



# WHAT'S GOING ON? Congress leader, Rahul Gandhi

Everybody knows what is going on in the country. It's not a secret. In fact the whole world knows it. We are moving into an authoritarian state. It's pretty clear

### RBI cuts rates but makes it clear a revival will take time

Lending rates stay high despite the repo-cuts but, in any case, the slowing economy is keeping borrowers away

RIDAY'S CUT IN the reporate of 25 basis points, taking it to 5.15%, which is the lowest in nine years, is unlikely to move the needle on the demand for loans by either companies or individuals. To be sure, banks will drop their loan rates since many have pegged these to the repo. However, it is not high interest rates that are keeping borrowers away; it is the sharply slowing economy—acknowledged by Reserve Bank of India (RBI) in its drastic cut in the GDP forecast for 2019-20 to 6.1%—and the fear of job losses and stagnant incomes. There are those who believe that a 40-basis-point cut in the repo would have prompted banks to lower loan rates meaningfully and stimulate demand. That, again, seems unlikely. The fact is banks are understandably cautious about lending to companies whose balance sheets are weak; not a day passes without the ratings agencies downgrading one company or another. There is little demand from A-grade companies given how working capital cycles have tightened, and how there is no rush, whatsoever, to add fresh capacity. This is borne out by the fact that although liquidity in the banking system has been in abundant surplus for more than three months now—around ₹2 lakh crore—and loan rates have come off by about 30-35 basis points, non-food credit growth has fallen to sub-10% and is running at two-year lows. So, while Governor Shaktikanta Das has promised to stay accommodative till growth revives, and he is likely to keep his promise since inflation is expected to stay benign and well within the MPC's target of 4%, it can help only at the margin.

Indeed, the accommodative stance appears to be aimed at addressing the elevated term-premium. As bond experts have been pointing out, the term-premium remains high primarily because of concerns that the fiscal deficit will slip, owing to a shortfall in tax collections; the recent shortfall in GST collections has exacerbated these concerns. On Friday, the yield on the benchmark jumped 8 basis points to close at 6.689%. With the government failing to reduce the interest rates on small savings schemes, the term-premium could remain elevated for some more time. Also, even though there isn't much borrowing taking place, borrowing rates appear to be stuck at high levels. Additionally, credit spreads have actually been widening. Economists point out that not only is the the term-premium too high, the real repo rate is also very high despite Friday's cut. While the Governor has made it clear that OMOs will be used to add liquidity, the sharply lower GDP forecast is a sign RBI will bat for growth. By highlighting the widening output gap, the MPC is signalling to the bond markets that the rate cut cycle hasn't ended, but the promise of another cut—or even two in the next few months—doesn't seem to have eased its concerns. The other factor that is keeping credit spreads high is, of course, the stress in the NBFC sector, and also in some banks. While access to affordable credit is necessary for an economic recovery, a sustained uptick would require the government to usher in serious structural reforms including easier land and labour laws, friendly and reliable regulations, and so on.

## Allow IITs to build corpuses

Seeking alumni contributions alone won't meet funding needs

HE IIT COUNCIL, the apex policy-making body for the Indian Institutes of Technology, has come up with a raft of reforms that, if implemented in the right earnest, can significantly boost the institutes' international reckoning. Though the IITs enjoy a solid reputation in India and abroad many C-suite figures in top MNCs are alumni—the fact is that neither the IITs nor any other Indian university/higher education institution made it to the top-300 of the Times Higher Education (THE) World University rankings.

