). The first category of internal conflict is a conflict against the state. Examples of this are separatist movements, and suicide bombings. Suicide bombings are an extreme manifestation of conflict, carried out by a relatively organised group of non-state actors, and their goal is the destabilisation of the state. These incidents are referred to as terrorism. The second category of internal conflict is people-to-people conflict between different ethnic, religious and social groups. This could include religious riots, homicides, domestic violence, common violence, and other crimes. Ethnic and religious violence stand out in people-to-people conflict.

Internal conflict has replaced external conflict. While people-to-people internal conflict has declined, internal conflict against the state has increased. The adverse economic and social impact of internal conflict against the state is much greater compared to people-to-people conflict.

Conflict and poverty

Internal conflicts are related to economic dynamics. Youth unemployment is consistently cited in citizen perception surveys as a motive for joining both rebel movements and urban gangs. Feeling more secure and powerful is also cited as an important motivator. Political exclusion and inequality affecting different ethnic groups have also been associated with higher risks of civil war.

> Policy choices are critical for reducing repeated conflicts. Economic policies should be geared not just to maximise growth, but on engaging local communities, and addressing factors that led to the conflict

Global evidence supports a strong inverse relationship between conflict and per-capita income level. Why would conflict coexist with poverty? It is easier for terrorists and rebels to recruit people to their cause in poorer areas because their opportunity cost is low. This opportunity cost could be low for ethnically-based or separatist conflict, because recruitment can be made on the basis of ethnicity or regional affiliation. Poorer regions also have poorer state capacity, and hence the government is not able to deal with the rebels effectively. Geographic conditions, such as the presence of forest cover, can also be associated with the incidence of conflict. States in India that have a higher forest cover have experienced higher conflict intensity. This is consistent with numerous accounts of Naxalites using forest cover to hide effectively from law enforcement forces. Conflict can also increase due to adverse economic shocks, such as famines and rural distress.

In addition, there is a strong spatial dimension to conflict. It is concentrated in areas that have higher poverty rates, weak institutions and are poorly integrated. The lagging regions have experienced more than three times the number of terrorist incidents per capita, compared with the leading regions, and almost twice as many deaths per capita in such incidents. The combination of poverty and conflict can slow down the pace of poverty reduction and achievement of multilateral development goals.

What can be done?

Reducing conflict through collaboration has been at the heart of development efforts from the ancient times, with the formation of village communities to improve collaboration. In modern times, policymakers have tried various approaches to reduce conflict. The most common approach is to use police forces to establish law and order in the affected areas. In areas where police forces are insufficient, the armed forces are called in to deal with the insurgency. In most cases, this has not been a successful strategy. Even when successful in defeating the insurgents, the human costs associated with military operations are very high.

A different approach to dealing with conflict is to conduct negotiations and sign peace agreements with the insurgents. To be effective, this approach needs two requirements: the government must conduct coordinated negotiations, and the insurgent group must be genuinely interested in joining the political mainstream. This approach has been tried in India. For instance, the Indian government has signed peace deals with several separatist groups in the north-eastern states. Similarly, negotiations with some Tamil groups in Sri Lanka have resulted in their integration into mainstream politics. Complementary to the security-based solution is an economic solution, whereby the government expands social and welfare programmes, and reduces poverty in the conflict-affected areas to undercut the support for the insurgency.

Policy choices are critical for reducing repeated conflicts. Economic policies should be geared not just to maximise growth, which could take time, but on proactively engaging the local communities, and addressing the distributional or political factors that led to the conflict. Policy choices must be structured to reduce both real and perceived inequities, and focus should be on short-term economic and social goals first, and addressing medium and longer-term efficiency considerations later. This approach calls for humanitarian and community-based treatment for conflict-affected people, closure of refugee camps, and reintegration of refugees within the society.

Increased cross-border regional cooperation between countries should also be an integral part of any strategy to reduce conflict. Many internal conflicts in South Asia have cross-border dimensions. The Taliban in Afghanistan has significant support in Pakistan's border areas. The Maoists in Nepal formed close links with the Maoist movements in India. Many separatist groups in India's north-eastern states had training camps and cells in neighbouring countries. The Liberation Tigers of Tamil Eelam (LTTE) and other Tamil separatist groups in Sri Lanka have traditionally enjoyed support from the Tamil diaspora. In such a context, a regional cross-border cooperation is an essential part of any counterinsurgency strategy. Regional cross-border platform remains an underutilised strategy in combating terrorism.

