Opinion

FRIDAY, JULY 26, 2019

ON UAPA AMENDMENT

Member of Parliament, Mahua Moitra

"One runs a risk of being branded as anti-national if you oppose the government. Every time the opposition disagrees with national security, we are called anti-national by the propaganda machinery"

RationalExpectations

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Decision-making takes a big hit

Only the fear of CAG/CBI/CVC can explain why telecom panel okayed a ₹3,050-cr penalty after it asked Trai to cut this

IS THE NARENDRA MODI-government, so early in its second term, falling victim to policy-paralysis due to the inability to take decisions? It is difficult to come to a firm conclusion, but certainly the Digital Communications Commission (DCC)—its members include the telecom, industry and finance secretaries along with the CEO of Niti Aayog—decision to rubber-stamp Trai's original ₹3,050 crore penalty recommendation on Airtel, Vodafone and Idea (AVI) suggests this may be the case since, just last month, DCC was of the view that the penalty was way too high and asked Trai to reduce it to a nominal amount.

Given Trai doesn't have the powers to levy fines, and that its recommendation—based on a complaint by RJio—was *suo motu*, the DCC was well within its rights to reject Trai's recommendation or to impose a dramatically lower fine; indeed, DCC even told Trai that, given the precarious health of the industry, a token fine was really the best. If the DCC didn't do this once Trai refused to lower its fine-recommendation, the only plausible reason is that it feared lowering the fine could open it to scrutiny by CBI, CVC, or the CAG; the matter, it is true, will now be decided by the courts, but if every decision has to be ratified by the courts, policy-making will suffer a huge setback.

Lowering the Trai penalty, as this newspaper has argued earlier, also made sense since the telecom regulator has not distinguished itself in the past; not only has bad decision-making by it ensured India's spectrum prices went through the roof (*bit.ly/30Thy4H*), it has even been pulled by the Supreme Court and the Telecom Dispute Settlement and Appellate Tribunal (*bit.ly/2yc2bIm*) for being arbitrary and unreasonable. While DCC has asked Trai to explain its recommendations on spectrum pricing in the past, this newspaper has shown the lack of logic, inconsistencies and mathematical fallacies in Trai's approach.

Nor was, in this particular case, the evidence against AVI crystal clear. For one, RJio wanted points of interconnection (PoI) that, AVI argued, were far in excess of what anyone wanted in the past; they said that RJio's free services were illegal and, because of this, it was getting millions of subscribers which, in turn, hiked the need for more PoIs. AVI raised all these issues, including that of predatory pricing, but got no answer from the government. Despite this, they gave the PoIs within the specified period, evidence of which is the fact that Trai later came out with a consultation paper on whether the 90-days allowed for PoIs was too long! Even the Bombay High Court commented on the terms and obligations for granting PoIs not being very clear.

> **If a body manned by top secretaries can't reject Trai's penalty recommendation even after it asked for a lower fine to be put, what signal does that give in terms of the govt's ability to take tough decisions?**

If a body packed with as many top bureaucrats as the DCC can't take a decision that it wanted to take, how will the government take other decisions that have been pending for over five years? Even before RJio disrupted the market, telcos were in deep trouble since the government was taking away 11-13% of their top-line in the form of license/spectrum levies while, at the same time, charging them astronomical amounts for spectrum; Trai's recommended reserve price for 5G spectrum, for instance, is effectively 54 times that in Germany. The high annual levies were charged when spectrum was given almost free, but should have been made near zero when the spectrum was market-priced. It is difficult to see that call being taken now, given how DCC ducked even a simple decision.

What contributes to the delay in the government slashing annual levies is the view, also expressed recently in a newspaper article, that while Airtel's debt is primarily related to its expensive acquisition of Zain for $10.7 billion in 2010, Vodafone's debt is related to its expensive purchase of Hutch's India operations; indeed, the logic goes, RJio has a debt of just around ₹70,000 crore and started making profits within just two years of launch. While it is true the Zain acquisition didn't work out, less than a third of Airtel's current debt is due to the Africa acquisition; in the case of Vodafone, the cost of acquiring the India assets are on the parent's balance sheet, not on the India balance sheet. And a Kotak Institutional Equities analysis put RJio's real debt at ₹216,300 crore some months ago; even if you reduce the debt offloaded via the recent deals the firm concluded, the net debt should still be around ₹145,000 crore. In other words, the industry is in dire shape.

