

# Opinion

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## On a wing and a prayer

Unless credit flows to industry revive quickly, it is hard to see any pickup in the near-term

**A**T 6.1% YEAR-ON-YEAR, the growth in India's nominal GDP in Q2FY20 is the lowest in more than 16 years. While the slowdown has, no doubt, been exaggerated by the extraordinarily low inflation, even in real terms, a 4.5% y-o-y growth in GDP is the lowest since Q4FY13. In fact, what is worrying is that nominal GDP has grown by just 6.1% y-o-y in a quarter when nominal government spending jumped 18.9% y-o-y, the biggest increase in 30 quarters. With government spending likely to be constrained—due to poor tax collections—this ability to spend more will reduce; since the SC judgment on AGR revenues means telcos will pay around ₹90,000 crore within 90 days, though, the government's finances will look a bit better.

Given how the government's ability to spend will be seriously constrained by the subdued tax collections, other sections of the economy need to pull their weight if the nominal growth is to pick up meaningfully. Currently, with a real GDP growth of 4.8% y-o-y in H1, it is hard to see the economy clocking in much more than 5% in FY20. And, that, is with a hugely helpful base because GDP in H2FY19 grew at just 6.2% y-o-y.

The big worry now is the fisc. Unless there is a big jump in nominal GDP growth in the second half—the budget has pencilled in a 1.2% growth in nominal GDP for FY20 while the number is more likely to be 8-8.5%—the fiscal deficit ratio will take a real knock. Thanks to the government using the wrong base numbers, the tax projections were quite unrealistic to begin with. Now, they look even worse.

At a time when the economy is slowing, it is only to be expected that tax collections, too, will slow. And, since the denominator—nominal GDP—will be lower, the deficit-to-GDP will go up even more. The fiscal deficit for the April-October period—₹7.2 lakh crore—doesn't look too good at 102% of GDP. To be sure, much of the increase in the deficit is because the government has spent more—₹16.55 lakh crore versus ₹14.55 lakh crore in the corresponding period of 2018-19. At the same time, it is also true that the tax mop-up this year has been virtually flat at ₹10.52 lakh crore versus ₹10.39 lakh crore in the April-October 2018 period.

The government believes that the economy will revive in the second half, but so far, there is very little to suggest a meaningful pick-up. Indeed, the output of the core sector contracted 5.8% y-o-y in October—slightly more than it did in September—suggesting the busy season hasn't got off to a great start. Demand for cars was subdued in the festive month and sales were flat, though this was better if assessed against the backdrop of a continuous fall in monthly sales for about a year. However, sales of two-wheelers actually fell 1.4% y-o-y, suggesting poor rural demand. Also, sales of commercial vehicles were weak, crashing by 2.3% y-o-y. Going by car sales and loan data, November doesn't seem to have been very much better. Consumers are clearly not willing to spend, especially on big ticket items such as homes. The fact that there is no quick fix for the compression in credit growth will, in fact, ensure that even Q3 growth is muted.

One big reason why consumption demand has tapered off is rural stress; with prices of agri goods collapsing, farm incomes have been badly hurt. The agricultural GVA in the September quarter grew at just 2.1% y-o-y, the slowest in 14 quarters save one. Unless many more jobs are created, it is hard to see consumption getting a boost. But, it is even harder to visualise where the jobs are going to come from since the manufacturing sector is in a slump—manufacturing GVA contracted 1% in the September quarter. The services sector is in big trouble since the financials of a couple of large telcom players are fragile following adverse regulation. These companies are laying off people in large numbers.

Also, gross fixed capital formation, an indicator of capex, barely grew in the September quarter—it rose 1% y-o-y, the slowest in 19 quarters. That suggests not too much fresh capacity is being added, which is not surprising since there is a fair bit spare capacity to be utilised. Also, since several business houses have bought stressed assets via the IBC route, using up some of their financial resources, it is unlikely they will undertake greenfield expansion. But, the government needs to worry more about existing businesses. The biggest challenge today is to unplug credit flows to industry—small and large. This looks virtually impossible because banks have turned risk averse and are staying cautious in what is an extremely tough environment; 2019 has seen more than 3,300 companies being downgraded so far. Incremental lending between April and October is up barely by 1%; in the fortnight to November 11, loan growth slumped to a two-year low of 7.9% y-o-y. Banks can't be blamed for their approach because there are few businesses worth lending to. Meanwhile, lending by NBFCs has slowed sharply over the past year—34% y-o-y in Q2FY20—with several of them in financial trouble. Indeed, whether the Reserve Bank of India cuts repo rates or not is less important now because banks have become extremely cautious. Also, with credit flows tight—despite a ₹2 lakh crore surplus liquidity—more companies are likely to default on loan obligations, which, in turn, means rising loan losses. To be sure, there is no systemic risk, but there is the danger of many small and mid-sized businesses closing down, leading to more job losses.

