

POLICY WATCH MACRO INDICATORS

Subramanian defends GDP estimates, Sen highlights impact of productivity growth

ENSECONOMICBUREAU
NEW DELHI, JULY 10

DEFENDING HIS findings on overestimation of India's GDP growth rates, former Chief Economic Adviser Arvind Subramanian on Wednesday said a 7 per cent-plus growth in the post-2011 period is inconsistent with performance of macroeconomic indicators such as weak exports, credit and investment growth. Subramanian also said that his research paper was a validation exercise of GDP from demand side, and not a new way to estimate GDP.

Speaking at a panel discussion on GDP estimation organised by NCAER, Subramanian stated that there were major shocks in the post-2011 period such as de-globalisation, twin balance sheet crisis, UPA-2 policy disintegration, consecutive agricultural droughts and demonetisation, which caused macro engines of investment, credit, and trade to stall, yet how could they impact GDP growth marginally. No country has grown at 7 per cent plus with exports growth below 5 per cent, he said adding that the deflator for GDP was, in his view, underestimated, which led to overestimation of real GDP.

"Number of technological questions were raised. How can GDP be ensured with just four variables? I wasn't trying to replace the CSO. Can't be so vain. Why should macro indicators like import, export, credit be negatively correlated with growth? Why should GVA manufacturing and IP manufacturing have weak correlations? Why should they go from strong positive to negative correlation? It's odd... I used a framework not to estimate but validate GDP from demand side," Subramanian said.

Subramanian had concluded that the country's growth has been overestimated by around 2.5 percentage points between 2011-12 and 2016-17. While official estimates have pegged average annual growth at around 7 per cent during this period, actual GDP growth is likely to have been lower, at around 4.5 per cent. Subramanian also pointed to the criticism of him overlooking revenue and productivity growth in his research paper, to which former Chief Statistician of India Pronab Sen responded by saying that improvements in technology and automation has led to productivity growth. GDP numbers don't incorporate technological changes, it will show up in growth

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soon, Sen said.

Sen also said that the findings are based on correlating volume indicators which were anyway being used by CSO in national accounts estimation. "Most of the volume indicators which have been used are precisely the indicators which were used by the CSO to calculate the GDP. So if you are correlating the part, and then correlating to some of those (indicators), so no surprise," Sen said while explaining the positive correlation between indicators and GDP growth cited by Subramanian in his paper.

To the reason raised by Subramanian that there is no influence of productivity growth because profits are collapsing, Sen said that profits were impacted since compensation of employees went up. "Arvind says there is no influence of productivity growth because profits are collapsing... value added is profits plus compensation for employees, the only way profits can go down is actually if compensation for employees goes up," Sen said.

"With the recent NSS report, which shows serious increase in unemployment, along with many companies' reports that show downsizing of workforce, there is a concern... it also means you are replacing a lot of low skilled labour with few high skilled, highly paid labour. Why? The reason will be if the technology that you are using is going up. There has been a lot of fear mongering in recent years about automation pulling us down. If the manufacturing data from MCA is correct, automation has come, it has been there since last 7-8 years," Sen added.

Sen said that GST is a good way to measure intermediate consumption and B2B transactions but not consumption or B2C, adding that the CSO needs to look into the use of corporate data to extrapolate the informal economy. Non-corporate has been hurt post demonetisation, GDP series doesn't track that. If CSO doesn't fix it, it's a problem, he said.

CABINET DECISIONS

Worker safety code, Bill to ban fraud deposit schemes get nod

ENSECONOMICBUREAU
NEW DELHI, JULY 10

THE UNION Cabinet, which approved the Bill on Wage Code to extend the benefit of obligatory minimum wages to all workers last week, on Wednesday gave its nod for the Code on Occupational Safety, Health and Working Conditions 2019 (OSH Code) that seeks to amalgamate 13 Acts relating to safety, health, working conditions and welfare provisions for employees, including

The Bill will replace the Banning of Unregulated Deposit Schemes Ordinance, 2019. As per the OSH Code, every unit employing 10 or more employees shall have to register such establishment. Every employer will have to ensure that the workplace is free from hazards that cause or are likely to cause injury or occupational disease to the employees, and shall comply with the Occupational Safety and Health standards made under this Code and of the regulations, rules, bye-laws and orders made thereunder.