In the case of sectors like oil and gas—or mining for that matter—where import dependence has been rising despite the PM's targets for lowering it, the key to fixing this is allowing firms marketing freedom; once they get higher prices, and more profits, they will invest more. While the government has allowed more marketing/pricing freedom, the decision pertains to just new finds while the bulk of production comes from old discoveries; the government knows that higher prices should apply to existing finds as well if more investment is to be made, but taking that decision can mean potential queries from CBI/CVC/CAG ... Ditto in the case of the non-oil minerals—these account for a fourth of India's import bill—where Indian levies are 2-3 times as high as those internationally.

The short point is that, if investment is to revive, the government has to take decisions which will seem to favour a class of investors. Not taking decisions and palming them off on to courts (as in the case of the promised repeal of the UPA's retrospective tax) or even reversing policies (as happened in ecommerce after Wal-Mart bought Flipkart for $16bn) is going to drive investors away; that is why investment levels have fallen from 34.3% of GDP in FY12 to 28.6% in FY18 and, within this, FDI from 2.5% to 2.3%.

InnovativeINDIA

A better showing in the innovation index is great, but India must do more

THE FACT THAT India rose five places in the Global Innovation Index in 2019 over 2018 is heartening. Innovation in India has thrived on the back of a large talent pool in STEM subjects, increased investment in the Indian innovation ecosystem by MNCs such as GE, IBM, etc, a jump in international patent applications filed—India saw the sharpest rise globally, as per filings with the World Intellectual Property Organization (WIPO), in 2018—top-notch institutes and its phenomenal strength in ICT. The scale of the domestic market and the GDP-growth per worker have been important drivers of India's improved showing.

But, while India was one of the eight countries that received 82% of the private investment in innovation in 2017, its share has increased less sharply than that of other Asian nations. Moreover, while our top-rung universities and institutes (IITs Delhi & Mumbai, IISc) do well regionally, they have consistently remained out of the global top-100. Although the STEM talent pool in India is large, a large section of this pool may not be of high-quality. Moreover, the GER at the tertiary education level in India is a low 26% meaning, a vast reserve of potential research talent is lost. Thus, while India is within touching distance of breaking into the top-50 innovator countries in the world, it is still quite far from a China, which filed, for instance, 53,345 patent applications with the WIPO in 2018 versus India's 2,013. India is an odd juxtaposition of stellar successes like the Chandrayaan and digital payments and a large number of unemployable engineering graduates and institutes that have virtually no autonomy. The government is trying to change this picture, foremost through the recommendations of the draft National Education Policy. The need, now, is to reform a host of sectors to make sure India breaks into the top-20 soon.

JOHNSON'S CHOICE

IN THE CURRENT POLITICAL CHAOS, THE CHANCE THAT THE BREXIT DEAL AS IT STANDS CAN BE REVIVED WITHIN THE NEXT 100 DAYS SEEMS VANISHINGLY SMALL

EU must give Johnson a new Brexit deal

CLIVE CROOK

Bloomberg

BRITAIN'S NEW PRIME minister, Boris Johnson, won the job promising to do something Europe's leaders have long refused to allow: renegotiate the Brexit withdrawal agreement. The EU should think again—not to help Johnson, but for strictly selfish reasons.

The constant sticking point in the Brexit saga has been the so-called backstop—the plan to avoid new border infrastructure between Ireland, which will remain part of the EU, and Northern Ireland, which won't. This ties the UK into a customs union with the EU and requires compliance with much of Europe's single-market regulation. It would be a kind of second-class membership, with no say in the rules, and no exit clause. The UK can devise alternative border arrangements, but Europe gets to decide whether they suffice, and Britain can't quit the arrangement unilaterally.

You can see why Brexiteers are unimpressed. Opposition to this part of the Brexit deal is the main reason Theresa May's government failed, three times, to get the agreement through parliament. It is why Johnson is now in charge. Amid the current political chaos, rule nothing out—but the chance that the deal as it stands can be revived in the next 100 days (the Brexit deadline is October 31) and might pass at a fourth attempt seems vanishingly small.

Other possibilities are much more likely—a deliberate no-deal Brexit of the kind Johnson has promised as a last resort, an accidental no-deal Brexit if Brexiteers and Remainers in Parliament continue fighting each other to a standstill, a second referendum, a general election—even, conceivably, unilateral revocation of the decision to quit the union. Here's the thing: All of these possibilities are worse for the EU than agreeing to a new deal with no backstop.