## CodeCALL

CodeIndia will help the government get meaningful computer education to schools

**H**OW NECESSARY CODING has become for education is evident from the fact that over the last couple of years, apps have sprung up both on iOS and Android to make coding fun. While more children are taking to coding in the West—each profession now demands basic computer skills—in developing countries, skill development has been linked to traditional fields like driving, masonry, etc. Thus, the effort by the principal scientific advisor of the government to introduce coding in schools is a positive step in preparing children for jobs of the future. The Department of Science and Technology announced its pilot project at a school in Delhi. Under the programme, kids would be taught skills like creating cartoons, introduction to creative computing using scratch, creating websites, CERN CMS data workshop, Python language, built-in functions and modules, as well as how to build projects.

The initiative is undoubtedly expected to prepare a workforce for the future—World Economic Forum highlights that artificial intelligence specialist, blockchain specialist, and big data analyst are some of the likely professions of the future. But, there are some concerns that the government needs to address beforehand. Reports from ASER highlight that even after a decade of widespread use of the web, schools in rural areas still lack the requisite infrastructure. So, in 2010, while only 8.6% of children were using a computer, this had fallen even further to 6.5% in 2018. If the government is serious about changing the dynamics of employment, it must bring about a change in rural areas. Making computers available will be the first step, but imparting advanced education is also essential. Coding is as vital in the 21st century as writing was in the 16th century.



## ON GROWTH AND GODSE

Congress spokesperson Randeep Singh Surjewala

We are in a virtual free-fall. This is the lowest GDP quarter in 6 years. But why is the BJP celebrating? Because their understanding of GDP (Godse Divisive Politics) suggests double digit growth levels

## POLICY MAKING

DESIGN THINKING COVERS THE GAP BETWEEN A WELL-INTENDED POLICY AND A SUB-OPTIMAL POLICY OUTCOME BY CONSIDERING THE INTERESTS OF THE MOST VULNERABLE

# Design thinking trumps RCT

**BIBEK DEBROY & SAJEESH KUMAR N**

Debroy is Chairman, PMEAC & Kumar is Director, Ministry of Railways Views are personal



the ethics of using it in countries where access to quality public services or welfare measures is a necessity rather than a choice. It was because of this concern that, when Finland government conducted an RCT to assess the impact of Universal Basic Income, citizens protested, driven by the apprehension that some would be excluded to create a 'control group'. In the end, despite taking more than three years, the trial could not conclusively prove or disprove the positive impacts of providing a universal basic income to citizens. For policies of overreaching impact, affecting a large population, it may not always be possible to devote so much time.

RCT, as practiced in public policy today, lacks the ability to positively influence the policy process and outcome while it is being conceived. This issue can be addressed by using a design thinking process in policy formulation and implementation. Design thinking helps to reduce the chasm between what governments do, or intend to do, and what citizens expect from those actions. It amalgamates approaches that help governments understand policy problems better and those that help develop solutions that find resonance with citizens, thereby helping it to be assimilated easily. Countries like Singapore and Australia

have been using a design thinking approach to improve the quality of government interventions. As part of Singapore's Design 2025 masterplan, different government agencies took initiatives to redesign community living experiences, public transport, and public libraries by incorporating design thinking processes. Some countries, like Australia and the UK, have even codified design thinking tools to be used by government agencies.

Design thinking fosters an engagement with citizens, who are the ultimate clients. For example, many urban local bodies in India, while planning urban roads, focus on the engineering and construction aspect. But, in a design thinking approach, roads are considered as socially interactive urban spaces, and planned keeping in mind usage by different agents, including children and the differently abled. Similarly, while planning a financial inclusion or social welfare scheme, it is imperative that the process and services duly consider the interests of the most vulnerable. Although this appears simple, these things are often overlooked while developing public policies—espe-

cially in countries like India, where policy interventions are aimed at improving citizens' ease of living, this has greater significance.

There are different steps involved in a design thinking process. The starting point is for policymakers to show professional empathy towards the users' needs. It is also important to identify and define the problem rightly. Then, through environmental scanning and scaling, different dimensions of the problems are explored. This leads to co-creation of ideas, followed by prototyping and testing. Design thinking adopts an obvious human- and user-centric approach, involving and engaging end-users.

Design thinking stresses the value of early stakeholder engagements, especially clients of public policy interventions. Solutions for myriads of policy problems are often simple, and focus on needs and aspiration of the people. However, the difference between a well-intended policy and a sub-optimal policy outcome is, more often than not, an ill-conceived policy design. Design thinking requires specific skills that are codified in diverse disciplines, including anthropology, psychology, sociology, communication, and design and architecture. With a little more focus on design thinking, most well-intended policies can achieve the desired outcome. So, let us introduce RCTs where they are essential, but also make sure that public policies focus more on design thinking to fix the centrality of end-users in public policies.

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## India must rethink RCEP stance

Nothing exemplifies the problems with India's strategic vision on trade as much as the pullout from RCEP does

**AMITENDU PALIT**

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**THE DUST HAS** begun settling on India's withdrawal from RCEP. The decision has far-reaching consequences. It also reflects on the kind of strategic vision India has for its external trade.

Independent India has hardly had a trade policy. The annual export-import policies were more revenue policies than trade policies, with their focus largely on duty drawback. The only long-term foreign trade policy the country had was in 2014. This was a comprehensive policy, reflecting on strategies for expanding market access of Indian exports. Other than this policy, there has hardly ever been an official articulation of the strategic vision for India's engagement in external trade.

