Education in business suit

In the absence of a broad policy, courts have to step in to protect students

OUT OF COURT

M J ANTONY

This is the time when youth are frantically running for admission to professional colleges, making it almost an academic e-battlefield. Shortly, the scene will shift to the courts. This was going on for more than three decades. In 1989, the Supreme Court wrote that "Indian civilisation recognises education as one of the pious obligations of the human society. To establish and administer educational institutions is considered a religious and charitable object. Education in India has never been a commodity for sale." That was said when a private medical college in Bengaluru sought ₹60,000 as capitation fee from a girl candidate.

Times have changed so much that education has become crass business. The Supreme Court has gradually admitted this reality. Recent judgements talk about higher education as part of the right to carry on trade and business, not philanthropy. Politicians and entrepreneurs flaunt the number of professional colleges they own as their badge of eminence. Websites advise you how to start a million-dollar education business in 10 steps. As a result, courts are flooded with petitions challenging the admission practices of various universities and colleges. Two judgements of the Supreme Court, delivered by vacation benches last week, are warnings of litigation yet to come once the admission season is over and the courts reopen after the summer vacation.

The most serious and recurring issue before the courts is the quality of medical and engineering colleges. The regulators grant recognition to substandard or 'shell' colleges; the managements are said to collect up to ₹1 crore for a full course; they admit more than the permitted number of students. This breeds rampant corruption. Last week, the chief justice of India wrote to the prime minister to remove a judge of the Allahabad High Court for granting recognition to ineligible medical colleges.

Though the judgements on professional colleges are in scores, they are not consistent and the orders are ad hoc, solving only the problem of that season for particular institutions. Therefore, more petitions are filed citing earlier orders and seeking clarification of the previous ones. Clarificatory orders telescope back decades and are a rich harvest for lawyers.

Students who get admission in low-grade colleges often take a calculated risk. Their continuance in the course is a matter of chance. In some cases, the Supreme Court has allowed them to complete the course but in some others, the managements have been told to return huge amounts as compensation. In last week's judgement in the case, *Foundation for School of Management vs AICTE*, the educational institution sought more seats but permission was not given. Despite that, the college admitted students far in excess of the sanctioned seats. The management then moved court for approval of the excess seats on the ground of investments already made and shortage of doctors. The court initially directed it to deposit ₹4 crore. AICTE on its part imposed ₹23 crore as penalty for flouting its policy. The court approved of it stating that the college had illegally admitted excess students endangering their careers. In fact, the college was "let off lightly when more stringent punishments were available." Showing mercy to the affected students, they were allowed to complete the course and take the degree.

In the second case, *Education Promotion Society vs Union of India*, the umbrella body of professional colleges sought more time to carry out counselling as many seats are lying vacant. The court observed that there was no consistency in fixing the schedule for admissions and such irregularities were being exploited by many private managements. They admit undeserved students and charge high fees. The court ruled that if some seats remained vacant, it could not be helped.

It would take iron will for the new government to bring order in higher professional education. It is bound to face immense pressure because the tainted money raised through the business of education is one of the tributaries flowing into politics and the electoral process. Courts can only adjudicate disputes over admissions and recognition of institutions, but it is for the government to lay down a comprehensive policy and oversee its implementation.

Low expectations at the global high table

India's agenda could be limited by the US-China trade war and advanced countries' reluctance to tax digital imports

SUBHOMOY BHATTACHARJEE

ILLUSTRATION BY BINAY SINHA

India had plenty to put on the table at the Osaka summit of the heads of state of G20 nations on June 28 and 29. But the overarching reach of US-China trade war and a clubbing of agendas could limit the gains for New Delhi.

The US-China trade war, which is assuming a scale comparable to the global financial crisis of 2008 that led to the creation of the G20, will dominate the talks. *Euromonitor* estimates that in 2008 about $3 trillion was shaved off global GDP by the financial meltdown. A Bloomberg estimate notes that "global GDP will take a $600 billion hit in 2021, the year of peak impact" as a result of the current trade meltdown.

TAKE TWO

Either way, the ranks of sceptics who had questioned the G20's role, are thinning. G20 seems the only forum where Donald Trump and Xi Jinping will meet face to face as equals instead of letting their aides fight. Osaka could, therefore, be remembered for decades as the summit where they made peace or set the world on a disastrous economic path.

The G20, as former Indian sherpa and now central bank Governor Shaktikanta Das has noted, remains the only forum to provide the broad global political directions that would not have been available otherwise. "All the stakeholders from the multilateral organisations sit around the table with the country leaders at the G20 meeting and that helps to single out concerns," he said in a chat with *Business Standard* in December last year (*https://mybs.in/2VsGSrl*). And it is how these meetings are arranged that often decides what finally gets said.