A no-deal Brexit would hurt Britain severely, no doubt—but it would also damage the EU's economies at a time when their prospects aren't bright. A referendum, general election or revocation of the UK's Article 50 notice to quit would each cause further protracted delay and uncertainty, quite likely with a constitutional crisis (or crises) thrown in for good measure. Again, the UK would be the principal victim of the ongoing turmoil—but, again, Europe would suffer collateral damage. A Britain's that's half in and half out of the EU is a paralysing distraction.

None of these alternatives offers closure, or even a foreseeable outcome. Europe's leaders are already sick, justifiably, of the Brexit saga. And that's why they should be helping to push it toward, rather than away from, an orderly resolution.

The form this should take is simple: Take the backstop out of the withdrawal agreement and replace it with an undertaking to avoid, by whatever means, installing physical infrastructure at the Northern Irish border. Exactly how much of a challenge it will be to devise an invisible border depends on the specifics of the long-term trade deal that Britain and the EU eventually strike. Formal negotiations on that long-term deal have barely begun, because Europe insisted on settling the details of the exit deal first. The withdrawal agreement provides for a transitional period where trade arrangements don't change, pending agreement on the long-term deal. The backstop issues can therefore be tabled and dealt with later.

There are two main objections, both seemingly accepted as self-evident truths. In fact, both are plainly wrong.

First is the idea that this solution would betray the people of Ireland, north and south of the border, by leaving a vital question affecting their futures unresolved. But whether one likes it or not, the border issues cannot be fully resolved until the long-term trade deal is finished and the exact nature of the problem laid bare.

> **UK would be the principal victim of the ongoing turmoil—but, again, Europe would suffer collateral damage**

True, technological and administrative solutions will take time and money to work out—but they aren't impossible and shouldn't be dismissed as magical thinking. Bear in mind that EU members apply different rates of value-added tax, which would ordinarily require border checks; these are avoided using exchanges of information, registration schemes, and behind-the-border procedures. The challenge posed by a UK that stood outside the customs union and single market would be much greater, but the problem isn't insuperable.

Also, Britain and Ireland both have a compelling security interest in maintaining a low-friction border: A post-Brexit Britain is most unlikely to shirk this obligation. Bear in mind, as well, that in the case of a no-deal Brexit—the alternative that the EU seems willing to contemplate—it is Brussels, not London, that will be calling for new infrastructure on the border to curb smuggling and protect the integrity of the EU's single market. The claim that Europe's insistence on the backstop arises from its overriding concern to maintain an invisible border and peace in the North is more than a little disingenuous.

The second objection is that Johnson would seize on any concession as a victory—and the EU, eager to discourage further defections, can't allow the UK anything that looks like success. But if this was ever a danger, the events of the last three years have dispelled it. No other member of the European Union could look at what has happened in Britain since the referendum passed in 2016 and think, "That's the way to go."

The country's politics is shattered. The economy has taken a serious hit, with more to come. Two prime ministers have lost their jobs. And the country's standing in the world seems damaged beyond repair. Is that not a sufficient deterrent? Allowing an orderly exit wouldn't undo the economic and political harm that Britain has already inflicted on itself. Nor would it assure Brexit's success—assuming, of course, that Europe's leaders are right that the EU confers great benefits on its members.

Talks and refusals to talk are matters of strategy, and the best course isn't always obvious. In this case, though, it is. Europe should think again. Insisting on the backstop and refusing to reopen the withdrawal agreement is just plain irrational.

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Data protection: Putting people first

Data safety regulation is not a barrier to India's role as a global destination for data processing. Rather, it will expand our attractiveness

MISHI CHOUDHARY

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Views are personal

NOW THAT THE election is over and we have heard about India's upcoming Data Protection legislation, it's time to recap what we expect from this framework. India is writing its data protection legislation on a clean slate. It has the advantage of the experience of the European Union (EU) in the creation of its General Data Protection Regulation and the dithering of the United States Congress on the issue, with California taking the lead. But, the national opportunity for India is not to follow in any other society's footsteps. We have the technical knowledge and the social commitment to build a new pathway of our own that will be important as an example to others throughout humanity.

