

Opinion

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GLOBAL TECH HUB

M Venkaiah Naidu, India's vice-president

Every city, every town in India is evolving as a Silicon Valley. India is already home to one third of all start-ups in the world, next only to China and the US. You all are today no strangers to artificial intelligence, internet of things, big data, cloud computing...



● NEED FOR OBJECTIVITY

US'S CHINA BASHING IS MORE AN OUTGROWTH OF DOMESTIC PROBLEMS THAN A RESPONSE TO A GENUINE EXTERNAL THREAT

America's false narrative on China

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IN A RARE moment of bipartisan agreement, America's Republicans and Democrats are now on the same page on one key issue: Blaming China for all that ails the United States. China bashing has never had broader appeal. This fixation on China as an existential threat to the cherished 'American dream' is having serious consequences. It has led to tit-for-tat tariffs, escalating security threats, warnings of a new cold war, and even whispers of a military clash between the rising power and the incumbent global hegemon. With a trade deal apparently imminent, it is tempting to conclude that all this will pass. That may be wishful thinking. Sino-American trust is now in tatters. The likelihood of a superficial deal won't change that. A new era of mutual suspicion, tension, and conflict is a very real possibility.

But what if the US chattering class has it all wrong and the China bashing is more an outgrowth of domestic problems than a response to a genuine external threat? In fact, there are strong grounds to believe that an insecure US—afflicted with macroeconomic imbalances of its own making and fearful of the consequences of its own retreat from global leadership—has embraced a false narrative on China. Consider trade. In 2018, the US had a \$419 billion merchandise trade deficit with China, fully 48% of the massive overall trade gap of \$879 billion. This is the lightning rod in the debate, the culprit behind what US president Donald Trump calls the "carnage" of job losses and wage pressures.

But what Trump—and most other US politicians—won't admit is that the US ran trade deficits with 102 countries in 2018. This reflects a profound shortfall of domestic saving, owing in large part to the reckless budget deficits approved by none other than Congress and the president. Nor is there any recognition of supply-chain distortions—arising

from inputs made in other countries but assembled and shipped from China—that are estimated to overstate the US-China trade imbalance by as much as 35-40%. Never mind basic macroeconomics and new efficiencies from global production platforms that benefit US consumers. Apparently, it is much easier to vilify China as the major obstacle to making America great again.

Next, consider intellectual property theft. It is now accepted "truth" that China is stealing hundreds of billions of dollars of US intellectual property each year, driving a stake into the heart of America's innovative prowess. According to the accepted source of this claim, the so-called IP Commission, in 2017, IP theft cost the US economy between \$225 and \$600 billion.

Leaving aside the ridiculously broad range of such an estimate, the figures rest on flimsy evidence derived from dubious "proxy modeling" that attempts to value stolen trade secrets via nefarious activities such as narcotics trafficking, corruption, occupational fraud, and illicit financial flows. The Chinese piece of this alleged theft comes from US Customs and Border Patrol data, which reported \$1.35 billion in seizures of total counterfeit and pirated goods back in 2015. Equally dubious models extrapolate this tiny sum into an aggregate guesstimate for the US and impute 87% of the total to China

(52% to the mainland and 35% to Hong Kong).

Then there is the red herring emphasised in the Section 301 report published by the US Trade Representative (USTR) in March 2018, which provides the foundational justification for tariffs levied on China: forced technology transfer between US companies and their Chinese joint venture (JV) partners. The key word is "forced", which implies that innocent US companies that enter willingly into contractual agreements with Chinese counterparts are coerced into surrendering their proprietary technologies in order to do business in the country.

To be sure, JVs obviously entail a sharing of people, business strategies, operating platforms, and product designs. But the charge is coercion, which is inseparable from the presumption that sophisticated US multinationals are dumb enough to turn over core proprietary technologies to their Chinese partners. This is another shocking example of soft evidence for a hard allegation. Incredibly, the USTR actually admits in the Section 301 report (on page 19) that there is no hard evidence to confirm these "implicit practices". Like the IP Commission, the USTR relies instead on proxy surveys from trade organisations like the US-China Business Council, whose respondents complain of some discomfort with China's treatment of

their technology.

The Washington narrative also paints a picture of China as a centrally planned behemoth sitting astride massive state-owned enterprises (SOEs) that enjoy preferential credits, unfair subsidies, and incentives tied to high-profile industrial policies such as Made in China 2025 and Artificial Intelligence 2030. Never mind a large body of evidence that underscores the low-efficiency, low-return characteristics of China's SOEs.