If the decision to disengage from RCEP reflects the strategic vision for Indian trade, one can safely assume that broad-based engagement in free trade agreements (FTAs) is not a part of this vision. The assumption draws strength from India's decisions, over the past few years, to pull back from several bilateral FTA talks, like those with Australia and Canada. India's decision to review its existing FTAs with ASEAN, Japan, and Korea, is also in line with the presumption of distancing prominently from efforts to engage in multiple FTAs.

It is interesting, though, that India is discussing the possibility of a bilateral trade deal with the US. India has also revived talks with the EU on the bilateral trade and investment agreement (BTIA) that it had discontinued earlier. These engagements, accompanied with the disengagement from RCEP, reveal a contrasting character of India's trade policy. The dichotomy points to India's intention of engaging in trade with 'some', not all. Looked at more closely, it reflects India's intention of developing closer trade ties with the West, as opposed to the East. If this is a part of the Indian strategic vision, then, unfortunately, it is very likely to prove counterproductive.

Backing out of RCEP and pushing on trade deals with the US and the EU,

among other factors, is guided by the notion of relative differences in regional competitiveness. It is a view held by several watchers of Indian trade that the country's lack of competitiveness vis-à-vis its Eastern neighbours should prevent it from pursuing FTAs with countries of East and Southeast Asia. Such a view, needless to say, has contributed to the decision to withdraw from RCEP. The counterpoint to this logic is brutally simple.

It is true that India is uncompetitive in most spheres of broad-based manufacturing, compared with its eastern neighbours. But, it is the markets in the East that its exports need access to. The world's fastest growing emerging markets are in Asia. A considerable part of the future global demand for various exports would be driven by fast-growing Asian economies like Indonesia, Vietnam, Thailand, and, of course, China. These economies would not just contribute significantly to global production but they would also become much bigger global consumers. In the process, they would figure at both, the upstream and downstream ends of several global production networks, depending on their competitiveness and capacities. RCEP would have given India an opportunity to become a part of this virtuous process. From being a consumer of most items, India could have also become a producer of many

geography logic is obvious. Many experts feel Indian products would be able to dent American and European markets deeper with relative ease. They fail to note that in these markets, and in most products, India would be competing with those same economies from the East that it is not as competitive as. And, these economies would continue receiving preferential benefits in major Western markets through schemes like GSP and EBA (Everything but Arms). These benefits are likely to wipe out any access gains for Indian exports through FTAs that it might enter into with the US and the EU. Even 'stalwart' exports like gems and jewellery, and pharmaceuticals would not be able to push Indian exports to the mighty highs that many feel FTAs with the EU and the US can fetch.

Ironically, being in RCEP could have strengthened India's prospects for FTAs with the US and the EU. It would have plugged India into Asian value chains running backward and forward across the Atlantic and Pacific. This is exactly what several Asian countries, such as Japan, Korea, and Singapore, have done by engaging in simultaneous FTAs with other regional economies on the one hand, and Europe and North America on the other. But, unfortunately, the current strategic vision for India's trade doesn't accommodate this virtuous possibility.

Nothing exemplifies the problems with India's strategic vision on trade as much as the pullout from RCEP does. The decision has been justified as a no deal being better than a bad deal. But, perhaps it is now important to realise that a faulty strategic vision is better than no vision.

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## LETTERS TO THE EDITOR

### Alliance of convenience

One must appreciate the earnest efforts by the BJP to establish a stable government in Maharashtra, and for demonstrating high standards of political accountability by declining to remain in power once the fickle stance by the post-poll ally came to light. A resignation before the trust vote is definitely a much more ethical stance than a collective uncanny gesture by political parties having different ideological grounds for decades coming together to form an opportunistic alliance. Parties must steepen their learning curve, and remain cognisant of the larger goals as well as their individual capabilities to ensure that leaders do not bite off more than what can be chewed. A behaviour to mud-sling peers, repeatedly derogate the sanctity of the high chair, escalate parliamentary matters to the apex court, and rely on alliances sans chemistry undermines the sovereign goals. To attract public empathy in the long run, regional entities must retain their larger ideological ground, offer an environment of greater certainty, and deliver results through collaboration. Dominance by regional parties is hardly a sign of a robust federal structure, if entities disrespect the public-mandate and/or the pre-poll alliance, and resolve to keep the Centre at bay. Entities must refrain from actions with long-term repercussions on their ideology. A greater will is needed to address varied issues and maintain a decisive stance on complex matters as voters and taxpayers expect regional parties to do their homework before elections, harmonise interests with national goals, and demonstrate increased capabilities by swiftly arriving at a consensus. Morals, widely preached, are rarely practised as parties resort to low benchmarks of performance, and leverage ambiguous statements to derive short-term gains. — Girish Lalwani, Delhi

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**ANURAG VISWANATH**

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**IT HAS BEEN** China's *annus horribilis*. Besides the Sino-US trade war that shows no signs of respite, on the domestic front it's been a year of the case of the two tails, Hong Kong and Xinjiang, that have come to bite its head. Both are neither overnight problems nor particularly created by President Xi Jinping. They have been festering for long, sadly though not so much on our collective imagination. China's *annus horribilis* is de facto Xi's *annus horribilis*, the only chink so far in Xi's otherwise invincible political and economic armour.