The last draft we saw was a result of the report submitted by the nine-member expert committee headed by Justice BN Srikrishna, titled The Personal Data Protection Bill, 2018. That draft was not cast in stone, but what gets passed by the Parliament will be.

We should begin by understanding that the purpose of the legislation is not to protect data, but to protect people. This simple shift of focus affects the details of drafting, for we are making a statute to protect people, not to regulate the general data economy. It affects the scope of application, which must be as transnational as necessary to protect every person to whom digital services involving data collection or processing are offered, no matter where in the world the data is actually stored or how it is processed, aggregated or modified. Protecting people means concentrating attention on the harm that can flow from data collection and retention, and providing remedies against them. An architectural mistakes India does not want to copy from the EU is the attempt to centre the legislative design around *types* of data, rather than types of harm against which law should provide remedy.

What we are making, then, is data safety regulation, protecting not data but people, drawing its categories from the harms against which people should be made safe, and the remedies for failures of safety, not primarily legislation for the protection of data as a basis for industrial activity. Therefore:

- Data safety legislation should define the harms that people can suffer, against which the law's remedies are directed. Harms of disclosure, harms of unpermitted aggregation or use for impermissible inferences or discrimination, harms of facilitation of crime or civil wrong—all should be given specific definition and characterisation.
- In general, the principle of safety is control—people should know when data about them is being requested, how that data is being processed, that the results of aggregations and combinations of their data with others data are being returned to them, as well as being used by others.
- In addition to rules giving people control over their data, there should be rules of accountability and safe handling. Parties responsible for the management of personal data on a large scale should be required to give people real-time access to information about the use and handling of their data—who has requested it, what was provided, what rules or agreements govern how it can be used downstream, and how long it can be retained there. Safe storage practices (concerning encryption to protect against accidental or criminal disclosure, and access by judicial process in India or abroad, requiring accountability for all disclosuresincluding disclosures to government) should also be defined by regulation and updated by ongoing government administrative process.
- Remedies must be provided that give swift recourse for people whose data is harmfully disseminated or mishandled. Indian legal system is notorious for the prolonged delays to decide matters, any recourse cannot work effectively if it is not swift and urgent. Large-scale processors of information should be required to post bond or otherwise ensure prompt recourse. We should not expect multi-tier litigation, following on administrative action, by a "data protection commission" or agency to provide realistic remedies for injured parties unless it has a fund for compensation based on taxation of the affected industry, similar to safety regulators in the financial industry around the world.
- A primary goal of data safety regulation should be to inform people of their risks and available remedies. It is crucial that the law itself, as well as the subordinate legislation to which it gives rise, be as simple as possible. Data protection legislation is often devised to hide all the trees in the complexity of the forest. That must not happen here.
- Abandon the misguided obsession with data-localisation while recognising the realities of a cloud-to-mobile architecture.
- Penal provisions, if necessary, must not be all non-bailable, otherwise they would lead to a scenario similar to arrests under Section 66A of the IT Act.

Data safety regulation is not a barrier to India's role as a global destination for data processing. On the contrary, our current success in that competition for global data service business has come *despite* international customers' concerns about unsafe Indian data practices. Making India a global leader in data safety will expand rather than reducing our attractiveness in the world market.

Similarly, Indian data safety can be a strong value for start-ups and innovative small businesses, which can operate with certainty that their own reputations and market access will not be undermined by data safety crises and exposure episodes of the kind that are now routinely experienced by companies, large and small, around the world. Data privacy and safety regulations protecting individuals are an export industry for Digital India. Indian companies can provide to consumers around the world a commercial product that guarantees comprehensive privacy and near-complete data safety, unlike the American platform companies. It's only a matter of smart policy and quick execution.

LETTERS TO THE EDITOR

Trident of initiatives

Appropos of "*With consumption, investment flagging, even a 7% growth looks a bit of a stretch now*," datd July 25, our decade-old middle class driven economy is clearly getting consumption-neutral. Given the drift in the global economic scenario, as also in our domestic policy environs, neither is there an urge for investment nor for savings due to lack of incentives. Consumption is no longer fuelled by the lower-income segment, which is losing its purchasing power, the middle one keeps away from white goods on uncertainties of the future and the upper strata is waiting for billowing sail winds. Spending does not create wealth, production does, and that needs a healthy pool of savings to add wealth and jobs. An astute mix in policy approach that channels funds to the lower strata and enables savings to the next, and calibrated tax incentives for job-creating capital, could be our optimum way ahead. Additional debt-fueled consumer stimulation will make things worse.

