Opinion

MONDAY, JUNE 10, 2019

NITI AAYOG MEETING

Chief Minister of West Bengal, Mamata Banerjee

"Given the fact that the NITI Ayog has no financial powers and the power to support State Plans, it is fruitless for me to attend the meeting of a body that is bereft of any financial powers"

RationalExpectations

SUNIL JAIN

sunil.jain@expressindia.com
@thesuniljain

Slash tax rates to boost collections

Hiking surcharges on higher income brackets tempting, but won't help as much as cutting rates to get more into tax net

GIVEN THE LARGE likely tax shortfall if finance minister Nirmala Sitharaman sticks to the FY20 targets made in the interim budget, as well as the government's perceived need to be seen as soaking the rich while helping the poor, chances are next month's budget could see an increase in the surcharge on the well-heeled; recall prime minister Modi's post-victory statement about how India had just two castes, the poor and those willing to help the poor. Right now, there is a 10% surcharge on those earning ₹50 lakh a year and 15% on those earning ₹1 crore and above.

There were, in FY17, 81,344 individuals who declared their annual incomes as over ₹1 crore, and they declared a total income of ₹218,312 crore; so, a 5% increased surcharge could net around ₹10,916 crore additionally. And the 171,094 individuals who said their incomes were between ₹50 lakh and ₹1 crore declared an income of ₹117,364 crore; so an additional 5% surcharge will net ₹5,868 crore. Considering incomes have grown in the last three years, the surcharge will net even more today.

While this will work in the very short run, it barely scratches the surface in terms of the potential to collect more taxes from both the rich as well as the not-so-rich. Indeed, this was the philosophy behind the original Direct Taxes Code which sought to remove all tax exemptions—around ₹75,500 crore in FY18 for insurance, investment in provident fund, etc—and to make large cuts in tax rates to compensate for this; the added advantage is that this makes the tax filing genuinely *saral*.

While some have argued that lower taxes will not, in themselves, bring in more individuals into the tax net, this may not be as true today as compared to the past. With the linking of bank accounts with PAN numbers, the taxman being able to get a lot more information on people's spending and incomes with Project Insight, GST making companies file more data, and the reams of information the taxman got thanks to demonetisation, the taxman finds it easier to target non-filers today as compared to the past, but the ability of citizens to evade taxes still remains high. That is why, for instance, while the taxman had said that ₹1.75 lakh crore of suspicious bank deposits were being probed post-demonetisation, the tax collected has been a small fraction of this. This suggests those who deposited large sums in banks after demonetisation were able to spin credible stories of how their incomes—on which tax is paid—were much lower.

Tax wider, not deeper

Lower tax rates to collect more tax

Income group (₹ lakh, FY16)	Taxpayers (in lakh)	
	Actuals*	Potential**
10 - 20	28.3	136.3
20 - 50	8.16	60.0
50 - 100	1.41	11.62
100 - 500	0.63	5.71
500+	0.05	0.68

*Income tax statistics; **Price, ICE 360° survey

Interestingly, while the total income declared by those filing income taxes was ₹38.5 lakh crore in FY16, this rose to just ₹43 lakh crore in FY17; within this, the income filed by individuals rose from ₹25.2 lakh crore to just ₹28.2 lakh crore. While it can be argued that the data on income-tax returns put out by the finance ministry isn't really representative since personal income tax collections rose much faster than what the summary returns suggest, the fact is that after rising by 21% in FY17 and 20% in FY18, income tax collections rose just 10% in FY19; in other words, the demonetisation dividend is clearly over.

In a paper on tax compliance—for a Vijay Kelkar festschrift—Surjit Bhalla used 1989-2007 data and found that "for each 1 percentage point cut in the average tax rate, compliance increases by over 6 percentage points". In this context, Sitharaman must look at how large income tax evasion is. It is difficult to believe that India had just 81,344 individuals who earned more than ₹1 crore in FY17 or that just 1.7 lakh people earned ₹50-100 lakh—that 10 lakh persons earned ₹20-50 lakh also looks quite low—when 4.5-5 million Indians go abroad for holidays every year, or when Indian tourists spend $13-14 billion a year in just the US, or when 1.7 lakh Indian students spend $5-6 billion in the US (India has 5.9 lakh overseas students), and over 40,000 ultra-luxury cars priced at ₹30-300 lakh apiece are bought every year.

In this context, the latest all-India income survey by research agency Price—Price's Rajesh Shukla used to conduct similar surveys for NCAER for decades—estimates the number of those earning over ₹1 crore at around 6.4 lakh in FY16 (*see graphic*) and those earning between ₹50-100 lakh at 11.6 lakh (and yet, just 1.4 lakh persons declared this to be their income in FY16!). In which case, the finance minister can settle for earning ₹20,000-25,000 crore by levying a higher surcharge on those earning over ₹50 lakh a year or she could slash tax rates and bank on the greater compliance this results in; more so since the taxman also has more tools to catch those avoiding taxes.