Xinjiang, a far out autonomous region in the Northwest where Turkic Muslims (Uyghurs)—Central Asians by cultural and geographical destiny—are Chinese (citizens) by political destiny. The other is Hong Kong, Chinese by cultural and geographical destiny but Hongkongers by political destiny. While Xinjiang is subsumed under 'One Country, One System', Hong Kong is under 'One Country, Two Systems'.

The recent expose by the *New York Times* (NYT) has drawn attention to the scale and depth of human rights violations in Xinjiang. Since 2017, a million Uyghurs, Kazakhs and other Muslims have been incarcerated in camps under the banner of "rounding up all those that need to be rounded up." In 2017, China spent \$2.89 billion on building the camps—almost the same amount as US magazine *Time* was sold to the Meredith Corp in the same year.

Recently, the NYT secured access to 24 documents including 200 pages of internal speeches and 150 pages of directives to local officials. NYT released a classified directive from Turfan (a prefecture-level city in Xinjiang) of guidelines given to local officials on how to answer the fraught children/relatives whose parents/family have suddenly gone missing. American state officials have likened these mass incarceration camps to 'concentration camps'.

But the Communist Party of China (CPC) thinks of them as benign 'vocational' education camps, where a patriarchal state redeems errant adults with 'concentrated education and training'. Instead of the Uyghurs playing victim, the CPC plays the victim—of having to teach errant Muslim minorities the Chinese

way of life, including language. The official narrative for the domestic audience also sounds wounded: How can incarcerated adults complain when they not only have access to free air, but also free food, boarding and lodging? A Chinese national based in Singapore told this author, "Instead of three dishes and one soup, which is the norm in a Chinese meal, they (Uyghurs) are being treated to four dishes and one soup. And in times of spiralling prices, the (Uyghurs) are complaining." But the CPC benevolence is often hard to understand, much less digest.

When this author visited Kashgar, Southern Xinjiang (where 90% of the population are Uyghurs), a few years ago, not only were large tracts of the city under curfew at night, but also the old historical city in Kashgar (the oldest in

Central Asia) was being demolished to make way for modern apartments. To this author, Northern Xinjiang presented the opposite picture, a picture of Chinese efficiency with impressive gleaming infrastructure, but notably a 'ghettoised' Uyghur area.

Over the decades, Northern Xinjiang has witnessed a Han Chinese demographic flood, one that is borne out by empirical evidence of several social scientists and demographers such as Frederick Starr and Stanley Topps (both banned in China). Northern Xinjiang is considered assimilated, but Southern Xinjiang, where the demographic map is 90% Uyghurs, has remained impervious to a demographic deluge.

In 2014, Xi's visit to Xinjiang was marked by violence, before and after. Xi

noted that economic growth and the sizeable subsidies had failed to quell the problem; his solution was technology. Party officials used technology to increase surveillance, gather intelligence that "foreshadowed the Party's deployment of facial recognition, genetic testing and big data." Party secretary Chen Quanguo, a hardliner, was moved from Tibet to manage Xinjiang.

A ban on the beard, veil and the crescent followed. Everyday expressions of Islam—owning a *Quran*, praying, avoiding alcohol and tobacco, fasting during Ramadan—were targeted. Xinjiang became a fortress, besieged.

Thousands of kilometres east from Xinjiang and across the sea, Hong Kong has been in quiet turmoil since its reversal back to China in 1997. If Xinjiang wit-

nessed a spate of violence in 2014, Hong Kong saw the tide of the student-led Umbrella Movement. The movement petered out, but as the last six months attest, it has come back with a bang.

On June 9, 2020 started due to an extradition Bill whereby Hongkongers could be sent to the mainland for trial. Hongkongers take pride in the rule of law in Hong Kong, but consider the same suspect in China. Protesters took to streets, whilst Beijing-backed Chief Executive Carrie Lam kept mum. The Hong Kong police clamped down on the protesters. The spark became a prairie fire.

Although Ms Lam withdrew the Bill, it was considered 'too little, too late'. Other demands came up during the course of the protests, such as the demand for an independent enquiry into

police action, release of arrested protesters, repeal classification of protesters as 'rioters' and universal suffrage.

On October 4, Ms Lam invoked emergency provisions under the Emergency Regulations Ordinance (ERO, the first time in 52 years) to ban protesters from wearing masks. On November 18, Hong Kong's High Court ruled that the emergency law invoked to ban masks was unconstitutional, "incompatible with the Basic Law" (the mini Constitution of Hong Kong). China slammed the High Court's decision, in effect nullifying 'Two Systems' and slamming Hong Kong's rule of law.

Students, some younger than 18 years of age, became the front line of the protests, and holed up in the Hong Kong Polytechnic University (PolyU) and the Chinese University of Hong Kong. On November 17, the police began moving against them. A thousand or more protesters were arrested.