— R Narayanan, Navi Mumbai

Karnataka crisis

After the fall of the Congress-JD(S) government in Karnataka due to the dirty-money/power game played by the BJP by purchasing ruling MLAs with huge amounts, the fact of the matter is that no party has the majority to form the government, and if they form it, it will not survive for long, making a mess of the state in all sectors while the people suffer. I strongly feel that given the unstable political situation, the Governor must dissolve the assembly and impose the President's rule until fresh elections are held to enable the people of Karnataka to choose again. The party that then wins must get the absolute majority to survive for a full term and allow the state to stabilise, progress and develop. The only option left for Karnataka is to have fresh elections.

— Bhagwan Thadani, on email

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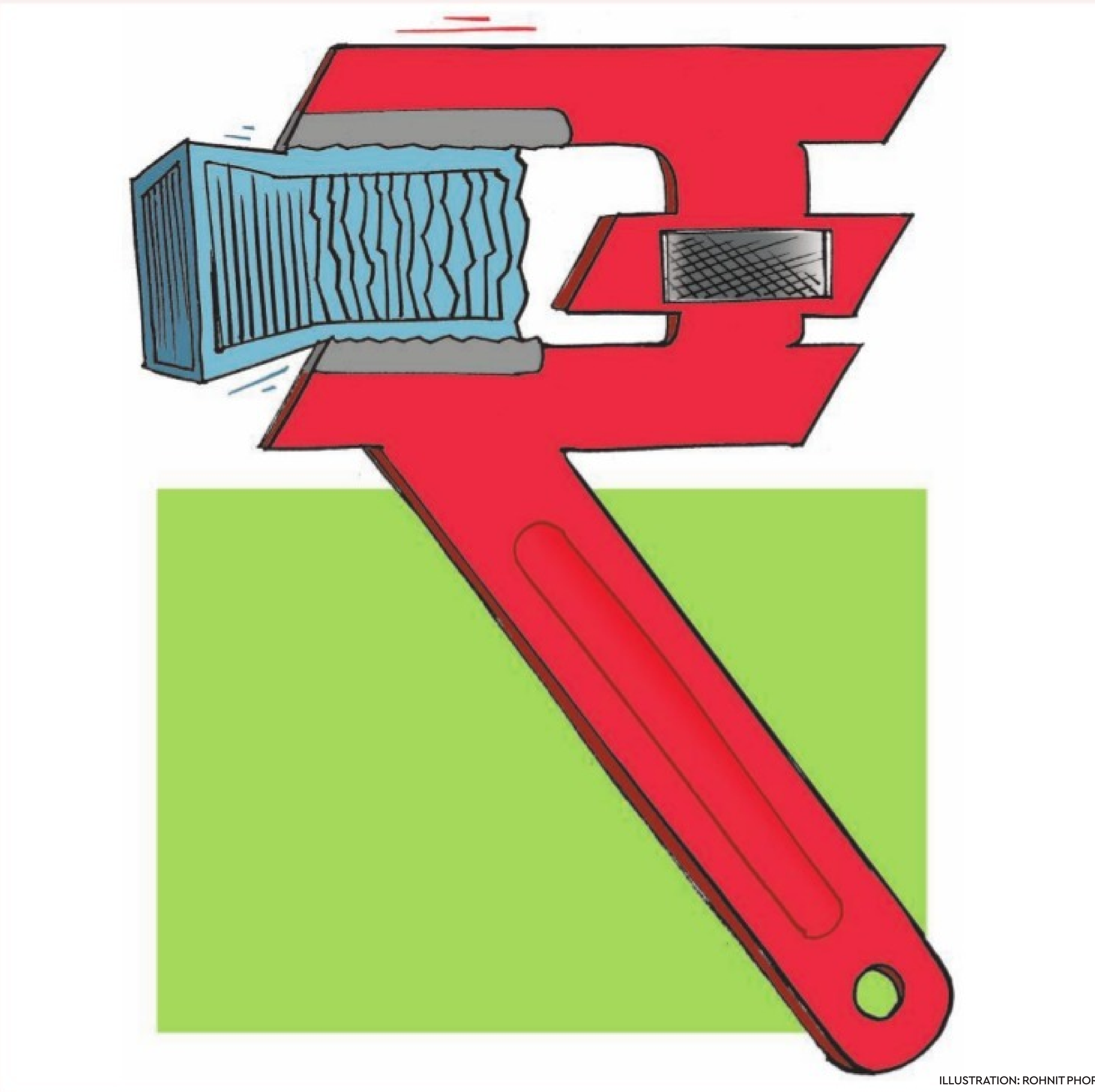

