Opinion

SATURDAY, JUNE 22, 2019

ON REDUCING CRIME

Chief minister of UP, Yogi Adityanath

“Statistics are not a parameter for crime control. The actual standard is the faith of people, and we have to prove ourselves on this front”

Double farm incomes by investments, not subsidies

WTO scrutiny will prevent a big hike in farm subsidies by govt, but fixing markets is a far more efficient solution anyway

IF ANYONE THOUGHT the government could double farmers' income by 2022—a Narendra Modi promise—by a sharp hike in farm subsidies or in PM Kisan-type income transfer schemes, they just need to look at the global reaction to the government's plan to spend ₹25 lakh crore on agriculture and rural development to know this is impossible. As FE reported a few days ago, after the government announced its ₹25-lakh-cr plan, a host of countries have begun asking whether or not this will affect India's WTO commitments that put a cap on how much farm support the government can give. Since the WTO principle is that government policy shouldn't distort export markets, the US has, for instance, asked what step India is taking to ensure its large wheat stocks won't distort global markets. Thanks to the high MSPs fixed by the government, FCI accumulates stocks far in excess of what is needed and, in order to clear them, FCI usually sells them at a discount later; to the extent the stock is bought by traders who export it, this gets counted as distorting export markets through subsidies. Right now, India has breached WTO norms of 10% subsidy/support in crops like wheat and rice. It is true, as Icrier professors Anwarul Hoda and Ashok Gulati point out, that the WTO is not taking into account inflation since the agreement was signed—once this is done, India's support levels fall dramatically, from 26%, in the case of rice, to 2.9% *(bit.ly/2XiVNgL)*, but till the WTO accepts India's interpretation, the argument is moot.

Fortunately, increasing subsidies—such as those on MSP-based procurement—is not the only way to boost farmer income, and that is why Modi's ₹25 lakh crore plan can coexist with India's WTO commitments. Public capital formation in agriculture fell from 3.9% of agri-GDP in 1980-81 to 2.2% in 2014-15, before recovering a bit to 2.6% in 2015-16 while, at the same time, input subsidies rose from 2.8% to 8%. So, if Modi were to switch expenditure from subsidies towards investment, that would help raise farmer incomes while not affecting the WTO equation. According to Gulati, every rupee spent on agricultural R&D adds ₹11.2 to agriculture GDP while the same amount spent on roads adds a much smaller ₹1.1; and just 88 paise gets added if the money is spent on fertiliser subsidy. That means if the government spends on R&D and on roads instead of on various input subsidies, doubling farmers' income while staying WTO-compliant will not prove difficult since such spending is in the 'GreenBox'. And while India hardly has much of a government R&D budget, a friendly policy towards seedtech firms like Monsanto, as opposed to today's outright hostility, would boost productivity without any extra government investment.

And, according to an ICRIER-OECD study on agricultural policies in India, by not allowing farmers to get global prices, India taxed its farmers by 14% (of gross farm receipts) for the years 2000-01 to 2016-17. For the entire period, that means farmers lost ₹45 lakh crore (at 2017-18 prices), or around ₹2.6 lakh crore per year. While this is why Modi has been trying to push the pan-India electronic or eNAM market, it has not been successful; but were a successful attempt to be made, farmers can get 10-14% more income right away. The other advantage of supporting farmers the smart way is that if, for instance, subsidies aren't given on water and electricity—and MSP not used to dictate what farmers grow—this will also ensure farmers don't grow the wrong crop; as a result, with less damage to the soil, overall productivity will rise. Agriculture reform is a big agenda item for the government, and, if is done right, the impact on farmers and the economy will be huge.

Not learning the right lessons

Higher education regulations still anchored to outdated norms

MODI 1.0 WASTED the opportunity to reform higher education regulation in the country. To be sure, it did introduce the Higher Education Commission (HECI) Bill in June last year, which talked of ending the the failed University Grants Commission (UGC)/All India Council for Technical Education (AICTE) system and replace it with the HECI. But, it did precious little after. The draft National Education Policy (NEP) that has recently been put up for public feedback proposes a different regulatory ecosystem. It advises reforms, but these aren't bold enough. And some recommendations steer higher education regulation into dangerous terrain. There is also the problem of the time it foresees will be consumed—5-7 years—in shifting from the existing regulatory set-up to the one it proposes; India simply can't wait as long, with, say, a China that lagged in world-class higher education infrastructure and delivery having since caught up and shot past.

The ethos, as worded by the draft's authors, seems to be "light but tight" regulation—meaning rigorous and effective regulation in certain areas but much greater autonomy for higher education institutions in others. It envisages a National Higher Education Regulatory Authority (NHERA) that will be the sole regulator for all fields of higher education, including professional and vocational education. The ecosystem, as per the NEP, must consist of NHERA and separate bodies for funding, standard-setting, outlining educational outcomes and accreditation. The license to operate universities will be given by NHERA based on meeting the standards set by these independent bodies. All higher education institutions, thus, will have the autonomy to decide on matters that should have always been in their purview—from opening new departments/programmes to foreign collaborations and distance learning. This is a change from the earlier regime, beset with unwieldy centralisation of almost all regulatory functions under the UGC system, and regulatory overlap between, say, UGC and AICTE; while this system had a lot of inspectors and regulation, it failed to achieve the higher standards it was supposed to. While the system will be accreditation-based, and licences will be granted to some public and not-for-profit private institutions to function as the accreditation bodies, why not simply move to a system where students, parents, educationists and employers assess colleges in the manner markets do? The NEP acknowledges the role of public-opinion/market-forces, but outlines no path for incorporating this. Since the capabilities of existing colleges/universities are, in any case, well established, such a system will really have to deal only with the new entrants; over time, both old and new institutions will get ranked in this manner.

