

Opinion

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CONSTITUTION IS SUPREME

Prime minister Narendra Modi

As the trust of the people rises, the responsibility of the government also rises. Our Constitution is supreme. We have to follow every word of the Constitution

Rational Expectations

SUNIL JAIN

sunil.jain@expressindia.com
@thesuniljain



Push market reform to revive growth

Only then can laggard sectors like farm and industry pick up pace; raising govt-spend not easy with taxes falling short

THAT PRIME MINISTER Narendra Modi managed to pull off a second Lok Sabha victory despite the economy—especially agriculture—being in trouble and without enough jobs getting created is as much a tribute to his ability to change the narrative through the Balakot strikes as it is to the plethora of successful pro-poor measures he took over the last five years. Over ₹2.3 lakh crore was distributed to the poor via DBT over the past five years, over 5 crore persons got subsidised life insurance and 13 crore accident insurance, 6 crore got free LPG connections, 1 crore subsidised houses were built, as were close to 10 crore toilets...even if the economy had grown by 8-9%, the benefits may not have trickled down to the very poor for several years, but with Modi's successful anti-poverty schemes, they benefitted much faster; it can't be a coincidence that the BJP did well in most poor states.

But now that this unprecedented victory is behind him, what now? GDP growth is showing signs of not just plateauing at 7%, it could even go below that. Investment levels continue to fall and exports have risen by less than 5% over the past five years, and that acts as a brake on industrial growth. Increasing government-spend on roads and railways to raise investment levels is no longer an option with tax collections slowing—meeting FY20 targets requires taxes to grow at 19% vs 11.5% in FY19. Indeed, with large off-budget borrowings, high *de facto* government borrowings ensure interest rates remain high and that, in turn, hurts private industry, especially SMEs.

Getting growth back, as in 2014, remains tough with India Inc strapped for cash and bank balance sheets shot—getting out of a twin balance sheet crisis can take a decade, even more. Despite the new insolvency law, cleaning up India Inc's balance sheets is taking time; as a result, according to Credit Suisse, over 41% of India Inc's debt is still with firms that have an 'interest cover' of less than one. And with plenty of bargain-basement deals available at the bankruptcy courts, a meaningful investment revival will take time.

What the economy needs, to even sustain a 7% growth is a fresh burst of reforms. The insolvency code is a big reform, as is GST (but it needs less rates to be effective), and DBT, JDY have reformed anti-poverty spending, but sweeping market-reforms are critical if investment, and hence GDP, is to grow.

Reforming direct taxes needs the removal of a plethora of tax incentives and must ensure the highest tax levels don't kick in at today's relatively low levels of income; without this, it is difficult to imagine tax-to-GDP levels rising significantly; more so since, with multiple GST rates, tax compliance here is also sluggish. In which case, tax-and-spend is no longer a policy available to Modi to boost public sector capex.

While little can be done about the impact of a poor monsoon or the slump in global prices, only creating pan-Indian markets will ensure farmers get a larger share of what consumers pay; according to Icrier professor Ashok Gulati, by not getting market prices, farmers 'lose' around ₹2.5 lakh crore a year. Also, while ₹160,000-170,000 crore is spent every year on subsidies like fertiliser, interest subventions, electricity and water subsidies, these are mostly cornered by the top 10-15% of farmers; replacing these with a cash subsidy for India's 14 crore hectares of net sown area means an annual cash transfer of ₹11,800 per hectare. Add to this, ₹50,000 crore a year than can be saved if food procurement by FCI is stopped and all current food subsidies are paid in cash instead of through physical rations; FCI's excess food stocks can be sold for another ₹1 lakh crore.

Also, once electricity and water, say, are priced at market levels, their consumption will correct and, as a result, the destruction of the water table that is caused by growing the wrong crop in the wrong area—sugarcane in dry Maharashtra, for instance—will stop. In other words, should Modi want, he can bring *acche din* to farmers quite quickly.

In the power sector, similarly, where 52,000 MW of power capacity is stressed, the main culprit is the below-cost pricing of power, as a result of which state electricity boards can't sign new power purchase agreements, nor can they pay their dues that are already over ₹40,000 crore. But if electricity subsidies are transferred by the state governments to everyone's bank accounts, electricity can be sold at market prices in the manner LPG is and, immediately, the power sector gets healthier and will attract more investments.