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India is indeed a 'tariff king'

There is very little by way of analytical comparison of tariff structures that would negate the impression of India being a high-tariff economy, at least among the emerging market developing countries

THE FLOW OF BAD BLOOD between India and the United States (US) on trade doesn't look like ebbing. The latest in the saga is the challenge mounted by the US at the World Trade Organisation (WTO) on India's hike in customs duties on as many as 28 US products, imposed on June 15, 2019. The US contends that by acting the way India has, it has accorded less favourable treatment to products imported from the US, as opposed to those from other WTO members. This move came on the back of the US President Donald Trump again describing India's tariffs as "not acceptable."

The description of India as a high-tariff economy is familiar and commonplace. However, is it correct? Whether India is a high-tariff economy or not should be judged vis-à-vis the tariffs charged by other large major emerging market developing countries, which are structurally comparable to India. Indonesia and Brazil might be the relevant examples.

> **A particular feature of India's import tariffs is high 'bound' rates, which are noticeably high for several categories for India, such as for fruits and vegetables**

According to the WTO, India's simple average MFN (most favoured nation) applied tariff rate was 17.1% in 2018, with an average agricultural tariff of 38.8% and non-agricultural tariff of 13.6%. The comparable tariffs for Indonesia were 8.1%, 8.6% (agriculture) and 8% (non-agriculture); and for Brazil these were 13.4%, 10.1% (agriculture) and 13.9% (non-agricultural), respectively. Going by simple averages, Indian tariffs faced by other WTO members are higher than those they face in Indonesia and Brazil. The higher overall Indian tariffs are primarily a result of the high agricultural tariffs. Both Indonesia and Brazil have much lower applied agricultural tariffs than India. On the other hand, India's average applied non-agricultural tariffs are slightly lower than Brazil's, while being higher than Indonesia's.

A particular feature of India's import tariffs is the high 'bound' rates. Bound rates—these are the maximum rates up to which WTO members can push up tariffs—are noticeably high for several categories for India. For fruits and vegetables, for example, India's tariffs are bound at an average of 101.1% with a maximum of 150%. Such rates for Indonesia and Brazil are 45.6% and 60%, and 34.1% and 37.1%, respectively. India's average applied tariffs for fruits and vegetables are 32.4% with a maximum applied rate of 105%. The similar rates for Indonesia and Brazil are 5.7% and 20%, and 9.7% and 35%, respectively. Therefore, India's much higher bound rates, as well as the high maximum applied rates, leave little scope other than concluding India to be a much higher tariff economy than Indonesia and Brazil in fruits and vegetables.

The other feature reinforcing impressions of India being a high-tariff economy is the 'binding overhang', i.e. the difference between the bound and applied rates. Large differences tend to create uncertainties about an economy among its partners with respect to its trade policy actions. Such uncertainties lead to strong demand for deep tariff cuts in bilateral and regional negotiations. In hypothetical India-Indonesia tariff talks, for example, India's binding overhang of 68.7% in fruits and vegetables, as opposed to 39.9% for Indonesia, would encourage the latter to demand deeper cuts. Agreeing on an equivalent slice of tariff cuts, say 20% on the bound and applied tariffs, would mean India cutting the average bound and applied tariffs on fruits and vegetables to 79% and 25%, from 101.1% and 32.4%. For Indonesia, similar cuts would mean the average bound rates dropping to 36% from 45.6% and the applied rate to 4.5% from 5.7%. Relative market access to be given up to India would be much more. Furthermore, the binding overhang would still remain much high for India, leaving the room for demand for further cuts in the future. India, though, might not be able to demand the same.