Every employer shall ensure the periodical medical examination and prescribed tests of the

OSH CODE TO AMALGAMATE 13 ACTS

■ Union Cabinet okays Code on Occupational Safety, Health and Working Conditions 2019 (OSH Code) that seeks to amalgamate 13 Acts relating to safety, health, working conditions and welfare provisions for employees, including

mandatory minimum thresholds of leave and hours of work

■ It also approved Banning of Unregulated Deposit Schemes Bill with an aim to tackle the menace of illicit deposit-taking activities

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the facilitator.

The Central government shall, by notification, constitute the National Occupational Safety and Health Advisory Board to advise it on the matters relating to standards, rules and regulations to be framed under the Code.

Talking to reporters after the Cabinet meeting, Information and Broadcasting Minister Prakash Javadekar said the illicit deposit-taking schemes are currently being run, exploiting regulatory gaps and lack of strict administrative measures, to dupe poor and gullible people of their hard earned money. The proposed legislation will have adequate provisions for punishment and disgorgement/repayment of deposits in cases where such schemes nonetheless manage to raise deposits illegally, he added.

The banning of the Unregulated Deposit Scheme Bill, 2018, was considered by the Lok Sabha in February and after discussion, the same was passed. However, before the same could be considered and passed in the Rajya Sabha, it was adjourned sine die on the same day. FE

5G technology: NSAB member, Chinese diplomat cross swords over Huawei

SHUBHAJIT ROY
NEW DELHI, JULY 10

AT A time when India is caught in the middle of the US-China battle over Huawei and the 5G controversy, an interesting exchange took place on Wednesday at a government-think tank session between a National Security Advisory Board (NSAB) member, who is India's top expert on 5G, and a senior Chinese diplomat in Delhi.

As Prof V Kamakoti, who is a professor of computer science and engineering at IIT-Chennai and a member of the National Security Advisory Board, gave a talk on "5G technology from an Indian perspective" and shared India's security concerns on Huawei, a Chinese diplomat from the New Delhi-based embassy questioned him. Dr Bai Jie, counsellor of science and technology section at the Chinese embassy, said that there is no evidence about Huawei posing a risk to foreign governments. He cited Germany and the UK as using Huawei's technology, and called this issue a "purely politicised" one and a "power struggle".

To this, Kamakoti responded that India is concerned about its security and the government cannot take any chances, although there is no concrete evidence targeting Huawei with Chinese intelligence agencies.

"We are concerned about our security, we can't take any chances when it comes to 4G, 5G or 6G. We are going to take an unbiased view, and whichever equipment we have, we have to make sure that the equipment doesn't have any malicious (spyware) in it. We have to make sure that it doesn't compromise our national security," the NSAB member said. This exchange between the two took place at a Ministry of External Affairs-funded think tank, Indian Council of World Affairs in Delhi's Sapru House.

The session, moderated by ICWA director general T CA Raghavan, was attended by diplomats including Bhutanese envoy V Namgyel and Singapore's Deputy Chief of Mission Ng Boon Yian, former diplomat and NSAB member Amar Sinha, former Indian envoy to the US Arun Singh, former deputy NSA Leela

GOVT THINK TANK SESSION

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Ponappa, former Special Secretary (Research and Analysis Wing) Krishan Verma among others.

During the session, Kamakoti pitched for "indigenisation" of 5G technology and shared the issues and concerns on the issue.

The issue of 5G has dominated the discourse, and was one of the talking points between Prime Minister Narendra Modi and US President Donald Trump, on the sidelines of the G20 summit in Osaka on June 28. On 5G, the two leaders had a brief discussion, with the Prime Minister pointing out that India is going to be a "billion users" of this technology. In that sense, he had said, India is the "second-largest market" in the world, and the way it moves and whatever choices it makes will essentially determine the global trend.

"Therefore, the PM said that in this regard, how we can leverage this. The billion Indian users, India's capacity in technology development, in start-up, in design, and Silicon Valley and its role in developing 5G technology for mutual benefit," Foreign Secretary Vijay K Gokhale had said. Trump spoke about the work US firms are doing in 5G, where he specifically referred to the Silicon Valley and said that since he has taken over as President, he has focussed on this area, in America's capability in developing this technology. He said that he looked forward to working with India. It was again decided to continue the conversation through meetings at technical level, as well as at the level of Secretary of State and External Affairs Minister, and the technical ministers.