In the mining sector, similarly, thanks to unions such as those of Coal India, private investment is hardly welcomed—the government allowed commercial mining of coal several years ago, but till date no private firm has been given a licence to do this. In the case of the oil sector that accounts for 28-29% of India's total import bill, government policy has been one of flip-flops even though the country loses out as a result. In the case of non-oil mining—this accounts for a fourth of India's imports—just 10% of India's prospective area has been explored vs around 95% in the case of Australia. If this is even doubled, according to Niti Aayog, this can create 5 million jobs by 2023, up from the current 10 million. Apart from huge delays in clearances, a big problem that Modi needs to fix is high government levies of around 30% of revenues as compared to global levels of just 8-12%.

Indeed, apart from RJio's predatory pricing, the same high government levies have killed the telecom sector; from 12% in 2011, the pre-tax government share of telecom revenues rose to 25% in 2018. Fixing this should have been relatively easy, and would have boosted investments also, but Rahul Gandhi's *suit-boot-kei-sarkaar* jibe frightened Modi into inaction. The economy is too fragile for Modi not to act; similarly, if quick moves are not made to reform India's labour laws—hire-and-fire is just one part of them—or if the government keeps hiking the minimum wages, this will further accentuate the jobs crisis; and it is not clear that, in 2024, the electorate will be as forgiving as this time around.

ArmTWISTING

A Twitter army descends on a corporate for hinting that it will act against a bigoted employee

FNO ONE keeps watch, the communal fringe in India will become the mainstream. On Facebook, Akshay Lahoti—employed with HDFC Life—called for a Hindu-only referendum on whether Muslims should be allowed to stay in India. Calling the expulsion of Muslims an “unfinished business” of Partition, Lahoti wrote that if a majority of Hindus decide against Muslims being given Indian citizenship, then Muslims should “accept the mandate and move to Pakistan and Bangladesh”. After the post went viral, a Twitter user tagged the HDFC Bank handle to highlight Lahoti's bigotry to his employers, following which HDFC Bank said that it had flagged the post to HDFC Life, and HDFC strongly condemns “such divisive and insensitive comments/views.”

What has followed since should be alarming for those concerned about preserving India's plurality. HDFC Bank's response drew a tsunami of criticism from Hindu right-wing Twitter, with many defending Lahoti and threatening the bank with withdrawal of their patronage by shutting down accounts. One user even tagged an unverified account believed to be of RBI director and right-wing ideologue S Gurumurthy, seeking his intervention. The backlash is telling. Bigotry may no longer be kept concealed—with a large enough Twitter army, those opposing it can be threatened, perhaps into silence. HDFC Bank, Surf Excel and others that faced such backlash should assert that they will not deviate from the principles they hold dear. Else, bigots will only get encouraged to armtwist those differing with them.

AT THE END OF THE DAY, THE TANGIBLES THAT THE VOTERS GOT—GAS CYLINDERS, TOILETS, DBT, ETC—MATTERED MORE THAN SLOWING GDP GROWTH OR EVEN UNEMPLOYMENT

Verdict 2019: Little to do with economic issues

VOTE PULLER

MADAN SABNAVIS

Author is chief economist, CARE Ratings
Views are personal



THE STATE OF the India economy, at best, may be described as being stable. There are no major visible signs of pick-up in investment or consumption, and the level of sanguinity is also low for FY20. The expected recovery in the economy has not quite played out in FY19, and it does appear that that any movement is only gradual. Amid such circumstances, it was expected that the elections would be fought on not just economic but also other grounds to ensure that the tone is convincing. The qualitative improvements made during the last five years would have to be highlighted to drive home the point that the government has delivered. This ultimately appears to have worked, as seen by the resounding success of the ruling NDA. But there are some interesting conclusions.

This time, the elections were fought on micro-economic and non-economic grounds for all practical purposes. From the 'development' paradigm that was the masthead in 2014, the campaigns in 2019 moved to other political issues and, while the two leading parties' manifestos spoke of more for the poor in different forms, the tone was one of 'appeasement' rather than 'promise'. This is a major change in stance because rather than promising a better tomorrow in the macro sense, the focus was at the micro level.