Nor is there any doubt that comparable industrial policies have long been practiced by Japan, Germany, France, and even the US. In February, Trump issued an executive order announcing the establishment of an AI Initiative, complete with a framework to develop an AI action plan within 120 days. China is hardly alone in elevating innovation to a national policy priority.

Finally, there is the time-worn issue of Chinese currency manipulation—the fear that China will deliberately depress the renminbi to gain unfair competitive advantage. Yet, its broad trade-weighted currency has risen over 50% in real terms since late 2004. And China's once-outsized current-account surplus has all but vanished. Still, the currency grievances of yesteryear live on, getting prominent attention in the current negotiations. This only compounds the false narrative.

All in all, Washington has been loose with facts, analysis, and conclusions, and the American public has been far too gullible in its acceptance of this false narrative. The point is not to deny China's role in promoting economic tensions with the US, but to stress the need for objectivity and honesty in assigning blame—especially with so much at stake in the current conflict. Sadly, fixating on scapegoats is apparently much easier than taking a long, hard look in the mirror.

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SC does well to reject the forced NSEL-FTIL merger

It went against the principle of limited liability, didn't meet the 'public interest' criterion & attached assets covered the liability

EVEN WHEN THE government first mooted the idea of merging the Jignesh Shah-promoted FTIL—now called 63 Moon Technologies—with its subsidiary NSEL, the move made little sense and was fraught with danger. While NSEL was a spot exchange, instead of being used for buying and selling commodities, it was mainly being used to do illegal lending using paired contracts and, at the time things fell apart, investors found ₹5,700 crore of their funds had got stuck, with the borrowers not repaying this and with inadequate collateral with NSEL to make good the shortfall. Since NSEL didn't have the money to make good the amount, the government felt that the cash-rich FTIL could be tapped since, in any case, it was the parent company. There were, however, several problems with this argument. For one, in an exchange, the exchange cannot guarantee settling of transactions beyond what is collected in a dedicated fund out of the members' contributions; eventually, since members transact with one another, they are ultimately responsible for the payment.

Also, modern business is organised around the principle of limited liability where an investor's liability is restricted to the equity investment in a firm. Once this principle was given the go-by, assets of promoters or parent companies could be attached at will; most infrastructure investments, for instance, are made using SPVs to insulate the parent company. There was also the question of who was liable for the loss since the 24 brokers who got clients to invest on NSEL were likely to have known the scheme was illegal. The parallel of RBI forcing bank mergers was made in this context, that the central bank forces a merger with another bank to protect the interest of innocent depositors; if it was okay in that case, it was okay for FTIL-NSEL.

The problem with these arguments, as the Supreme Court verdict quashing the forced merger points out, is that they pre-judged guilt, apart from other mistaken assumptions. So, SC said that while such forced mergers were allowed in the Companies Act—Section 396 has only been used twice so far, to merge PSUs several decades ago—to safeguard "public interest", it could only see "the private interest of the investors/traders who have been allegedly duped"; and it said the issue of who duped whom was to be established by courts. Also, if NSEL's 13,000 investors comprised the 'public' who were duped, surely FTIL's 63,000 shareholders also comprised the 'public'? As for the other reason given by the government for the merger, to restore "public confidence" in forward contracts and exchanges which are an integral and essential part of the Indian economy, SC said this "does not obtain as there were only three commodity exchanges in the country, all of which were shut down w.e.f. September 2014...no similar exchanges have been created subsequently...in any case, the business done at such exchanges cannot be said to be an integral and essential part of the Indian economy".

The SC raised another issue, of the urgency. While the government spoke of an "emergency situation" when it first planned the merger in 2014, SC said this had "been largely redressed without amalgamation" since when the final order was passed—in February 2016—it recorded that, as compared to the ₹5,700 crore that was due from 24 defaulters who traded on NSEL, injunctions against the assets of defaulters worth ₹4,400 crore had already been obtained, court decrees worth ₹1,233 crore had been obtained against five defaulters and assets worth ₹5,444 crore belonging to the defaulters had been attached. Hopefully, given what the SC judgment has said, the government will examine how a decision was taken on the merger despite it being patently unfair. Jignesh Shah and NSEL may have broken several laws, and need to be punished for that, but another company cannot be punished as collateral. Such arbitrary action only serves to further spook investors.