As Modi 2.0 looks at NEP to inspire its higher education regulation vision, it must also be careful to avoid the risk inherent in some recommendations. The NEP proposes to make the NHERA a quasi-judicial body, with powers to shut down, derecognise or penalise institutions. While the power to shut down would have served well in the case of a fly-by-night university/college set up to swindle unaware students and parents, the chances of an overreach will always remain. It would be just as effective if the regulator was to stick to derecognition of the institution—and publicise this widely—along with monetary penalties. After all, the NEP does talk about the regulatory system also functioning as a supplement to the "court of public opinion".

JobsPATH

A World Bank report on PMGSY shows rural roads have helped non-farm employment rise in three states

A RECENT WORLD BANK report highlights the job-creation potential of improving road connectivity to, and in, rural areas through the Pradhan Mantri Gram Sadak Yojana (PMGSY). Analysing relevant data between 2009 and 2017, the report states that non-farm employment in rural areas improved by 12 percentage points in the habitations studied in three states, Himachal Pradesh, Madhya Pradesh and Rajasthan, due to better road connectivity. Not only employment, the accessibility to schools and institutional deliveries have also increased.

The report, however, states that women are now more engaged in agrarian activities compared to earlier. This may indicate a disproportionate benefit to men in accessing non-farm jobs. Icrier's Ashok Gulati, in a book edited along with two Syngenta Foundation researchers, notes that while subsidies to agriculture have increased, government-funded capital formation in agriculture has slid. Given how every rupee spent on rural roads returns ₹1.1 to the agri-GDP, while the primary agri-subsidies add less than ₹1, there is a case for the government to look at long-term investments in roads, rural education, and agricultural research. The World Bank report is further evidence of this. At a time when job-creation is limping badly, the government must spend wisely, and move away from agri-subsidies to creation of infrastructure that supports rural growth.

NO PROOF REQUIRED

ARVIND SUBRAMANIAN'S METHOD OF ESTIMATING GDP SUGGESTS THAT GERMANY OVERESTIMATES THE MOST; BRAZIL UNDERESTIMATES GDP THE MOST—INDIA ONLY A MILD OUTLIER

Germany overestimating GDP the most

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RECENTLY MEASURED GDP statistics for India (and the world) suggest trouble. No mis-estimation here. Indian GDP growth has declined from 8.2% in 2Q2018 to 5.8% in 1Q2019—one of the largest three-quarter declines in the last 15 years—and if fiscal years 2009, 2010 and 2012 are excluded, it is the third worst decline.

In the recent debate over ex-CEA Arvind Subramanian's (AS) allegations that GDP growth in India was overestimated by an average 2.5% a year, many commentators have commended AS for his astuteness and bravery in making a much-needed and correct call over the "fudging" (there is no other word) of official GDP statistics in India. The argument goes as follows—motor vehicle sales down, two-wheeler inventory at highest levels ever, no private investment, animal spirits have disappeared; see, AS is right, GDP growth is being overstated. But, as just documented above, official GDP data is documenting the reality of GDP growth being way down.

The government also gets it. Every day, there is an announcement of concern and admission that the economy is in trouble. All eyes are rightly on the Budget to be presented on July 5. It is to be seen whether the finance minister Nirmala Sitharaman listens to the voices of "old" economists and bureaucrats who want to continue with business as usual, be concerned with the minutiae of the fiscal deficit, and ask for restraint on changing course on three world-records that India holds—highest real interest rates, highest effective corporate tax rates, and the worst labour laws.

The same "experts", bureaucratic or otherwise, asserting and demanding that international experts be called in to look at Indian statistics (because they are allegedly not capturing one of the worst domestic, and global, downturns!) also argue for restraint on any policy action, e.g., don't change policy rates, don't lower tax rates—indeed, raise them to gather more revenue to finance the increased fiscal deficit brought about by the slowing economy. It doesn't get any crazier.

But, maybe it does, in the form of AS's "academic" calculation that Indian GDP growth is being overstated since 2011. Before looking at this AS miscalculation, I must remind readers that AS was among the few (along with self!) who had the courage to point out that the MPC under Governor Urjit Patel was leading India on a downward growth spiral; that real policy rates in India needed to be 200 bps lower than where Patel's MPC had kept them. That was in June 2017; in June 2018, the Patel MPC was busy hiking rates and expecting growth (and inflation) to accelerate; a year later, Governor Shaktikanta Das's MPC has cut rates by 75 bps, but real rates, at 3%+, are where they have been for >2 years.

Real interest rates in India are high(est) because of three policy failures—failure of the finance ministry to reduce government-controlled deposit rates (e.g., on small savings); RBI's decision to keep repo rates high in the mistaken belief that there is an inflation dragon waiting to be slayed; and the policy makers' belief that capital markets, including well-capitalised NBFCs, must not be opened up to foreign investors.

GDP growth is low because of policy failures—true today as well as before. Hopefully, recognised by all. But, now to AS's allegation that Indian GDP between 2012 & 2017 had been mis-estimated and that the "actual" GDP growth in these years was as little as 3.5-5.5%, not the official 7%, i.e., an overestimation of 2.5% a year (7% – 4.5%).

I want to examine AS's hypothesis and results with the assumption/view that AS is entirely correct in his assumptions, and method of analysis. AS's assertions rests on three pillars:

Pillar 1: Growth in four real variables (exports, imports, credit and electricity-hereafter X variables) can more than adequately *proxy* real GDP growth for all non-oil exporting countries with population greater than 1 million;

Pillar 2: That, for all countries, the relationship is robust for two different time-periods; period I being 2001-2011 and period II being 2012-2017;

Pillar 3: *Only for India is there a problem with official GDP data*. Hence, AS's analysis is geared to examine how much Indian GDP in period II veered off the (AS) predicted path.

AS brings all his statistical acumen to confirm that the gap between actual and predicted GDP was as much as 2.5% and that this gap was statistically significant (i.e., could not have happened by chance). Since AS believes his model can proxy growth, he is broadly right in also *believing* that the "only" explanation for the gap between official and predicted GDP growth is that the former, *and not the latter*, is in error—fudged either by political masters, or incompetence of statistical authorities around the world that vetted India's GDP measurement, or both. I want to accept AS's method and conclusions, if only because the two of us were lonely warriors against the Patel MPC crusade against inflation and growth. For 89 countries, I relied on World Bank data for the four AS variables (as does AS). I successfully reproduced his estimate of 2.5% (baseline, column 1, page 11 of his paper, *India's GDP Mis-estimation...*).

