

## RationalExpectations

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# Farmers guilty in GM, but so is govt

Govt wants to arrest farmers planting illegal GM cotton, but it did nothing when 35 lakh illegal seed packs were sold in FY18

HERE CAN BE little doubt that *Shetkari Sangathana* farmers sowing certain GM seeds—both Herbicide Tolerant (HT) cotton as well as Bt brinjal—are breaking the law since, as of now, these haven’t been approved by the government. But, while the state police have been quick to register FIRs against some farmers—based on a complaint made by the central government’s environment ministry—the central government needs to think about its own role in this sordid tale and how it has prevented Indian farmers from getting cutting-edge technology that farmers in other countries have access to; if farmers then chose to break the law to draw attention to their plight, they are not the only ones to blame.

It is important to keep in mind that this is not just a case of farmers being unreasonable while the government is in the right. In the case of Bt Brinjal, for instance, it was after seven years of field trials and tests that the Genetic Engineering Approval Committee (GEAC), the highest body for certifying GM crops, approved its usage as fit for human consumption. But with activists protesting, then environment minister Jairam Ramesh decided to hold back the approval in what he called the ‘public interest’. Bt Brinjal is approved for use in various countries, including neighbouring Bangladesh, and farmers benefit as they use less pesticides and have higher productivity; the fruit and shoot borer, the pest that is controlled by introducing the Cry1Ac gene in the plant, affects 30-50% of the brinjal crop and cuts pesticide use by 60%.

Given this history, and the fact that the apex body of scientists approved the crop, it is difficult to argue the farmers are in the wrong. And sowing seeds that are not approved is illegal, but given that no minister in the last nine years—Ramesh’s ban took place in 2010—has had the guts to lift the ban (in the case of the BJP, the Swadeshi Jagran Manch is opposed to GM crops), surely the farmers couldn’t have chosen a more effective way to draw attention to their problem?

Nor was this the only victory of the anti-GM brigade. A team of Delhi University scientists led by former vice-chancellor Deepak Pental developed GM mustard and the GEAC approved this in May 2017—so this was no longer a foreign company that had developed the technology and Pental was not even looking for royalty since NDDB had funded his research—but the BJP government has not cleared it for commercial use for more than two years now. If decisions that are to be taken on the basis of scientific tests are, instead, made on political grounds, why not abolish the GEAC?

In the case of HT cotton, the government’s actions have been even worse. In this case, the government cleared the use of the first generation of Bt cotton, and this resulted in a sharp increase in production and helped India become the world’s largest exporter of cotton. But after the BJP came to power at the centre—Bt cotton was a major reason for strong agriculture growth when Narendra Modi was chief minister of Gujarat—it decided to go after Monsanto, the primary supplier of GM cotton seeds. While few farmers were complaining about the price of Monsanto seeds—at that point, though, a few of Monsanto’s licensees didn’t want to pay it licence fees—the government fixed the price of the seeds and, within this, on the royalty that Monsanto could charge per bag; this was lowered again last March. An attempt was even made to cap the royalty Monsanto could charge, but though this was scrapped, the cotton seed price control effectively ensures that anyway. To top the government’s hostility, Additional Solicitor General Tushar Mehta even told the court that the patent the Indian Patent Office had granted Monsanto was illegal!

Not surprisingly, Monsanto decided to abandon its plans to introduce the next generation of seeds (including HT ones) in India; HT seeds do away with the need for labour-intensive weeding. Meanwhile, however, local seed companies started producing illegal knockoffs of these seeds. While the government initially suspected Monsanto was behind the illegal seeds, a body of experts was mandated to investigate the matter. The Field Inspection and Scientific Evaluation Committee (Fisec)—chaired by the co-chair of the GEAC—did an on-the-spot inspection of cotton fields and found that around 15% of the seeds being used in major cotton-growing states comprised unapproved HT ones. Fisec ruled out these seeds being sold by Monsanto on the basis of their genetic signatures and said that tests suggested some local seed firms were involved. The Andhra Pradesh government then found that several local seed-producing firms were involved in this and, in March this year, it suspended the licenses of 14 firms for a year; given the crime, the punishment does seem quite trivial.

If the central government didn’t take any major action after its own panel found evidence of large-scale selling of illegal knockoffs—against either those growing and selling the seeds or the farmers who used them till now—it is difficult to understand why it is pushing for action against the *Shetkari Sangathana* now. More important, it needs to answer why farmers should be penalised for its failure to approve world-class technology in time. If the government is forced to give an explanation for its anti-seedtech policies, the *Shetkari Sangathana* has done the country a big favour.