The IIT Council has batted for linking teachers' continued employment to their performance—against the earlier system of largely inducting permanent faculty members—and has called for five-year contracts for teachers going forward, which means that hiring and firing will get much easier. Given one of the reasons for Indian universities not figuring in the many lists of top universities worldwide is poor teacher quality, the IITs moving towards teacher-assessment is a welcome move. Setting clear accountability standards, including in R&D contribution, should help achieve and maintain high teacher quality. According to Clarivate Analytics, only 10 Indians figure among the world's top 1% highly-cited researchers in two fields. So, a model where teacher performance is made paramount could also mean more quality research, if teacher assessment is designed to encourage this. But, unless the IITs get true autonomy—they remain shackled to fulfilling the government's inclusion goals through policies like student and faculty reservation teacher assessment won't make a meaningful difference. Appealing to alumni to contribute 1% of their earnings is another proposal that the Council has adopted. This would no doubt mean some additional funds. But, while Indian universities have produced many globally acclaimed industry leaders, alumni giving back remains a sore spot—for instance, IIT Madras raised just ₹55 crore from alumni contributions in FY17 while MIT, which draws much lower contribution and endowments than, say, a Harvard, saw ₹800 crore come in from its alumni that year. The IITs need to set up corpuses, like top universities abroad do. Indeed, in 2016, the total endowment (corpus fund) wealth of American universities was estimated to be over \$535 billion, with the top 25 universities holding nearly 52% of it. Large corpuses, built from alumni and industry donations, are invested to ensure some degree of financial security for universities. The government should facilitate corpus building, instead of being critical of it like it was when IIMs—after getting partial autonomy—did this. Also, the IITs would be much better served if they had the independence to fix fees to have well-off students cross-subsidise those from weak economic backgrounds. A cut from the monetisation of innovations and businesses nurtured using IIT facilities would also help.

#### **TwitterBLEEPS**

Censorship by Twitter, often resulting from govt requests, makes it seem like a publisher while it calls itself a platform

**OCIAL MEDIA IN** India has largely been left free of censorship so far. However, things could be changing fast. *The Hindu* reports that government demands for content removal from Twitter were the fourth highest in the world between June and December 2018. The government made 657 legal demands for content removal in this time, flagging 2,228 Twitter accounts of these, 95 accounts were suspended and 114 tweets were withheld. While the absolute numbers may seem small, they represent a 100-fold growth from the same period five years ago. Although a recurrent phenomenon, social media censorship is now being carried out with unprecedented opaqueness. For instance, while the standard procedure on receiving a demand for blocking an account or deleting a tweet is to send an email notice to the affected user, Twitter said that it does not send any such notification if it is so asked by the party requesting the withdrawal—the company did not specify if the Indian government had ever prohibited it from doing so. Moreover, notifications, when provided, often don't specify the violation the user is accused of, or even who the plaintiff is. Shadow-banning, or restricting the visibility of a specific user or their post, is also part of Twitter's opaque censorship practices.

While Twitter and other social media have claimed to be platforms—earlier this year, Twitter CEO Jack Dorsey had said, "people see Twitter as a public square, and therefore they have expectations that they would have of a public square"—such censorship is exercised by publishers. In which case, Twitter becomes liable for all that is published on it. Given how the lack of clarity allows both governments and Twitter to get away with arbitrary restrictions on fundamental freedoms, there is a need to get regulation right.

#### CHLOROPHILE

FROM DEVELOPING VARIETIES THAT DON'T NEED FLOODING OF FIELDS TO ENRICHING THE GRAIN'S NUTRIENT CONTENT, IRRI IS MAKING RICE A WONDER CROP

# Reaping riches from rice research

**REMEMBER MY** grandmother, a widowed smallholder farmer, sowing 'Ayarate,' a newly-introduced rice variety that was the talk of her village. It was the late 1960s, or early 1970s. IR8 was a semidwarf, and high-yielding variety, which the International Rice Research Institute (IRRI) released in November 1966. The following year, Nekkanti Subba Rao, a progressive Andhra farmer tested it in his farm, and supervised a large-scale field demonstration at the behest of the government. From those seeds came the Green Revolution in rice in India.

For a rice-eater like me, visiting IRRI, near Manila, in the Philippines, was like a pilgrimage. The scientists were engaged in producing more rice to feed a rising global population, and new converts to rice from Africa. They are also producing better rice that addressed micronutrient deficiencies—Vitamin A, zinc, and iron with conventional breeding, if possible, and genetic engineering, if necessary. More and better quality rice had to be obtained from plants that are resilient to climate stresses, and use fewer resources like water.