Just a 10 percentage point hike in the number of *crorepatis* (that's 64,000) who pay taxes if the total tax rate is slashed to 25% will add another ₹40,000 crore to the tax kitty assuming an average income of ₹2.5 crore; a 20 percentage point hike will yield ₹80,000 crore. Indeed, it is not just at the top that Sitharaman will collect more taxes. The highest income tax level of 30% kicks in at an income of a mere ₹10 lakh a year; while the tax data shows just around 28 lakh persons showed their income in FY16 at ₹10-20 lakh, the Price survey estimates there are 136 lakh individuals earning this salary; if the tax is slashed to 20%, a 20 percentage point hike in compliance will result in additional taxes of around ₹76,000 crore (assuming an average salary of ₹14 lakh). In other words, the finance minister has more to gain by lowering taxes to get more people into the net; whether the tax bureaucracy and her government's pro-poor stance will allow her to do this remains to be seen.

BitingCONCERN

Food safety is still not a priority for India, and thus drastically undermines food security

IF THE EXPECTED 20% hike in food subsidy in the July Budget materialises, it would be India's most combative step in its fight against hunger in recent times. Yet, the question of food safety, fundamental to ensuring food security, remains unaddressed. According to a World Bank report, the lack of nutritious, unadulterated food, and consumption of unsafe food resulted in 600 million illnesses and 420,000 deaths in 2010. Developing, low and middle income countries (LMIC) in South Asia, Southeast Asia, and Sub-Saharan Africa accounted for 53% of these illnesses as well as 75% of the deaths. In India, as many as 100 million cases of foodborne diseases (FBD) were reported in 2011. Children below five years of age are the most vulnerable, due to small body size, developing immunity and lack of control over food preparation. The costs of unsafe food, thus, are not just social but also economic.

At $15 billion, India accounts for over 16% of the economic burden from FBD in LMICs. The state of food safety in India is the consequence of the actions, or inaction, of its many stakeholders ranging from farmers and food manufacturers to consumers and regulators. The under-funded Food Safety and Standards Authority of India, for instance, isn't able to regulate the bulk of eateries in the country. While increasing awareness of food safety hazards and mitigation strategies is crucial, policy must provide the impetus for change. Food safety poses a formidable development challenge; policy-makers must ensure that it spurs not reactive damage control but deliberative, evidence-based and forward-looking action.

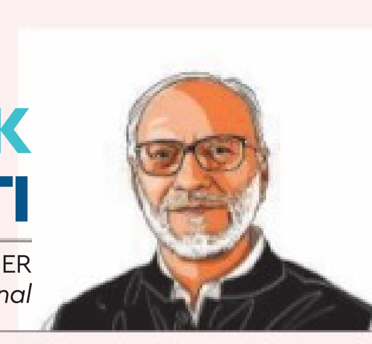
FROM PLATE TO PLOUGH

TODAY, INDIA SPENDS ROUGHLY 0.7% OF AGRI-GDP ON AGRI-R&D AND EXTENSION TOGETHER. THIS NEEDS TO DOUBLE IN THE NEXT 5 YEARS. THE RETURNS ARE ENORMOUS

Lifting agriculture to spur industry

ASHOK GULATI

Infosys chair professor for agriculture at ICRIER
Views are personal



AS PER THE LATEST report of the National Statistical Office (NSO), released on May 31, the Gross Value Added (GVA) at basic prices (2011-12 prices) for fourth quarter (Q4) of FY19 has slumped to 5.7% for the overall economy, 3.1% for manufacturing, and -0.1% for agriculture, forestry and fisheries. However, for the full financial year, FY19, GVA growth is more respectable: 6.6% for the economy, 6.9% for manufacturing and 2.9% for agriculture.

Incidentally, for the five years of Modi government (2014-15 to 2018-19), agri-GDP has also grown at 2.9% per annum. Many experts believe that agriculture cannot grow at more than 3% per annum on a sustainable basis. Swaminathan A. Aiyar, whom I admire for his brilliant writings, has recently written in the *Times of India* that 'no country has managed more than 3% agricultural growth over a long period'.

This is simply not true. China, for instance, registered an agri-GDP growth of 4.5% per annum during 1978-2016, a very long period indeed. In fact the first thing Chinese government did in 1978, when it started off economic reforms, was to reform agriculture. Agri-GDP in China grew at 7.1% per annum during 1978-84, and because they also liberated price controls on agri-commodities, farmers' real incomes increased at 15% per annum. That set the stage for a manufacturing revolution, which revved up through Town and Village Enterprises (TVEs) to satisfy domestic demand coming from rural areas. The rest is now history.

Today, Indian industry is complaining that rural demand is collapsing. Tractor sales are down by 13%, two-wheeler sales are down by 16%, car sales are down by a similar percentage, and even FMCG sales are down in April 2019 over April 2018. One of the reasons behind this is that India never had any major agri-reforms, and farmers' incomes have remained very low. But still there have been periods, reasonably long enough, when agri-GDP has grown well above 3%. In fact during the 10 years of UPA from 2004-05 to 2013-14, agri-GDP grew at 3.7% per annum. This dropped to 2.9% during the Modi period. When masses do not gain, demand for manufactured goods remains limited, slowing down the wheels of industry. So, if industry wants to prosper, we must aim at an agri-GDP growth of more than 4%. My assessment is that it can grow even at 5% per annum, at least for a decade, provided we are focused on reforming this sector.