## MissingWOMEN

Conditions that create unemployment affect women disproportionately, policy must take note of this

THE NARRATIVE ON jobless growth is, by now, a well-known one—at 6.1%, India is witnessing its highest unemployment rate in almost half a century. Less talked about is the differential—and more adverse—impact this slump has on women. With lower labour force participation—according to a recent UN report, women’s labour force participation in India fell by 6.9 percentage points between 1997 and 2018—and higher unemployment rates, women are worse affected than men. The trend of shifting away from the agricultural sector—which, in India, is predominated by women—and toward the industries and services sector, and shrinking of the informal economy (according to PLFS data, in 2017-18, the informal sector’s share in the economy was 68.4%, down from 72.5% in 2011-12) was bound to dampen employment of rural women. But, urban women aren’t faring much better. According to a report by the Centre for Sustainable Employment at Azim Premji University, graduate urban women, who make up 10% of the working-age population, constitute 34% of the unemployed. Employed women aren’t spared the effects of the economic slowdown either. While in September 2018, it was reported that 92% of the female workers in India earn less than ₹10,000 per month, the UN report finds that marriage leads women to drop out of the labour force. Staying single being a rarity in India, it isn’t surprising that, in South Asia, the average participation of married women in the labour force is just 29.1%, trailing the global average of 50%.

While gender discrimination, and the many ways in which this manifests, is perhaps responsible for the low participation of women in the workforce, the lack of a legal and policy environment that provides them targeted skill training, ensures equal rights in the workplace, and encourages female entrepreneurship is also a significant contributing factor. Policy must pave the way for women to enter and remain in the labour force.



## ON FIGHTING TERRORISM

Union Home Minister, Amit Shah

Our ideology is to ensure protection of borders and make country free of terrorism. The govt has spent ₹2307 crore to upgrade security apparatus in Jammu and Kashmir

## NO PROOF REQUIRED

GIVEN THE ESTIMATED LARGE POVERTY DECLINE IN INDIA OVER FY12-FY17, OUR ECONOMIC POLICIES MUST FOCUS ON WHAT CAUSES GROWTH, NOT WHAT CAUSES POVERTY TO DECLINE

# Rethinking poverty—and policy

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Views are personal



have a messed up and archaic agricultural policy—a policy that was not even fit for earlier poor economy times. But no reason to blame the past—the emphasis should be in reforming the present for a better future. Poverty is no longer about food, so free up the food producers rather than keeping them as prisoners of policy (and politicians and bureaucrats). No Essential Commodities Act, no Food Corporation of India [whoever named this bureaucratic-political-corrupt delivery of food as a Corporation?], and no Agricultural Produce Marketing Committee now called the Agricultural Produce and Livestock Marketing Act 2017 (APLM). Notice how little we have developed—farming and trade (marketing) are the oldest activities known to man and woman, and we need an Act of Parliament in 2017 to keep regulating it?! Alternative “Act”—farmers are free to buy, sell, hoard, export, import, like the rest of the 7 billion residents of this planet. And no bans please—we are no longer a poor economy.

The above rethink is not based on idle speculation but rather on analysis of trends in consumer expenditure since FY12. Consumption is 60 % of GDP, and poverty is defined in terms of per capita consumption. The latest NSSO survey is likely to show a sizeable reduction in poverty rates across the country. Our estimates for FY18 are based on the estimation of poverty line in FY18. This estimate is based on the increase in poverty line or price level (over FY12) for each state, and each urban and rural area of each state. We use the NSSO distribution for FY12, and increase the average per individual nominal consumption for each individual by the all India constant magnitude of 89%. The per individual poverty line for everyone is estimated as above. The 3.2 \$ middle income poverty line is obtained from the Tendulkar poverty line by multiplying the latter by 3.2/1.9 (given that the Tendulkar poverty line in FY12 is equal to PPP\$1.9). We will update our analysis in the form of a research paper once the 2017 consumption survey data is released but the find-

ings are likely to be identical.

According to Tendulkar poverty line, poverty is today around 4.5% of the population or less than 70 million. According to a 70% higher in real terms poverty line (equivalent to PPP\$ 3.2 per person per day (pppd), the World Bank poverty line for middle income economies or ₹75 pppd), poverty in India is estimated at 31% down from 57% in FY12. Half of these poor reside in three Hindi heartland “old” states (before reclassification) of Bihar, MP and UP. Therefore, there is a 26 ppt decline in poverty over 6 years. That is above a 4% ppt decline per year—the fastest pace of poverty decline India has ever experienced, and that to with a 70% higher poverty line.

What happened to set this record decline amidst demonetisation, GST, two drought years, and lower than potential GDP growth? We believe a large part of this decline took place due to better targeting of government programs, better targeting made possible through expanded (and extensive) use of direct benefit transfers (DBT).

Therefore, the new approach towards poverty alleviation should involve targeted income transfers. Under our proposed targeted basic income program, which is a top-up scheme, the government transfers the poverty gap (difference between per capita consumption of the household and the poverty line faced by the household) into the bank account of the poor. The cost of such a programme is likely to be between ₹2.5-3 trillion and it will ensure nobody has consumption below the poverty line. India’s current expense on poverty alleviation programs is approximately ₹3.4 trillion and the cost to make one person non-poor due to the PDS in FY12 was ₹24,000. The same for MGNREGA was ₹40,500. Therefore, assuming perfect targeting, a basic income program is likely to cost sub-

stantially lower than the current policies and it will ensure that poverty rate is reduced to zero based on the higher poverty line.

