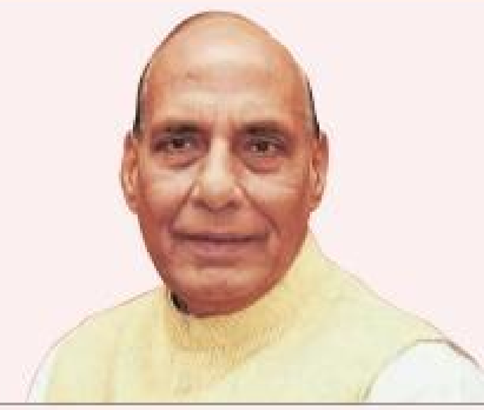
Opinion

THURSDAY, JANUARY 23, 2020



VASUDHAIVA KUTUMBAKAM

Union defence minister Rajnath Singh

"India is not a theocratic country. Why? Because our saints and seers did not just consider the people living within our borders as part of the family, but called everyone living in the world as one family"

Are the DeMo & GST data analytics bearing fruit?

Taxman nabs several jewellers laundering black money, but this has to be measured by big step-up in tax revenues

IT WAS ALWAYS disappointing that, after coming out with an initial list of 17.9 lakh persons whose post-demonetisation cash deposits in banks were not in keeping with their tax profile—an amount of ₹1.75 lakh crore of suspicious deposits was also spoken of, albeit separately—the government didn't seem to have achieved much in terms of getting more people to pay taxes. Indeed, the fact that the taxman drew up a list of 60,000 persons for detailed investigations after it got replies from the initial list of 1.75 lakh persons who were asked to respond to queries also suggested that the back-stories created by chartered accountants and lawyers were holding up. So, while those who were supposed to get caught in the post-DeMo investigations should have ended up forfeiting a very large share of their black money, tax collections didn't rise as much. While personal income tax collections rose by 21-22% in FY17 (DeMo year) and FY18, FY19 growth fell to a mere 9.9% and Apr-Nov growth this year was just 7%.

In this context, some of the recent stories emanating from the tax investigations are heartening. In one case from Gujarat, while the jeweller deposited just ₹44,260 of cash in his bank account in November-December 2015, this rose to as much as ₹4.1 crore in the post-DeMo months of November-December 2016. Another jeweller deposited ₹3.2 crore of cash in his bank account while declaring an annual income of less than ₹11 lakh; yet another reported a huge spurt in cash-in-hand from ₹2.6 lakh in November 2015 to ₹6.2 crore in November 2016. While the jewellers told the taxman that the spurt in cash was due to customer advances or sales, another favoured *modus operandi* was to show a large number of small advances (of below ₹20,000 each) around demonetisation time and then 'returning' it to the people who gave the advance! One jeweller, who declared an annual income of just ₹26 lakh, claimed he received ₹9.7 crore as cash advances from 573 persons, but could provide no details of their addresses or phone numbers; the total electricity bill for the year for this jeweller was a mere ₹1,474!

Impressive as the investigations are, the proof of their working is whether there is a significant and sustained increase in the tax-to-GDP ratio. After all, during this period, there was a substantial jump in the number of taxpayers filing GST returns; when traders and firms are forced to file their genuine turnover due to GST, chances are they have to file correct income tax returns as well. Also, there has been a sharp increase in the pace of digitisation since demonetisation; from 6.5% of GDP in FY16, digital transactions—UPI, NEFT, IMPS and debit/credit cards at PoS—rose to as much as 15.6% in FY19 and, logically, this too should have contributed to tax compliance. Some part of the sluggishness, it is obvious, is due to a slowing economy, but if compliance levels have genuinely gone up, there should be an added boost in collections when the economy picks up.

What justice?

SC panel absolved Justice Gogoi, but SC reinstates his accuser

THE REINSTATEMENT WITH retrospective effect of the junior court assistant who, in April 2019, had accused then Chief Justice of India (CJI) Ranjan Gogoi of sexual misconduct will have to be seen against the fact that an in-house committee of the Supreme Court (SC) had cleared Justice Gogoi, having found "no substance" in the woman's complaint. Why, indeed, if the apex court committee had found Gogoi falsely accused, did the SC reinstate his accuser? The way the matter had been handled after the accusations surfaced in media reports had raised many questions about the top judiciary's discharge of justice, and, by extension, about the accountability of the judiciary.