The final outcome has been a surprise because the change in the economic stance of the government from policy and governance to direct action for the poor, ostensibly brought about by the adverse state election results late last year, did indicate a modicum of concern on the final outcome. The fact that the government has returned to power will be, not just a victory, but a relief, as there did appear to be some doubt along the way, which was revealed by the change in stance. The results have a lot to say about

the vindication of various policies pursued by the government in the last five years. First, demonetisation did not really matter at the end of the day because notwithstanding the pain caused to the lower income groups, including the farmers, the people have voted for the party in power. In fact, even when the UP state elections had given the ruling BJP a very decisive victory, it was widely asserted that demonetisation was accepted by the people, who did not hold any grudge against the government. It can also be that human memory is short, and other issues, like the surgical strikes or religion-oriented themes, have found favour with the masses.

Second, the GST was widely believed to have affected the SME sector and, as it came just after the demonetisation endeavour, it served a double whammy. Yet, the concerned people at both the entrepreneurial and employee levels have not found it harsh enough to vote against the NDA. This is definitely a victory from the policy perspective. In a way, it may be interpreted as being a reflection of the fact that people do not really mind harsh reforms if a larger good is served.

Third, the raging economic issue today is employment. There is enough evidence to show that not enough jobs have been created in the last couple of years. This issue is real as the government has taken pains to prove otherwise and has cited even EPFO data to show that this is not true. The NITI Aayog has also tried to prove that the NSSO data is not yet verified and that employment has been increasing. Quite clearly, there was concern that

lower growth in job creation can work against the ruling party at the time of elections. Whether or not the claims of unprecedented unemployment are true, the fact is that employment has either not been an issue with the electorate or that people are not aware of the severity of the problem. Fourth, a factor that has been put forward for the loss of the NDA-led parties in the three state elections last year was low farmer income due to the non-realisation of the MSP. While it is true that the MSPs were not realised on crops such as pulses and oilseeds, the farmer constituency had not considered this to be the Centre's fault—if at all it is a serious issue. It is possible that the farmers are more discerning and do distinguish between the states and the Centre when it comes to evaluating performance. But, given that the MSP is actually announced by the Union ministry of agriculture, the follow-up action should have been from here and not the state. Yet, the electorate voted against the BJP at the state level but supported it at the Centre. This surely is an interesting takeaway.

Fifth, the asset generation efforts of the government appear to have paid off. This has come in the form of provision of affordable homes, toilets or gas cylinders—all real and tangible benefits received by the rural folk. This appeals just like how the sewing machine or bicycle has garnered votes

in other states. Similarly, even DBT is a positive gain for households as it means money in the bank account that can be spent. Something tangible received does stick in the memory, and when the candidate talks to the voters, he/she can actually show what has been delivered against the promises made. Therefore micro issues matters more than macro.

At another level, there are certain issues which may not really resonate in these sections even though are intellectually stimulating. For instance, black money and the promise of transferring ₹15 lakh into the accounts of the poor has not yet been achieved, but does not matter in the broader scheme of things. Also, the issue on interest rates or stagnant investment is not something that has any connect with the voter. Therefore, economic variables like GDP growth or investment rate or current account deficit or fiscal management are only meant for the intelligentsia, but do not affect the common man enough to be taken seriously. This probably also holds for something

Elections this time were fought on micro-economic and non-economic grounds. From 'development' masthead of 2014, the pitch this time moved to other political issues

like highway construction that appeals to rating agencies and multi-lateral institutions, but may mean little to the voter who is on the lookout for something tangible.

Even in the past, we have seen that voters turn away when there is high inflation. High prices of onions can affect voter reaction. But other economic variables do not matter. Gains that are tangible in kind or money makes sense but macro or global gains are only taken as posturing. At the same time, people also don't really mind harsh measures if it is explained well to them. This is probably the message from the voter behaviour this time.

How SWFs threaten capitalism

By underwriting more private investments, sovereign funds could be contributing to the hollowing out of trust in capitalism itself

PRIVATE EQUITY HAS become the return-boosting investment class of choice for many asset managers in recent years, for all the accusations that buyers are overpaying for deals amid an overleveraged bull market. But could the shift away from public markets have a potentially more sinister outcome than luring yield-hungry funds into overpriced unlisted investments? Could it pose a threat to capitalism itself?