What is needed is to raise its productivity in a manner that can cut down unit costs and make Indian agriculture more competitive, enabling higher exports. Unfortunately, agri-exports had negative growth during the Modi period (see accompanied graphic).

During UPA-2, agri-exports more than doubled, from $18.4 billion in 2009-10 to $ 43.6 billion in 2013-14. But during the Modi period, they declined, touching as low as $33.3 billion in 2015-16 and then recovering to $39.4 billion by 2018-19, but still below the peak of 2013-14.

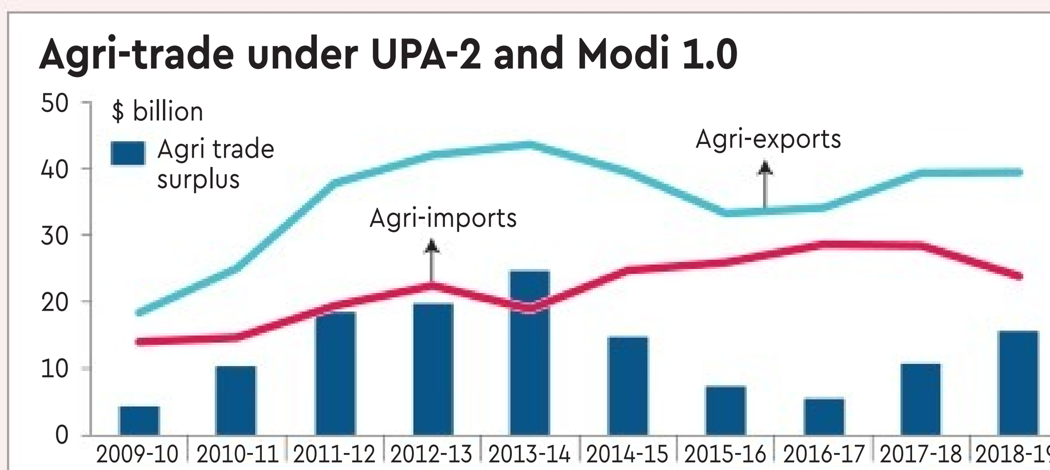
Officials managing agri-trade need to pay heed to this massive failure as it has implications not only for overall agri-GDP growth but also for slowing down of manufacturing growth due to sluggish demand for industrial products emanating from rural areas. There is ample evidence that much of Indian agriculture is globally competitive. But, it is our restrictive policies that restrain private sector from building direct supply chains from farms to ports, bypassing the *mandi* system. This leads to weak infrastructure for agri-exports. The net result of all this is that Indian farmers do not get full advantage of global markets. Further, an obsessive focus on inflation targeting by suppressing food prices through myriad controls is basically an anti-farmer policy. If these policies continue, prime minister Modi's dream of doubling farmers' real incomes by 2022-23 will remain only a pipe-dream.

It has to be noted that any attempt to artificially prop up farmers' prices through higher minimum support prices (MSPs), especially in relation to global prices, can be counter-productive. Normally, MSPs remain ineffective for most commodities in large parts of India. But even if they are operational through massive procurement operations, it can backfire when MSPs go beyond global prices.

Take the case of rice. India is the largest exporter of rice in the world, exporting about 12-13 MMT of rice every year. If government raises the MSP of rice, say, by 20%, exports of rice will drop and stocks with government will rise to levels way beyond the buffer stock norms. It would be dead loss of scarce resources. Besides, it would create unnecessary distortions, adversely impacting the diversification process in agriculture towards high value crops. This needs to be avoided.

What can augment our global competitiveness in agriculture is investment in agri-R&D and its extension from lab to land, investment in managing water efficiently and investment in infrastructure for agri-exports value chains. Today, India spends roughly 0.7% of agri-GDP on agri-R&D and extension together. This needs to double in the next 5 years. The returns are enormous. Look at what meagre investments in Pusa Basmati 1121 and 1509 have given to the nation in terms of basmati exports that hover between $4-5 billion annually. Similar are the returns from sugarcane variety (Co-0238) in Uttar Pradesh that has increased the recovery ratio from about 9.2% in 2012-13 to more than 11% today. Massive investments are also needed in managing our water resources more efficiently, to produce more with less. But augmenting productivity alone, without pushing for export markets, can lead to glut at home and depress farm prices, shrinking their profitability. So, first, think of markets and then give a push to raise productivity and exports simultaneously. Can it be done under Modi 2.0? Only time will tell.