"There is a wrong perception that rice needs a lot of water," IRRI says, defending a crop that is indicted for groundwater depletion in north-western states like Punjab, where it is grown mainly for consumption in other states. Punjab contributes in excess of 80% of its rice production to the central public distribution pool. It grows rice on three million hectares. That very much coincides with the area irrigated by its tube wells—2.94 million hectares. The pumping out of water in excess of the recharge rate has resulted in groundwater depletion in 70% of central Punjab, the state's Economic Survey says.

"The conventional practice of rice production is bundled with the perception that rice needs to be flooded for most of the time." Rice can survive in anaerobic conditions because a specific type of cells pass on oxygen to roots, IRRI said, in response to emailed questions sent after recorded presentations of its scientists, and interviews were accidentally lost. The visit to IRRI was part of a week-long programme on the status of genetic engineering of crops in East and South Asia, to which CropLife Asia, an industry



body, had invited me at its expense.

Should groundwater use for cultivation of rice be discouraged? If the aquifers are well-connected, and rechargeable, pumping of groundwater is one of the good approaches to capturing water from rain and rivers, which otherwise ends up in the sea. But, how much water can be pumped out? According to IRRI, that depends on the type of aquifer, and the recharge capacity, which, in turn, depends on the source of recharge, and the properties of the sink.

IRRI says the use of groundwater allows rice farmers to make decisions about sustainable water management; they lack such autonomy with, say, canal water systems. So, instead of discouraging rice farmers from using groundwater, they should be educated about the benefits of precise water management. Efficient irrigation scheduling (like alternate wetting and drying) not only shrinks the use of water but also the carbon footprint by reducing emissions of methane, a greenhouse gas, from bunded fields or paddies. Incentivising farmers with carbon credits can encourage them to use groundwater efficiently, IRRI says. (In Punjab, where electricity is free, there is little incentive to conserve groundwater).

conditions, like Direct Seeded Rice (DSR), a saving of about 12-35% of irrigation water is reported, IRRI says. Direct sowing can be done in dry or wet conditions by broadcasting the seeds on ploughed, but dry, fields, planting them in rows, with seed drills, or using these methods to plant germinated seed in wet fields (known as wet DSR).

When rice is grown under aerobic

According to IRRI, DSR is widely practised in many south-east Asian countries, like Malaysia (about 95% of total rice area), Cambodia (85-90%), Vietnam, Thailand (about 70%) and the Philippines (42%). In South Asia, Sri Lanka leads with 95% of rice area under DSR.

The Punjab, and Haryana governments are promoting DSR to relieve groundwater stress. Punjab Agricultural University (PAU) has developed a package of practices for DSR, and has recommended the ideal rice varieties for it. PC Sharma, Director of the Central Soil and Salinity Research Institute

DSR, there is reduction in rice yield of 5-7%. But, this is compensated by a savings in energy cost, and higher yields in the subsequent wheat crop, if zerotill agriculture is practiced, and paddy stubble is left to degrade in the fields. But, farmers, he says, are fixated on yield, and do not look at total cost savings. Also, current rice varieties

(CSSRI), Karnal, says, in

are designed for flood irrigation; rice varieties suitable for direct sowing need to be developed.

IRRI is working on more nutritious rice: High iron and zinc rice (HIZR), and Golden Rice, with beta carotene to cure Vitamin A deficiency. While zinc and iron are present in rice, the levels need to be increased to have an impact on health. Conventional breeding helps, but genetic engineering ensures a significant increase. It also allows stacking of multiple traits in a single variety.

Together with Chinese scientists, IRRI has identified the genetic make-up of over 3,000 rice varieties. The 3,000 Rice Genome Project is being used to map the genetic regions influencing the glycaemic index, and texture of rice. The results of the study, it says, will be critical to develop low-glycaemic-index rice varieties, which offers a healthier option to rice-eaters wary of diabetes.