Capex recovery will be slow

Demand is slowing even as costs of doing business are rising

THAT THE CREATION of net fixed assets has slowed substantially in the last five years, as data from CMIE shows, isn't surprising. For one, it is the services sector that has driven the economy over the last decade. Moreover, the general slowdown in the economy, primarily the result of the twin balance sheet problem, has left capacity utilisation at levels of 75% or thereabouts, not necessitating fresh capacity addition in manufacturing. Some sectors such as automobiles and telecom have seen large investments and companies such as Tata Steel have set up new facilities. However, by and large, manufacturing companies have tended to be quiet. While demand hasn't exactly gone through the roof, tough labour laws, too, have reined in their ambitions. In the last two years, promoters with spare cash have opted to pick up assets via the inorganic and IBC routes, especially steel, cement and power plants. That is probably why the level of gross fixed capital formation (GFCF) as a share of GDP has stagnated at around 28-29% of GDP and the manufacturing sector isn't throwing up enough job opportunities. Given the economy is losing momentum and demand is flagging, it doesn't seem likely private sector capex will pick up meaningfully in the next two years. Much of the blame for this lies with the government; the frequent changes in regulations have resulted in turmoil in the telecom sector while it has been unable to deliver fuel to private sector utilities, pampering public sector units. Investments into sectors such as renewable energy, too, have slowed due to operational constraints—falling tariff rates and higher input costs. In the future, businessmen—and bankers—will be extremely wary of risking capital in areas which are vulnerable to changes in regulations and difficult labour laws. In short, the cost of doing business is going up as are the uncertainty levels.

The good news, as the CMIE data shows, is that the pace of investments in intangibles such as patents is going up. Indeed, a greater focus on R&D would be of great benefit to the country not only because of the technological advancements it would achieve but also because it will utilise the large pool of scientists. But it is worrying that fixed investments—in plant and machinery and such—are slowing. Although better technology and a growing shared economy will help improve productivity, the number of jobs created may fall far short of the numbers needed. Also, CMIE's data shows, dividend payouts have risen to 77% of net earnings compared to 50% earlier, suggesting promoters are taking home more money. While this trend could have been exacerbated by the large amounts that the government has taken out from public sector undertakings, it is nonetheless a worry.

FedComics

The US Fed has been using comics to impart financial awareness and encourage prudent behaviour

COMIC BOOKS, STRIPS and graphic novels have often been part of unofficial propaganda—remember the Cold War?—but lately, they seem to have become part of official messaging. The US Federal Reserve, no Marvel or DC, has published more than two dozen comics since the 1950s. The latest, the sci-fi styled *The Story of Monetary Policy*, was published last week. It deals with the daily, commonplace struggles of money—collecting, spending, saving and wasteful expenditure. Similarly, in the other comics published by the central bank, the message embedded pertains to financial education, soundness and wisdom.

An older Fed publication, *Once Upon a Dime*, is a fairy tale about the origins of money set on an imaginary island. The Fed's incorporation of such creative breadth into their work enables the desired message of financial soundness to be understood to a greater extent by the readers, because the medium of the message is likely to have wider appeal. RBI's financial education initiative is a programme intended to create awareness about sound financial decision making, end-consumer protection rights, and the different financial products and services on offer by the financial system of the country. India's central bank, too, has designed interactive content such as a Financial Awareness Messages booklet, targeted financial literacy content for five groups, and audio-visual matter for the general public on digital transactions and UPI. While Marvel and Disney have their universe of heroes, villains, humans and aliens, Fed comics have their penny pincher, profligate and blue collar workers. The million dollar question is whether the comics can come to the Earth's rescue and help fight risky financial behaviour that precipitated a crisis like the 2008 recession?

New law on DVRs required

Differential voting rights (DVR) can help founders/promoters retain control over the company they create and grow and serve as a defence mechanism against any hostile bid for acquisition of a company

LALIT KUMAR

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ONE SHARE, ONE VOTE is the bedrock of Indian law on voting rights of shares. This means shareholders have one vote for each share held in a company, giving them voting rights proportionate to their shareholding. This might undergo change now as the concept of dual class structures for Indian shares is introduced. The dual class shares are commonly called differential voting right (DVR) shares. The DVRs are not new in the Indian context. The Indian company law introduced them way back in 2000. However, because of the stringent rules governing them, they remain unattractive even today. Thanks to SEBI regulations, listed entities cannot issue shares with superior rights with respect to voting or dividend over the other equity shares issued by a listed company.