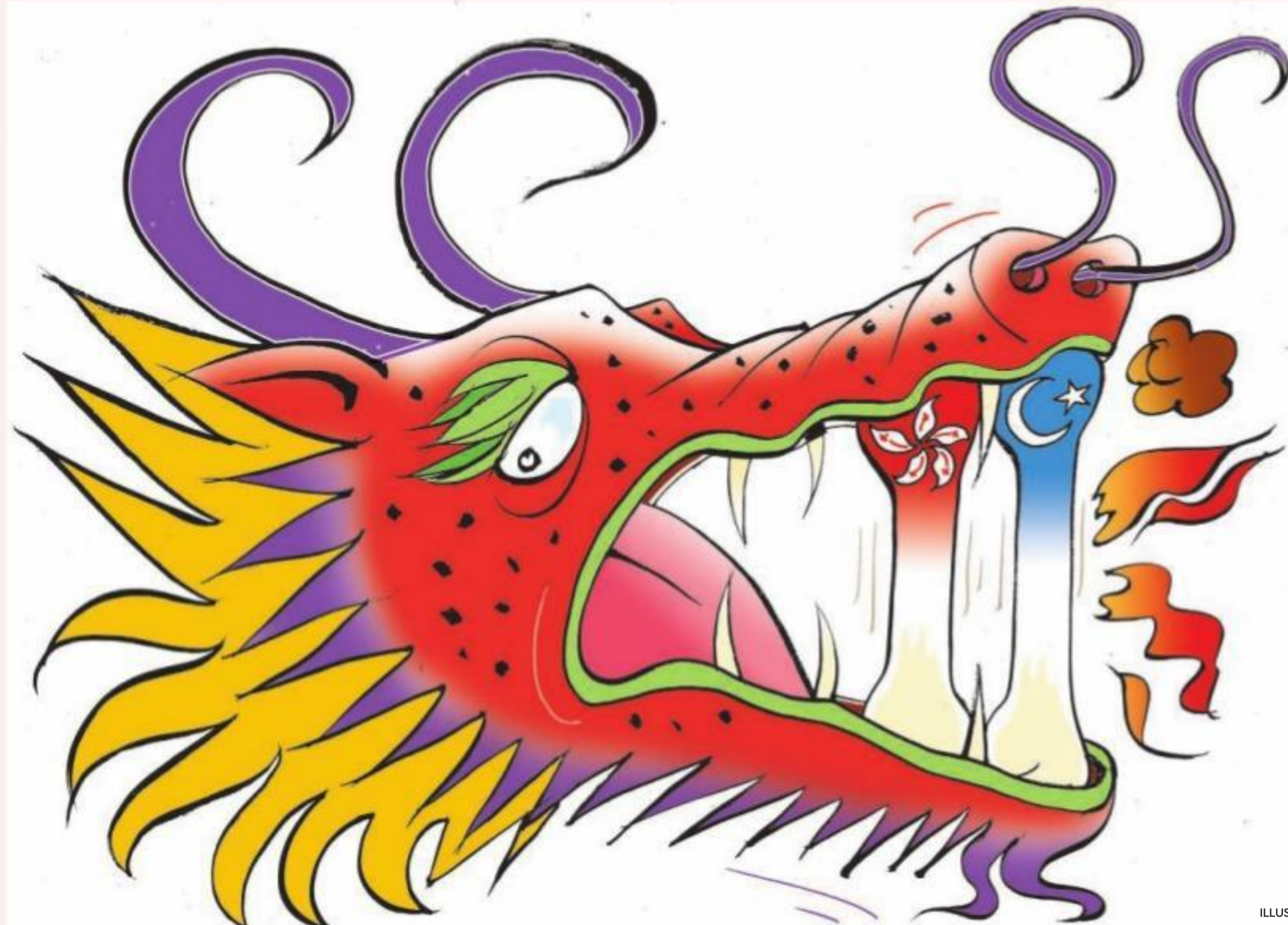
"This is the new political normal," said a matter-of-fact Hongkonger to this author. Hong Kong police has begun using live ammunition, with at least one video of a police officer firing at point blank range at a protester having gone viral. In another incident, an elderly cleaner was killed when a brick fell on him. A student accidentally fell to death. Protesters have set a man on fire. In the past few weeks, schools and universities have stalled.

Since protests started, 4,000 protesters or more have been arrested, but only one police officer suspended. According to a October survey by the Chinese University of Hong Kong, 83% of the population blamed the government and 74% blamed the police.

The election lull came on November 24 when elections were held for the local district council. The pro-democracy camp won a landslide victory, winning in 17 out of 18 districts, 347 seats out of the total 452 seats—a democratic damnation of Ms Lam's government and Beijing.

Of course, there are significant differences between Xinjiang and Hong Kong, but in both the places the personal, political and economic lines have blurred. While Xinjiang stands isolated, the situation in Hong Kong is playing out under global watch. In both the cases, China is in no mood to take retribution for its actions. In Hong Kong, Ms Lam is seen more as Beijing's point man, as is Xinjiang's Chen. In both the places, the protests are diffused and disorganised, sporadic, sans leader and organisation. Needless to say, in both the places, it is a case of David taking on Goliath.

The Sino-US trade war, Xinjiang leak, Hong Kong turmoil, Hong Kong election results, and on top of that both the Houses of the US passing the Hong Kong Human Rights and Democracy Act—with US President Donald Trump signing the Bill—complete Xi's *annus horribilis*.