The woman had claimed that, apart from her, her husband and her brothers-in-law had been fired from their government jobs after she had spurned alleged inappropriate advances of the former CJI while a case of cheating had been filed against her in a Delhi court to discredit her. Justice Gogoi, who refuted the allegations, called an "emergency hearing" on the matter and presided over it. At the hearing, it was decided that the matter would be probed in-house by a committee constituting three senior judges, including Justice SA Bobde, the current CJI, and the report would be submitted to the senior-most judge after Bobde. On the face of things, the "emergency hearing" and the decision to have the matter be probed in-house seems to have violated the first principle of natural justice—'no one shall be a judge in his cause'. What's worse, the three-member committee chose to continue the inquiry *ex parte*, after the woman walked out on her third appearance, citing a lack of "sensitivity" on the part of the committee members. Despite another judge of the Supreme Court, Justice DY Chandrachud having written to the committee, urging it not to continue the inquiry *ex parte*, the committee went ahead and eventually concluded in favour of Justice Gogoi. Whether or not this constitutes a violation of the second principle of natural justice—'*audi alteram partem*, or hear the other side'—could be a matter of debate, but the SC and the top judiciary didn't come out of this smelling of roses. Blindsiding judicial accountability further, the committee's report was never made public, citing a 2003 judgment. Also, early on, even before the allegations of sexual harassment were probed by the Supreme Court, a special bench of the court had ordered an investigation of an alleged conspiracy to "fix" CJI Gogoi in a "concocted, false sexual harassment" case—this cast a cloud on the woman's complaint—and formed the Justice AK Patnaik committee to probe the conspiracy. This hasn't done the institution's image any good, more so, because the Patnaik committee report was submitted in September last year, but little seems to have happened since.

In the aftermath of the allegations surfacing and the three-judge committee concluding its inquiry, the husband and the brother-in-law of the woman have been reinstated at their jobs in the Delhi Police. The cheating case against the woman has also been dropped. The SC's handling of the matter, on the other hand, sharply underlines the need for urgent reform to make the judiciary more transparent and accountable.

PrayingLOUD

Allahabad HC's order against loudspeaker use for *azaan* fair, but courts must desist from intervening in matters of faith

THE ALLAHABAD HIGH Court recently quashed an appeal against a Jaunpur sub-divisional magistrate's order refusing permission to two mosques in the area to use loudspeakers for *azaan*. Justices Pankaj Mithal and VC Dixit ruled that no religion mandates profession of faith through the use of sound amplifiers, and, in the cases where such a prescription does exist, it is necessary to limit its implementation to preserve the rights of others. To create noise, the court held, is no one's fundamental right. Further, referring to a clutch of Supreme Court judgments, the bench reiterated that the fundamental freedom to practise one's religion is not absolute, and must be balanced against considerations of public law and order, and health. The HC's decision certainly seems unimpeachable. The villages in question have a mixed Hindu and Muslim population and a history of communal violence. Inconvenience caused to either community due to the other's religious practices, therefore, carries the risk of disturbing law and order.

However, the court's involvement in matters of faith must not become par for the course. If a court rules on the usage of loudspeakers in mosques, shouldn't it also take similar action for other forms of public nuisances, say, traffic hazards and jams, thanks to *kawariya* processions or Ganesh Chaturti celebrations? In a country where religious equality is already fraught with conflict—the Sabrimala case comes to mind—imagine the sheer number of cases that would result from the courts becoming actively involved in determining questions of faith. While it is draconian and unconstitutional to prevent people from publicly professing or practising their religious beliefs, it must be remembered that conflicts arising from this are best resolved through dialogue. Legislation or excessive legal intervention in such matters not only will prove ineffective but also carries the risk of being counter-productive.