A key lesson on reducing conflict is that armed forces are generally not effective in combating terrorism. Regional cooperation initiatives are much more effective in countering terrorism. The challenge is to form Regional Partnership Forums, with support of donors and national policymakers, and given the flexibility to work with the local communities. Such regional platforms should find the right combination and mix of different approaches towards engaging local communities in countering conflict, as well as implementing economic policies adapted for post-conflict development, and reducing poverty.

The sky's no limit

Prime Minister Narendra Modi takes his re-election campaign into outer space; orders the test of an anti-satellite missile

AT NOON ON MARCH 27, Narendra Modi, India's Prime Minister, appeared on television to deliver a triumphal message to the nation. An Indian missile had hurtled 300km into space and blown up a satellite, putting India in the small club of countries that had developed and tested anti-satellite (ASAT) weapons. "India stands tall as a space power!" he exulted.

Mr Modi's address was unusual. Voting in a seven-stage national election begins on April 11. Prime ministerial broadcasts during election season—when a "model code of conduct" applies, barring the ruling party from abusing its position—have occurred only twice before: after the assassination of the Prime Minister in 1984 and of the leader of the Opposition in 1991. Mamata Banerjee, the leader of a regional opposition party, demanded that the Election Commission investigate Mr Modi's speech for breaching its code.

An ASAT test would hardly qualify as a national-security emergency. Indeed, India might have carried it out at any time in the past eight years. In 2012, VK Saraswat, then the head of the Defence Research and Development Organisation, the government agency that develops new military gear, noted that the "building blocks" of an ASAT capability were in place and required only electronic fine-tuning. It is hard to avoid the conclusion that Mr Modi's space spectacular was timed for the polls. It comes a month after India sent warplanes to bomb Pakistan for the first time since 1971—another move seen by many as grandstanding for the voters.

Electioneering aside, the test had two aims. One was to lay down a marker at a time of growing military competition in space. China, India's regional rival, operates around 30 satellites, many of which would be used by its armed forces in any conflict. It has also developed an array of ASAT weapons, including missiles and lasers, of its own.

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India is keen to show it can hit back. But in flaunting its ability to shoot small, fast-moving objects at enormous heights, India was also signalling its interest in swatting other, harder-to-hit things—Pakistani nuclear missiles, say—out of the sky.

Yet that muscle-flexing may come at some diplomatic cost. It is the first avowed ASAT test since China blew up one of its own satellites in 2007, provoking international condemnation. The debris from that explosion generated a quarter of all catalogued objects in low-earth orbit a few years later, putting other countries' satellites at risk. In 2012, Mr Saraswat had promised that India would not follow suit for just that reason.

Indian officials point out that this week's test took place far lower in orbit, so debris is more likely to fall towards Earth and burn up harmlessly. Brian Weeden of the Secure World Foundation, an NGO, agrees. But he warns that some pieces may be thrown into higher orbit, as occurred after America destroyed a wayward satellite at about the same altitude in 2008. Mr Modi will at least be glad that, unlike after his air strikes against Pakistan, no one is questioning whether he hit the target.

THE ECONOMIST

DELAYED BREXIT

The UK still on a cliff's edge?

The most likely scenario could be the UK seeking a longer extension on the Brexit deadline from the EU

RUTUJA MORANKAR

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ALMOST THREE YEARS AGO, the UK became the first member nation to vote to leave the EU. Article 50 of the Treaty of Lisbon—a formal process to leave the EU—was invoked in 2017, giving the UK two years to agree on a withdrawal agreement with the EU. Yet the original departure date of March 29, 2019, has been delayed and the government is searching for a way ahead. The withdrawal deal, negotiated by Prime Minister Theresa May and her government, was rejected twice by the UK Parliament, in January and March 2019, by a large majority. Lately, there have been a lot of voices in the UK asking for a new referendum or stopping Brexit. There seems to be a shift in sentiments from exit to wanting to remain in the EU.