SEBI had recently released a consultation paper on DVRs. The paper described that DVRs can help founders/promoters retain control over the company they create and grow. The paper said that dual structures help in fundraising without the promoters having to dilute their control and DVRs can also serve as defence mechanism against any hostile bid for acquisition of a company. The importance of having DVRs for promoters was hotly discussed in a recent hostile bid where L&T wanted to take control of Mindtree. Whether or not Mindtree's promoters could have used DVRs (if the law had permitted) to avert this hostile bid is a question of interest and debate. Globally, many jurisdictions, including the US, allow founders to have DVRs to

ensure they can keep control over their companies. Google's and Facebook's founders hold such shares. SEBI has recommended the issue of superior rights-based DVRs only to promoters of unlisted companies and to no other person. This is contrary to the Companies Act, 2013, which allows DVRs to be issued to anyone including the promoters.

In addition to serving as a defence mechanism, DVRs are used in the structuring of mergers and acquisition transactions. For instance, they can be used in private equity deals where promoters can take DVRs for higher voting rights while private equity investors can take them to get higher financial returns in the form of dividends.

The rules that apply for DVRs depend upon the company—private company, publicly unlisted company or listed company. An unlisted company (whether private or public) is governed by Section 43 of the Companies Act, 2013, and the Companies (Share Capital and Debentures) Rules, 2014 ("Rules"). A private company, by its memorandum and articles of association, can exempt itself from these provisions. Therefore, it can avoid compliance with the difficult rules of DVRs and is free to have its own terms for its DVRs. A publicly unlisted company does not enjoy the same advantage. It needs to necessarily follow the

rules, including the one requiring it to have a consistent track record of distributable profits for the last three years and also the rule which caps DVRs till only 26% of the company's total capital. Therefore, start-ups or tech companies (where DVRs are quite popular) prefer setting up private companies. But sooner or later, they need to go for a public listing to ensure an exit for their investors. It is at that stage that DVR rules, applicable to a listed company, kick in.

The SEBI (LODR) Regulations, 2015, do not allow listed entities to issue shares in any manner which may give any superior rights with regards to voting or dividend over the rights on equity shares that are already listed. This means a DVR with superior rights is not allowed while an inferior rights share is permitted. The SEBI's proposals in the consultation paper seem equally stringent (if not more) than the existing law on DVRs. These include issuance of DVRs

to only promoters and that too only pre-IPO and not after the IPO; permanent lock-in on DVRs, with no rights to trade and transfer them (even amongst promoters), and co-tail provisions (i.e., provisions where DVRs will be treated as normal voting right shares). It appears that SEBI wants to test waters before allowing DVRs in a big way. It remains doubtful that DVRs will become more attractive than before.

In addition to serving as a defence mechanism, DVRs are used in the structuring of mergers and acquisition transactions

LETTERS TO THE EDITOR

Democratic growth

Serving the larger public interest in a developing economy with a federal structure calls for a collaborative work relation amongst political entities on a sustainable basis. Earnest efforts by hitherto laggards to work hand-in-glove with the incumbent regime and developing a viable long-term vision therefore assumes high importance. Authorities are often confronted with conflicting objectives to function cost effectively without resorting to austerity measures in order to prioritise public welfare and control inflation despite increasing the net income for producers. Coordination at different levels of governance and across divisions in the state is thus necessary to not only meet the goals but also preserve integrity/decorum in the democracy — Girish Lalwani, Delhi

Rahul's citizenship

It is baffling as to why the BJP is raising a question over Rahul Gandhi's citizenship right in the middle of the Lok Sabha elections. On its part, the MHA deemed it fit to issue a notice to the Congress president to clarify his alleged acquisition of British citizenship and prove his Indian citizenship in two weeks' time. By its own admission, it acted on Subramanian Swamy's finding that Rahul Gandhi is a British citizen by choice. The claim made by BJP has already been dismissed by the country's top court. It should be clear that the allegation of Rahul Gandhi's dual citizenship is a 'poll gimmick' and a 'fake narrative' to deflect attention away from existential issues affecting the lives of voters — G David Milton, Maruthancode