Golden Rice is currently undergoing regulatory review in Bangladesh, and

the Philippines. It has received positive food safety assessments from Food Standards Australia (FSANZ), Health Canada, and the Food and Drug Administration of the United States. IRRI has engaged in the regulatory approval process. It says it reaches out to farmers, community groups, and NGOs, but avoids those who cannot be convinced with facts and evidence.

The discovery of a submergence tolerance gene by an IRRI breeder, and its incorporation in popular rice varieties has come as a relief to farmers in flood-prone areas, where productivity is low, and unstable. The Sub1 gene was discovered in a traditional Odisha rice variety grown in Balasore, where

flash floods are common. It was incorporated in the Swarna mega variety, grown on five million hectares in eastern India, and released in 2009. With the gene, the plant can remain completely should be educated submerged in muddy water for 7-10 days, and in clear water for up to 14 days, says S R Das, rice breeder and Honorary Professor at Orissa University of Agriculture

and Technology.

Instead of

discouraging rice

farmers from using

groundwater, they

about the benefits

of precise water

management

While underwater, the plant remains dormant. When the floods recede, it uses conserved carbohydrates to regenerate. Swarna and Swarna Sub1 are alike in all respects, except that the latter can survive flash floods. IRRI says the average yield of scuba, or Sub1, rice varieties is 4.5-6.5 tonnes per hectare, and the yield advantage is 1-3 tonnes perhectare over those that don't have the Sub1 gene. Seven varieties with the gene have been released in Asia.

Another interesting gene isolated from the Pokhali rice variety, grown in coastal Kerala, is the Saltol gene, which makes rice salt-tolerant. Rice productivity in salt-affected areas is about 1.5 tonnes per hectare. IRRI says it has developed about 100 salinity tolerant elite lines, which have traits like highyield, good grain quality, and resistance to pests and diseases. They are ready for testing in farmers' fields. It has released 34 salt-tolerant varieties across Asia.

# Luxury goods' own flight shame

There is a reason why luxury goods companies are trying to mend their ways: younger shoppers, including Chinese ones, are now demanding it



Bloomberg

"FLYGSKAM" (OR FLIGHT shame) has made some people too embarrassed to fly because of the damage to the planet. Might fashion be the next business to suffer as consumers put on their environmental hair shirts?

Bernard Arnault, chairman of luxury behemoth LVMH Moet Hennessy Louis Vuitton SE, has criticised the 16-year-old climate activist Greta Thunberg as being "demoralising for young people." She's probably a bit of a downer for him too.

Arnault's business depends on shoppers, especially young ones, buying lots of unnecessary stuff, from Christian Dior saddlebags to expensive lipsticks from the pop star Rihanna's Fenty range. Fretting about an impending environmental catastrophe, and worrying that your purchases are contributing to it, is hardly conducive to a spot of retail therapy.

The clothing and footwear industries (of which luxury is only a part) contribute about 8% of global CO2 emissions, according to Quantis, an environmental consultancy. The Ellen MacArthur foundation, a non-profit organisation, estimates that the textiles business generated more greenhouse gas emissions in 2015 than all international flights and shipping combined. There is plenty here to infuriate Thunberg.

Reliable data on the luxury industry's environmental performance isn't easy to come by, but one group (made up of Global Fashion Agenda, an industry forum, the Sustainable Apparel Coalition and the Boston Consulting Group) has had a go at creating at a scorecard. This "Pulse Score" is based on elements such as the ecological smartness of product

design, raw material use and manufacturing processes. Getting 100 would be perfection on sustainability; nobody comes close to that.

Overall, fashion had a pretty underwhelming score of 42 out of 100, although the big luxury companies scored a slightly more respectable 54. While this isn't exactly cause to celebrate, it does show that the financial clout of LVMH—and its big peers such as Gucci-owning Kering SA and Switzerland's Compagnie Financiere Richemont SA (home to Cartier) might be an advantage when it comes to trying to mitigate their impact on the planet and its resources.