Martin Gilbert, vice chairman of Standard Life Aberdeen Plc, told Bloomberg Television earlier this week that asset owners are making “quite a big shift” to private equities from public markets. He estimates that the percentage of the world's assets in non-public markets will climb to 20 percent from about 15 percent currently.

Sovereign wealth funds are at the vanguard of this drift away from listed assets. A report published on Thursday by the International Forum of Sovereign Wealth Funds, which represents more than 30 investment managers around the world, shows that the number of SWF deals was evenly split between public and private investments in 2015. Last year, though, non-public transactions accounted for more than 65 percent of direct investments as measured by the number of transactions.

Public markets around the world are becoming less liquid. Between 1996 and 2018, the number of publicly traded U.S. companies declined by a third to 5,363, according to the IFSWF, which cited data compiled by the World Federation of Exchanges. A corresponding decline in the number of initial public offerings saw the

number of listings in which SWFs acted as anchor investors around the world slump to 17 last year from 38 in 2017.

SWFs invested \$12.85 billion in unlisted companies in 2018, compared with the \$10.57 billion allocated to publicly traded stocks. In technology and telecoms, for example, the \$100 million that went to listed investments was dwarfed by the \$3.4 billion allocated to private companies.

In dollar terms, the proportion of investments made in unlisted companies in 2018 was about the same as in 2016 and 2017, even as the absolute total declined by almost a fifth last year. That fall was “possibly driven by concerns over asset prices and even greater competition in private markets,” according to the IFSWF.

Anne Richards, the Chief Executive Officer of Fidelity International, reckons companies in the U.S. raised about \$2.4 trillion privately last year, some \$300 billion more than the public markets provided in capital. Because companies are staying private for longer, their founders and initial backers win more of the value from their growth; IPOs become more about capturing that value than as a means of securing the capital to build the company in the first place. And that makes Richards nervous.

“This process marks a de-democratization of capitalism,” she said in a speech to the CFA Institute in London

earlier this month. “A growing proportion of financial assets in private hands, means less public participation in the economy. It means that the society in which we work has less skin in the game of capitalism than has historically been the case.”

If sovereign funds, venture capital firms and other big asset owners can trap the wealth created by innovative firms to the exclusion of, or at the expense of small and retail investors—and the IFSWF report suggests SWFs are getting in earlier than ever in the development stages of the companies they invest in—public markets risk becoming just liquidity pools for the secondary trading of shares, rather than sources of capital.

As Richards says, financial markets operate via a contract with society. But the credit crisis unleashed on the world a decade ago has undermined that covenant in the eyes of many people, not least because ostensibly private financial risk turned out to be underwritten by public money.

If the benefits of capitalism accrue to an ever-shrinking pool of capital and labor continues to enjoy scant reward from the system, more members of society will start to question the merits of the prevailing system. By underwriting more private investments, sovereign funds could be contributing to the hollowing out of trust in capitalism itself.

LETTERS TO THE EDITOR

Verdict 2019: The sons have set

The Lok Sabha election results have come as a huge surprise for many political heavyweights and their family members, who were confident about their win. Top of the list has to be Rahul Gandhi, and then there are others—sons of many prominent leaders, including Milind Deora, Vaibhav Gehlot and Jyotiraditya Scindia. Rahul Gandhi's losing his Amethi seat is a surprise, which nobody saw it coming. But perhaps the most embarrassing loss is that of Nikhil Kumaraswamy. Son of Karnataka chief minister HD Kumaraswamy's, Nikhil lost to an independent by over a lakh votes. — Prakash Datta, Ranchi

Co-living space

Apropos of the interview of Rohit Kapoor, the CEO of new real estate businesses, Oyo Hotels & Homes (FE, May 23), it is a fact that co-living—which is essentially long-term rental—has emerged as a concept that offers convenience, community and cost-effectiveness in today's urban India. In fact, a recent report by PropTiger, a property portal, found that the co-living segment has the potential to grow into a \$93-billion market in India. Co-living is a modern form of housing where residents share living space; it is usually integrated into a single building, house or apartment. Apart from young, working and usually single millennials, co-living can be a cost-effective option for migrant students. In India, there are about 50,000 colleges where over 31 million students study. Of these, according to another report, over 12 million are migrants. But the beds in the organised living space in India are meagre, at just 100,000. This is a major business opportunity. — Ritesh Gumber, New Delhi

Write to us at feletters@expressindia.com



Illustration: SHYAM KUMAR PRASAD

ANURAG VISWANATH

The author is a Singapore-based Sinologist, and adjunct fellow at the Institute of Chinese Studies, Delhi. Views are personal



US moves against Huawei's real owner?