In the run up to the leaders' meet, India's major concerns are a throwback to its World Trade Organization (WTO) agenda. It is in the linkage between trade and the digital economy that it has difficult domestic constituencies to please. For the first time the meeting of trade ministers was clubbed with that of digital economy by the Japanese, which holds the presidency for this summit. The clubbing demonstrates the overpowering presence of digital issues in global trade talks, which India is most reluctant to hyphenate. So although the G20 finance ministers meeting at Fukuoka in Japan on June 8, saw India with countries like Indonesia secure an international commitment to finally tax imports of digital business, it has secured a less-than-clear commitment on data protection at the joint meeting of commerce ministers at Tsukuba on the same date.

The former set have agreed that rules for taxing global trade in e-commerce would be settled by 2020. This is important, since from May 1998 India has been part of a WTO Declaration on global electronic commerce that states that countries will extend the practice of not imposing customs duties on electronic transmissions. It essentially set a moratorium that is at risk of turning into a permanent agreement. There are conflicting reports from the WTO and UN Conference on Trade and Development (Unctad) about the extent of possible revenue that countries forego by not taxing electronic trade. One puts it $756 million, the other at over $8 billion. But both agree that over 90 per cent of this tariff revenue loss is borne by developing countries. India has also claimed that one reason it cannot reduce domestic GST rates is to compensate for customs revenues foregone.

On data protection, India is likely to get more muted support at Osaka. The issues here are as follows. Who owns data — a nation or the global commons? In February 2019, the India government released a draft national e-commerce policy with links to flagship schemes such as Make in India, Digital India, Skill India, Smart Cities and Startup India. The strategy includes measures on data localisation to ensure local or sovereign ownership and control of data generated within the country with mandatory disclosure of source code by companies. This essentially means if two Indians share data on a mobile app that is developed by a foreign company, the India government will have the rights to the technology to develop the app (this includes sharing source codes).

Japan takes the polar opposite position that disclosure of trade secrets, including source codes and proprietary algorithms, as well as mandatory introduction of particular technologies including encryption technology by a government should be prohibited.

Taking advantage of the clubbing of the trade agenda with that of digital economy, the final statement of the G20 commerce ministers at Tsukuba slips in plenty of reference to the concept of free data flow, which inclines favourably towards the Japanese position. "Cross-border flow of data, information, ideas and knowledge generates higher productivity, greater innovation, and improved sustainable development. At the same time, we recognise that the free flow of data raises certain challenges...Interoperable standards, frameworks and regulatory cooperation can help in this regard".

It is quite a step forward from the Buenos Aires digital ministers' meet last year on November 30 and December 1 where the reference to "cross border" was only in the appendix to the main statement. Given this lay of the land, the endorsement of India's data localisation agenda could come with clear riders in the G20 final communique.

CHINESE WHISPERS

Taking voter soundings

With bitterness between the Bharatiya Janata Party (BJP) and the Trinamool Congress (TMC), especially between West Bengal Chief Minister Mamata Banerjee and Prime Minister Narendra Modi, being very great, a move by the TMC may further stoke the fire. It is learnt that some prominent traffic crossings and public places in Kolkata have started broadcasting Banerjee's speeches in which she is critical of Modi. Such screens have been placed near the Dakshineswar, Sonagachi and Hazra crossings, areas in which a significant proportion of the lower income group, the traditional voter base of the party, resides. It is being done to gauge the erosion the BJP has caused in the TMC's vote bank in these areas. Sources suggest it could be the idea of an analyst Banerjee met recently.

Demanding godman

Self-styled godman Namdeo Das Tyagi, popularly known as Computer Baba, has hit the headlines once again. The Madhya Pradesh government has appointed him chairman of the Narmada River Trust. Just after his appointment, Tyagi asked for a chopper. The reason? "He will have to supervise the work being done on the Narmada." The state government was taken aback and refused to accede to his request. Now, Tyagi has asked for a room in the secretariat and a drone camera for keeping an eye on illegal sand mining in the Narmada and other rivers. This time his argument is that he needs modern *ashtra-shastra* (weaponry) to save the rivers.

No adjournment

If a member of Parliament dies, it is customary for the House which she or he was a member of to read an obituary reference to her or him and adjourn for the day. There have been exceptions to this and so was it on Tuesday. After the Bharatiya Janata Party's Rajya Sabha MP Madan Lal Saini passed away in New Delhi on Monday, it was thought the RS could adjourn for the day on Tuesday after the obituary reference to him. However, at a meeting of party leaders of the RS on Tuesday morning, Opposition leaders were informed that the RS would adjourn until 2 pm and then continue with its discussion on the motion of thanks on the President's address. It was argued that Saini had passed away in Delhi and therefore members could pay their respects to him by lunch time. Adjournment of an entire day would have delayed the PM's departure to Osaka in Japan to attend the G20 Summit. With the RS taking up the discussion after 2 pm on Tuesday, it has paved the way for the PM to reply in the Upper House on Wednesday afternoon. He replied to the motion in the Lok Sabha on Tuesday evening.