● BUDGET EXPECTATIONS

THE GOI'S FY21 EXPENDITURE AND FISCAL DEFICIT PROJECTIONS SHOULD ADEQUATELY REFLECT THE AMOUNT REQUIRED FOR THE NIP FOR THE MARKET TO CONSIDER THEM CREDIBLE

Budget must prioritise infrastructure spending

ADITI NAYAR
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Views are personal

THE ROLLING TARGET included in the Union Budget for FY20 had placed the fiscal deficit for the Government of India (GoI) for FY21 at 3% of GDP. However, it is a foregone conclusion that the upcoming budget is likely to focus on providing some fiscal boost to economic growth. Accordingly, the GoI is now likely to consider a significantly wider fiscal deficit for FY21, compared to the rolling target of 3% of GDP.

ICRA believes that the fiscal boost should be provided through higher expenditure, rather than through a tax cut. In our view, the Union Budget for FY21 should prioritise infrastructure spending, which would boost the core sectors of the economy and create a higher multiplier effect on the economy. Higher capital spending would also help bridge the large infrastructure deficits in some areas, thereby easing logistical challenges faced by various sectors.

Moreover, given the moderate capacity utilisation levels and relatively subdued commodity prices, the inflationary impact of higher capital spending would be limited in the short term. In addition, lower supply-side constraints would help ease inflationary pressures in the medium to longer term.

The recent report by the task force for the National Infrastructure Pipeline (NIP) outlined plans to invest a substantial sum of over ₹102 lakh crore in various infrastructure projects during FY20-FY25. This report placed the combined investment for FY21 by the Centre, states, and private sector at ₹19.5 lakh crore. Of this, ₹4.6 lakh crore would be provided by the GoI through capital outlay in FY21, although the budgetary support from the Centre is meant to be restricted to ₹1.9 lakh crore. The latter is equivalent to only ~41% of the total infrastructure outlay proposed to be provided by the GoI for FY21, while the financing for the remaining ~59% remains unclear, at present.

The upcoming budget should, therefore, provide clarity on the sources of funding for the project pipeline included in the NIP. The budget estimates (BE) for FY21 for the GoI's expenditure and fiscal deficit levels should adequately reflect the amount required for NIP for the market to consider them credible, and also clarify the sources of extra-budgetary funding for the Centre's share of the cost of NIP.

In terms of sectoral allocations, we expect an enhancement in the GoI's outlay towards sectors such as affordable housing, roads, railways, power, etc, taking a cue from the NIP report. Additionally, a step up in the allocation for NREGA is likely to aid in alleviating rural distress while also leading to asset creation. Additionally, a higher allocation for NREGA would boost rural consumption demand, which would further support the economy's growth prospects.

Given that the number of beneficiaries enrolled under PM-Kisan so far are lower than expected, the government could consider increasing the amount of income support per beneficiary. Moreover, some new schemes to support the rural economy and MSMEs, and to support job creation may be announced in the Budget.

In terms of tax changes, the GoI had already announced a cut in the corporate tax rates in September 2019, the revenue implications of which remain unclear. In light of the latter, ICRA believes that major changes in direct taxes, such as the personal income tax, should not be undertaken in the upcoming Budget. Moreover, after the implementation of the goods and services tax (GST), indirect tax rates on few items remain under the control of the GoI as the GST Council decides on changes in GST rates.

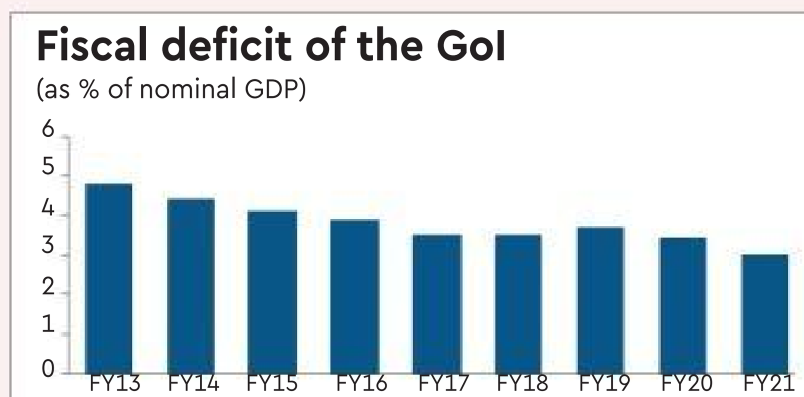
We expect the Union Budget for FY21 to assume a nominal GDP growth of 10-10.5%, relative to the advance estimate of GDP of ₹204.4 lakh crore made by the Central Statistics Office for FY20. Accordingly, with a modest recovery expected in economic growth, a tax growth of around 10-12% in FY21 is likely to prove realistic.