It appears the American move is directed less against Huawei and more against Chinese state. The thinking is that the US is the hand that feeds China and contributes to its surplus. The US's grouse is that Chinese companies will obey government diktat when ordered to share sensitive data about customers and countries, and Huawei being 'owned indirectly' by the state adds more fuel

WHO OWNS INDIAN conglomerate Reliance Industries Ltd? The answer is simple, clear and unequivocal. The answer, however, is not as straightforward with Chinese telecommunications giant Huawei. Lauded as 'the (first) real multinational based in China', Huawei was founded by an ex-soldier, Ren Zhengfei, in 1987. But in China, where the Party is the state and the state overlaps with the Party, lines of ownership can be opaque. Scholars

Christopher Balding and Donald Clark have recently said that the (*de facto*) owner of Huawei is the Chinese state. Is this the moot point behind the recent US executive order to curb sales to Huawei?

The immediate implications of the US order mean that Huawei smartphones, which use Google's Android, and Huawei laptops, which use Microsoft Windows OS, will not be able to use these in the future. American firms such as Intel, Qualcomm, Broadcom and Xilinx have to comply with the order until further notice. While existing Huawei smart-

phones, including the P30 Pro, will not be affected by the US order, future smartphones will lose Android technical support and software updates. This will hurt customers who will be unable to access Google Maps, Gmail and YouTube, which may cut into future sales of Huawei.

The American move not only goes beyond the order, but also beyond the house arrest of Ren's daughter Meng Wanzhou, who is the chief financial officer (CFO) of Huawei; she was arrested in Canada on a US warrant in December 2018. The move may have more to do with "who owns Huawei" and, therefore, who really has control.

According to reports, Ren, the son of a 'capitalist roader', joined the People's Liberation Army (PLA) as a military engineer at the tail end of the Cultural Revolution (1966-76). He also became, as was the aspiration of that generation, a party member.

Ren's fortunes began to sync with the end of Mao's era (Mao Zedong died in 1976) and the rise of the moderniser Deng Xiaoping, who created special economic zones (SEZs) as experimental pilot zones to nurture entrepreneurs and experiment with 'opening up' and 'creating nests so that birds would come' in Shenzhen, Zhuhai, Xiamen and Shantou (in 1978). Many 'dared to eat crab'—or be adventurous enough—to set up their own business. Ren was one of them.

Today, Huawei is China's Google, with a campus in Shenzhen that can give Apple's spanking new headquarters (in Cupertino) and Google's (in Mountain View) a run for their money. The Huawei campus is dotted with European-style buildings, canals and black swans, subsidised food, pool tables and gyms—almost as if China does it better.

And perhaps it does. Huawei, which modestly describes itself as a leading global information and communications technology (ICT) solutions provider, boasts of 188,000 employees, a presence in 170 countries (including its largest overseas \$170-million R&D centre in Bangalore that can accommodate 5,000 software engineers) and revenues surpassing \$100 billion. Huawei Mate 10 happens to be 'the first smartphone with an embedded AI chipset'. In 2018, 80,000 employees were involved in R&D and it is one of the world's largest patent holders (87,805 patents).

However, Huawei also ranks amongst the top-

three phone makers (behind Apple and Samsung), and ahead of Xiaomi and Oppo. Huawei is emerging as one of the world's largest providers of equipment used in 5G networks.

In the last decades, Ren has been low key ("fame is food for dogs," he says). He takes taxis, travels without an elaborate entourage and bought a BMW in 1997, only to drive and embarrassingly ask where the brakes were.

But Ren has been a model, if unconventional Chinese 'laoban' (boss). He supports mattress culture (allowing employees to take a nap), has pushed to make customers the focal point, thinks out of the box with 'greyness' (instead of 'black and white' fixated ways), and has not flinched hauling the organisation with mass resignations to shake it up. Because of Ren, Huawei bandies itself as a great mix of both Chinese and Western.