INSIGHT

Good bank, bad bank

This market driven model of tackling liquidity crises has successfully been implemented in several countries and can benefit the NBFC sector

DIVA JAIN

As the liquidity crunch continues unabated for India's non-banking financial corporations (NBFCs), a plethora of steps have been suggested by market participants and policy experts. These include extending special credit lines, tighter regulation, imposing liquidity ratios and access to depositor funding. While all these measures have some merit, it is critical to triangulate the root cause of the crisis before applying any of the above remedies to avoid a situation where the cure turns out to be more deadly than the disease.

That NBFCs have been operating like shadow banks and running an asset liability mismatch is well known and that this mismatch became problematic in the aftermath of the IL&FS crisis, has been discussed to death. But the question is why should the demise of a single large NBFC that took unnecessary risks and possibly indulged in fraudulent activities affect the liquidity for an entire sector. The answer lies in the economic interplay between insolvency and liquidity. While it is widely known that illiquidity can cause insolvency (Diamond-Dybvig model), it is less known that insolvency of a single large shadow bank can also cause illiquidity (Diamond and Rajan, NBER [2002]). This happens because expectations of investors change due to a prominent insolvency and they now doubt the quality of assets on the books of other NBFCs and refuse to roll over short term financing thereby leading to a liquidity crisis for the entire sector.

This is exactly what seems to have happened to the NBFC sector in the aftermath of IL&FS and DHFL incidents. The problem lies in the asset side of the NBFCs where investors who provided them with short term funds (largely Mutual Funds) have lost faith that has led to a flight of liquidity from the sector. Thus the root of the NBFC crisis lies in doubts about their solvency and not because, liquidity that was abundant for them till recently, has magically evaporated.

Most of the remedial measures that have been suggested miss this point. Solutions such as imposing liquidity ratios and tighter regulation are long term measures that will not alleviate the immediate liquidity concerns of NBFCs. Special credit lines and access to depositor funding, on the other hand, are designed to shore up the liability side of the NBFCs ignoring the fact that the crisis is emanating from a lack of confidence in the asset side. These measures would be like treating a life threatening disease with palliatives and will only lead to moral hazard with the potential of causing greater problems in the future. Although the Reserve Bank of India (RBI) did try to tackle the asset side by relaxing (somewhat) securitisation norms for NBFCs, this has had a limited salutary impact on the liquidity position of the NBFCs. This also suggests that all may not be well with the asset side of the NBFCs because under normal circumstances, good assets can be securitised and offloaded quickly to meet liquidity requirements.

Thankfully several precedents exist about tackling insolvency driven illiquidity in banking. The earliest example is from 1988 when Mellon Bank split itself into a "good" bank and a "bad" bank where the good bank held its valuable assets while the bad bank held assets whose quality was in doubt. Existing shareholders were issued new shares in both the banks and new debt was issued to support the bad bank separate from the good bank. This experiment was successful with creditors of the bad bank recovering their debt in full and initial investors in the bad bank accruing handsome returns as the value of "doubtful assets" recovered with time. A similar model was employed very successfully by Swedish regulators during the Swedish financial crisis of 1992. Ben Bernanke was also a vocal proponent of this model during the financial crisis of 2008-2009 as were prominent macroeconomists Paul Krugman and Brad DeLong. During the same period, Irish regulators used it successfully to repair their banking system as well. A somewhat similar scheme was employed in India to tackle the UTI crisis in 2002 when Indian regulators warehoused the guaranteed returns scheme, US 64, in SUUTI to insulate the mutual fund business of UTI from being dragged down by the guaranteed returns commitment of US 64 units.

There are several other examples of this model being used successfully to tackle insolvency driven liquidity crises. A key advantage of this model is that it is organic and market driven instead of being interventionist and loaded with "bail out" risk as the proposed liability side measures of NBFC rescue are. The doubtful assets are transferred to the bad bank at market value and are managed by specialists who have a mandate to maximise their recovery value for creditors. This has the dual effect of disinfecting balance sheets of all institutions by exposing them to the sunlight scrutiny of the market and completely removing any sort of ambiguity about asset quality thereby leading to a resuscitation of credit to the good banks and the overall economy.

Indian NBFCs are a critical conduit in the flow of credit to the real economy. They have increasingly played a stellar role in funding home/auto purchases and discretionary expenditure, all of which lie at the core of the economy and its growth. If some of these pipelines of credit (which is what shadow banks are) are rotten, the optimal solution is to separate them from those that are sound. Pumping more liquidity through liability side measures will only lead to a greater leakage and compound the shadow banking problem instead of allowing market forces to resolve it. Warren Buffet says that using short term financing for long term projects is like depending on the kindness of strangers. Since Indian NBFCs remain at the mercy of strangers in the short term, the RBI should focus on isolating bad assets and restoring the markets' kindness to beleaguered but sound NBFCs instead of becoming a kind but naive stranger by allowing all of them to access liquidity unconditionally.