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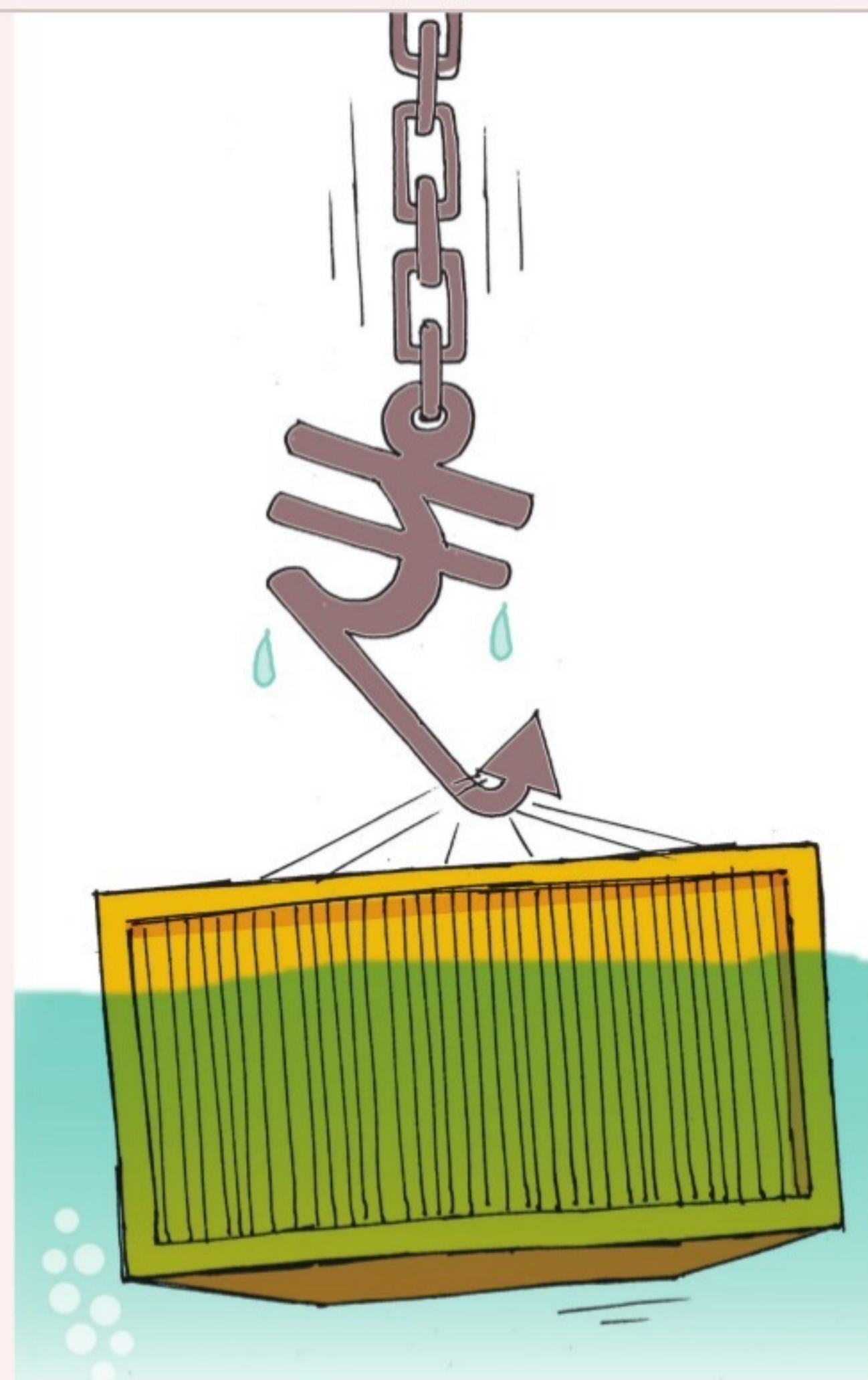
THE REVIVAL OF private investment and exports is a must to achieve and sustain over 8% growth. The recent performance of India's exports—which expanded 11% (year-on-year) in March 2019, taking the figure to \$32.5 billion in the month of March, vis-à-vis 2.4% in the previous month—is good news. Various categories of intermediate exports—engineering goods, organic and inorganic chemicals, ready-made garments of all textiles, and drugs and pharmaceuticals—contributed to this revival. The question, however, is whether this recovery is sustainable or not?

India's exports have been sluggish and had turned negative, particularly merchandise exports, between 2013 and 2016, which, along with private investment, dragged down the country's growth. Merchandise exports affect manufacturing and, thus, jobs. Although there have been signs of exports recovery since the early 2017, the revival has not been robust and consistent. In fact, during 2018-19, merchandise exports and imports witnessed the same growth rate of around 9%, totalling \$331 billion and \$507 billion, respectively, resulting in 8.9% of merchandise trade deficit. The sector that contributed the maximum to exports is engineering, with a 25% share, followed by electronics and chemicals.

India is doing well in exports of chemicals, both organic and inorganic, due to better quality and also as a result of high scrutiny of China's chemical exports on environment grounds. Exports of ready-made garments—among top exports—are experiencing weak growth for the last few years. India is losing market share in some of its traditional markets such as the Middle East, France, Sri Lanka, etc, due to Bangladesh and Vietnam, and the domination of unorganised players at the low end of the value chain. India has been losing out on important exports sectors such as iron and steel, non-ferrous metals and products, leather and leather products, etc. Protectionist measures in the West and aggressive developments in China, along with developments in the domestic economy (for example, shutting down Sterlite affecting copper exports), don't help the cause either.