The direct benefit transfer mechanism of the government has been able to resolve targeting problems for a bulk of the 430 government schemes and subsidies. The current PM-Kisan program provides income support to approximately 14 crore farmers is an example of how through DBT the government can provide direct income support as its focal policy towards poverty alleviation. Such a policy is likely to help government in rationalising and consolidating its poverty reduction programs, thereby freeing up resources for other sectors in the economy.

India’s recent growth has led to a sizeable expansion in the number of taxpayers, and successive reforms over the last five years have simultaneously improved tax compliance in the country. The increase in number of individual return filers from 3.5 crore in FY13 to 6.4 crore FY17 and the improvement in revenue realisation from direct taxes reflects this improvement.

However, now the government should focus on bringing more people under the tax net at the higher income brackets. Our recommendation towards achieving the same would be to reduce both Corporate Income Tax rate and the highest Personal Income Tax rate to a flat 25%. Therefore, to improve revenue realisation from direct taxes the government should focus on improving compliance by reducing the highest slabs of the tax rate. This rethink is necessary if we are to achieve accelerated growth, and higher tax revenues.

The Indian economy requires adequate investments in critical areas such as road, railways and water. Therefore, the government needs to rationalise its expenditure and tax rates to ensure that reallocation of resources. While our pace of poverty reduction has improved over the last five years, we can augment it further through a targeted basic income policy and free up additional resources for other sectors of the economy. Times have changed and so should our policies towards poverty alleviation.

## LETTERS TO THE EDITOR

### Tariff heat

The US President Donald Trump is red-faced with the tariff hike by India on 28 US exports in a tit-for-tat trade war. He has called the hike “unacceptable”, and wants the it withdrawn. Talks between US Secretary of State Michael Pompeo and his Indian counterpart have failed to produce solutions.

According to top commerce ministry officials, the hikes were within the maximum rate that WTO allows its members to levy on imports. US’s unilateral scrapping of duty-free export facility to over 2000 Indian product categories prompted India to raise duties on 28 American exports, conveying to the US that India cannot be taken for granted. The big brother attitude of the US is not conducive for talks.

— KV Seetharamaiah, Hassan

### Sikh leader statue

Amid the ‘tu-tu, main-main’ of India and Pakistan, it’s not only heartening but another milestone of the Pakistan government that on June 27, on the eve of 180th death anniversary of the Sikh ruler Maharaja Ranjit Singh, in a colourful ceremony, a nine feet tall statue of him was unveiled outside the Sikh Gallery of the Lahore Fort t, Mai Jinda’s Haveli (from where Ranjit Singh ruled over Punjab from 1801-1839).

— Bidyut K Chatterjee, Faridabad

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# Currency wars: Easy to start, tough to win

Trump’s talk about currency manipulation has serious people considering the prospect that the US could sell dollars in the market, a practice mothballed years ago

DANIEL MOSS

Bloomberg

TO PRESIDENT DONALD Trump, and any other Group of 20 chief thinking about waging a currency war: It’s basically impossible to win.

That’s partly because they don’t really happen in practice. If they did, everybody would lose because everyone would play. The surest way to affect the relative value of an exchange rate is through nudging interest rates up or down. These days, monetary policy among most major economies is so aligned that any one country would be hard-pressed to notch any kind of victory for very long.

Failing to grasp this risks misunderstanding how interconnected global capital flows and commerce have become—regardless of spat about tariffs and talk of a technological cold war between the US and China.

The term “currency wars” was popularised by former Brazilian finance minister Guido Mantega in 2010. It captured a global anxiety that gathered pace in the aftermath of the financial crisis, when the world’s biggest central banks pumped billions of dollars into the economy through quantitative easing. The concept has been in remission over the past few years, as monetary policy started returning to normal.

Leave it to Trump to revive it. Over the course of his presidency, Trump has railed against what he sees as the dollar’s strength. To his credit, a model by the International Monetary Fund suggests the dollar is overvalued by 8% to 16%. This criticism has only been compounded by his complaints that the Federal Reserve isn’t cutting rates—a move

that tends to make the dollar less attractive. To this end, Trump slammed European Central Bank President Mario Draghi for flagging rate cuts, which could weaken the euro relative to the dollar. The president then appeared to fantasise about hiring him to replace Fed Chairman Jerome Powell, tweeting:

“Mario Draghi just announced more stimulus could come, which immediately dropped the Euro against the Dollar, making it unfairly easier for them to compete against the USA. They have been getting away with this for years, along with China and others.”