ILLUSTRATIONS: ROHNIT PHORE

● HK HUMAN RIGHTS AND DEMOCRACY ACT

# China's *annus horribilis*

The Sino-US trade war, Xinjiang leak, Hong Kong turmoil, Hong Kong election results, and on top of that both Houses of the US passing the Hong Kong Human Rights and Democracy Act complete China's, and Xi's, *annus horribilis*

**DATA DRIVE**

## Potable water for all

**WHILE THE CENTRE** has set a target of providing clean drinking water to all by 2024, the latest National Sample Survey (NSS) shows that about 42% people in rural areas have to venture outside of their house every day—from 0.2 km to 1.5 km—to fetch drinking water. In urban areas, about 19% households have to go out of the house to fetch drinking water.

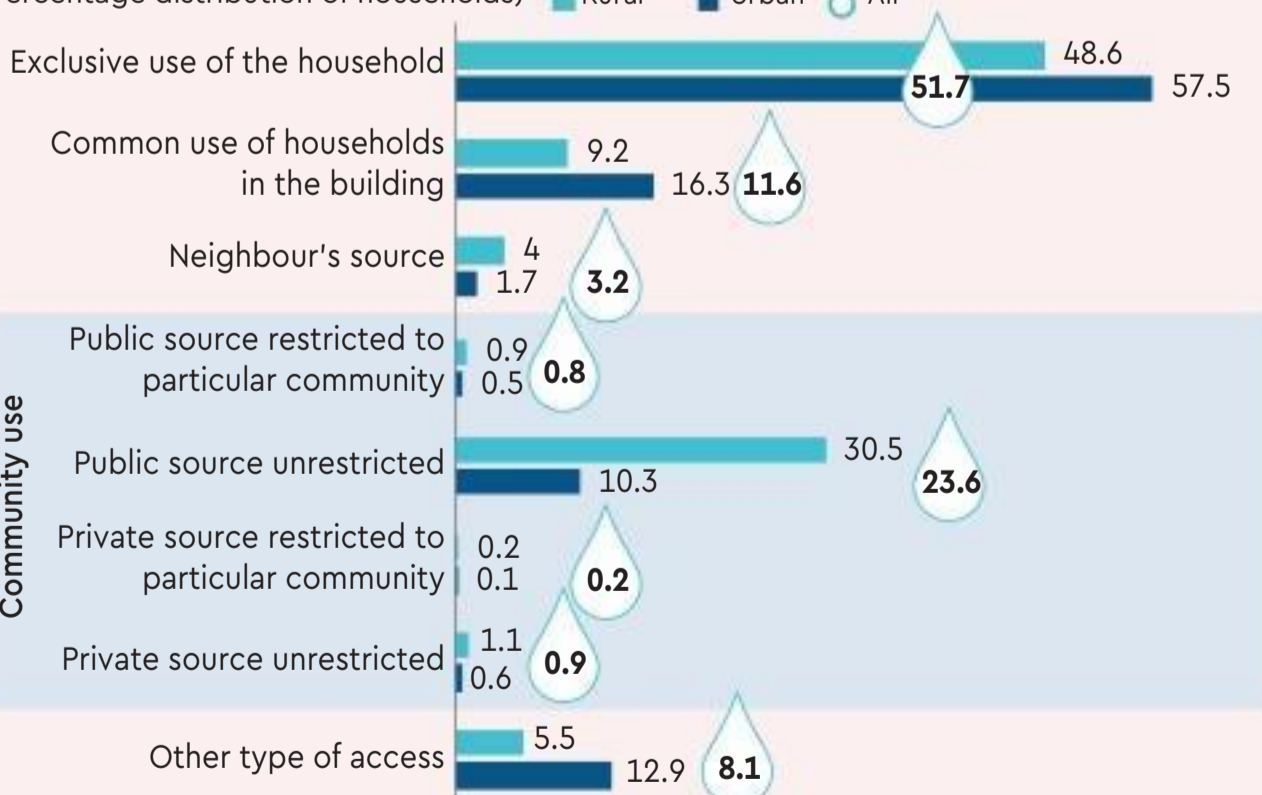
The data from NSS 76th round (July 2018 to December 2018) conducted by National Statistical Office (NSO) shows

that 78.6% households in the country do not have access to piped water in their house. In rural areas, only 11.3% households have access to piped water in their households. While the quality of NSSO data has recently been questioned by experts, the government would still do well to pay attention to the findings to prepare for a worst-case scenario.