There has been a shift in the exports basket towards value-added manufacturing and technology-driven products, but the country is losing out on important traditional sectors such as metals, textiles, leather, etc. India has the potential to do better in agricultural and primary products. Given growing demand for agricultural commodities, the policy focus on agriculture, plantations, horticulture, fisheries and meat will contribute. India is the largest producer of milk and the second largest of fruits and vegetables. Thus, the recently announced Agriculture Export Policy is expected to boost exports of the primary sector.

The country needs to sustain this exports momentum and accelerate exports growth, even though the outlook for the world trade does not look promising due to a rise in nationalism and protectionist measures. The US-China tariff war is still on, and developing countries



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ILLUSTRATION: ROHNIT PHORE

● INDIA'S EXPORTS

Are there signs of recovery?

Indian exports are in a recovery stage and need support. Short-term measures include exemption of GST for SME exporters, online refund of input credit, easing of credit to industry, interest equalisation support to agri-exporters

including India have started imposing tariff wars selectively to protect their domestic industries. Monetary tightening in developed countries, along with tariff wars, may lead to volatility in global financial markets, which would lower trade finance. Such developments do not augur well for trade agreements at the WTO and for globalisation. India's is also on the priority "watch list" of the US for not giving adequate protection to American companies due to weak IPR regimes.

The WTO's World Trade Outlook Indicator, released in February, gave a reading of 96.3%, below the baseline value of 100 in the index, indicating below-trend trade expansion for the first quarter of 2019. This is driven by steep declines in component indices such as export orders, international air freight, automobile production and sales, electronic components, and agricultural raw materials.

Even though the full-fledged and long tariff war between the US and China is not good for globalisation and even for India, it actually offers a short-term opportunity for India's exports. As the UNCTAD 2019 report brings out, only about 6% of the \$250 billion Chinese exports subject to US tariffs will be picked up by US firms, whereas only about 5% of the \$85 billion US exports will be picked up by Chinese firms. Therefore, India may be able to gain some traction in textiles, garments, and gems and jewellery if the Chinese exports to the US slow down.

Indian exports are in a recovery stage and need support. As the Trade Promotion Council of India (TPCI) rightly puts, we need short-term support measures for exports such as exemption of GST for SME exporters, easing of input credit to the industry, online refund of credit and interest equalisation support to agricultural exporters. Also, measures facilitating Indian firms participating in global value chain/production network, internationalisation of Indian SMEs and trade facilitation would help Indian exports in the medium to long term. It's time to work on the recommendations (Economic Survey 2017-18) on improving trade-related logistics that would reduce trade cost and improve exports competitiveness. At the same time, India has to negotiate on bilateral trade issues at multilateral and bilateral level, such as India's data protection rules, challenges faced by India's export subsidies, e-commerce policy, import duties on Indian exports such as by the EU on electronics, and dropping India from the Generalized System of Preferences (GSP) regime. Apart from increasing India's exports competitiveness, the country also needs to explore more markets in Africa and Latin America. It's also time to incentivise labour-intensive sectors like leather and to address the issues faced by exporters.

India has been witnessing consistent merchandise trade deficit over last two decades, reflecting on out export competitiveness. Promoting exports eventually help boost the GDP of a country, create more jobs, boost the manufacturing sector and earn more foreign exchange. A growing and competitive economy should have increasing trade ratio, but in India's case, the trade openness has gone down from 55% in 2012 to 40% in 2017.

● INDIA-US

GSP revocation bad for both

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THE MARCH 4, 2019, United States Trade Representative (USTR) decision to revoke duty concessions allowed to India under the Generalized System of Preferences (GSP) is a setback to a strong US-India partnership. That said, enough depth and maturity exists on both sides to appreciate the broader range of shared interests to enable de-escalation. The dynamics of the GSP withdrawal could trigger undesirable actions on both sides, but these moves should not impact the deepening strategic partnership and defence ties envisioned to be the core of the US-India bilateral relationship.