Like most other countries, the American perceptions on Indian tariffs are guided significantly by the high bound rates and the binding overhang, particularly in agricultural products, contributing to the 'tariff king' perceptions. The other factor contributing to such perceptions is to leave products outside the 'binding' coverage of the WTO. These are the products where countries wish to have the flexibility of applying tariffs higher than the bound rates they commit to at the WTO for the sector. For India, this is mostly noticeable in the manufacturing sector. In transport equipment, for example, while the WTO bound tariff rate is 40%, almost 30% of the disaggregated tariff lines for transport equipment products are outside the binding coverage. Tariffs for this excluded segment can be conspicuously high. Indeed, in India's case, the applied maximum tariff of 125% is well above the bound rate of 40% for transport equipment. The 'unbound' tariff lines are far less for Indonesia, while Brazil has bound all its imports to the rates committed to the WTO.

There is, unfortunately, little room to dispute that India is a far higher 'tariffed' economy than its counterparts such as Indonesia and Brazil. Other comparisons might lead to somewhat different conclusions, but only in magnitude. There is very little by way of analytical comparison of tariff structures that would negate the impression of India being a high-tariff economy, at least among the emerging market developing countries. The 'tariff king' label is there to stick.

Mining can be sustainable

RAHUL SHARMA

CEO, Alumina, Vedanta Ltd

How to bring back the excavated land to original land-use in the mined-out area

THE MINING SECTOR is witnessing a green revolution in India. Hundreds of acres of spent mines are being restored into fertile fields. With the potential of these mines tapped, lands are being scientifically refilled for local communities to generate food and fodder. This is the modern face of mining that involves maximum economic development with minimum environmental impact.

Aluminium, the second-most used metal in the world, has a vital role to play in India's economic growth. It's used in energy security, national defence, infrastructure, electrification, aerospace, automobile, consumer durables and packaging, and is a key element for the government's initiatives like Make in India, Smart Cities, Power for All, indigenous space programme.

The aluminium industry also has the potential to yield huge economic dividend and help generate millions of jobs. Termed as a 'green metal' for its eco-friendliness (it can be completely recycled), aluminium is already a significant contributor to India's GDP, and yet there is a potential for growth as India's aluminium consumption is hardly one-fifth of global average.

The Indian aluminium industry has generated over 8 lakh jobs directly and indirectly, and helped developed over 4,000 SMEs in the downstream sector over the last few decades. It also has a strong output and employment multiplier effect (backward and forward linkages) on other key sectors.

Most aluminium smelters in India are located in underdeveloped areas where they have generated peripheral employment, have aided in the development of the region and improved the per capita income of the area. These areas within the 'aluminium ecosystem' are entirely dependent, socio-economically, on the aluminium industry.

> **Modern tech coupled with integrated sustainability can make domestic bauxite mining a viable option for India**

Bauxite is the primary ore used in the production of alumina, which, in turn, is the raw material in the aluminium manufacturing process. India, with a reserve base of over 2.2 billion tonnes, is home to the sixth-largest bauxite deposits in the world, with the mineral-rich state of Odisha having some of the world's best and largest reserves. Indian bauxite is largely located on a single plateau, thus making bulk open-cast mining possible, resulting in opportunities to implement technology-driven scientific mining techniques. Also, close proximity between bauxite mines and alumina refineries affords Indian manufacturers the opportunity to manufacture high-quality aluminium at globally-competitive costs.

Sustainability initiatives are in place to bring back the excavated land to original land-use in the mined-out area for rehabilitation and livelihood. After the mined-out area is reclaimed by backfilling of the top layer soil, the surface is brought back to the original ground level. Today, mining commitment includes extensive re-greening of the mined land and participation in the socio-economic development of communities around.

The mining and metals sector has historically been at the receiving end of protest campaigns that have derailed projects or even shut existing operations. But there is empirical evidence of how mining has transformed the fortunes of states and countries. In fact, the surface-mining operations for bauxite are among the most eco-friendly and sustainable, involving extraction of bauxite ore from the surface and upper layer of the mine, without digging deep trenches or underground blasting.

A pragmatic approach would be to put a scientific plan to tap the country's bauxite mining potential, putting adequate riders and safeguards in place to protect the interests of all the stakeholders driven by sustainability and socio-economic growth. While the mining industry has evolved from its earlier unsustainable practices, it is time the stakeholders and naysayers come together and agree on acceptable globally-established practices. As a growing nation, we need to balance the interests of the nation with the local communities using a fact-based approach that leads to growth at all levels in a sustainable way.