'Growth in housing sales moderated in Apr-Jun at 12%'

Housing sales increased by 12 per cent during the second quarter of calendar year 2019 in seven major cities, but growth tapered as many prospective buyers adopted wait-and watch approach, property consultant Anarock said

CITIES WITH RISE IN SALES:

- MUMBAI:** 21,360 units, rising 36 per cent
- PUNE:** 10,490 units, rising 25 per cent
- NCR:** 12,640 units, rising 13 per cent
- CHENNAI:** 2,990 units, rising 10 per cent

CITIES WITH DECLINE IN SALES:

- KOLKATA:** 3,540 units, declining 12 per cent
- BENGALURU:** 13,150 units, declining 11 per cent
- HYDERABAD:** 4,430 units, declining 7 per cent



78,520 units

Sales of houses during first quarter of 2019, rising 58 per cent driven by positive market sentiment on various incentives announced in the interim Budget

68,600 units

Sales of houses during April-June 2019, as against 61,522 units in corresponding period last year. Sales were up in four cities, but declined in three cities

GST ON VARIOUS HOUSING CATEGORIES INTRODUCED FROM APRIL 1: Developers were also given the option to charge old rates for projects launched before April 1, 2019

- Under-construction flats in affordable category: From 8 per cent to 1 per cent
- Under-construction flats in other categories: From 12 per cent to 5 per cent; ITC withdrawn
- Completed flats: No GST

FPIs have option to take corporate route for lower surcharge: CBDT chief

ENSECONOMICBUREAU
NEW DELHI, JULY 10

CBDT CHAIRMAN P C Mody on Wednesday ruled out giving relaxation to foreign portfolio investors (FPIs) from the ambit of increased surcharge, saying that foreign investors have an option to convert into a corporate entity to avail of lower rates available to such category.

Addressing a Confederation of Indian Industry (CII) event here, Mody said the consideration for increasing surcharge on people earning above Rs 2 crore was that people who have the ability to pay should shell out

more for nation building. "The base rate was not changed. It was the surcharge which was changed. As a collateral, it affected the FPIs and AIFs (Alternative Investment Funds). But, there again the option is to go to the corporate structure. I don't see there is any kind of differential treatment," the Central Board of Direct Taxes (CBDT) chief said.

In her maiden Budget speech last Friday, Finance Minister Nirmala Sitharaman raised surcharge on income tax paid by high net worth (HNI) individuals.

Consequently, nearly 40 per cent of FPIs also get covered under

EXPLAINED Government has stuck to its proposal

THE STRONG negative reaction by the markets notwithstanding, the government has stuck to its proposal of imposing income tax surcharge on the super rich, which includes the foreign portfolio investors registered as trusts or association of persons. The Centre's argument for the imposition of the levy is that super rich are expected to play a role in "nation building".

der the higher tax rate, as they have been investing as non-

corporate entities such as trust or association of persons,

which in the income tax law are classified as an individual for the purpose of taxation.

In the Union Budget 2019-20, Sitharaman proposed to raise the surcharge, charged on top of the applicable income tax rate, from 15 per cent to 25 per cent for those with taxable incomes of between Rs 2 crore and Rs 5 crore, and to 37 per cent for those earning more than Rs 5 crore. This takes the effective tax rate for those two groups to 39 per cent and 42.74 per cent, respectively.

The CBDT Chairman said the hike in surcharge was to provide benefit to taxpayers who are in the lower end of the

income tax slab. "One of the options was to go in for increase (in tax rates) as such but that was not considered to be favourable," he said.

Experts said surcharge on capital gain on companies is lesser and, therefore, these FPIs could choose to come as a company, if they wanted to pay a lesser surcharge. About 60 per cent of FPIs or FILs (foreign institutional investors) have come by adopting the company route and paying a lesser surcharge.