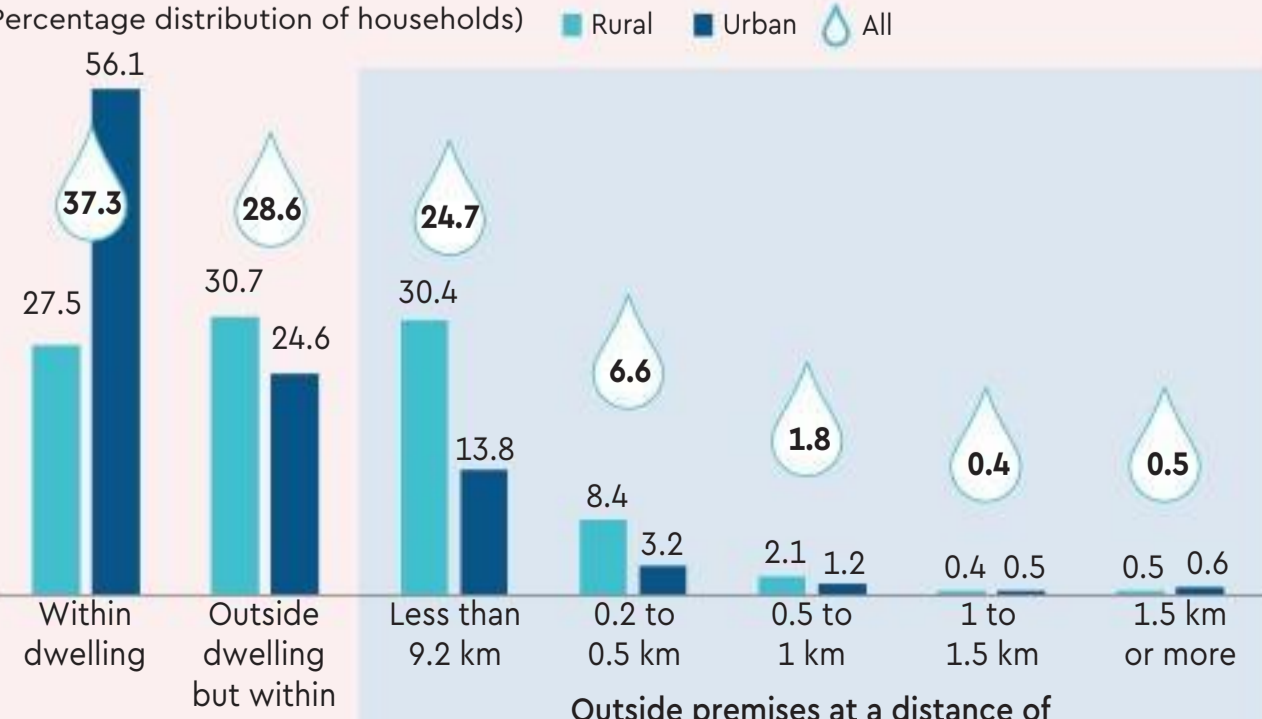
Hand-pumps remain the main source of drinking water for 43% of rural households. About 51% households in rural areas used improved source of drinking water located in the household premises. About 73% rural household and 51% urban households never treat the water before drinking.

The government has set up the Jal Shakti ministry, a poll promise of the BJP to integrate all water-related ministries under one ministry. As water falls under the state list of the Constitution, participation of states is crucial to make the mission of providing clean drinking water to all a success.

### Access to the principal source of drinking water of the household



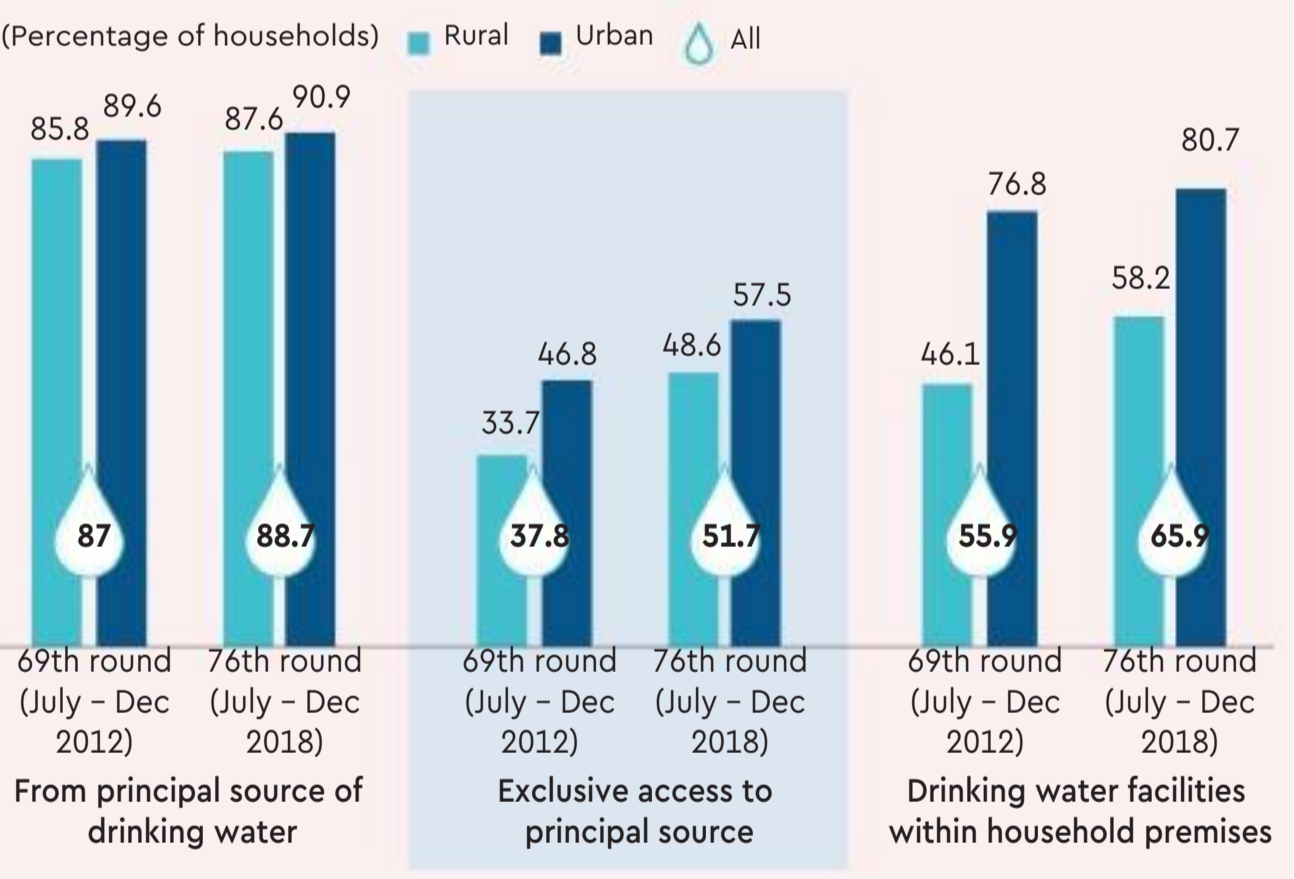
### Distance to the principal source of drinking water