On the Indian side, US technology companies have observed multiple tariff increases in a single calendar year, demonstrating less-than-transparent policymaking that is meant to block Chinese companies' access to India, but unintentionally will affect other foreign companies. Policy changes on e-commerce could have been managed better through a consultative process, and we expect that will be the case this time around as policymakers firm up the draft policy. There have also been arbitrary price controls in the healthcare/medical device sectors and unwarranted certification standards in dairy sectors. FDI from the medical devices has averaged hundreds of millions of dollars in the past years, but investors remain uncertain of their future in the country, especially with the lack of direction regarding new technology in India. On the US side, we have seen tariffs on steel and aluminium imported from India and an inordinate delay in processing of high-skilled visa applications from Indian technology companies.

The irony is that 2018 saw merchandise trade between the two countries grow by 17.2% to now a record \$87.2 billion, the highest ever. US exports to India grew by 29% and India's imports from the US grew by 12%. India is one of the two countries that has been able to reduce its trade deficit (by 7.3% in 2018) with the US—achieving a fundamental cornerstone of President Donald Trump's trade policy.

This impressive progress cannot diminish the real-world impact that lack of GSP concessions will have. The withdrawal of duty concessions will make Indian exports of eligible products (textiles, gems and jewellery, chemicals, agricultural items, components and machinery) to the US costlier as importers of these products will have to pay MFN duty, instead of a concessional duty rate allowed under GSP. MFN is a non-preferential regular duty rate applicable to all countries. Consequently, ending GSP for India will likely result in fewer orders for Indian products originating from the MSME sector, which supports thousands of Indian jobs.

According to USTR 2017 estimates, India is the largest GSP beneficiary, with Indian exporters benefiting from zero-duty benefits on \$5.6 billion worth of exports to the US up to this point. Many media reports latch on to the \$5.6-billion figure, which is misleading. The Indian ministry of commerce has said that GSP revocation will cause only \$190 million losses in terms of duty payments, but the cascading impact will hit SMEs in terms of jobs in the Indian handloom and agricultural sectors, which are engaged in export production. Moreover, US companies that source from India could experience financial burden from the revocation.

Under US laws, GSP withdrawal may not take effect until at least 60 days after the notification to India, which will coincide with the formation of the new government in India. We must use this window to derive solutions to trade policy issues that promote mutual benefits and try to neutralise the losses due to GSP withdrawal.

Despite this setback, the US-India Strategic Partnership Forum (USISPF) remains optimistic due to the immense potential of US-India trade opportunities. An internal publication has calculated that both countries can easily double the trade to \$250 billion in the next four years even if an average 15% growth in trade is maintained. We see continued higher bilateral trade engagement over the next decade due to huge energy and aerospace deals, which, in turn, can help boost India's manufacturing ecosystem. This opportunity can make both countries a model for economic cooperation for global prosperity. Continuation of GSP benefits could have given a fillip to bilateral trade volumes, albeit businesses remain bullish on commercial opportunities against the backdrop of India's impressive growth prospects in the short to medium term.

But despite the USTR decision to revoke duty concessions to India under the Generalized System of Preferences (GSP), businesses are bullish on India

Google gives reminder rapid growth isn't guaranteed

SHIRA OVIDE

Bloomberg

GOOGLE INVESTORS MAY have had a flashback Monday to the company's bad old days of 2015. That year may feel like a distant memory. That was before news cycles were measured in seconds. It was before people were talking in earnest about FAANG stocks and before Mark Zuckerberg had sat through multiple rounds of congressional hearings. Back then, Google's growth looked as if it hit a wall, and investors didn't trust the company to spend its money wisely.

On Monday, then, it was a surprise to people with memories longer than mil-

liseconds when Google parent company Alphabet turned in relatively meek revenue growth for the first quarter, although with restrained spending by Google standards.

The company said that its Google segment advertising revenue rose about 15% from a year earlier, which was the slowest growth rate by that measure since late 2015.

One slightly wobbly quarter doesn't detract from Google's impressive track record of steady growth since its rough patch several years ago. Tech investors, however, are an anxious lot in these late days of US economic expansion and extra scrutiny of tech companies' power.

Monday's results—combined with some growth hiccups at Amazon, Apple and Facebook—showed the potential vul-

nerability of the US tech superstars' potent combination of rapid growth and alluring profits. It is that combination that has powered US stock markets, and that is what investors have come to expect from the technology titans.

Shares of Alphabet sagged about 6% in after-market trading following the release of first-quarter results.

There didn't seem to be obvious culprits, and the company doesn't disclose enough granular information about its sprawling businesses to diagnose possible temporary problems. Alphabet talked Monday about the weakness of currencies in some of its largest markets, which weighs down the company's reported revenue in dollars. Executives hinted at some changes to YouTube advertisements and the "timing" of advertising formats that

weighed on revenue growth. And to be fair, most companies anywhere close to Alphabet's more than \$140 billion in annual revenue would be thrilled to grow at a rate that was a comedown for Alphabet.