Yet one can't ignore the scale of that industry impact. The luxury goods makers have enjoyed more than three years of blockbuster growth, driven largely by Chinese shoppers, meaning they are gobbling up more natural resources than ever. The natural materials favoured by the fashionable elite have the worst effect on the environment (silk is a particular disaster).

None of this is helped by the wasteful practices of many shoppers, who move on quickly to the next hot design, or indeed some of the companies. Britain's Burberry Group Plc came under justified fire last year for its now abandoned practice of destroying unsold stock to prevent it being sold off cheaply.

Kering, founded by Arnault's great rival Francois Pinault, does at least try to be transparent about the damage it does. It publishes an environmental profit and loss account, which put the cost of its impact on the planet in 2018 at about 500 million euros (\$549 million). It esti-

mates that about three-quarters of this came from raw materials processing and production. Still, while it is honest of them to publish these data, the harm is still being done.

LVMH has kept a lower profile, though it does perform well on one measure. Morgan Stanley analysts say that the more a luxury company does its own manufacturing, the better it performs on environmental, social and governance targets. That is because some of the worst industry practices happen in the supply chain away from the direct control—and responsibility—of the parent.

The LVMH brands rank well on this measure, according to the Morgan Stanley research. Three of its brands (Loro Piana, Louis Vuitton and Christian Dior) do most of their own manufacturing.

As Arnault's attack on Thunberg highlighted, there is a reason why these companies are trying to mend their ways: younger shoppers, including Chinese ones, are demanding it. In 2018 all of the industry's growth came from the under-40s, according to consultants at Bain & Company. Those consumers are more likely to be loyal to brands with a conscience.

Yet no matter how much attention the industry pays to the planet, this business is still about getting people to spend money on stuff they could live without. If the rich can be shamed into giving up their far-flung holidays, what does the future hold for Gucci's diamond belt?

> With assistance from Elaine He and Lara Williams

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# THE EDITOR

**LETTERS TO** 

#### Clarification

Apropos of "Ringing Indictment"

October 3, 2019, let me clarify that there are no technical standards relating to ringer timer either issued by DoT or by Telecom Engineering Centre or by any international body. Further, there was no legacy value or de-facto standards as operators were following different timers which were often inconsistent between two License Service Are of the same operator also. The real optimal period of ringing to have balance between effective resource utilisation and convenience of consumers to reply is complex and may vary based on consumer habit. Therefore, mandating any particular value without examining the details cannot be anyone's demand. The Interconnection Usage Charges (IUCs) are reimbursement for the work done and therefore it has to be paid as per the actual handling of the incoming calls. In such a situation, accusing a regulator for inaction based on unfounded assumptions and conclusions is not only unwarranted but aimed to create wrong picture of the regulator. SK Gupta, Secretary, TRAI

#### **KSCA** elections

Team of Roger Binny has romped to victory in the Karnataka State Cricket Association (KSCA) elections. The Binny juggernaut swept all before them with their adversaries, Harish and group, failing to bag even a single seat. The new team has promised to turn the three grounds in Alur, Belagavi and Hubbali into world-class, besides, assist clubs to improve infrastructure and facilities for players. One hopes that their stint proves to be a game-changer. — NJ Ravi Chander, Bengaluru

Write to us at feletters@expressindia.com

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#### SEVENTY YEARS OF REVOLUTION

# Unprecedented backlash marks China's rise...

**HIS IS THE** seventieth year of China's revolution. In these 70 years, China's spectacular rise as an economic powerhouse with formidable manufacturing and technological prowess is laudable. But China's rise, purported to be a 'peaceful rise', has been anything but peaceful. Its rise has evoked a backlash a backlash so fierce that it has united even an intensely polarised America.

Japan, too, has viewed China's rise in the region with caution. Japan's recent Defense White Paper 2019 indicated that "qualitatively and quantitatively superior military powers concentrate in Japan's surroundings," referencing China's expansion and intensification of Chinese military activities—ahead of North Korea's enhancement of ballistic missiles.