Trump’s condemnation of Powell obscures the fact that most central banks have tilted toward easing because economic circumstances, risks to growth and benign inflation warrant it. Trump will get his cut, economists predict, as soon as next month. But rate reductions are on the menu around the world for much the same reasons; when it comes to monetary policy, differences are largely matters of degree, not kind. That’s not to say that weaker exchange rates don’t have their benefits, or aren’t a byproduct of rate cuts. But it’s important to understand that currency management is rarely, if ever, the sole motivation.

Exchange rates are an “important channel” through which easing stimulates growth, Reserve Bank of Australia Governor Philip Lowe said this week. “But if everyone is easing, there is no exchange-rate channel,” he told the Crawford Leadership Forum at the Australian National University, in which I participated. “We trade with one another,

we don’t trade with Mars, so if everyone’s easing, the effect that we get from exchange-rate depreciation via the transmission mechanism isn’t there.”

As far-fetched it may seem, all of Trump’s talk about currency manipulation has serious people considering the prospect that the US could directly and unilaterally sell dollars in the market, a practice mothballed years ago.

Direct interventions only tend to work when allies cooperate to achieve common aims. In 2000, the world’s major central banks bought euros to boost the common currency, which was floundering in its infant stage. A similar team intervened to stem the yen’s surge after Japan’s 2011 tsunami, and its slide during a banking crisis in 1998. Each was broadly successful. In the modern era, interventions have also helped emerging markets stabilise their currencies, Bank of America noted in a report this week.

It is hard to conceive Europe or Japan going along with a Trump tantrum that serves no goal other than making the dollar cheaper against the euro, yen or British pound. If Trump’s target is China, the rest of the G-7 have zero interest in being seen to gang up against Beijing. Solo maneuvers don’t stand much of a chance of fundamentally altering a currency’s trajectory—or defying monetary-policy logic.

Trump would do well to bear all this in mind. There’s no commerce on Mars.

*This column does not necessarily reflect the opinion of the editorial board of Bloomberg LP and its owners*



# New basmati to boost exports

A new basmati variety, called Pusa 1718—which is an improved version of the iconic Pusa 1121—is set to sustain India’s aromatic and long-grained rice exports through higher yield and the ability to fight bacterial blight disease

SANDIP DAS

The author is a senior consultant with ICRIER. Views are personal

**L**AST FEW WEEKS have been quite busy for Preetam Singh, who lives in the Uraland Khurd village, part of Panipat district, Haryana, as farmers like him from nearby villages make a beeline for buying paddy seed of a new basmati rice variety, called Pusa basmati 1718 (PB1718) developed by the Indian Agricultural Research Institute (IARI). Singh owns 32 acres of agricultural land—he has also taken 100 acres of land on lease for farming—and he is mostly engaged in producing seeds for basmati rice variety. This new basmati variety, which draws its parentage from the widely-grown Pusa 1121 (PB1121), has been endowed with two extra genes to fight the bacterial leaf blight disease, thus preventing lodging, besides increasing the yield. “Farmers who had sown this new basmati variety (PB1718) in the kharif season (2018) say that it did not flatten during rain and hailstorm owing to its comparatively shorter length,” farmer Singh said.

Notified in 2017 by the agriculture ministry, PB1718 is gradually being accepted by farmers across Haryana and Punjab—the key aromatic and long-grain rice-producing region of the country. “The new paddy variety is characterised by its ability to fight bacterial blight, it prevents lodging and also increases the yield,” AK Singh, head, Department of Genetics, IARI, said. Farmers who have grown this new variety in the previous kharif season (2018) claim that the yield has increased to around 25 quintals per acre, as against around 18 quintals achieved for the widely-grown PB1121 (also developed by IARI).

Singh added that while traditional varieties of basmati had a yield of around nine quintals per acre, the short-duration variety Pusa 1509 (PB1509, developed by IARI) gives a yield of around 20 quin-

tals per acre. According to official estimates, PB1121 was grown in around 10 lakh hectares of land, of the total basmati acreage of around 15 lakh hectares in the key growing states last year. The short-duration variety PB1509 was grown in around 3 lakh hectares and the new PB1718 in around 1 lakh hectares. The traditional variety of basmati was grown in less than 1 lakh hectares during last year’s kharif season.