But Ren describes itself as 'a private company wholly owned by its employees' (as does China's search engine Baidu; interestingly, Baidu makes no such claims about others—ZTE, Lenovo, Taobao, Haier and the Gree Group, for instance, are public-private partnerships). Huawei has an employee shareholding scheme that involves 96,768 employee shareholders. Huawei says it is 'employee owned'—Ren owns 1% (1.01) of the shares and the rest 99% (98.99) are owned by an entity called 'trade union committee' for the holding company.

Balding and Clark say that Huawei's claims of being 'employee owned' are 'questionable' and that the corporate structure described by Huawei is 'misleading'. Instead, they summarise that if 99% is owned by 'a trade union committee' and that 'if the trade union and its committee function as trade unions generally function in China, then Huawei may be deemed effectively state-owned'. (Trade unions in China are state bodies.) The Communist Party controls the All-China Federation of Trade Unions. They suggest little is known about Huawei's internal governance, nor much is known about its Articles of Governance, according to which Ren has veto powers, or what will happen when the trade union dissolves (where residual assets go up, not down, to the trade union organisation at the next administrative level).

This has sufficiently piqued Huawei, who responded with "no government agency holds its shares. As a result, the enterprise operates independently while achieving steady long-term growth." But this is not the first time Huawei has faced critics—there was the Cisco lawsuit (in 2003) and the US Defense Department (in 2011). While Cisco alleged patent infringement, US Defense Department cited Huawei's close links with the PLA.

Now, what will be the impact on Huawei? In an interview to China Central Television (CCTV), Ren said that its 5G technology was ahead of competition and, tellingly, that Huawei was at odds with the US government, not US companies. The *South China Morning Post* and *Die Welt* (The World, German daily newspaper) have quoted Huawei mobile chief Richard Yu Chengdong saying that Huawei has developed its own operating system (OS) for smartphones and computers, which would be an alternative to Google's Android OS.

On balance, it appears that the American move is directed less against Ren and more against the Chinese state. The thinking is that the US is the hand that feeds China and contributes to China's surplus. The US's grouse is that Chinese companies will obey government diktat when ordered to share sensitive data about customers and countries, and Huawei being 'owned indirectly' by the state adds more fuel. Ironically, China's surplus is used for buffering China's economy and military, which, paradoxically, the US has to spend money to fight on. So as with US trade tariffs, so with Huawei—it is no longer about trade only, but the total costs of China's rise.

In China, where the Party is the state and the state overlaps with the Party, lines of ownership can be quite opaque

● GST ON HOMES

Less taxing or more taxing?

JAYASHREE PARTHASARATHY

The author is tax partner, EY India. Views are personal

Homebuyers are likely to face additional dilemma in choosing their next home

WHILE GOODS AND services tax should ordinarily be levied only on goods and services, and not immovable property, Indian indirect tax laws have historically deemed a supply of goods/services in the context of sale of under-construction apartments.

By way of recent amendments, GST rates on under-construction residential apartments have dropped from an effective tax rate of 12% (8% for affordable housing) to 5% (1% for affordable housing). However, builders as well as homebuyers (in some cases) may need to welcome the rate reduction with a pinch of salt, as the saying goes.

The new and lower rates have been mandated without the benefit of input tax credit to the builder. In some cases, the lower GST rate shall be applied on a higher base value, resulting in higher tax burden to the builder/consumer (see table). In a sense, the new tax structure is more likely to benefit high-end or luxury projects with a high per square foot cost. Having said that, the more beneficial scheme (between the old tax structure and new one) could vary between projects and shall be a factor of land value, construction costs and pricing agreed for between the builder and a customer.

The new rates came into force on April 1, 2019, but with an option to the builder to continue under the old rate (with full benefit of input tax credit) in respect of an 'on-going project'; an option that was required to be exercised by way of intimation on or before May 20, 2019. But why such an option? It's perhaps to ensure that a builder is not saddled with unanticipated and unbudgeted GST costs attributable to loss of GST input tax credit. The option is required to be exercised project-wise, implying that a builder could opt to continue under the old rate for some projects and not others.