For decades, China 'bided' its time on the global stage. Indeed, moderniser Deng Xiaoping admonished "the nail that sticks out, gets knocked down." Deng preferred a low-profile China that 'bided its time' (taoguang yanghui) and focused on 'bringing in' (foreign investment, technology) in support of economic reforms. When it came to contentious issues, Deng chose to leave it to the "wisdom of future generations."Indeed, Deng's collegial and accommodative diplomacy took the sting out of Tiananmen (in 1989) and, critically, paved the way for Hong Kong's return (in 1997).

In the last decade, China has chosen to deviate from Deng's low-profile mantra be it in the high seas with territorial disputes in the South China Sea, the East China Sea and the modernisation of the People's Liberation Army Navy (PLAN). In the mountains, China breached the status quo in the Doklam standoff. On land, China's ambitious Belt and Road Initiative, BRI, seeks a global footprint.

Japan's recent Defense White Paper has drawn attention to China's concept of 'Three Warfares' (2003), namely 'Media Warfare'(influencing domestic and public opinion), 'Psychological Warfare' (deterrence) and 'Legal Warfare' (recourse to laws) as part of the work of the military.

In the past decade, this has certainly played out. Make in China 2025, military modernisation by 2020 and innovation power by 2050 have shaped public opinion, both domestic and international. Military modernisation, the key to building deterrence, has been met with aircraft carrier Liaoning, a Russian-built Kuznetsov-class carrier in service in the PLAN in 2012. A new Type 0001A indigenously-built aircraft carrier will be oper...With USS Ronald Reagan in the South China Sea, and Japan's Defense White Paper 2019 calling out China as the main security threat to Japan



ational later this year. China's Type 075 class of amphibious assault ship also marks a breakthrough in China's maritime capabilities. Its territorial disputes in the South China Sea, the East China Sea and the Yellow Sea have taken recourse to domestic and international law.

Among other actions, the fallout of China's Three Warfares is the posturing evident in arm-twisting companies and corporations to fall in line with the One-China policy. For example, American Airlines and Delta had to stop references to Taiwan. Several countries have switched diplomatic allegiance from Taiwan to China. In recent weeks, Solomon Islands and Kiribati switched recognition to China from Taiwan.

#### **ANURAG VISWANATH**

Studies, Delhi. Views are personal

The author is a Singapore-based Sinologist

and adjunct fellow at the Institute of Chinese

Why did China shift from keeping a

low-profile to a 'go-out'? The only mandate that the Communist Party has to stay in power is economic growth, which was inevitably slowing down. China rode the wave of globalisation and the international trading system in the 1980s and 1990s. Reforms lifted millions out of poverty. But reforms also led to sharp inequalities, urban poverty, the phenomenon of 'hol-

lowed-out'villages (because of outmigration), 'left-behind' children (left behind by their parents in the rural areas who went in search of work), land-grabs, environmental pollution, the new realities of China's breakneck reforms. The Communist Party sought to re-energise its mandate by reframing economic growth in terms of the 'new normal', i.e. slower but qualitative, innovative growth.

Arunachal Pradesh

The backlash of economic reforms was sought to be contained and channelled by shifting attention from the domestic to the international. Nationalism was deployed to boost up China's image in its own eyes.

Nationalism is nothing new and has been invoked time and again, aided by state manipulation of public opinion. In the past, anti-Japanese and anti-Korean demonstrations have been quickly mobilised. Nationalism has been evident in frequent allusions to China's past glory in East Asia (tributary relationships), 'China Can Say No' (1996 bestseller), the Olympics (2008), the Shanghai Expo (2010) or surpassing Japan as the second largest economy (2010). In fact, it was in 2010 that the then foreign minister Yang Jiechi said in

Manipur

Assam

Source: RBI

Hanoi at the ASEAN Meet that "China is a big country and other countries are small countries, and that's just a fact." In 2010, China began to articulate that the South China Sea was part of its 'core interests'.