When I first read AS's paper a week ago, I was struck by the absence of any discussion on the statistical possibility that his method could yield mis-estimation errors for other countries. He does have a throwaway line that there were four outlier countries (Cambodia, Tajikistan, Ireland and Ukraine) excluded from analysis, but no more. What is sauce for the goose is also sauce for the gander; utilising that truth, I decided to estimate the AS model for all 89 countries, i.e., estimated the gap between measured GDP and AS predicted GDP in period II.

Here is what I found. Out of 89 countries, for 46, the AS country dummy was not significant. For 22 of these 46, the individual country effect was negative, i.e., measured GDP was less than predicted GDP by an average 0.5 ppt; for the remaining 24 countries, measured GDP growth was above predicted growth by 0.4 ppt. The remaining 43 countries, with significant individual country effects, were almost equally divided between overestimation (1.7 ppt) and underestimation (1.8 ppt).

This last result is significant. There is equal overestimation and underestimation of GDP in the world (at least for 43 countries). AS is concerned with overestimation. There are 21 such countries, and Germany tops the list, i.e., according to AS, German (ECB take note) GDP data is being overestimated the most. AS (and his "intellectual" supporters) should train their statistical guns at Germany for systematically overestimating GDP by an average of 1.8 ppt a year in period II.

One final calculation. Reported GDP growth for Germany in period II was 1.3%; AS overestimation number, 1.8%; hence, excess GDP over reported GDP (ratio of 1.8 and 1.3) is 135%, the highest in the world. Number 8 is Bangladesh with an excess of 60%; India is 16th (out of 21 countries) with an excess magnitude of 38% (ratio of 2.5 and 6.7%).

The accompanying table also reports the excess magnitude, etc, calculation for several other countries. For example, reported GDP growth in Brazil was –0.4%; AS method suggests that Brazil growth is underestimated by as much as 3%; Jamaica has a positive average growth in period II of 0.6% and AS deems it to have underestimated growth each year by 2.4%. Maybe, a happiness index can be constructed on the basis of the AS methodology, rather than a GDP mis-estimate. One strong result—Brazilians are a lot happier than the Portuguese; and Jamaicans are the happiest. I would have believed that if the West Indies were doing well in the World Cup.

Mis-estimating GDP

Country 1	Rank 2	Rank (all) 3	Country coeff (%) 4	Growth (%) 2012-16 5	Excess (%) Selected 6	Excess (%) All 7
Jamaica		1	-2.4	0.6		436.2
Germany	1	2	1.8	1.3	134.8	134.8
Hungary	3	8	2.2	2	107.8	107.8
Singapore		13	-2.8	3.2		85.8
United Kingdom	7	16	1.5	2.1	71.1	71.1
Botswana		17	-2.8	4.3		64.9
Bangladesh	8	18	3.8	6.3	60.4	60.4
Japan	11	23	0.6	1.2	47.8	47.8
Poland		26	-1	2.6		40.2
Australia	13	27	1.1	2.8	39.8	39.8
India	16	31	2.5	6.7	37.5	37.5
Czech Republic	18	37	0.6	1.8	31.5	31.5
Turkey	20	47	1.3	5.4	24.5	24.5
Hong Kong SAR		48	-0.6	2.4		23.3
Israel	21	49	0.7	3.3	21.4	21.4
Mexico		50	0.5	2.5		20.6
South Africa		51	-0.3	1.6		19.8
United States		55	0.4	2.1		17.5
Uruguay		56	-0.4	2.6		15.4
Indonesia		82	0.1	5.2		1.1
Finland		87	-0.4	-0.2		-210
Portugal		88	0.9	-0.2		-443.7
Brazil		89	-3	-0.4		-694

Source: World Bank data used as in Arvind Subramanian (AS) article

Column 2 refers to rank for overestimation countries with statistically significant overestimation, Column 3 refers to rank for all countries, Column 4 is the country coefficient as estimated according to AS paper, Column 5 is GDP growth, 2012-2016, Column 6 is excess growth (ratio of column 4 to column 3) for overestimation countries, Column 6 and 7 is excess growth (ratio of column 4 to column 5) for all countries

The case for a financial transaction tax

It would favour longer-term investors over speculators and put a little useful resistance into the financial system

MICHAEL EDESESS
Bloomberg

It is a good conservative principle that where possible, the government should recover the cost of its services from the people who use them, rather than from taxpayers at large. It is also pretty uncontroversial that the government must oversee financial markets, to ensure that they are free and fair.

It, thus, makes sense that the government should charge a user fee for financial transactions. So why has the idea—as proposed by various politicians, including presidential candidate Bernie Sanders, Senator Brian Schatz and Representative Peter DeFazio—encountered so much opposition? It is not as if this were radical socialism. Hong Kong, rated the world's freest economy by the Heritage Foundation, has had a 0.1% tax on financial transactions for years. The levy has had no discernible negative effect on its economy, though it might be responsible for a relative lack of high-frequency trading. Many other countries have financial transaction taxes, including the UK, Switzerland and Taiwan.

Opponents of the tax offer two main arguments. First, they say the burden will fall mostly on small investors. Second, they say it will undermine the ease of buying and selling—or liquidity—that makes US markets so attractive, and impair those markets' ability to determine the proper prices of securities. Let's examine the first claim. The idea is that regular folks mostly invest through mutual funds, which trade a lot and hence will get hit hard by the tax. Specifically, in a letter to legislators, the Investment Company Institute estimated that the tax would impose a 60% average cost increase on investors in equity index funds.