While the rate change has been positioned as an overall rationalisation of the tax structure for the real estate sector, which is intended to benefit the consumer, the option to continue under the old scheme or move into the new scheme is the absolute prerogative of the builder. In other words, a consumer shall not be able to dictate the rate and scheme, and the same shall be a consequence of the option exercised by the builder. It is, in fact, possible that two buyers in the same project or the same buyer in two different projects may end up paying different GST rates (old or new), depending upon the option exercised by the builder.

Given this, buyers are likely to face additional dilemma in choosing their next home—comparing prices having regard to differential GST rates across different projects—12%/8% or 5%/1%, or no GST (for ready to move in apartments), including validation of the rate being charged by the builder.

Builders, on the other hand, would need to engage in a complex exercise of determining credits attributable to projects continuing under the old scheme and those moving into the new scheme by undertaking appropriate credit reversals, where required. An impact area for builders with a pan-India presence or multi-entity structure is likely to be additional GST costs (non-creditable GST) arising on account of "open market" valuation of intra-group or intra-company cross-charges. GST is, thus, likely to play an important role in the structuring of special purpose vehicles, going forward.

(Ketan Lohia, senior tax professional, EY, contributed to the article)

The new tax structure

Base price	Project 1 (₹5,000/sq ft)		Project 2 (₹10,000/sq ft)	
	Old	New	Old	New
Base apartment tax cost/ includes input tax credit/ loss under the new scheme	₹5,000	₹5,540 (5,000+540)	₹10,000	₹10,540 (10,000+540)
GST @ 12% (old)/ 5% (new)	₹600	₹277	₹1,200	₹527
Apartment cost for customers (including GST)	₹5,600	₹5,817	₹11,200	₹11,067
Construction cost	₹3,000	₹3,000	₹3,000	₹3,000
Eligible ITC for builder (say @ 18% of construction cost)	₹540	—	₹540	—
Total tax incidence for customers	₹600	₹817 (540+277)	₹1,200	₹1,067 (540+527)

MODI'S MIRACLE

Modi scores a remarkable election victory

The BJP's win is down to the prime minister, not the party

AFTER A HARD-FOUGHT re-election campaign, an American president might thwack some balls down a fairway, or go shoot turkey with the boys. Narendra Modi is different. As India's grueling election marathon reached its seventh and final round of voting, leaving a break before the final tally on May 23, its prime minister headed instead to a hermit's cave at the foot of a Himalayan glacier. Or rather, Mr Modi led a posse of cameramen to the scenic Kedarnath Temple, where they dutifully snapped him in a range of poses, from deep meditation cloaked in a saffron shawl, to striding purposefully against a backdrop of snow-capped peaks, sporting a grey woollen cassock and felt cap, a silken tiger print cast over his shoulder.

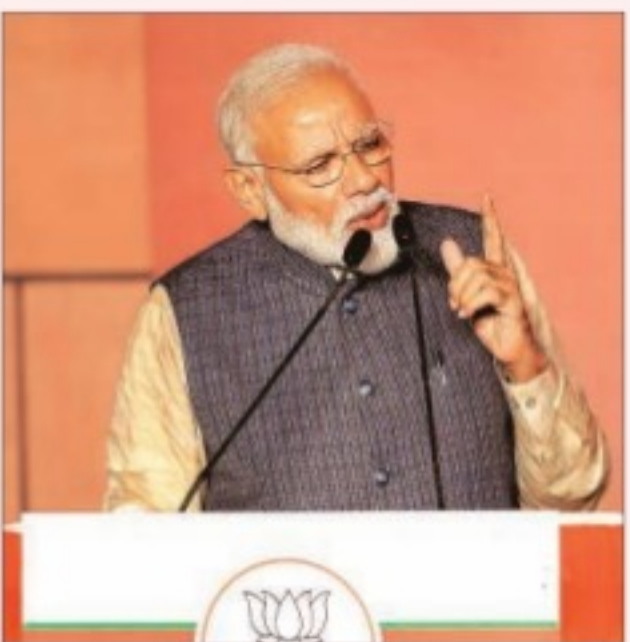
The image, half Olympian god and half kung-fu wizard, suits a man who appears to have pulled off a miracle. For such, in the permanent subtropical storm of Indian politics, is the rarity of two consecutive full parliamentary majorities. The BJP looked set to boost its share of votes from 31% in 2014 to 40%, and to increase its number of seats in the Lok Sabha, or lower house of Parliament. With plenty of smaller regional parties as allies, Mr Modi will enjoy another walloping majority.