However, they can't opt for both, the benefits as an individual person and benefits as a company. **WITHPTI**

BOOK REVIEW

'Pharma Cos often make their worst drugs ... for least regulated markets, including India'

PRABHARAGHAVAN
NEW DELHI, JULY 10

IN MARCH 2013, US Food and Drug Administration investigator Peter Baker made a startling discovery in a large Indian pharmaceutical company's manufacturing plant. Following an intense, movie-like chase of a spooked employee carrying a suspicious garbage bag, Baker realised what the company had been trying to hide: roughly 75 manufacturing records for the company's insulin products, hastily torn in half.

"They revealed that many of the vials contained black particles, potentially deadly contaminants, and had failed visual inspection," writes investigative journalist Katherine Eban about the incident in her latest book, *Bottle of Lies*.

The company had tried to willfully hide this information to avoid a costly internal investigation, ac-

ording to her. Alarming, the drugs flagged in the records had been released to patients in India and the Middle East, she writes.

Bottle of Lies has now been made available in India this week, but it already caused a stir in India's pharmaceutical industry since its US launch in May. The book encompasses Eban's decade-long deep dive into the dubious data practices of certain Indian drug makers exporting medicines to the US and goes behind the scenes of some of the major scandals unearthed in the generic drugs industry here.

Eban carves out the culture of fraud and obscurity governing these companies, caught either forging and fudging data, or even haphazardly disposing evidence that would stop them from marketing their products in the US. Her anecdotes also don't scrimp on the dirty details of how some of these companies, including

India's once largest drug maker Ranbaxy (years before it was sold to Sun Pharmaceuticals), viewed patients.

A sizeable portion of Eban's book focuses on Ranbaxy, which "took its greatest liberties in markets where regulation was weakest and the risk of discovery was the lowest."

This attitude is reflected in another incident — when issues of quality of an AIDS medicine supplied to Africa were raised in a conference call, Eban writes that one of Ranbaxy's top medical executives responded with, "Who cares? It's just blacks dying." Through such anecdotes, Eban raises several questions about the quality of medicines that are made for patients in developing markets.

"If they were playing hard and fast with the world's so-called best regulatory system, where they have got a lot of market, then what



Katherine Eban

does it say about how companies have been operating for the Indian market?" asks S Srinivasan of patient activist group All India Drug Action Network (AIDAN).



BOTTLE OF LIES
KATHERINE EBAN
Juggernaut Books
482 pages
₹699

Eban says she has focussed on manufacturing plants exploiting a "lax regulatory environment in order to skirt regulations and requirements entirely."

In Ranbaxy's case, regional representatives just "invented" the data they submitted to India's Drug Controller General of India (DCGI), she tells *The Indian Express*.

"Most people assume that a pill is a pill, made identically for every market and region in the world. But my reporting has exposed that generic drug companies routinely make drugs of differing quality, depending on the vigilance of regulators in the markets to which they're exporting," says Eban. "They often make their worst drugs — with the lowest-quality ingredients and the most manufacturing shortcuts — for the least regulated markets, including India," she adds. "Because we have a two-tier system of quality in our country, those manufacturing facilities that cater to what are called 'export' markets have seen all the investment and improvements because foreign regulators have demanded these. Sadly, our own

drug supply in India has gotten worse," claims Ranbaxy whistleblower Dinesh Thakur, whose struggles have also been highlighted in Eban's latest work.

Since the US launch of the book, Indian pharma lobby groups and export associations have either called Eban's exposé "fictitious" or have claimed the situation described in her book is far in the past.

Sudarshan Jain of the Indian Pharmaceutical Alliance (IPA), which represents several large Indian pharma companies, says IPA members are committed to "global standards of quality" and that the information in this book is "dated". Ranjit Barshikar, a quality expert consultant to the United Nations, says data integrity and documentation was a larger issue a decade ago.

"Since then, the US FDA has changed their way of auditing, including surprise inspections,

which has made a big difference. Quality is getting due importance," he says.

However, Eban argues that these practices are prevalent even today. Since 2016, the US FDA has flagged data integrity violations in at least 170 Indian drug plants, according to inspection data she has reviewed. "Between that and ongoing tips, I have received from whistleblowers at Indian companies, that tells me the practices continue today," she says. Investigators are still turning up examples of "willful data manipulation", Eban adds.

What does this mean for patients relying on affordable generics here?

Eban suggests, "Between pre-announced or inadequate inspections and ongoing data-integrity violations, patients need to remain vigilant. They must ask themselves, is their medicine working? And if not, why not?"