That calculation is specious at best. It implies, for example, that the typical investor holds an index fund for less than six years. According to the ICI, this is based on purchase and sale data from 2018—a year in which the funds experienced large redemptions from retiring baby boomers and vast inflows from investors looking to reduce their fees.

Actually, people who invest in index funds for retirement tend to be long-term buy-and-hold investors. An investment at age 35 might be withdrawn at 65, which suggests a holding period of about 30 years—or even longer, if the money is funding a bequest. Given that horizon, the average tax per year is less than a hundredth of 1%, which would increase the typical index-fund fee by only 8%. The tax on the funds' own trading might add a little to this, not much.

What about liquidity? True, the tax would put the brakes on the high-frequency outfits, proprietary traders and hedge funds whose chief mission is to profit via swarms of lightning trades at the expense of slower-moving "whales" such as MFs and pension funds. But that should be good for retail investors, on whose behalf the latter institutions are supposed to be investing. It should also be good for markets, reducing the threat of high-frequency algorithms gone wrong causing a systemic crisis—as they almost did in the "flash crash" of 2010.

All told, the benefits of a tax on trading far outweigh the costs. It would generate much-needed revenue. It would favour longer-term investors over speculators. It would put a little useful resistance into the financial system, preventing it from overheating or spinning out of control. And it would pass the fairness test by placing the cost of running the system on the people who use it most.

So why do the tax's opponents—mostly from investment management—make mountains out of molehills, exaggerating its burdens and dangers? It is hard not to conclude that they're really trying to protect their already ample profits against any and all constraints. That's completely understandable, but a terrible foundation for making policy.

LETTERS TO THE EDITOR

Clarification

This is with reference to our editorial StandFIRM on Friday where we castigated the US for advising the Indian government not to take firm action against audit firm Deloitte by arguing that this would affect US investment into India. As the editorial mentioned, this was based on a Business Standard news story which said this was discussed in a meeting between the US Ambassador Kenneth Juster and Deloitte global CEO Punit Renjen. Business Standard subsequently withdrew the story since the US Ambassador never met the Deloitte chief and was, in fact, not even in the country when the reported meeting is supposed to have taken place. We have since learned, the US hasn't taken up the issue with the Indian government either. While we retain our view on Deloitte not having done justice to its audit, we withdraw our comments on the US government and apologise for this.
— Managing Editor

Simultaneous elections

Synchronised Lok Sabha and Assembly elections are anti-federal and strike at the roots of the parliamentary democratic system.
— K.V. Seetharamaiah, Hassan

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One of the key factors behind China withdrawing is Taiwan, what with China still hopeful and dangling the reunification carrot. By suspending the extradition Bill, China indicated its willingness to give the people of Hong Kong a listen, somewhat attest to the 'one country, two systems' rhetoric, and address Taiwan's increasing misgivings about reunification

Why did China back down in Hong Kong?

AN EXTRADITION BILL that made an allowance for the extradition of criminals in Hong Kong (and those criminals who passed by the city) to mainland China sparked off large-scale mass protests in Hong Kong, a Special Administrative Region (SAR) of China. In the face of the Bill, a million (some estimates say 2 million) people took to the streets. In a surprise move, not only was the Bill suspended, but also the Beijing-backed Chief Executive of Hong Kong, Carrie Lam, apologised twice over. Why did China, the quintessential 'strongman', back down in Hong Kong?