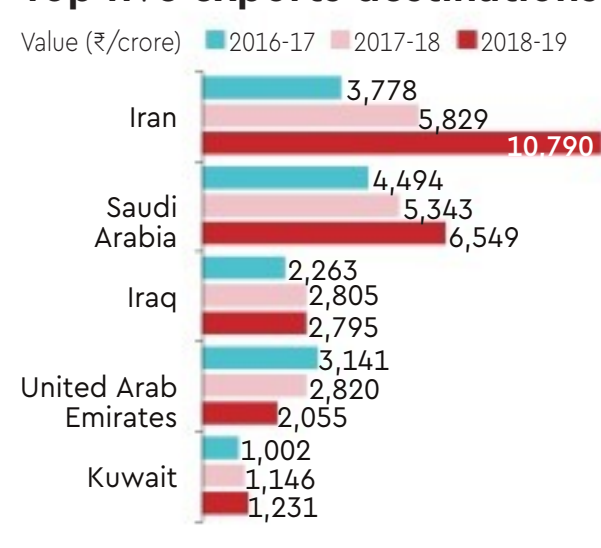
Ritesh Sharma, principal scientist, Basmati Export Development Foundation (BEDF)—an affiliate body of the Agricultural and Processed Food Products Export Development Authority (APEDA)—said there were no effective pesticides available to deal with the bacterial leaf blight disease in PB1121 variety, which has a major share in India’s exports of aromatic and long-grained rice. “We have been dependent

Basmati rice exports



Source: Apeda

Top five exports destinations



on one variety of basmati rice (PB1121) for many years for sustaining our exports. With PB1718, we have an alternate variety in case of exigency,” Sharma said.

Another unique characteristic of the new basmati variety is that there is less grain-loss or lodging while harvesting at maturity, as compared to PB1121, which results in higher yield for farmers. “A new

variety also takes 5-6 years to get the desired results; PB1718 has been introduced at the right time, and in the next couple of years is going to be widely cultivated by farmers,” Sharma added. More than a decade after the introduction of PB1121, which gave a boost to India’s basmati rice exports, PB1718 is expected to help the country dominate the global trade in aromatic and long-grain rice market in the coming years. Commerce ministry officials said that the new variety could not have come at a better time, because due to the bacterial leaf blight disease in PB1121, the yield has been adversely impacted and farmers are increasingly using pesticides to curb pests.

PB1121, a landmark rice variety having basmati-quality traits drawn from traditional varieties, was formally released for commercial cultivation in

2003. Singh of IARI said the new variety possesses extra-long and slender milled grains, aroma, and high-cooked kernel and taste. Owing to its exceptional quality characteristics, it has set new standards in the basmati global rice market. According to commerce ministry officials, the cumulative foreign exchange earnings from PB1121 since 2008 have been around \$21 billion. This has given a boost to incomes of basmati growers. India has around 85% share in the global basmati rice trade, while Pakistan has a share of 15%.

India had achieved record basmati rice shipment, both in terms of value as well as volume, in the last financial year. According to APEDA data, India exported basmati rice worth ₹32,806 crore in 2018-19, which is 22% higher than the ₹26,870 crore achieved during 2017-18. Volume-wise also, India shipped 4.88 million tonnes of aromatic long-grained rice, which is a record in itself. Today, India exports basmati mostly to countries including Iran, Saudi Arabia, the UAE, the UK, besides several other countries. “PB1718 would definitely help sustain India’s dominant position in the global basmati rice trade,” a commerce ministry official added.

Meanwhile, exporters of India’s aromatic and long-grained basmati rice and officials from the commerce ministry have been deliberating on the complexities arising from the stringent import norms imposed by the European Union (EU), which sharply slashed the level of a commonly-used fungicide, Tricyclazole, in the rice that the EU imports. Tricyclazole is a fungicide used in India to protect the paddy crop from a disease called ‘blast’, and the EU had cut the maximum residue limit for Tricyclazole from 1 PPM to 0.01 PPM from December 31, 2017, onwards. This has put basmati rice exporters in a tough position.

“Two to three crop cycles are required to effect the desired change. Moreover, there is no scientific evidence that the concerned chemical is harmful to human health,” Vijay Setia, president, All India Rice Exporters’ Association (AIREA), said. The EU and the US are high-value markets for basmati rice exporters, even though a major chunk of aromatic and long-grained rice is shipped to Gulf countries.

Official data says that there are 16 lakh farmers, mostly in Punjab, Haryana, western Uttar Pradesh and a few pockets of Uttarakhand, Himachal Pradesh and Jammu & Kashmir, engaged in basmati rice cultivation. During the previous kharif season (2018), to curb the use of fungicides, AIREA, in association with APEDA, conducted campaigns among basmati rice growers in many districts of Punjab.

## DATA DRIVE

# FDI inflows fall

**F**OR THE FIRST time in six years, foreign direct investment equity inflows dropped 1% year-on-year, to \$44.4 billion, which could put pressure on the country’s balance of payments. While the government had initiated several measures to boost FDI, lower inflows in FY19 were because of tax reforms in the US, increase in interest rates by some of the major global central banks, and anxiety over trade war between the US and China.

Globally, FDI inflows contracted in the past three years. In 2018, FDI inflows were \$1301 billion—16% lower than the \$1,554 billion in 2017. The US and China were the preferred destinations for investment by foreign investors and the US continued to receive the highest FDI inflows for the past four years. These two nations accounted for 36% of the total

world FDI inflows last year.