The author is a "probabilist" who researches and writes on behavioral finance and economics

LETTERS

Unhealthy disruptions

This refers to "Viral Acharya's last day at RBI will be July 23" (June 25). The Reserve Bank of India Deputy Governor Viral Acharya is the third among those entrusted with management of the country's economy, quitting their posts before expiry of their terms, in past one year.

It started with Arvind Subramanian, former chief economic adviser, who put in his papers in June 2018, three months before his term was to expire at the end of September that year. The next was former governor Urjit Patel, who sought to be relieved in December 2018 though he still had nine months to go. Now, it is Acharya. Earlier, Raghuram Rajan had to go at 53 when his brief three-year term expired. He went on record saying he would have considered continuing, if an extension had been offered to him. Obviously, the authorities were either indifferent to his continuation or actually wanted him to go.

When the country is passing through a critical phase presently, politically and economically, economy is not growing at an adequate rate and unemployment is at an all-time high, it needs continuity in personnel entrusted with the management of the economy. Authorities may consider examining the causes underlying the ongoing frequent disruptions that are not healthy and not in the country's interest. Steps must be taken to ensure they don't occur any more.

R C Mody New Delhi

RBI needs independence

This refers to "Viral Acharya's last day at RBI will be July23" (June 25). It seems nobody should question the RBI's policy making as it will be taken as dissent against the government. The monetary policy committee dominated by outside members now is supreme and no arguments will stand against their decision. We have high expectations from the second term of the Modi government and are eagerly waiting to see the next steps that will be taken to ensure independence of the RBI in the long run.

Partha Sarathi Mukhopadhyay
Nagpur

A wise bird

The resignation of Deputy Governor Viral Acharya is not surprising. What, in fact, is surprising is it did not come months ago, with the exit of former governor Urjit Patel. Whether he was a dove or hawk will be debated by interested parties including the media, but Acharya would no doubt hold that he has been neither but a wise bird that chose what is good for the economy and the country.

C V Subbaraman Mysuru

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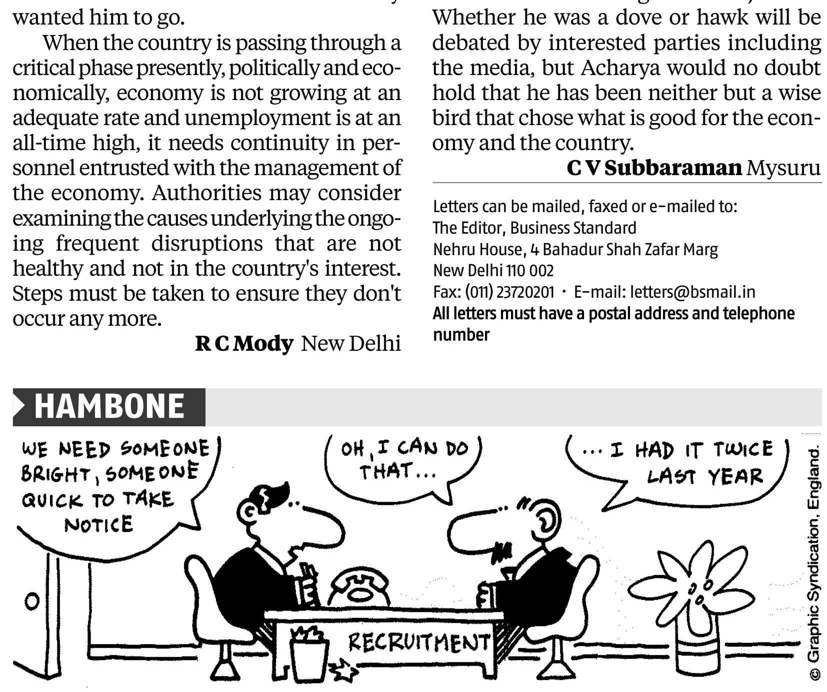
HAMBONE



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Relief for MSMEs

Plan to double collateral-free loans can, however, be a spoiler

A Reserve Bank of India (RBI) committee set up to look at the problems of domestic micro, small and medium enterprises (MSMEs) has suggested welcome measures, including creating a ₹5,000-crore stressed asset fund that could operate on the lines of the Textile [Upgrade] Fund Scheme. The committee also said instead of making MSMEs register with various authorities, the permanent account number (PAN) should be made sufficient for most of the activities and the focus should be on market facilitation and promoting ease of doing business for the sector. The committee suggested that to eliminate the delayed payments problems faced by MSMEs, which they also cannot take up legally because of low bargaining power, the MSME Development Act (MSMED Act) should be amended, requiring all MSMEs to mandatorily upload their invoices above an amount to an information utility. In another interesting suggestion, the panel has recommended a government-sponsored fund of ₹10,000 crore to support investment by venture capital and private equity funds investing in the MSME sector. The Small Industries Development Bank of India (Sidbi) should play the role of a facilitator to create such a platform. This is expected to help MSMEs that largely rely on informal sources for equity, which includes own saved funds and funding from family and friends.