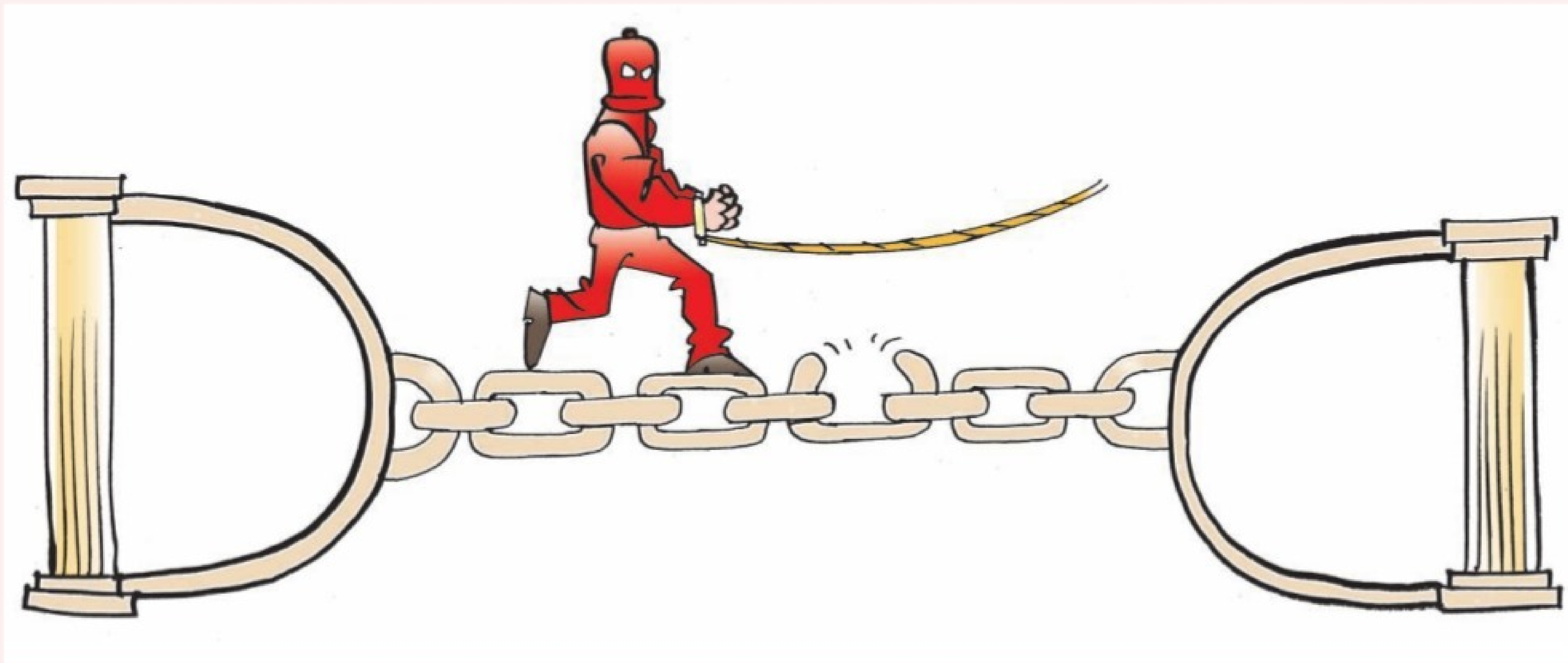

ILLUSTRATION: ROHNIT PHORE

The protests were hardly unexpected, given that the Bill could criminalise dissenters and opposition, subsuming them under China's opaque 'rule of law'. Disturbingly, the press has reported instances of miscarriage of justice, where China's capital punishment system has erroneously executed suspects. This includes the case of Nie Shubin, a 21-year-old man convicted of rape (in 1995), who turned out to be innocent after he had been executed. The abduction and disappearance of publishers in Hong Kong (in 2015), including ones who published 'grapevine' stories of money and mistresses of high-ranking Communist Party officials, and abduction of a Chinese tycoon (in 2017) from the Four Seasons hotel, had taken Hong Kong by surprise.

China backing down has to do with several factors. For one, the sheer magnitude, scale and demographic profile of the protesters—without a leader—was an eye-opener of sorts, even to Beijing. In terms of numbers, 1 million protesters translated as one in seven (Hong Kong's population is 7.4 million), a scathing statistic, given that the city has an estimated 3.8 million registered voters. Even after the Bill was suspended, an estimated 2 million (according to Hong Kong's Civil Human Rights Front) took to the streets, demanding Lam's resignation.

China is cognisant of the fact that while previous decades of civil disobedience in Hong Kong witnessed a large turnout of teenage students and the middle class, the recent protests suggest participation by sizeable numbers of the upper middle class and the elite. *The Economist* magazine called the protests an "organic movement, backed by local lawyers, priests, scholars and business lobbies *that usually shun politics*" (italics, author). It appears that the protest is greater than the sum of numbers may suggest, with representation across the demographic profile, where masses and classes, young and old, have come in unison.

ANURAG VISWANATH

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That the protest went beyond the extradition Bill was more than evident to China. If anything, the extradition Bill was the proverbial "spark that lit up the prairie fire." The undercurrent against China's tightening political and economic grip in the last decades snowballed into the protest. Since 1997, when Hong Kong reverted to China as semi-autonomous with defence and foreign policy under China's purview (but free speech and press), there has been a build-up of grievances.

In these two decades, Hong Kong, the 'pearl of the orient', has been displaced by a slew of brash new and old rich Chinese cities that have reinvented themselves. Although Hong Kong hosts the world's fourth-largest stock market and an estimated 1,300 global firms are headquartered here, Hong Kong is losing its edge. Shenzhen and Shanghai, Tianjin and Beijing are no less dynamic, the newfangled, millennial version of Hong Kong—or at least in the making. Hong Kong, straining with limited land resources, old-style 'matchbox housing' and increasing dependence on China, is increasingly viewed even by the average Chinese mainlander as an average Chinese mainland city.

Among several critical issues at stake that Hongkongers want to be addressed includes universal suffrage (one man, one vote) to elect the Chief Executive (currently elected by the Election Committee; Lam was elected by 777 votes out of 1,194). The Umbrella Movement that raised universal suffrage threw up student leaders such as Joshua Wong and Nathan Law, but the movement died out. But not before the student leaders pledged that they would be back. In that sense, the 'We Are Back' resounding in Hong Kong streets today holds water.

Also, China cannot be impervious to Hongkongers' increasing discomfort with China's Greater Bay Area—Guangdong-Hong Kong-Macau as an integrated hub—which portends that Hong Kong be viewed as a part and parcel of this area, a blow to Hong Kong's identity. And as much as China can take pride in stepping up connectivity to Hong Kong, this has come at a price. The Hong Kong-Shenzhen bullet train and Hong Kong-Zhuhai-Macau bridge brings Chinese mainlanders to Hong Kong. It also entices Hongkongers to move to the mainland with cheaper and better housing, offices, co-working spaces and career opportunities—all of which can take a toll on Hong Kong's identity.

Beijing's Liaison Office in the western district of Hong Kong headed by representative Wang Zhimin, who supports 'zero tolerance' and 'zero space' for independence advocacy, garners little respect, unlike the British sense of justice and fair play.

Finally, one of the key factors behind China withdrawing is Taiwan, what with China still hopeful and dangling the reunification carrot. By suspending the Bill, China indicated its willingness to give the people of Hong Kong a listen, somewhat attest to the 'one country, two systems' rhetoric, and address Taiwan's increasing misgivings about reunification. This was no mean climbdown for China, where nationalist fervour can reach a feverish pitch. One of China's bestsellers, 'China Can Say No', honed China's glory and also believed that foreign (western) powers plot and prevent China from reaching its influence (read Hong Kong, Taiwan).

The protesters are in no mood for reconciliation. Perhaps China's missteps in Hong Kong have led to this, where China cannot but watch with dismay the candle of reunification flickering in the wind. As it is turns out, 'Hong Kong Can Say No'

The current scenario in Taiwan where presidential elections will be held in 2020 indicates the sheer precariousness of the China dream for reunification. President Tsai Ing-wen, who belongs to the pro-independence Democratic Progressive Party, and the one who strongly opposed the extradition Bill, has been approved as the candidate. As Tsai said, "This incident has made Taiwanese people feel that one country, two systems isn't feasible."

Even Terry Gou (founder, Foxconn Technology Group) who is seeking nomination as a candidate to challenge Tsai from the pro-China Kuomintang Party had to say on social media: "The one country, two systems practised in Hong Kong is a failure."