We estimate that every 10 bps of expansion in the GoI's fiscal deficit to GDP ratio would allow for extra spending of ~₹22,500 crore in FY21. Therefore, if the GoI places its fiscal deficit for FY21 at 3.5% of GDP, this would roughly translate to a fiscal deficit of ₹7.9 lakh crore in absolute terms.

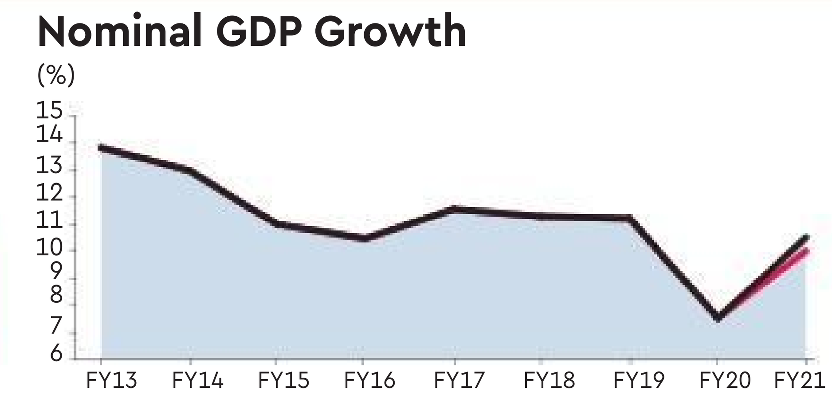
Overall, the Union Budget for FY21 is likely to focus on providing a fiscal boost to economic growth through enhanced infrastructure spending, particularly for the sectors highlighted in the NIP. Moreover, the central government may announce new schemes, and enhance allocations for existing schemes, to revive rural sentiment and consumption. In our view, further major tax changes should be avoided at this juncture.

Above all, the BE for FY21 for the GoI's expenditure and fiscal deficit levels should adequately reflect the amount required for the NIP for the market to consider them credible.

Fiscal deficit of the GoI



Nominal GDP Growth



Source: GoI Budget Documents; CSO; ICRA Research

Central banks face a year of challenges

Long-term economic well-being, and financial stability call for comprehensive multi-year engagement using structural, fiscal, and cross-border tools

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AFTER A YEAR that involved one of the biggest U-turns in recent monetary-policy history, central banks are now hoping for peace and quiet in 2020. This is particularly true for the European Central Bank (ECB) and the US Federal Reserve, the world's two most powerful monetary institutions. But, the realisation of peace and quiet is increasingly out of their direct control; and their hopes would easily be dashed if markets were to succumb to any number of medium-term uncertainties, many of which extend well beyond economics and finance to the realms of geopolitics, institutions, and domestic social and political conditions.

Just over a year ago, the ECB and the Fed were on the path of gradually reducing their massively expanded balance sheets, and the Fed was increasing interest rates from levels first adopted in the midst of the global financial crisis. Both institutions were attempting to normalise their monetary policies after years of relying on ultra-low or negative interest rates and large-scale asset purchases. The Fed had raised interest rates four times in 2018, signaled further hikes for 2019, and set the unwinding of its balance sheet on "autopilot". And, the ECB had ended its balance-sheet expansion and begun to steer away from further stimulus.

A year later, all of these measures have been reversed. Rather than hiking rates further, the Fed cut them three times in 2019. Instead of reducing its balance sheet, the Fed expanded it by a greater magnitude during the last four months of the year than at any comparable period since the crisis. And, far from signaling an eventual normalisation of its rate structure, the Fed moved forcefully into a "lower-for-longer" paradigm. The ECB, too, pushed its interest-rate structure further into negative territory and restarted its asset-purchase program. As a result, the Fed and the ECB cleared a path for many interest-rate cuts around the world, producing some of the most accommodative global monetary conditions on record.