The broad suggestions of the committee make ample sense because there is no doubt that the MSME sector needs help. An inequitable distribution of funds has been one of the most persistent problems that the economy has been facing. Too little of the capital is distributed to MSMEs, as commercial banks have considered them to be highly risky to lend. That is understandable because the RBI's latest Financial Stability Report itself highlighted concern with the growing number of loans that were going to small businesses. In 2017 and 2018, more and more loans had been given to MSMEs. The RBI report highlighted these loans and suggested that "such a sharp increase [in loans] may require examination of possible dilution of credit standards further and additions to supervisory strategy for PCA banks".

In that context, however, the panel's suggestion to double collateral-free loans to the segment, including for the Pradhan Mantri Mudra Yojana (PMMY) and Self-Help Group-based entities, can be risky, if accepted. Consider the Micro Units Development and Refinance Agency (Mudra) loans, where too many best practices in loan origination have been neglected while authorising and disbursing loans. Ensuring repayment has also been a challenge. The Mudra loans scheme is showing signs of becoming the next source of major non-performing assets (NPAs). Gross NPAs in the scheme reportedly went up by 69 per cent to ₹16,480.87 crore for the fiscal year ended March 2019 from ₹9,769 crore a year-ago. According to credit-rating agencies, the ratio of NPAs in the scheme is now being underestimated and may be between 10 and 15 per cent of advances. While the very nature of the business of borrowers under Mudra is susceptible to volatility and annual cycles, the surge in NPAs shows banks are not putting in efforts to monitor them to ensure timely repayment. It is noteworthy that private sector banks, which have generally been better at minimising NPAs, have not gone all in on such lending the way that public sector banks have. A hike in the collateral-free loans would hardly solve the problem.

Tearing hurry

EV move will backfire if the industry doesn't get transition time

The government's plan to ban sales of fossil fuel-driven two- and three-wheeler vehicles by 2025 could not have come at a more inopportune time. Sales of two-wheelers grew at a meagre 4.86 per cent in FY19, and the outlook for FY20 isn't very encouraging. At the same time, the industry is coping with the transformation to meet the Bharat Stage VI (BS-VI) emission regulations, which will come into effect on April 1, 2020. Against this backdrop, it isn't surprising that the NITI Aayog's two-week deadline to the industry to come up with a comprehensive plan for introducing electric vehicles (EVs) in the next five-odd years has been met with considerable scepticism. Industry leaders have questioned the urgency and have pointed out the increase in the cost of vehicles and inadequacy of the existing supply chain. Batteries, which constitute 40 per cent of the cost of vehicles, would increase the price of two-wheelers. In addition, considerable planning and execution are required to simultaneously develop a complete ecosystem around EVs, including charging stations.

In the NITI Aayog's worldview, however, the transition will address two main concerns: According to a report by Greenpeace and Airvisual, India has 22 of the most polluted cities in the world, with Gurugram being the world's most polluted. And two-thirds of the pollution load is due to two-wheelers running on the internal combustion engine (ICE) in major cities. Two-wheelers account for 79 per cent of the number of vehicles whereas economy and premium cars have only a 14 per cent share. Another cause for worry is India's growing dependence on oil imports. The NITI Aayog estimates savings of ₹1.2 trillion (at ₹70 per litre) in the oil bill if the transition takes place.

Both sides need to take a more rational approach now. While a move to EVs is inevitable, the industry should be given a reasonable time. China took the EV route as early as in the 1990s by classifying electric two-wheelers that move at 20 km per hour as bicycles. Beijing made them attractive by doing away with registration and allowing it to be ridden in bicycle lanes. Soon, it restricted the ownership of gasoline-powered two-wheelers in some cities. And it has been giving tax benefits and other subsidies to carmakers for almost a decade. China, the US, and Europe have up to 40 per cent "all-in" subsidies.

To spruce up their supply chain, Chinese companies have been aggressively buying lithium mines — the critical component for making batteries — in countries like Australia, Mexico, Argentina and others. Today, it is both the biggest manufacturer and biggest consumer for EVs globally. And some estimates suggest that the EV market share will be 50 per cent by 2025. In comparison, India seems to be in a tearing hurry in its EV transition without the required infrastructure. For some reason, the NITI Aayog believes an ecosystem of either fast-charging or swapping of batteries can be created by 2023. That is almost impossible as the challenges — from acquiring minerals to installing charging stations across the country to reducing the cost of the vehicle — are manifold. The threat of a ban can't be the answer.