Going back to protesters, who have given time to the Hong Kong government to retract the extradition Bill or else strike, they are in no mood for reconciliation. Perhaps China's missteps in Hong Kong have led to this, where China cannot but watch with dismay that candle of reunification flickering in the wind. As it is turns out, 'Hong Kong Can Say No'.

DATA DRIVE

Budget maths

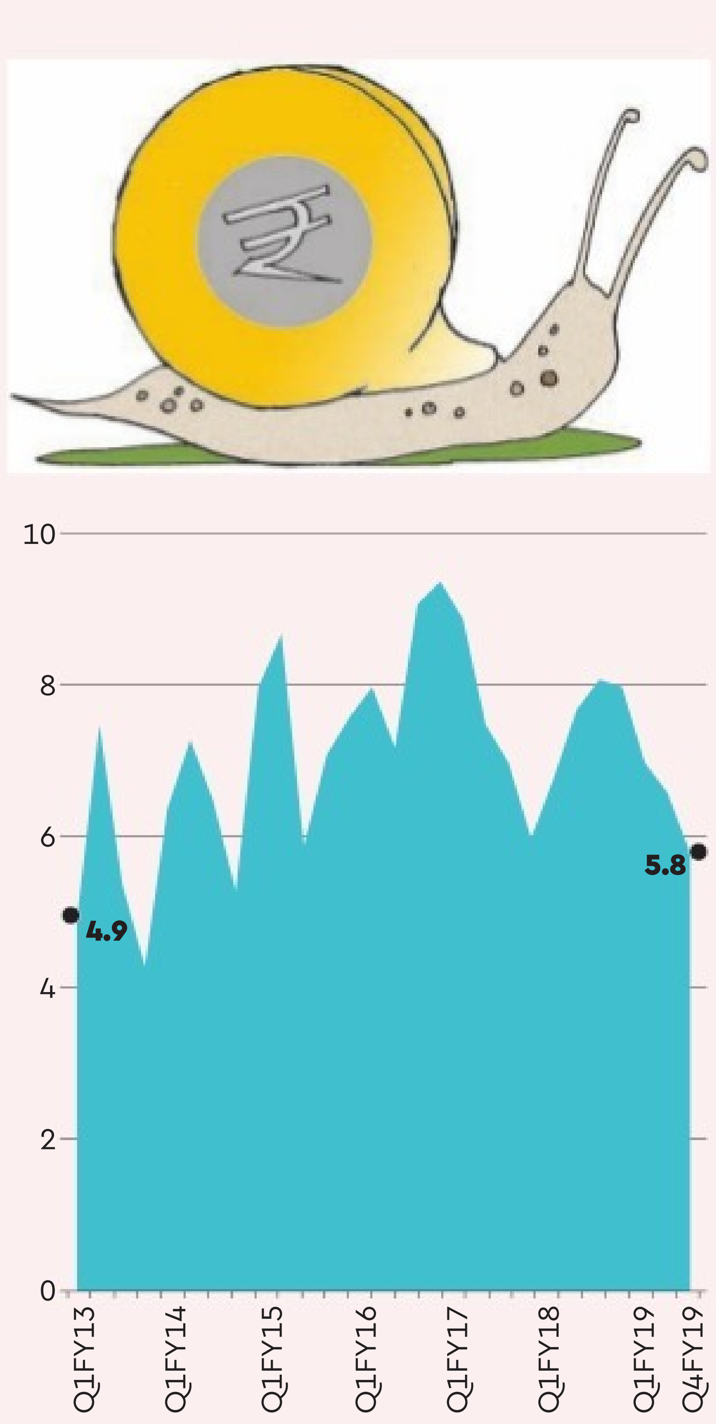
ON JULY 5, FINANCE minister Nirmala Sitharaman will present the first budget of the second term of Narendra Modi government against the backdrop of a sharp economic slowdown. In FY19, GDP growth has slipped to 6.8%, a five-year low, because of weak rural demand, slowdown in investment and impact of higher borrowing costs.

Aggregate demand is slowing down as rising rural distress has led to slowdown in private consumption, and households have gradually reduced consumption due to insufficient income growth. The growth in investment demand in the fourth quarter of fiscal 2019 has dropped to 30.7% of GDP, a eight-quarter low. Even household investment has reported a steep fall—from 15.7% of GDP in FY12 to 10.3% in FY18.

Given the fact that the overall tax collections grew just 8.4% y-o-y in FY19 as compared to 18.4% budgeted, and were later revised to 17.2%, the Centre will have to tone down the tax revenue target for this financial year. A sputtering economy cannot generate 23% growth in gross tax revenue as targeted in the interim budget, or a 34% growth in personal income tax. The Budget will have to do a balancing act to revive investment, increase farm productivity, drive consumption and keep the fiscal deficit under control.