Agri-trade under UPA-2 and Modi 1.0



Source: DGCIS data

Numbers don't tell the full story

India used to enjoy a good reputation with regard to the quality of its statistical services

MEGHNAD DESAI

Prominent economist and labour peer. *Views are personal*

IT SAYS SOMETHING about how far above the Hindu rate of growth (1950-1990) we have come when you see that growth rate of GDP, at 5.8%, is described as a tottering economy. It is not only the second-highest in the world but also not to be sniffed at, whatever rank it may have.

There are two issues here. One, the chattering classes did not predict Modi's strong result as they had explained to themselves that, with the jobs famine and farmers' distress, demonetisation and GST, the BJP will get below 200 Lok Sabha seats and the Congress above 100. Having recovered from that shock, they are keen to find something-anything-to downplay Modi's success.

The other issue is that economic experts find numbers exciting, especially those which can be called the highest or lowest, be it the growth rate, the unemployment rate, or whatever. These are preliminary estimates subject to revision. No number in economics is entirely accurate. You have to say 5.8% +/- 1%. Then, this is a quarterly growth rate annualised, i.e., it is the growth rate between the last quarter of 2017 fiscal and that of the 2018 fiscal. The annual growth 2018 fiscal year will be the average of the growth rates of its four quarters. Even if the quarterly growth rate is 2% lower, as was the case during demonetisation in the third quarter of fiscal 2016, it will reduce the annual growth rate for 2016 only by 0.5%, i.e., one quarter of 2%.

When some people (Dr Manmohan Singh, for example) claimed that demonetisation had reduced the growth rate by 2%, they did not add that the overall annual growth rate would be down by 0.5%. This is why the annual growth rate for 2016 does not look bad.

Yet, the more serious issue is not statistical but causal. In Indian debates on the economy, the idea prevails that the government is the major, if not the only, cause of increases or declines in the growth rate. The idea that what happens in the economy is largely the sum total of the economic choices made by millions of consumers and firms, with government playing only a marginal role, is thought to be bizarre. This is a belief among all political parties. The notion that there are matters where the government is not the most powerful actor cannot be faced by the Indian political system. The government can sometimes make matters worse by precipitate action or an overdose of stimulus when a mild dose would be preferable. The science of optimal control in economic policy is a complex one. No government in the world has ever got everything right or disastrously wrong, for which we can all be only grateful.

Science of optimal control in economic policy is complex. No government has ever got everything right or disastrously wrong

The appointment of two ministerial groups shows this attitude. I would have waited to see whether the drop in the growth rate from the third quarter of fiscal 2018 to the fourth quarter of fiscal 2018 needs drastic action. I would have explained the drop between the two successive quarters as partly caused by uncertainty in the quarter before election, as well as the reluctance of RBI to be seen as helping the government win the election by cutting interest rates before voting started. If the decline continues, then there may be need for some policy move.

Finance minister Nirmala Sitharaman is a level-headed person and a trained economist. In her first Budget, I expect her not to throw caution to the winds and opt for large spending injections. I would use the four quarter moving average to gauge if there is a trend before doing anything. The World Bank thinks the growth rate would be at 7.5%, so we should be somewhere between 6% and 8%.

My major concern is over the quality of the labour market data. The NSSO figure, leaked before the election, claiming that the unemployment rate was the highest in 45 years was just bizarre. Forty-five years ago, i.e., in 1974, the Indira Gandhi government was facing cross-country protests against inflation: Jayprakash Narayan had come out of retirement to lead student-demonstrations in Gujarat and Bihar, and George Fernandes had led a massive rail strike across the country. It was these troubles which drove Indira Gandhi to impose the Emergency. Does 2019 look like 1974? When an economy has grown at around 7% for five years, how can unemployment be the highest in 45 years?

The government needs to get a grip on the issue of data quality. We have had wide variations across government surveys as well as among private experts about the number of jobs created, the number of jobless, labour force participation rates, etc. India used to enjoy a good reputation with regard to the quality of its statistical services. The definition of jobs-full-time, formal sector jobs or livelihoods (remember the pakodawala?)-needs to be delved into. It may need anthropologists as well as statisticians to understand what has been happening in the economy. Now, there is time to face up to these issues and fix the system. That would solve a long-term problem.

LETTERS TO THE EDITOR

Nipah scare in Kerala

The resurfacing of Nipah, almost like a 'second wave', in Kerala constitutes a serious medical challenge. The concern over the threat among the people is understandable. Swift, coordinated action in terms of epidemiological surveillance, clinical management and awareness campaign taken to deal with the return of Nipah virus provides a model that other states can follow in similar medical emergencies. The transmission of the frightening paramyxovirus zoonotic virus takes place by coming in contact with the body fluids of people infected with the virus. Efforts are still on to find out the source of the virus that the 23-year-old student caught. The early or timely detection of cases of infection is crucial not only to quarantining the patients to eliminate the risk of further transmission, but also in extending all possible 'supporting care' to them to try and save their lives. The incubation period is found to range from 4 to 14 days. The dread attached to the deadly brain-damaging infectious disease cannot be detached from the high mortality rate among the infected persons and the absence of a vaccine and a drug to combat it effectively. Ribavirin has not proved very efficacious in the cure of the disease. The world should not wait to develop the vaccine and the drug to tackle Nipah, described as a 'priority disease' by the WHO, till it reaches the affluent countries. The prevention of exposure to the Nipah virus becomes all-important. Fruits bitten by the fruit bats and date palm sap or juice to which these natural hosts may have had access must be discarded since they may have been contaminated. However, it is not necessary to be angry with 'flying foxes'.