ILLUSTRATION: BINAY SINHA

China's Hong Kong conundrum

As during the Tiananmen protests, China is once again faced with a choice between repression and liberalisation

I was in Beijing in April 1989, lecturing at Peking University, when many of its students were encamped in Tiananmen Square demanding political liberalisation. Zhao Ziyang, the Chinese Communist Party's General Secretary, whom I had met a few years previously, had come out to plead with the young demonstrators to go home, as he knew of Deng Tsiao Ping's decision to declare martial law and order the army to clear the square. Fortunately, I had left China well before the massacre of early June. The rest is history

DEEPAK LAL

In August 2014, attending a meeting of the Mont Pelerin Society in Hong Kong, staying in the Shangri La hotel in Kowloon, we directly looked across the bay to the square with the yellow umbrella protestors. At the meeting, Hong Kong's chief executive denounced the demonstrators, emphasising that there had been no breach of the Sino-British joint agreement of 1997, which established the Hong Kong Special Administrative region as "one country, two systems" for 50 years from July 1, 1997. As Hong Kong had never been democratic as a British colony, the yellow umbrella protests demanding democracy soon petered out. The Sino-British agreement had also enshrined the British Common Law in Hong Kong to protect property rights and personal liberties.

The recent crisis was sparked by Hong Kong's Chief Executive Carrie Lam, introducing an extradition Bill allowing both residents and visitors in Hong Kong to be sent to China for trial if deemed to be breaking the law. As Hugh Davies, the British ambassador who negotiated the Sino-British agreement has pointed out (in a letter in the *Daily Telegraph*, 14 June 2019) this undermines the Common Law liberties underwritten in the agreement which is "an international treaty between the two countries registered at the UN," under which China cannot unilaterally exclude Britain from its joint obligations to Hong Kong as China is now asserting. With Britain currently embroiled in the Brexit mess, there has been a deafening silence so far from the UK. So, will China get away with its unilateral attempt to undermine the Common Law protections in Hong Kong?

It appears that Carrie Lam acted unilaterally to curry favour with Beijing. But her actions have backfired, much to Beijing's fury with the mass demonstrations it has provoked, and Lam has been forced to suspend the Bill for the time being. Moreover, the erosion of civil liberties in Hong Kong has led the US to threaten to strip it of its special status under the US Hong Kong Policy Act of 1992, which recognises the territory as an independent member of the WTO. The bipartisan Hong Kong Rights and Democracy Act recently introduced in the US Congress "cocks the trigger on what amounts to a sanctions regime covering trade, finance and technology", turning Hong Kong into just another Chinese city, and part of the current US-China trade wars. (Ambrose Evan-Pritchard, "*US may strip Hong Kong's Special Status*", *Daily Telegraph*, June 2019). The exodus of the wealthy and foreign companies to Singapore has already begun, and if the extradition Bill is implemented it could be the end of Hong Kong as the major East Asian financial hub.

Along with these current dangers from the crisis, there is the incipient danger for President Xi from appeasing the young protesters. These are illuminated in the recent revelations of the "*New Tiananmen Papers*" (see Andrew J. Nathan, *www.foreignaffairs.com*) which provide the party's response to the 1989 crisis. A post-Tiananmen special meeting of party leaders and elders analysed the causes of the disturbance, revealing a profound paranoia about domestic and fictional foreign enemies. A telling comment relevant to the current Hong Kong crisis was by Song Renqiong, the vice chair of the Central Advisory Commission who said " forty years ago [US Secretary of State John Foster Dulles] said that the hope for the restoration [of capitalism] in China rested on the third or fourth [post communist] generation. Now, the state of political ideology among a portion of the youth is worrisome. We must not let Dulles' prediction come true." This does not augur well for the young yellow umbrellas.

Furthermore, the old argument of the economic importance of Hong Kong to China's economic prosperity has also diminished over time, as from providing about 20 per cent of China's GDP in 1997, it now accounts for just 3 per cent. But for the princelings in mainland China and many foreign companies, the proposed extradition Bill threatens not only their property rights but also their personal safety. The movement of companies and the mainland elite resident in Hong Kong to Singapore, which began after the 2014 umbrella demonstrations, has grown. (see "*Beijing grip alarms mainland elite in Hong Kong*" *FT*, 21 June 2019). But, given his assault on many of the princelings in his anti-corruption campaign, this exodus is unlikely to give President Xi many sleepless nights. He is more likely to be concerned about the effects on the populace of the continuing economic slowdown and crippling pollution.

It is in this context that the fateful decision that Deng took in May/June 1989 to turn the guns on the Tiananmen protestors should be seen. As Andrew J, Nathan has argued (in "*China's Original Sin*", *www.foreignaffairs.com*) in April 1989, Deng faced the choice of liberalisation or repression. Zhao Ziyang argued for dialogue with the students who "were patriotic and shared the regime's goal of opposing corruption", and would leave peacefully if the regime accepted their demands. Li Peng, the Prime Minister argued that if the Chinese Communist Party "legitimised opposition voices by negotiating with them, the party's political rule, based on a monopoly of power would crumble". Deng sided with Li. The government has ever since had to tighten repression, whilst enforcing a silence on Tiananmen to eliminate its memory. This growing repression has created a surveillance state and a million Uighur Muslims interned in the new Gulag in Sinkiang. It has also created the authoritarian crony capitalist model of growth. But, above all, argues Nathan, Deng's fateful decision leading to a state dependent on repression, also shows the fragility of repression, as demonstrated by its viewing the granting of the Nobel Peace Prize to Liu Xiaobo as an existential threat to it. By silencing any memory of Tiananmen "it is trying to outrun history, but history cannot be outrun. It can only be confronted". As the old men discussing China's future in the new Tiananmen Papers feared, history is on the side of the youth marching through Hong Kong, and that is the conundrum President Xi now faces.