ECONOMIC CHALLENGES

Govt has a tough job at hand

A balance between fiscal prudence and investment-driven growth is needed

ANIL K KANUNGO

Professor, LBSIM, and former senior faculty, IIFT, Delhi

AMONG A VARIETY OF challenges that the newly-formed government at the Centre can envisage, the economic challenge is possibly going to be at the centre stage for quite some time. Witnessing a slowdown in the economy in terms of experiencing reduction in GDP growth from 8.1% in March FY18 to 5.8% in March FY 2019 indicates that the economy is genuinely not in good shape, and the government has a tough job at hand. It is precisely because GDP is connected to productivity, and productivity is overwhelmingly connected to participation of human labour and engagement. With the slowdown in the economy, unemployment is going to turn its ugly head once again, even though this has been one of the key pressing issues during the 2019 election campaign.

The recent NSO report adequately corroborates this by stating that the unemployment rate is currently above 6%. Data suggest that half the youth in India are aged 25, of which 19 million are expected to be jobless by the end of 2019, according to a 2018 report by the International Labour Organisation (ILO). Challenges are, therefore, humongous, and the government needs to engage itself in serious introspection; it must also set up a willing competent taskforce to address the issues at the ground level.

Already reeling under consumption slowdown, liquidity crisis in the non-banking financial company (NBFC) sector, fall in exports and lower terms of trade in the agricultural sector, optimism around India's economic growth has taken some beating. With the GST not living up to expectations and fiscal expenditure rising amid compelling priorities, the economic growth seems difficult to accelerate.

Weaker consumer demand and slower growth in investments were blamed for the slowdown in India's economy. Consumption constituted about 60% of GDP (at current prices) during 2017-18 and 2018-19. A decline in consumption indicates that the demand has dried up and needs to be revived immediately. It is in this context that raising the income of the bottom quintile of population assumes significance. This could be achieved through direct income transfers and a host of other income support mechanisms that need to be worked out through wider deliberations and consultations. Secondly, investment, which is another major driver of economic growth, also witnessed a bumpy ride. Private investment grew 7.2% in the March quarter, down from 8.4% in the previous quarter, while investment growth slowed to 3.6% from 10.6%. The slowdown would put pressure on for fiscal stimulus, including tax cuts on fuel products to boost consumption.

The farm sector contracted 0.1% in the March quarter, compared with 2.7% growth in the previous quarter, while manufacturing grew 3.1%, slower than 6.7% in the previous quarter. Several indicators such as automobile sales, rail freight, petroleum product consumption, domestic air traffic and imports are indicating a slowdown in domestic consumption. Corporate earnings hit a six-quarter low growth rate of 10.7% during January-March 2019 on weakening consumer sentiment and softening commodity prices. Stress in the NBFC sector has largely affected consumption finance. Weak rural activities have also been impeding growth recovery. Low rural wages, slowdown in credit from low to medium scale industries, and weak demand in two-wheeler and commercial vehicle sales have also contributed to low economic activity and thus economic growth.

Unlike during the first five years of this government, the solution to the problems this time around is complex and requires a radical shift in economic policy. If the first term of the government was dominated by housing, roads, skill India, digital India and toilets, the second term would have to be dominated by investment, jobs and resurrection of the dislocated financial sector. Among immediate priorities, one would expect the second term of this government should focus on measures to revive consumption, address financial sector dislocation by recapitalising PSU banks, boost the manufacturing sector to ensure job creation, and address the issue of skill shortage in the country to ensure employability.

Likewise, on the rural front, where farm distress has been acute and is threatening farmers' productivity and livelihood, the government should sincerely attempt to revive terms of trade in agriculture. The government must strengthen e-NAM, enhance micro-irrigation facilities, increase credit to agriculture and boost farm prices through effective implementation of some relevant schemes. Not just welfare schemes, but the government now has to adopt a balancing act between development and consolidation.

The government needs to ensure that it maintains a balance between fiscal prudence and investment-driven growth; an imbalance could either lead to a slowdown or rise in inflation. It is possible for the government to go for an option such as to increase investments to provide a temporary boost, but it has to proceed with extreme caution especially as direct tax collections—a key source of investment—have not been satisfactory during the year.

Now all eyes will be on the new Union finance minister Nirmala Sitharaman, who has to implement quick measures to balance growth and consolidation—a key blend to achieving double-digit growth in the future.