This dramatic policy turnaround was particularly curious in two ways. First, it materialised despite growing discomfort—both within and outside central banks—about the collateral damage and unintended consequences of prolonged reliance on ultra-loose monetary policy. If anything, this discomfort had grown throughout the year, owing to the negative impact of ultra-low and negative rates on economic dynamism and financial stability. Second, the dramatic reversal was not a response to a collapse in global growth, let alone a recession. By most estimates, growth in 2019 was around 3%—compared to 3.6% the previous year—and many observers are expecting a quick rebound in 2020.

Rather than acting on clear economic signals, the major central banks once again succumbed to pressure from financial markets. Examples include the fourth quarter of 2018, when the Fed reacted to a sharp stock-market sell-off that seemed to threaten the functioning of some markets around the world. Another occurred in September 2019, when the Fed responded to a sudden, unanticipated disruption in the wholesale funding (repo) market—a sophisticated and highly specialised market segment that involves close interaction between the Fed and the banking system.

This is not to suggest that central banks' objectives weren't at risk on each occasion. In both cases, generalised financial-market dislocations could have undermined economic growth and stable inflation, creating the conditions for an even more acute monetary-policy intervention down the road. That is why the Fed, in particular, couched its policy U-turn in terms of "insurance".

But, the challenges facing central bankers do not stop there. By allowing financial markets again to dictate monetary-policy changes, both the ECB and the Fed poured more fuel on a fire that has been raging for years. Financial markets have been driven from one record high to another, regardless of the underlying economic fundamentals, because traders and investors have been conditioned to believe that central banks are their best friends forever ("BFFs"). Time and again, central banks have proved willing, and able to step in to suppress volatility and keep prices of both stocks and bonds elevated. As a result, the right approach for investors has been to buy whenever the market dips, and to do so more and more rapidly.

Yet, given mounting medium-term uncertainties, central bankers cannot assume tranquil conditions in 2020. While ample and predictable liquidity can help calm markets, it does not remove existing barriers to sustained and inclusive growth. The eurozone economy in particular is currently saddled with structural impediments that are eroding productivity growth. And, there are deep long-term structural uncertainties stemming from climate change, technological disruptions, and demographic trends.

Moreover, around the world, there has been a generalised loss of trust in institutions and expert opinion, as well as a deep sense of marginalisation and alienation among significant segments of society. Political polarisation is more intense, and many democracies are undergoing uncertain transitions. Also, although the trade tensions between the US and China have been temporarily alleviated by a "phase one" deal, the underlying sources of conflict have hardly been resolved. And the world is suddenly on tenterhooks as tensions between the US and Iran have escalated, with Iran vowing further retaliation for America's targeted killing of Iran's top military leader.

For long-term economic well-being and financial stability, this litany of uncertainties demands a policy response that extends well beyond central banks' traditional remit. It calls for comprehensive multi-year engagement using structural, fiscal, and cross-border tools. Without that, financial markets will continue to expect central-bank interventions that a growing body of evidence indicates are not just increasingly ineffective for the economy but also potentially counterproductive. Whether or not central banks avoid the spotlight in 2020, they are likely to face even greater challenges to the political autonomy and policy credibility that are so crucial to their effectiveness.