India's China syndrome

Those who are aware of the intense debate on the reliability of China's economic data should find many familiar elements in the face off between former chief economic adviser Arvind Subramanian's (AS) and the keepers of the faith in India's official data machine. They include the Prime Minister's Economic Advisory Council (the PMEAC), which has issued a rather stern riposte ("*GDP estimation in India- Perspectives and Facts*", 19 June 2019) to AS's claim that the new methodology for measuring India's GDP with 2011-12 as the base year significantly overstates its growth rate ("*India's GDP Mis-estimation: Likelihood, Magnitudes, Mechanisms, and Implications*", Arvind Subramanian, CID Harvard University, June 2019). Instead of the average growth of 7 per cent that the official data shows in the period between 2011-12 and 2016-17, AS's estimate is a meagre 4.5 per cent.

ABHEEK BARUA & TUSHAR ARORA

Where does China fit into all this? China data-sceptics have long claimed that if the indicators that should prima facie correlate with GDP growth are used as proxies, the growth rate would be very different. The most well-known of them is current premier Li Keqiang (LK). After dismissing official statistics as "man-made" he provided his own measure of growth (the Keqiang index) using a combination of three things — electricity consumption, railway freight, and bank lending. Estimates based on this index and its most sophisticated variants show much lower growth than the official releases. While the government currently pegs growth in the ballpark of 6.5 per cent, the sceptic estimates vary from 2.5 to 4.5 per cent.

There's a twist to this tale though. Over the last few years, L-K type measures have come in for severe criticism. The new China, the critics claim, is very different from the old "industrial" China when investments and exports were the main engines of growth. A change in economic policy direction (articulated in its 12th Five-year plan of 2011) drove a profound shift in China's economic structure to a more inward-looking, consumer-driven economy. Thus, using an old economy measure like the LK index fails to capture this structural shift and produce a systematic downward bias in the growth rates. The defence's case for India's official data is similar.

At its core, AS's argument revolves around L-K type proxies for GDP. Instead of Li Keqiang's measly three, he produces a bagful of 17 and frets over the fact that while in the 2001-02 to 2011-12 period, they correlate well with GDP, these correlations break down in the subsequent period. AS also uses a four-variable index (credit, electricity, exports and imports) and pools this with similar indices for 70 countries. Since the relationship between GDP and this index bucks the general trend, AS concludes that the new methodology is flawed and biases GDP estimates up.

One can pick many nits in AS's 17 as the PMEAC paper does. For one thing, many of them like cement and the IIP measure volume rather than value. It is not surprising that they moved closely with the old GDP series. The major grouse with the old estimation method was that it relied (partly due to data paucity) too much on volume measures when it should have used value-addition instead. The new methodology attempts to correct this and it is not surprising that the volume-GDP link weakens.

The PMEAC's rebuttal is comprehensive but in the muddle of technical minutiae, the two central critiques of AS's approach seem to lose their sting.

First, AS's declining correlations captures a shift in the structure of India's national income. India's growth patterns over the last few years have been surprisingly similar to China's with domestic consumption emerging as the principal driver, and investment as well as exports getting short shrift. While this is widely known, a couple of data points might drive this point home more convincingly. The average annual contribution or share of investment in the expansion of GDP from 2001 to 2011 period was 51 per cent. In the subsequent period it dropped to 28 per cent. The share of consumption (as a driver of GDP growth) went up from 48 to 58 per cent. The contribution of exports fell by as much as 24 percentage points. For China, this was intentional and driven by policy. For India, it was the product of local and global circumstance.

Second, both China and India saw a credit binge in the previous decade that spilled over to the current one. For India, it resulted in the well-known NPA crisis. For China, it manifested in investor concerns over stability and episodes of large capital flight. Regulators in both the countries began responding with policy measures from 2015 onwards. The move towards the Prompt Corrective Action (PCA) mechanism and Asset Quality Review (AQR) began at this time in India; China began its policy of "de-risking" its financial system.

Thus the second or allegedly "dodgy"" phase of AS's data series for India saw a major moderation in credit growth. This impacted investment and was responsible for the change in growth composition as well. Retail credit was unaffected and is consistent with the consumption boom story. However, with a relatively low share (around 18 per cent in 2012) in aggregate loans, it could not pull headline credit growth up.