There are several likely outcomes of Brexit and no possibility can be ruled out yet. However, the most likely scenario could be the UK seeking a longer extension on the Brexit deadline from the EU, which, if granted, would mean a temporary reprieve but continued medium-term uncertainty.

The EU comprises of 28 countries that share a common customs union and is a single market. The withdrawal deal is an agreement on how to implement Britain's exit from the EU. The deal that PM May agreed with EU leaders envisaged a gradual process that would have minimised disruption of economic ties, a further two-year timeline to hammer out a trade agreement between the UK and the EU, and a clause to avoid creating a hard border between Northern Ireland (part of the UK) and Ireland (part of the EU). While the Brexit withdrawal deal was defeated twice by the UK Parliament, it also voted against leaving the EU without a deal in place.

This week, the UK Parliament conducted indicative votes on alternative Brexit options (going against the government's wishes). None of the options, however, got a majority. The stalemate, thus, continues. So, what was pinching the UK to leave the EU?

Rising inflow of immigrants: Foreign-born residents in the UK have been on the rise and increased to 15% of the total UK population, from 9% in 2004.

High membership fee: While the figure is not very significant, the UK is one of the highest contributors to the EU budget. In 2017, the UK paid £13 billion to the EU, while the EU spent £4 billion for the UK.

EU's common laws: Common laws related to finance and banking, trade and tariffs, environment and labour for all economies within the EU made the UK feel stifled.

There are some likely scenarios in decreasing order of likelihood:

The Speaker of the House, John Bercow, had earlier blocked a third vote on Brexit. According to the parliamentary procedure, the government cannot repeatedly put the same motion before lawmakers if it had been previously rejected. Therefore, the third vote this week on Brexit deal still remains a little uncertain. However, it is important because it also decides whether the UK will participate in the European parliamentary election, due in end-May.

Scenario 1: Longer extension for Brexit: The EU has been largely supportive of the UK's decision to leave the EU amicably and has been vocal about wanting an orderly Brexit. With the consent of all the EU leaders, a longer extension on Brexit is the most probable outcome.

Scenario 2: Another referendum: The UK could conduct another referendum following mass protests by thousands of people as well as online petitions to stop Brexit; the petition has crossed 5 million signatories.

Scenario 3: Hard Brexit: If the UK Parliament does not support the deal or agrees on other alternatives with the EU by April 12, the UK will have to leave the EU without deal. This is seen as potentially damaging to both the economies.

Scenario 4: Stay in the EU: The UK can unilaterally revoke Article 50 of the Treaty of Lisbon and continue to stay in the EU. This can be done without the consent of the other 27 member states.

Scenario 5: Orderly Brexit: If the third vote on the Brexit deal is accepted, the UK would leave the EU in an orderly manner on May 22. Post this, there will be a transition period of two years to work out a trade deal with the EU. In this period, free movement of goods and people will continue.

The implications of Brexit

Any orderly Brexit scenario will, in all likelihood, be followed by a free trade agreement between the UK and the EU, though the UK will choose to have certain economic legislations that are different from the EU and will put some limits on migration from Europe. The UK will also negotiate new trade agreements with the rest of the world. In the case of a hard Brexit, there would be sudden disruptions in trade flows, too.

On global economy: The UK has a fairly small share in the world GDP (2.3%). However, London is the largest centre of finance in Europe. If Brexit happens, many large corporations could shift their base to other European countries such as Germany. The markets have had limited reaction to the Brexit events, so far. Short-term negative impact on global financial markets is possible in case of a hard Brexit.

On Europe: The UK and the EU are highly dependent on each other for trade. Seven of the top-10 export markets for Britain are EU countries. In a no-deal scenario, Ireland will be significantly impacted due to a high exposure to trade with the UK, followed by Belgium and the Netherlands. The EU saw the maximum growth downgrade in the IMF's recent growth estimates for 2019 due to recession in Italy and growth slowdown in Germany.

Brexit could give rise to more euro scepticism. Far-right parties in economies like Sweden and Italy have started talking about going for similar exits. There is already a high economic disparity amongst member countries, which can lead to more friction.