— G David Milton, Maruthancode

●Write to us at feletters@expressindia.com

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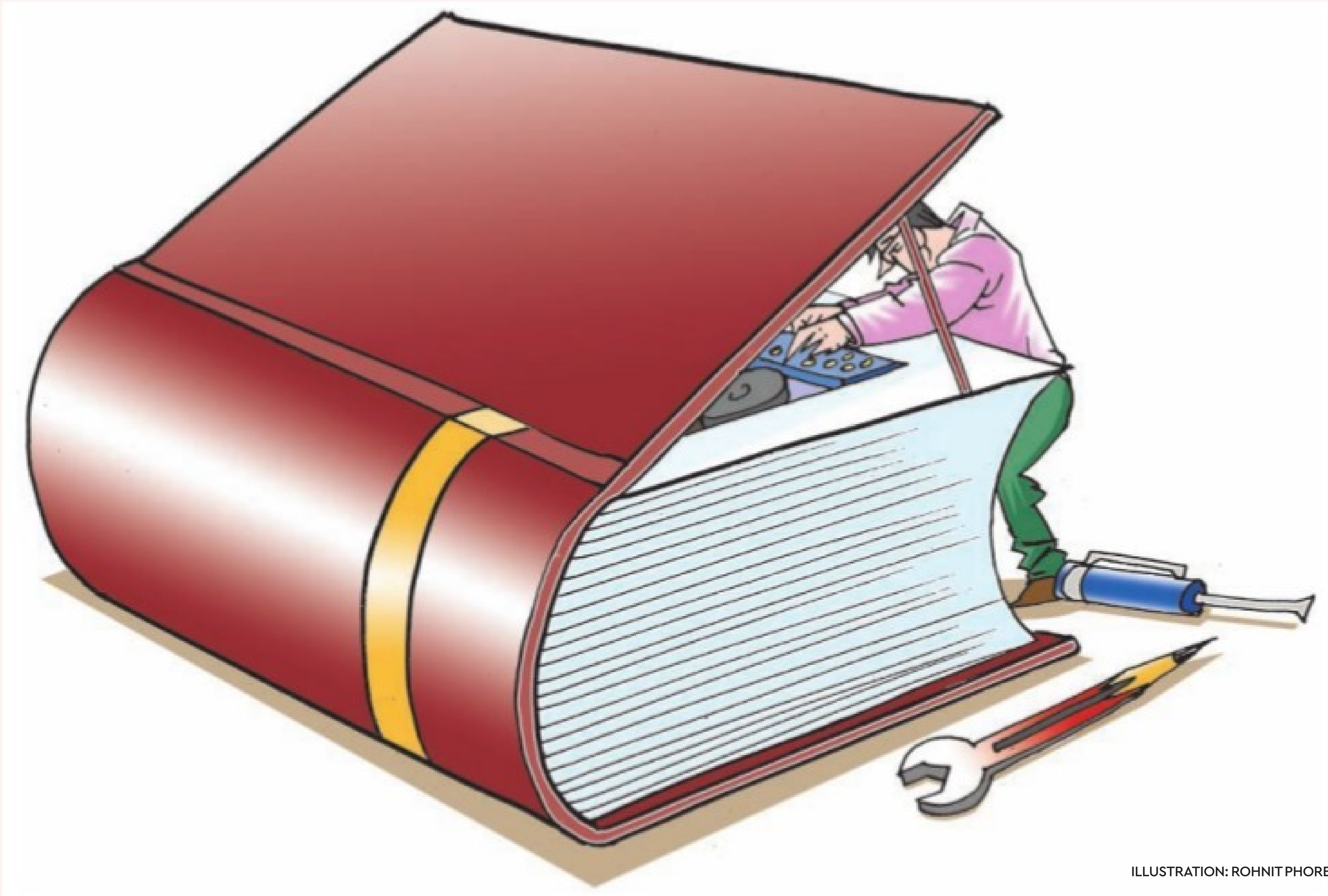
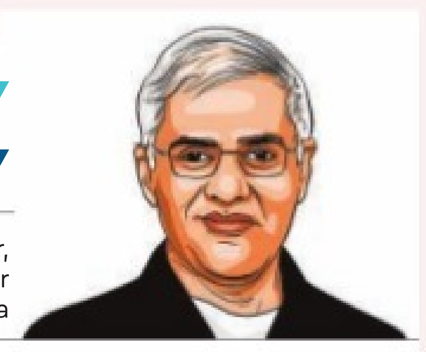


ILLUSTRATION: ROHNIT PHORE

BHAMY V SHENOY

The author is former manager, Conoco, and former board member of the national oil company of Georgia



NEW EDUCATION POLICY

Ushering in a golden era in education

Unless there is a vibrant movement to support the NEP, it will remain a pipe dream, and India would have a lost another golden opportunity to usher in a million mutinies in the education sector, as recommended by the NEP

THE NEWLY RELEASED 480-page draft report on 'New Education Policy' by a nine-member committee headed by K Kasturirangan is a delight to study. It constantly reminds us of our civilisational contribution that has been down played or often ignored by the current education system. The NEP, if implemented fully, will completely transform India's education sector.