### Principal source of drinking water of the household



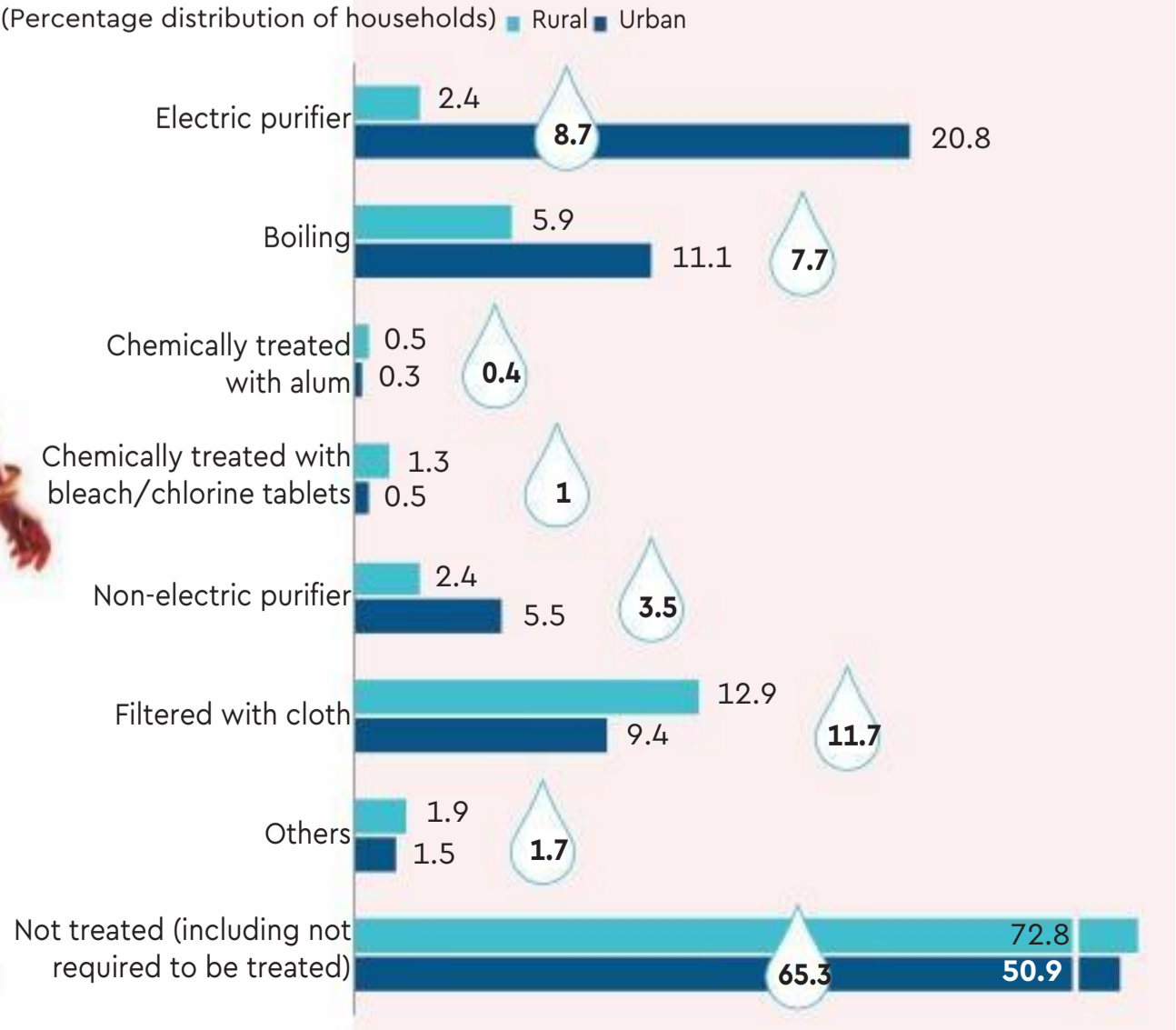
### Households having sufficient drinking water throughout the year



### Households with improved sources of drinking water



### Method of treatment of drinking water



Source: NSS 76th Round report