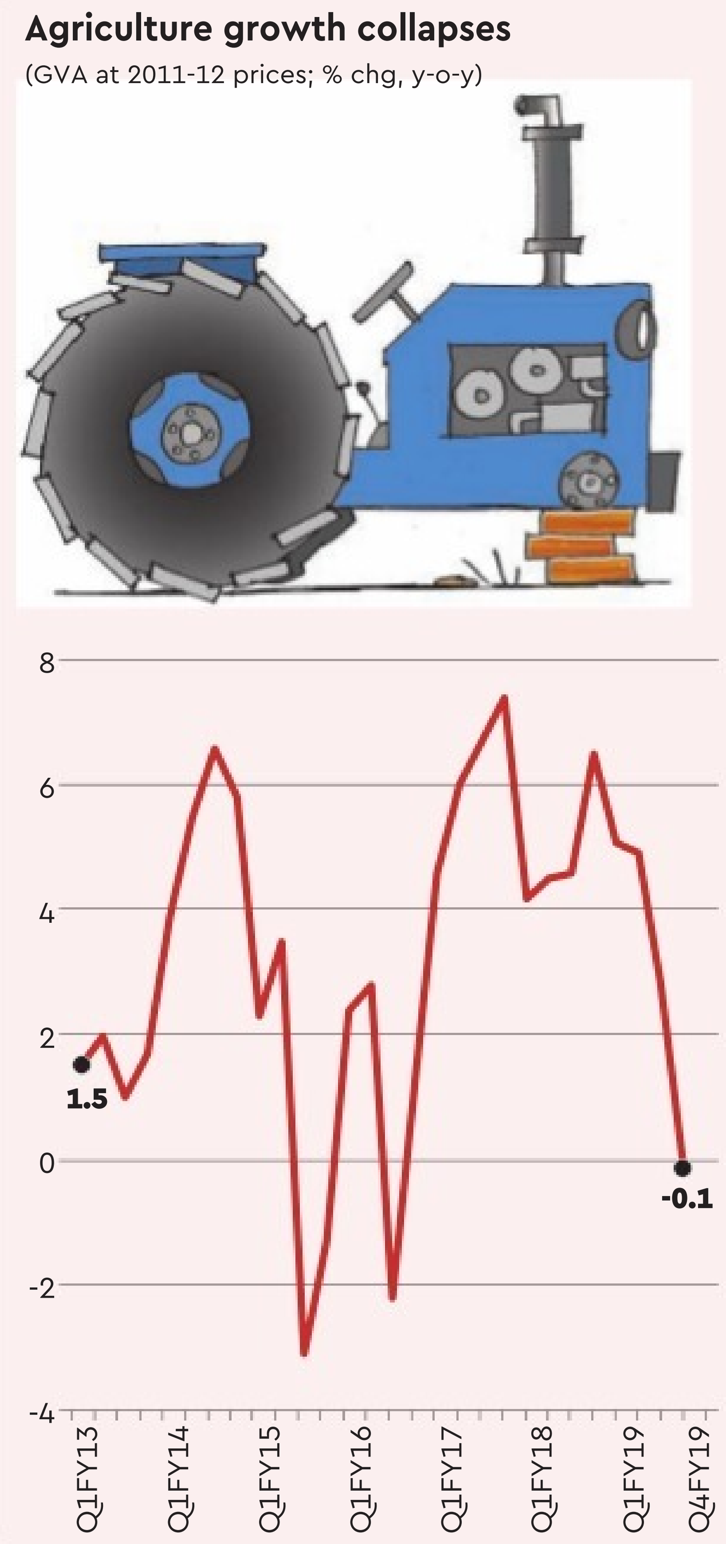
Economy is slowing

(GDP at 2011-12 prices; % chg, y-o-y)



Agriculture growth collapses

(GVA at 2011-12 prices; % chg, y-o-y)