LETTERS TO THE EDITOR

Rajnikanth on Periyar

Superstar Rajinikanth, seems to have bitten off more than he can chew. He has attracted strong adverse criticism for his anti-Periyar speech at a meeting to mark Thuglak's golden jubilee. His veiled intention in recalling what was purported to have happened in Periyar's anti-superstition rally in Salem in 1971 was to show Periyar in a poor light than pay tribute to Cho Ramaswamy, an avowed critic of Dravidian politics. Raking up a past controversy over nude portraits of Lord Ram and his consort Sita garlanded with slippers was an attempt on Rajinikanth's part to milk it for what it was worth. It made his silence on contemporary issues more deafening. Rajinikanth's 'spiritual politics' is nothing more than a cloak and a euphemism for his identification with Hindu right. No one is against Rajinikanth having political ambitions and supporting the Hindutva forces. He can be a Hindu revivalist if he so wishes. But, he should guard his tongue and desist from speaking ill of such a great social revolutionary as Periyar. The great movement led by Periyar to free the lower castes from the yoke of casteism is cherished to this day. It is an irony that even those who are not worthy of untying his shoelaces are taking potshots at Periyar. What Periyar did and achieved for the people of Tamil Nadu is far more significant and valuable than what Rajinikanth has done and achieved on the screen. In trying to tarnish the image of Tamil Nadu's most iconic figure, the actor has ended up wounding the Tamil psyche and committing political *hara-kiri*. With his anti-Periyar speech, Rajinikanth has accentuated his image as a puppet in the hands of RSS to make it big in Tamil Nadu politics. For all his self-effacement and reticence, Rajinikanth has now shown himself to be a Lilliputian of sorts lacking in sophistication to understand a public figure famed for his rationalistic and revolutionary ideas.

— G David Milton, Maruthancode

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INTEGRITY PACT

An effective tool or a paper tiger?

In highly-corrupt environments where it is impossible to win a contract without bribery, alongside a low probability of detection of bribery and/or low penalties, an integrity pact serves no useful purpose. Correspondingly, low-corruption environments do not need an integrity pact

INDIAN PUBLIC procurement has accepted, unquestioningly, the integrity pact (IP) as its flagbearer weapon in its anti-corruption arsenal for two decades now. The IP is an agreement between the contracting government agency and private companies that they will abstain from bribery and ensure accountability through a monitor. Sanctions include loss of contract, blacklisting, forfeiture of bid and performance bonds, and liquidated damages. The IP is a mechanism to overcome the prisoner's dilemma (a standard example in game theory) that shows why two rational individuals might not cooperate, even if it is in their best interests to do so. Defence contracts can be a touchstone to examine the efficacy of the IP, as it is necessary for all procurements of and above ₹100 crore.

Claudio Weber Abramo, in his paper *'What If? A Look at Integrity Pacts'*, examined the efficacy of IPs in tackling corruption. Two probabilities determine the propensity to bribe. The first is the probability of winning a tender without bribery, and the second is the probability of being caught bribing/being bribed. Another determinant is the quantum of penalties on detection of bribery. If all these determinants rank low on the probability scale, it is unlikely that the IP alone will result in clean public procurement. This is because IPs will be excessively reliant on subjective ethics of the stakeholders. Personal ethics are private behaviour that is difficult to ascertain, which makes the honesty pledge of IPs insignificant. The demand side of bribery faces the same game calculus. When there is low probability of detection and/or low penalties, the propensity to seek bribes will be greater.

A public tender is an event governed by economic considerations, and non-economic factors such as ethics do not have a place in economic rationality. The central justification for a firm to participate in a tender is winning the contract that furnishes aggressive stimuli to bribe. Public officials, similarly, receive aggressive stimuli of bribery; moreover, they receive no special compensation for being honest. Oaths are private behaviour that are impossible to detect in a bribery-conducive environment. This reduces the IP as a window-dressing for the benefit of a third party. For someone who is willing to pay bribes to win contracts, it is not clear why honesty pledges would function as a deterrent. After all, irrespective of the legal environment, bribery is not an accepted behaviour, and furthermore it is often a crime. If someone is willing to commit a crime, then breaking one's word by signing an honesty pledge and not abiding by it is a minor inconvenience. This is the central credibility problem of the IP.

In short, in highly-corrupt environments where it is an impossibility to win a contract without bribery, alongside a low probability of detection of bribery and/or low penalties for bribery, an IP serves no useful purpose. Correspondingly, low-corruption environments do not need an IP.

We examine the above premises in the AgustaWestland case. In February 2010, the Indian government contracted to purchase 12 AgustaWestland AW101 helicopters for the Indian Air Force (IAF) for ₹3,600 crore, to carry the President, the Prime Minister and other VVIPs. In February 2013, the Indian government put the deal on hold, following the Italian authorities' arrest of the chairman of Finmeccanica (parent company of AgustaWestland) and the CEO of AgustaWestland on charges of bribery to secure the Indian deal. In 2014, India cancelled the AgustaWestland chopper deal on the ground that they violated the IP.