To add to this, Indian companies turned more to the markets for their funding needs. Between 2011 and 2017, while the outstanding credit of banks in India doubled, the value of outstanding corporate bonds trebled with a 30 per cent annual average growth in issuances. Working capital funding through commercial paper also saw a boom, and more so in the recent years on the back of a wave of liquidity created by demonetisation.

All these factors put together could explain why something apparently as simple as the relationship between credit and GDP growth could have changed substantially between the two periods. AS suspects a flaw in the estimation methodology whenever he encounters a change in the way economic variables relate to each other. In his paper he spares little time to listen to the stories that explain these changes, a habit rampant among China's data sceptics. We wonder why.

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Rulers and information

BOOK REVIEW

AAKAR PATEL

How does one square the reality that we live in an era in which there is almost an excess of information but a scarcity of good data?

India has no accurate means of measuring its levels of unemployment or its gross domestic product, and this is according to the government. There is almost no good data on inequality or wealth in India either. Are we doing well or poorly as a nation? We do not have answers or agreement on such basic questions.

And then, how does one deal with the idea that history can be rewritten in such violent terms that what for generations had been posited for all Indians as a blow against humanity — Godse's assassination of Gandhi —can today be projected in electoral politics as a victory of the Hindu nation?

In the absence of data and the willingness to gather and engage with it (as is manifest in even the India of 2019), author Sanjoy Chakravorty's argument in *The Truth About Us: The Politics of Information from Manu to Modi* is that in India, it is the rulers and their manipulation of information that has produced our truths. Information is key to knowledge. What is information? Who decides what it is? How it is organised and categorised? These are the important issues. Truths and identities are created from the manipulation of these. Where there isn't enough information, a reality can be created.

For example, very little data or information on India existed before the British. Nirad Chaudhuri in his book *Hinduism* has also referred to this. The Raj began structuring the identity of India and Indians by interpreting what they encountered.

In the author's opinion, "India" the nation did not exist before the British. There were communities but these were distinct and they did not amount to a nation. In some ways, then, this book and this sort of thinking is a response to V D Savarkar's book written about 100 years ago, *Hindutva*. There are, however, things in this book that Savarkar and other Hindutvawallahs will approve.

For example, Mr Chakravorty examines the history of caste and asks whether it existed in the form that we know before the British Raj and particularly the census series, which began in the last quarter of 19th century. He does not, of course, deny the reality of social stratification through *jati*. He does not deny discrimination either. But he does ask whether it existed in the Smritic form that we now take for granted before the British. Was it the product of amateur Indologists engaging with material they translated and took as gospel? The texts were, the author tells, all in Sanskrit and the interlocutors all Brahmin. The texts were relevant mostly or only for them. Even within Brahmins, in fact, most were only aware of ritual and not text.

On the other hand, the presence in Indian history of many non-Kshatriya warrior-rulers (like Hakka and Bukka in Vijayanagar) seems to indicate that this rigidity of *varna* may be more recent. Even the Buddha in one of his discourses gets a Brahmin to accept that he is lower in caste than the Buddha, who is, of course, Kshatriya, something that Manu would have disapproved of. Mr Chakravorty goes to the non-Sanskrit texts of India, and the travelogues written by foreigners going back to Hieun Tsang and finds that there is almost no reference to caste. He concludes that *chaturvarna* did not exist in India, and this is actually true. Even in our time, Kshatriya and Vaishya identity are quite problematic and contested and while there is a positive Dalit identity, no peasant community accepts it is Shudra.

The book also engages with the term Hindu, a favourite theme of the Rashtriya Swayamsevak Sangh and its ideologues and friends, again going back to Savarkar. It is a modern term that has acquired political and even militaristic dimensions. Hinduism was not a recognised category internally but a definition that came from the outside. So then how could the word "conversion" be applied to an act when there was no formal religion that one was converting out of?

The book also looks at the crisis of the present, and that is Hindu nationalism. British intervention ensured that any nationalism generated in the middle class was for a century directed at the outsider. The internal aspects, meaning that of the problems of Hindu society, were to some extent taken up by Ambedkar. Today we live in an era in which the internal is not addressed for the most part. And the external enemy has been replaced by the Muslim. The rise of Hindutva in our time is a redirection of nationalism.

The politics of information has seen an enormous change in the last two decades, between the election in which Atal Bihari Vajpayee won in 1998 and the one that Narendra Modi won in 2019. It is no longer possible to have a single truth or narrative even about so basic and obvious a thing as the economy or employment. Confirmation bias is easy and comforting given the abundance of material.

With an overwhelming amount and sources of information, there is according to the author actually a demand for simple stories that interpret this maze. The word *chowkidar* captures this spirit. This is a fine book for our times and must be read for those who have been in a daze for the past five years.

THE TRUTH ABOUT US: The Politics of Information From Manu to Modi
Sanjoy Chakravorty
Hachette, 302 pages, ₹499