Unfortunately, it is a crying shame that some our political leaders have tried to highlight the non-issue of three-language policy to build political capital rather than discussing the more substantive issue of how the NEP will help the country. Since children learn languages quickly between the ages of 2 and 8, the NEP suggests that encouragement should be given to children to learn many languages. No priority has been given to Hindi and, in fact, more emphasis is placed to teach India's classical languages like Sanskrit, Kannada, Tamil, Telugu, etc. Still, after the protests, the government tweaked the draft NEP to make sure that for non-Hindi speakers Hindi is not mandatory.

If the NEP is implemented even partially, it will usher in a new era in India's education sector. There will be no fear of one examination deciding the destiny of a student. Going to school will be enjoyable, and not boring like today. Students will have far more flexibility to select courses. Rote-learning will be replaced by creative thinking. Minimum bureaucracy, less regulation and less scope for corruption. Only honest elected leaders will opt to become education ministers.

Although the report deals with all aspects of school education, higher education and professional education (health, technical, legal and healthcare), greater emphasis is given to school education. Early childhood education, which has been more or less totally neglected, is given the highest priority. This is influenced by the fact that over 85% of cumulative brain development occurs prior to the age of 6.

The current 12 years of schooling will be replaced by 15 years, but still students can complete high school by the age of 18. The current 5+3+2+2 will be replaced by 5+3+3+4. The current system consists of primary, upper primary, secondary and pre-university. It will be replaced by a Foundational stage from ages 3 to 8, Preparatory stage from ages 8 to 11, Middle stage from ages 11 to 14, and High School from ages 14 to 18. The Foundational stage will comprise five years of flexible, multilevel, play-based, activity-based and discovery-based learning, and is the most important stage.

It is at the High School stage where there is complete transformation. Pre-university or higher secondary is eliminated. Each year will be divided into two semesters, for a total of eight semesters. Each student would take 5-6 subjects each semester. There will be some essential common subjects for all. Simultaneously, there will be a great flexibility in selecting elective courses, including in the arts, music, vocational subjects and physical education. SSLC (Secondary School Leaving Certificate) and PUC (pre-university course) examinations will be eliminated. In each semester, students can take Board examinations in the subjects they have taken and there will be no in-class final examinations. Thus, the pressure of examinations will be eliminated and so also the student suicide rate.

All stages will heavily incorporate Indian and local traditions, as well as ethical reasoning, socio-emotional learning, quantitative and logical reasoning, computational thinking and digital literacy, scientific temper, languages, and communication skills.

School education will develop scientific temper, aesthetic sense, communication, ethical reasoning, digital literacy, knowledge of India, and knowledge of critical issues facing the community and the world.

Since teachers are the critical factor in the education sector, the NEP deals extensively with this topic. The teacher education system will be overhauled completely. Teacher preparation for all school stages will be offered only in multidisciplinary universities through a four-year programme, with the curricula and processes being revamped to address current issues with teacher preparation. Institutions currently offering the two-year programme will either transition to this mode or be phased out; no new two-year programmes will be given recognition.

The objective of higher education is to create world-class multidisciplinary higher education institutions (HEI) across the country, and to increase the gross enrolment ratio (GER) to 50% by 2035 from the current level of 25%. Ancient Indian universities of Takshashila and Nalanda have served as role models in developing these efforts.

There will be three types of institutions. The first is Research Universities offering PhD and master's degree to focus on research. The second is Teaching Universities focusing on high quality teaching across all disciplines. The third is Individual Colleges offering only undergraduate courses. Every such college, irrespective of private or public, will be autonomous. All these HEIs will have the rights to award degrees, unlike today where only universities have the right. There will be no affiliating universities or affiliated colleges in the future.

In order to drive the vision of the NEP and to facilitate the efficient and holistic implementation (in India, the best of reforms have failed at the implementation stage) of the NEP, a high-level body called the Rashtriya Shiksha Aayog (National Education Commission) headed by the Prime Minister has been proposed. This body will be responsible for developing, articulating, implementing, evaluating and revising the vision of education in the country on a continuous and sustained basis.

The NEP should have discussed what are the key success factors for its implementation. One such factor is honest, competent, dedicated teachers and managers at all levels. While the NEP is exhaustive, substantive policies, especially concerning school education, could have been discussed in fewer pages. These are: (1) Getting rid of public examinations; (2) No transfer of government school teachers; (3) Developing a system to hold teachers and administrators accountable based on the performance of students; (4) Closing down of 'small' schools and integrating them into larger and integrated schools like Kendriya Vidyalayas with library and laboratory facilities, and children residing away from these schools can be transported by buses like children going to private schools; (5) The government should allocate at least 6% of GDP towards education sector, which is currently at the 3% level.