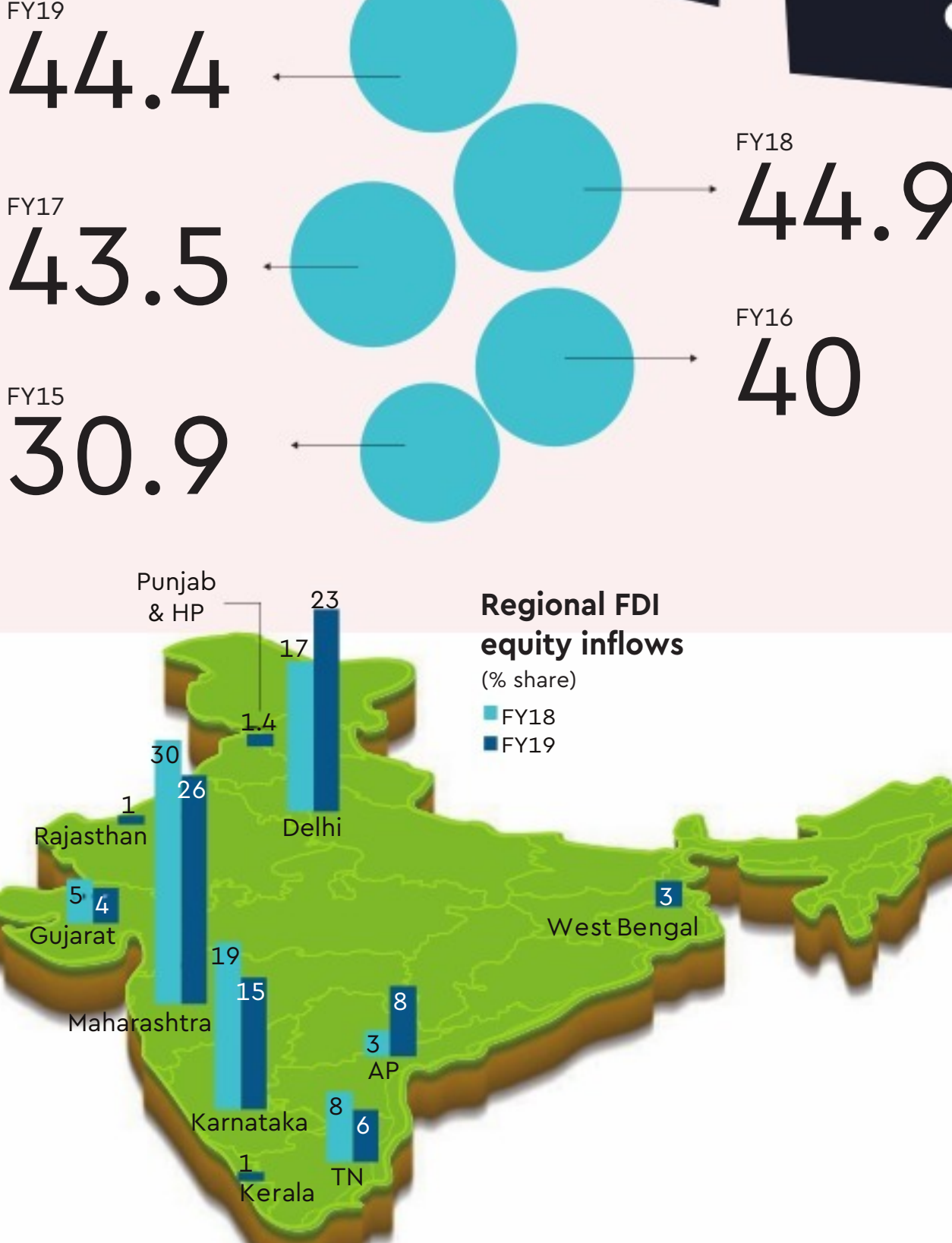
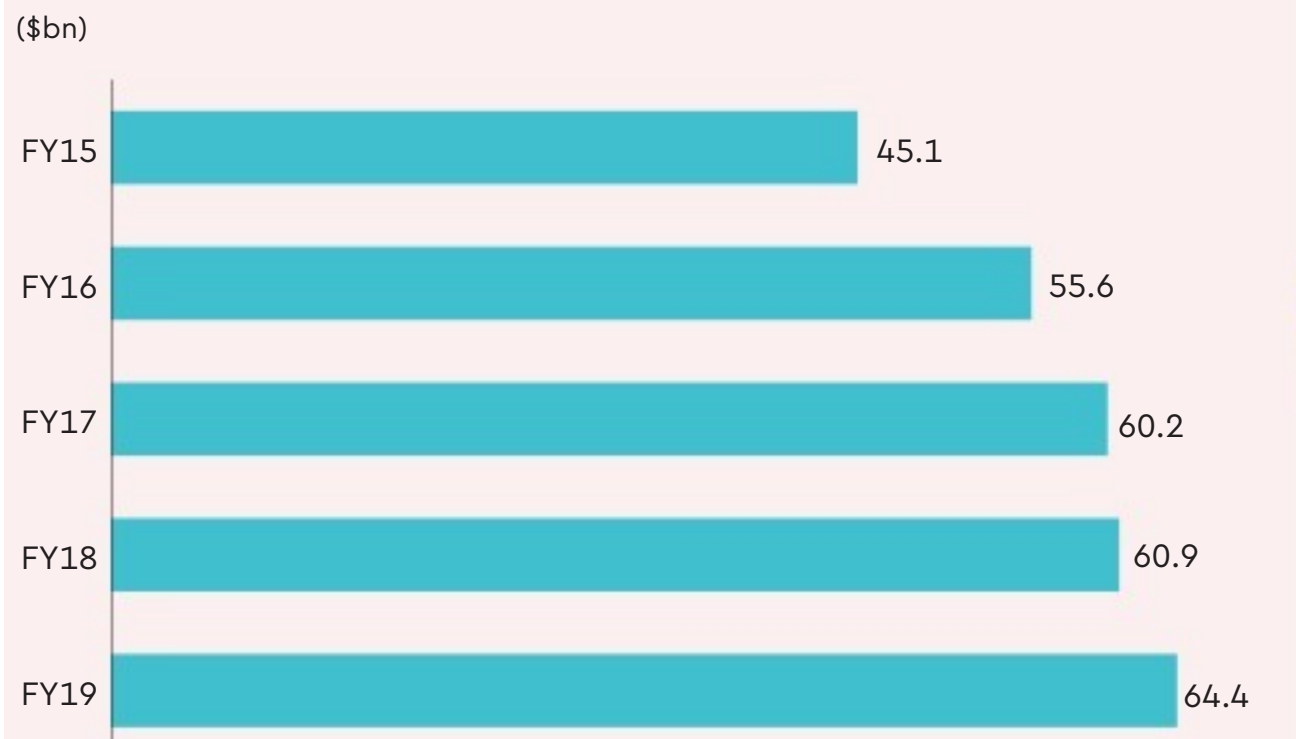
In India, the top three sectors that received the highest equity inflows were services, computer hardware and software, and trading. These accounted for 45% of total equity inflows in FY19. Inflows in services sector grew 37% in FY19 to \$9.2 billion. Equity inflows in the automobile sector witnessed a growth of 26%. In contrast, equity inflows contracted 5% in the telecom sector.