China's domestic audience was energised with a China that has "stood up, become stronger and richer" seeking its "great power status" of yore, and meeting its inevitable destiny of Two Centenaries the Two Centenaries implies China's two goals of achieving a 'well-off society' (by 2021, 100 years of the Communist Party) and high-income 'modern socialist country'(by 2049, 100 years of the revolution).

The grand sum of the above was China's premature assertion of its 'great power status'before its time. This assertion explains the backlash against China.

In America, China's rise has riled. Deeply polarised politics has not prevented unanimity in the trade war against China. There is also bipartisan support on Hong Kong. Ahead of the momentous celebrations in China, the Congressional committees in the US House and Senate approved the Hong Kong Human Rights and Democracy Act, 2019, which will be voted upon in the coming weeks. In another uncharacteristic move, American aircraft carrier USS Ronald Reagan is "conducting routine operations" in the South China Sea.

For China celebrating its 70 years of revolution—70 years of the Communist Party and 70 years of revolution is but a fraction of a fraction in China's grand 5,000-year civilisation. It has been said as much that China has 'learnt to learn'.

Certainly, the Communist Party seems to have taken cognisance of a 'peaceful rise' that has gone awry. Speaking at the United Nations Climate Action Summit in New York recently, China's state councillor and foreign minister Wang Yi was keen to emphasise that "seeking hegemony is not in our DNA" and that the "United States is and will still be the strongest country in the world."

China's recent spate of White Papers are attempts to convey a similar message—that China seeks no hegemony but 'peaceful development'. Indeed, the newest White Paper out of China's stables "China and the World in the New Era" hopes that "China contributes to a better world."

Seventy years after the revolution, China may be enmeshed in a 'new era' of 'Xi Jinping Thought', but may be wiser playing Deng's old dictum of aiming high, playing low.

Meanwhile, own tax revenues have not grown substantially

FY18 FY19RE FY20BE

FY17

1.1

(% of GDP)

# **DATA DRIVE**

#### **LTHOUGH FISCAL DEFICIT** has been a worry for the states in the past, RBI's latest report on state finances, shows that they are well in the clear as far as fiscal condition is concerned. The combined fiscal deficit budgeted for FY20, although a bit higher at 2.9%, puts them in a comfortable position. More important, if one discounts for UDAY expenditure, it falls to 2.5%, or well within the recommendations of the NK Singh committee. But, all is not rosy—the report shows that there has been no reduction in the debt-to-GDP ratios, budgeted at 24.9. In fact, a closer look at the data reveals that there has been little change in states' own tax and nontax revenues. While the own-tax revenues are expected to be 6.7% of the GDP, non-tax revenues are stuck at a

non-development expenditures. Besides, most states require a policy to contain debt, as fiscal prudence shall achieve little if it comes on the back of debt increase and fall in capital expenditures. A better idea, RBI itself suggests, would be to "balance aspirational policy choices against two major operating constraints: generating adequate revenue within the Legislative Framework and adhering to Fiscal Responsibility

Legislations (FRLs)."

\*2.5% excluding UDAY

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paltry 1.2% for the last many years.