With the elimination of public exams, it will be the end of coaching schools. Teacher unions are unlikely to favour the recommendations since they will be held accountable

With the elimination of public examinations, it will be the end of coaching schools. Teacher unions are unlikely to favour the recommendations since they will be held accountable and also they need to teach unlike preparing children to take exams. Anganwadi unions will also not be happy since pre-schooling will take place in large school complexes. But the general public and students should rejoice and welcome the NEP. Unless there is a vibrant movement to support the NEP, it will remain a pipe dream, and India would have a lost another golden opportunity to usher in a million mutinies in the education sector, as recommended by the NEP.

CHINA-US TRADE WAR

Use WIOD to measure impact

AAKANKSHA SHRAWAN

Research scholar, IIT Delhi

A broader perspective using value addition in trade

AFTER ALMOST A YEAR OF tariff retaliation, a mutual decision between the US and China seemed in sight when both agreed for talks to reduce the momentum of the trade war. However, no end seems in sight as the Donald Trump administration, in addition to the existing levies, increased tariffs from 10% to 25% on $200 bn worth of Chinese imports in May 2019. In 2018, the levies imposed by the US impacted $250 bn worth of Chinese imports where the US imported $539 bn worth of Chinese goods (almost 46%). Retaliation by China, in turn, led to imposition of tariffs on $110 bn worth of imports when in 2018 China imported $120 bn worth of US goods (92%). While these numbers give an impression that the tariffs imposed by the US on China will only affect Chinese exports, the impact is not so easy to isolate. According to the WTO and the World Bank, two in three products exported today come from the global value chains. In an integrated world order, trade flows no longer only involve two nations, i.e. an exporter and an importer. Most goods are a part of global value chains (GVC) where different stages of the production process such as manufacturing, assembling and trading happen in different countries, depending on the comparative advantage of each nation. The manufacture of a mobile phone, for example, involves the participation of around 10 countries.

Analysis using data on gross exports or imports fails to account for the presence of GVCs. The value of gross exports or imports is shared by a number of countries that were involved in even one stage of the production process. Thus, it becomes worthwhile to examine the actual losers and gainers. A tool that can help is the World Input Output Database (WIOD). It is a compilation of tables for 43 countries that constitute 85% of the world's GDP. It includes a table for each country that reflects how much of each commodity is produced and further used by each of the 35 industries as an intermediate good. For example, we can estimate 'how many dollars of Belgian fabricated metal products are used by the French transport equipment industry'. These tables provide a description of the interdependent nature of production processes and how these interdependencies manifest themselves into global trade flows.

Consider the example of US imports of electrical machinery and food products manufactured by China. These two were amongst the major imports of the US in 2018. Since the latest data for WIOD is for 2014, we try to evaluate the value added by China in its exports of the above two items. While the total gross output of electrical machinery and equipment was valued at $1,186.4 billion in 2014, intermediate consumption was $920.521 billion (77.58%). So, the domestic value added by China in exports of electrical machinery to the US was a paltry 22%. Similarly, in the case of food products (processed fruit and vegetables, snack foods, spices), the total value of output was $1,807.71 billion, of which only 23% of the value in production was added by Chinese factors of production. Although it has been documented that the domestic value added in Chinese exports has seen an upward trend, a considerable share of raw materials is still imported from other countries.

Similarly, soybean was the largest US agri-export to China. But with the trade war, China has temporarily paused its purchase of soybean from the US. While the total value of production of 'Manufacture of food products and beverages' (the category in which soybean falls into) was $970.3 bn for the US, the value added by American capital and labour was only $245.01 bn (25.2%). This indicates that whatever tariff is imposed by China on the US (as tariffs range from 5-25%), the net impact on the US will only be on about 25% of the value of production.

Thus, the conventional reporting of international trade overstates the impact of the tariff war on exporting and importing nations. This analysis, therefore, suggests that a move such as the ongoing tariff retaliation by the US and China needs to be more seriously evaluated by the two nations, given the globalised nature of trade. While the direct losers in the trade war are the consumers in the US and China, along with the sectors that are facing retaliatory tariffs from the other country on account of rising production costs, the impact of the tariffs on other nations (transmitted because of GVCs) should also be considered. Also, an evaluation based on individual commodities or products should be undertaken since WIOD only evaluates trade flows based on broad categories of goods and services.