Alphabet told investors three months ago that its rate of spending growth would moderate in 2019, and the company followed through in the first quarter. Excluding the impact of Alphabet's latest fine from European regulators, Alphabet's operating profit was better than expected, and its spending slowed on big capital projects such as computer data centres.

Investors have been nervous about Alphabet's spending recently, while the company's growth rate has held strong. Now the opposite is true, and company watchers would be forgiven for wishing the growth to come back.

The rise of the new middle class

No political party can afford to take them for granted

HARDAYAL SINGH

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THE MOST REMARKABLE phenomenon characterising 21st century India is the emergence of the 350-million-strong middle class. The importance of this statistical significance of the growing numbers of this class, it also extends to the decisive influence this class will have in moulding public opinion on many national issues. Its voting behaviour may well determine outcomes in the current general elections as well.

Since 1950-51, India's GDP has grown by about 50 times in real terms. Currently, with a GDP of \$2.6 trillion and a growth rate of about 7%, India is the world's fastest growing major economy. Later this year, it is expected to overtake the UK to become the world's fifth largest economy.

Decades of economic growth have had two major outcomes: One, every minute, according to a Brookings study, 44 Indians escape the trap of extreme poverty, estimated by the World Bank at \$1.9 per person per day. Such poverty, currently at 5%, may decline to 3% by 2022 and be eliminated altogether by 2030.

Two, equally importantly, the country has also witnessed an unprecedented social mobility which has enabled millions to climb on to the bandwagon of the burgeoning middle class. With an annual per

capita GDP of nearly \$2,000, India is now increasingly becoming a low middle income rather than a poor country.

This middle class, currently estimated at 350 million or about 25% of the population, will rise to 583 million or 41% of the population by 2025. These educated people, with annual income ranging between ₹2 lakh and ₹10 lakh, are to be found in tier-2, tier-3 and tier-4 cities. They drive both consumption as well as savings in the economy. At a personal level, they aspire to live in their own houses, and many of them closer to the lower end of the threshold fondly look forward to owning

their first refrigerators, washing machines and two-wheelers.

Historically, this new middle class is the product of three forces: One of these was unleashed when economic reforms, implemented in the 1990s, generated opportunities for millions of people. Politically, a new post-reforms consensus centring on a market-based economy thus emerged. This replaced the earlier Nehruvian consensus based on a much more public-sector-dominated command-and-control model.

Two, at about the same time, thanks to VP Singh's support to the decade-old Man-



dal Commission report, a large number of backward caste youth agitated for greater representation in public employment and in institutions of higher learning. Eventually, they succeeded in achieving their objectives when the Constitution was amended to grant them 27% reservation. This provided middle class access to many poor people who otherwise may not have been able to gain such entry.

Three, when in the wake of the Mandal agitation, the Hindu society began to split on the lines of caste identity, a worried BJP found—in the birthplace of Lord Rama—a perfect symbol for the revival of Hindu

pride and nationalism. And the swelling ranks of this new class readily embraced this ideology.

Currently, too, many of these people are nationalistic to a fault. Not surprisingly, many of them are avid supporters of the BJP. They want their children to be better educated than, and are ready to spend amounts they can scarcely afford on their education in English-medium schools. This is because they see proficiency in English as a passport to success.

Typically, these people prefer simple laws and hassle-free processes. They frown on subsidies financed out of taxes they

pay. Like taxpayers the world over, they want to see the fiscal connection between the taxes the government collects from them and the benefits they get in return. Voluntary compliance often suffers when they fail to make this connection. As such, they are unlikely to happily pay taxes for large-ticket dole schemes such as the Congress party's Nyuntam Aay Yojana (NYAY).

No political party can really afford to take these people for granted. Since they are educated, they cannot be easily manipulated as a vote bank. In Delhi, many of them supported Anna Hazare's crusade against corruption, and later Arvind Kejriwal's Aam Aadmi Party. But when the latter failed to deliver on its anti-corruption agenda, many of them withdrew support to this party.

Both the BJP and the Congress have, in their manifestos, tried to woo these people with promises of lowering income-tax rates, improving compliance, reducing joblessness, working towards good governance, etc. However, unless these intentions are translated into action, it is unlikely that empty promises will fool these people for long.

What is much more likely is that, as in developed countries, with time, they will enter different political parties and begin to influence political agendas as well as electoral outcomes, much more decisively.