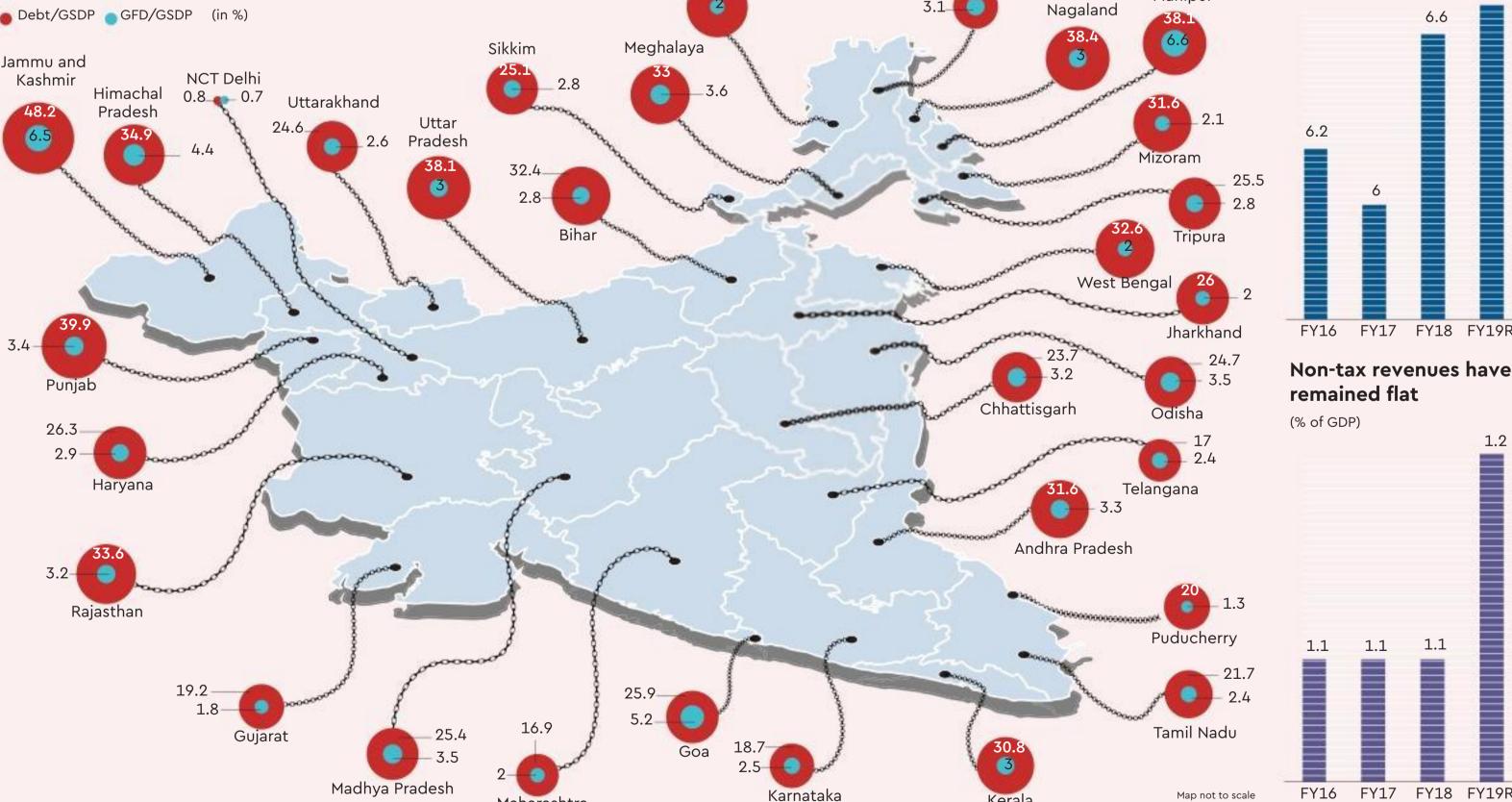
More worrisome, non-development

economy, it cannot do so without the states increasing their revenues—both tax and non-tax—and curbing their

revenue expenditures have been increasing over the last few years. If

India is to become a \$5 trillion

#### Debt doubts crop up again Debt profile Debt/GSDP GFD/GSDP Sikkim



FY17 FY18 FY19RE FY20BE Maharashtra Development revenue expenditure has been rising, ...debt is still high While fiscal deficit of states is contained... but so has non-development revenue expenditure (% of GDP) Gross fiscal deficit Revenue deficit Primary deficit (% of GDP) 25.1 25.1 (% of GDP) DRE NDRE 9.7 9.5 24.9 24.8 2.9\* 8.6 8.6 2.6 1.8 4.7 4.5 4.4 1.5 23.7 1.2 FY17 FY16 FY17 FY18 FY19 (RE) FY20 (BE) FY16 FY18 FY19 (RE) FY20 (BE) FY16 FY17 FY18 FY19 (RE) FY20 (BE)