Maharashtra retained the top position in FDI inflows with 26% share, followed by Delhi (23%) and Karnataka (15%). In FY19, equity inflows in Andhra Pradesh, West Bengal, Punjab and Rajasthan more than doubled as compared with the previous year, whereas Tamil Nadu and Gujarat registered a decline in inflows as compared with the previous year.

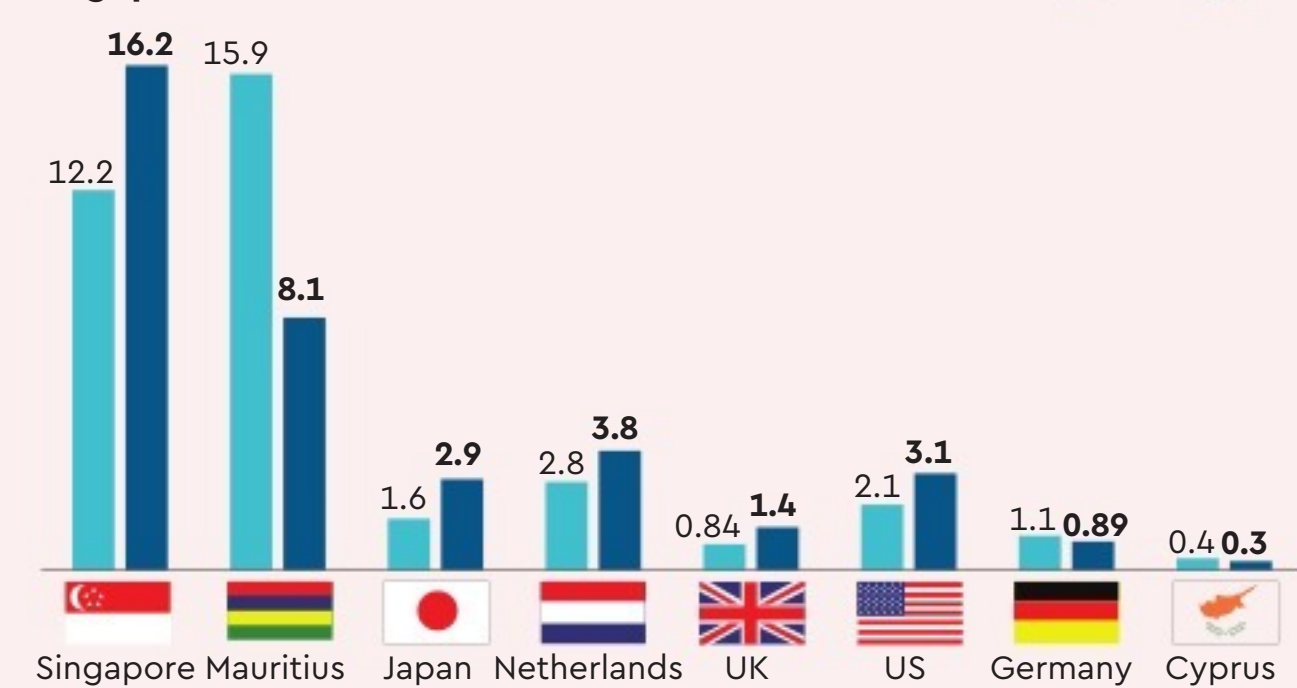
Equity FDI as share of GDP contracts



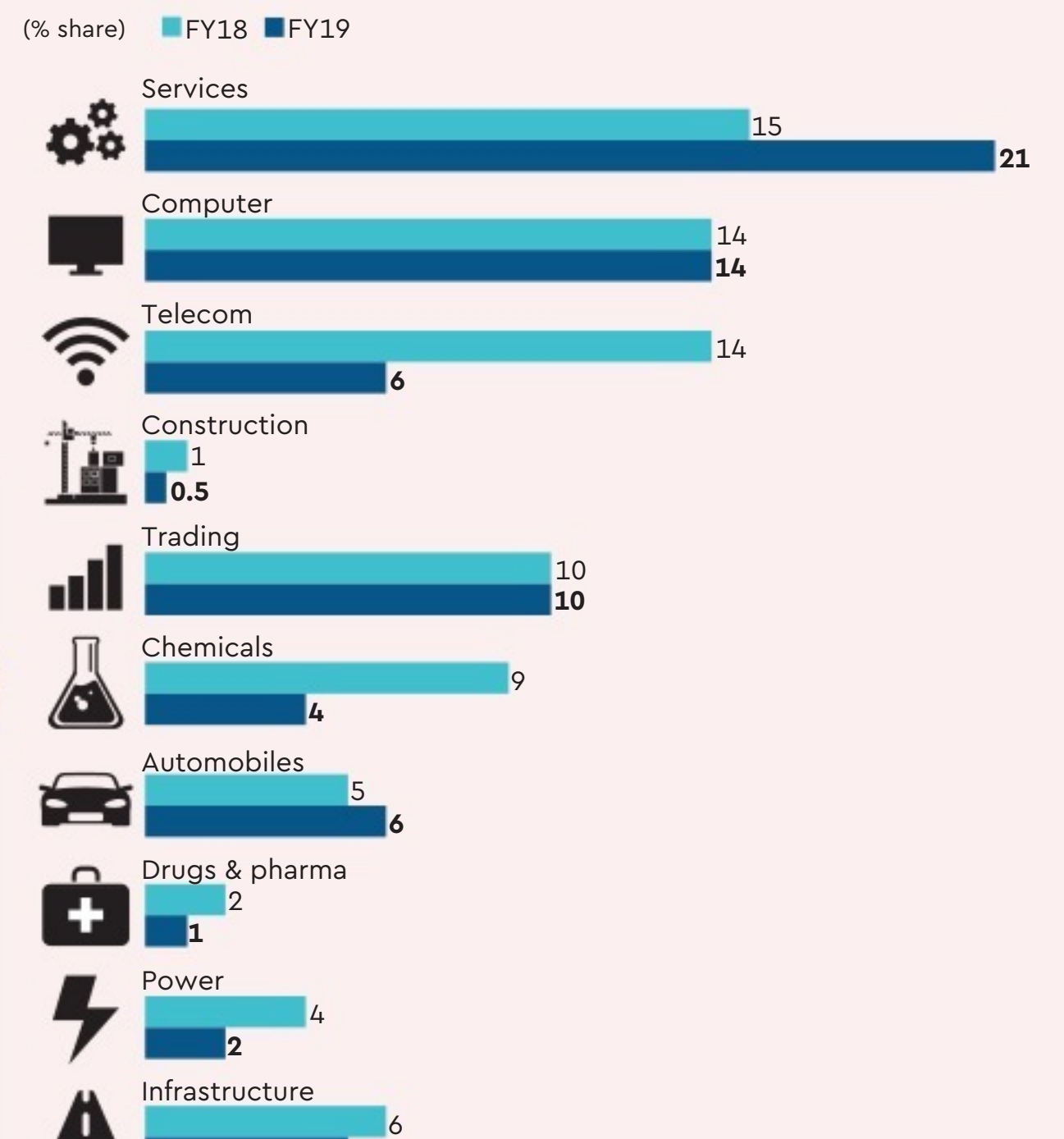
Total inflows rise because of higher re-invested earnings



Singapore leads in FDI inflows



Sectoral FDI inflows



Source: DIPI