There are many reasons why the BJP has again outplayed its rivals. At the top,

however, is Mr Modi's charisma. The relentless ubiquity of his face, in print, on screens and in streets, may be something that money and power can buy—and the BJP has plenty of both. What takes talent is to create a role as an ancient-yet-modern captain of an imaginary Team India, and then to play it out with unbounded conviction. In adopting an almost mythical persona, Mr Modi appears to rise heroically above his foes. He becomes a vessel for dreams, not only of national glory but also individual dignity. He involves his followers in a story that promises a happy ending.

But with his wagging finger and gravely snarl, Mr Modi is also a vessel for

anger. In speeches over recent weeks, one count showed he spent a 53% of his time attacking opponents, a further 18% talking of national security, and only the remainder touting *vikas*, or development—the central theme of his 2014 campaign. In the town of Gondia in the state of Maharashtra in early April, he blasted critics for questioning his decision to strike at Pakistan, following an attack in February claimed by Pakistan-based militants. "People who sit in air-conditioned offices in New Delhi claim the nation has forgotten Balakot (the site of the attack). Have we forgotten Balakot?" In Mysore, he declared that all terrorism in India was linked to Pakistan, but the rival



Congress party kept talking about "Hindu" terror. Back in Maharashtra, he asked first-time voters to dedicate their ballots to Indian martyrs. "What can be more sacred than giving your vote to the nation?" he cried. "Exercise your choice, and decide who can serve the motherland." Then, at a rally in Uttar Pradesh, he asked the crowd if it felt good when India hit Pakistan, or tested a new satellite-reckon missile.

Without Mr Modi, fellows Sanjay Kumar, director of CSDS/Lokniti, a Delhi think tank, the BJP would probably have lost. Despite some successful social programmes, the Hindu nationalists' five years in power have largely failed to live up to promises, and in fact caused widespread

distress, particularly to minority groups. Polling data show that in the populous Hindi-speaking heartland, where the BJP recently lost three state assemblies to the rival Congress party, a high proportion of voters this time voted for the prime minister rather than his party.

Yet Mr Modi's strutting, sneering nationalism remains only part of the story. His opponents aided their own defeat. As in 2014, they largely failed to form cross-party alliances, allowing the BJP to win numerous three-way races with a mere plurality of votes. The Congress, the only national rival amid a sea of regional parties, vainly tried to chip away at Mr Modi's image, and to present itself as equally Hindu, but failed to provide a compelling new narrative. Its leader, Rahul Gandhi, had in fact narrowed his popularity gap with Mr Modi from a dismaying 35 percentage points in May 2017 to just ten points a year later. But when the terror attack in February, followed by Mr Modi's retaliatory strike, triggered a reflexive nationalist surge, the gap yawned again to 19%.

The perfectly timed clash with Pakistan was hardly the BJP's only extra advantage. Indeed, Shivam Vij, an astute media commentator, suggests that given his hand of jokers it is surprising that Mr Modi did not win 100%. Not only did the BJP wield immensely more money than

rivals, it has a far better-greased party machine, backed up by the street power of hundreds of Hindu-nationalist voluntary groups. Madhya Pradesh, a state just captured by the Congress five months earlier, nevertheless returned a huge BJP majority to Parliament, largely because it mobilised enough voters to register a ten-point surge in turnout.

Some of Mr Modi's crucial support might not be described as voluntary. Conveniently, government statisticians tried to bury reports of a surge in unemployment before the vote. Just as helpfully, the Indian Air Force refrained from spoiling Mr Modi's martial bombast, delaying the revelation that during February's brief dust-up with Pakistan it had shot down one of its own helicopters. At a time of rising world oil prices, meanwhile, state-owned fuel distributors kept the cost of petrol for Indian consumers artificially low (not surprisingly, they are beginning to rise). Not least, the Election Commission of India, a powerful body with seven decades of accolades for fair and efficient management of the world's most logistically daunting democratic exercise, has in recent months issued a long series of decisions that advantaged Mr Modi. But perhaps it is not surprising that the gods get all the luck.