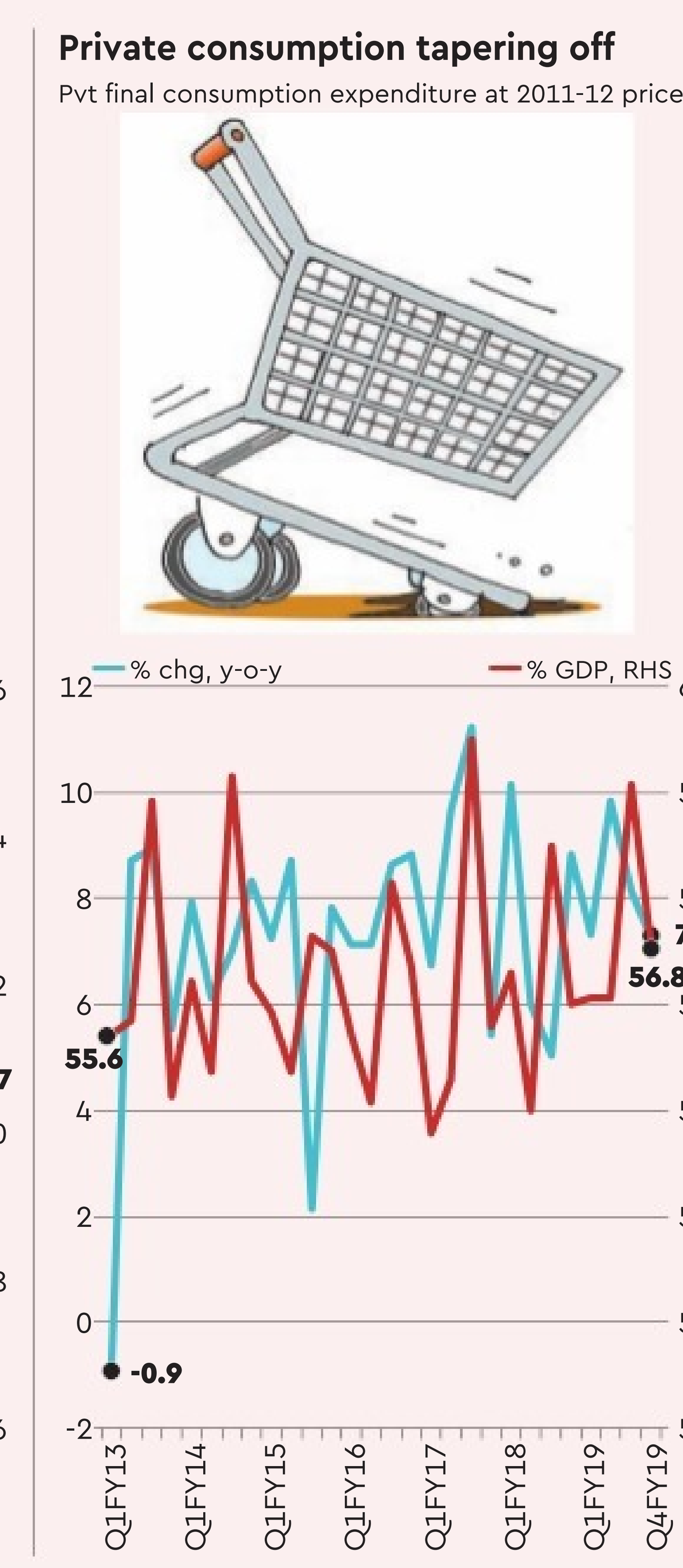


Investment weakens

Gross fixed capital formation at 2011-12 prices

Private consumption tapering off

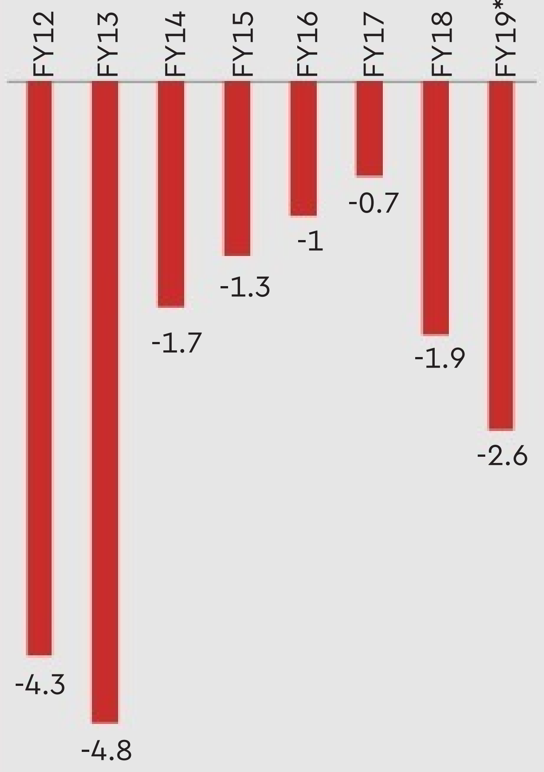
Pvt final consumption expenditure at 2011-12 prices



ILLUSTRATIONS: ROHNIT PHORE

Current account deficit rising

(% of GDP)

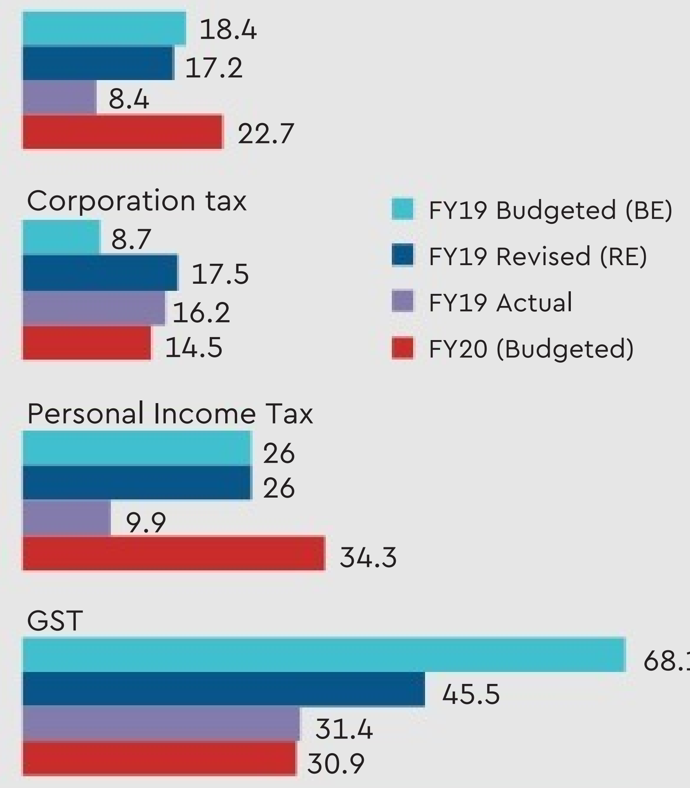


*Average of three quarters

Savings have declined over the past few years

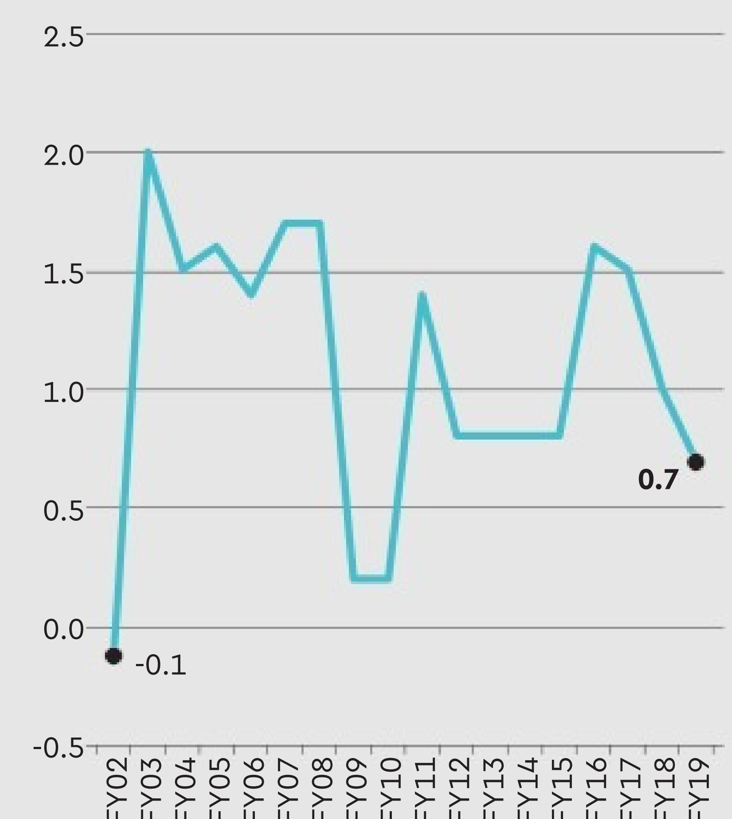
Tax collections fall short

% chg, y-o-y



Tax buoyancy drops to a 9-year low

(Gross tax revenue)



Tax-to-GDP ratio too, slips in FY19

(%)

Source: CSO, Budget documents, Income Tax department, CGA