AGRICULTURAL PRICE SUPPORT

Needs an economic alternative

Amalgamate farm support policy with institutional partnerships to reach out to all farmers

V SHUNMUGAM & TULSI LINGAREDDY

Authors are head, Research, and senior analyst, respectively, at MCX. Views are personal

INDIA'S AGRICULTURAL PRICE support programme has lost its relevance without providing any significant benefit to the farming community, and only adding to the fiscal burden as the cost of procurement and storage of crop produce stood close to 1% of GDP for FY20 while covering select economically significant crops in selected geography. Despite the existence of floor-price-based support for over four decades, farm distress has not declined but has increased, as more and more farmers are becoming debt-ridden and are unable to get remunerative prices for their produce. Also, there have been increasing loan waivers by various state governments in recent years, adding to the fiscal burden without addressing the problem of lower incomes associated with distress sale of crops. So, there is a need for finding a strategic solution to ensure remunerative prices for farmers without distorting markets and disturbing India's fiscal math.

Agricultural support policies are common in developing as well as developed countries, to enable growers to overcome the distress arising from natural calamities and market failures. India's price support policy was introduced in the mid-1970s, with an objective to encourage adoption of Green Revolution technology, and achieving self-sufficiency in foodgrains (rice and wheat) production. The policy was extended to 24 major crops by announcing MSP, but not fully supported by procurement, causing distortion of production and marketing system.

The policy has now lost its relevance as procurement was largely limited to rice and wheat confined to a few states. Support prices for other crops without the necessary infrastructure and logistics made it neither practically-feasible nor fiscally-viable to procure. Also, with increasing global integration of Indian markets and in view of the commitments under the WTO, it is time for Indian agri production and marketing practices to align with global best practices.

Some states have attempted to devise alternate methods to support farmers. The Bhavantar Bhugtan Yojana in MP and Rythu Bandhu in Telangana, though have some merit, are constrained by implementation issues such as estimation of price deficiency, exclusion of tenants from income support, etc, apart from contributing to fiscal burden.

So, it is essential to devise an alternate strategy that can be centrally implemented across all major crops in the country in an effective manner while containing fiscal burden.

Our analysis of price trends for six economically significant crops—rice, wheat, chana, tur, soybean and mustard (covering two markets in their major production areas)—indicates that prices gained a minimum of 10% in the first 3-4 months from their levels compared with the harvesting season in the past five years, except a few years. Occasionally, we witnessed prices in the harvesting period remaining relatively higher due to deficit production, due to drought, floods, pest attacks, etc. So, a practical solution appears to be seamless enablement of storage of crop produce for 3-4 months till the prices reach remunerative levels. Meanwhile, farmers in need of money shall be connected to commodity finance using electronic negotiable warehouse receipts (e-NWRs). The cost-benefit analysis, i.e. juxtaposing the costs of storage, handling and the cost of carry against the benefit from the average price gain during the past five years, indicated benefits exceeding costs.

The most practical alternate strategy with the least market interference can be connecting institutions in existence for provision of warehousing, issuance of e-NWRs and those providing commodity or e-NWR financing services either independently or under PPP. Support from the government to farmers can be in the form of supporting warehousing costs, enhancing availability of regulated warehouses, and underwriting any losses that may occur to financiers under pre-decided scenarios. Another option shall be to connect e-NWRs issued to farmers to their Kisan Credit Cards. With this model, the subsidy burden can be contained, while covering most of the crops grown in the country, as it can reduce the costs of direct procurement, storage and handling of stocks, apart from reducing fiscal burden arising out of market interventions. The historic price trends and cost-benefit analysis suggest that the model can be successfully implemented with certain prerequisites.

First, the creation of adequate logistical support in the form of storage spaces and infrastructure facilities for assaying, handling, quality standardisation, etc. Third-party agencies such as FPOs can create storage spaces and infrastructure facilities. One such recent PPP initiative has been to create infrastructure for storage of soybean and pulses in Latur, Maharashtra, by MAHA-FPC in partnership with the Maharashtra Industrial Development Corporation. Towards this, NABARD has been providing support through financial schemes. It is also essential to connect them to the Warehousing Development and Regulatory Authority and hence electronic commodity repositories to connect farmers with finance.

Another requirement is the establishment of an efficient agricultural market information system, which can provide reliable and timely information on demand, supply and prices of agricultural commodities that can be disseminated at the ground level. While technological advancements have enabled timely forecasting of crop output estimates, a reliable system for providing timely demand estimates for all major crops is essential not only for tracking price behaviour, but also for making crucial crop production decisions. This will enable farmers to grow crops that are economic and cost-effective.

Another reason farmers are not getting remunerative prices is the lack of awareness and poor agronomic practices affecting the quality standards of their produce. Suboptimal quality standards weigh down Indian agricultural exports in case there is an economic opportunity at times of glut.

In this regard, derivatives markets can play a major role not only by connecting institutions and agencies providing services like storage, quality standardisation, logistics and finance, but also by disseminating real-time price information, bringing transparency to the agricultural marketing system. Policymakers have taken a number of initiatives bearing substantial fiscal burden to raise farmers' incomes. It's time to take strategic measures to amalgamate the farm support policy with institutional partnerships to reach out to all the farmers without disrupting the crop production and marketing system. The income support already provided by the government may be mandated to be used as investment for diversification through allied activates like apiculture, sericulture, livestock rearing, etc, thus helping achieve the objective of doubling farmers' incomes.