If the IP had been an effective instrument, the monitor should have raised the red flag when the IAF changed the technical specification of the tender to enable AgustaWestland to re-enter the bidding process. The IAF tweaked parameters such as the height of the cabin of the helicopter and the operational ceiling (the maximum altitude the helicopter could fly).

The IP did not raise any suspicions of bribery either. The bribery emerged during an Italian investigation leading to arrest of key personnel in February 2013. By this time, delivery of three helicopters to the IAF had already taken place.

Furthermore, when India cancelled the deal in January 2014 for the breach of the IP by AgustaWestland, the latter challenged the cancellation through the launch of an arbitration against India. AgustaWestland cancelled the arbitration in February 2019, only after India filed a criminal charge sheet against it in the High Court of Delhi.

Neither did the IP enable India to get all monies it had paid to AgustaWestland—after the cancellation of the contract, India encashed \$36 million worth of AgustaWestland's bank guarantee in Indian banks in January 2014. For retrieval of the bank guarantee amount made by AgustaWestland in Italian banks that was about \$260 million, India had to approach Italian courts. On March 17, 2014, an Italian court rejected the request made by India. However, the appellate court in Milan reversed the lower court's judgment and upheld the claims of the Indian government. Accordingly, in June 2014, the Indian government encashed \$260 million, taking the total amount recovered so far to \$300 million. With this, India has recovered around 45% of the total contract value of \$520 million it had paid to AgustaWestland. (The company kept the 106 million euros for the three helicopters it had delivered.) Without the courts, the IP was a paper tiger.

IPs also do not address the problem of cartelisation that affects public markets. The cartelised merry-go-round schemes are very advantageous as they lower the 'normal' cost of participating. Participants in cartels leave the responsibility of drafting losing proposals to the preordained winner, or even use common templates (which is why one of the techniques to identify the action of cartels is to examine proposals looking for stylistic and even physical similarities).

The amended Prevention of Corruption Act (PCA), 1988, which penalises the supply side of corruption (the private sector), also renders the IP infructuous. Section 9 of the amended PCA penalises commercial organisations for bribing public servants for obtaining/retaining business or an advantage in the conduct of business. Foreign companies are liable under the expanded definition of 'commercial organisation'. Under section 10, ibid, senior functionaries of the commercial organisation can be punished with imprisonment (3-7 years) and be liable to fine. Section 16, ibid, permits courts to fix the fine equivalent not to the bribery amount but to the amount/value of the property that the accused person has obtained by bribery. It is imperative to avert the danger of complacency after the use of the IP.

Blessed are the chipmakers

What the semiconductor industry tells us about the world economy

THE SETTING FOR Robert Harris's thriller *Enigma* is wartime Britain, where everything is rationed except for the rain. It follows Tom Jericho, a young prodigy stationed at Bletchley Park, the real-life centre of code-breaking operations, who is part of a team of cryptologists trying to break the code used by Germany's armed forces. The work has frustration built in. Any progress can be undone if the enemy changes the code—which he will if he suspects that it has been cracked.

The novel comes to mind when considering the mysteries of shifts in the economic cycle and market reactions. The mood has changed for the better since the middle of last year. Fears of recession have receded. Global equity prices have rallied. Bond yields have perked up. A truce in the trade war, however fragile, has helped. But the improvement in mood coincided with signs of life in Asia's manufacturing hubs.

The key to these coded messages is the semiconductor industry. Cars, smartphones, gadgets and cloud-computing servers rely on components, notably memory chips, that are disproportionately made in emerging Asia. The mood-sensitive parts of aggregate demand—capital spending by firms and non-essential purchases by consumers—have microchips in there somewhere. The chip industry itself has savage mini-cycles. When it turns down, it is a sign of trouble ahead in the world economy. When it perks up, as it has done recently, there is reason to be more optimistic.

The cost structure of the chip business is central to this enigma. A semiconductor fabrication plant, or fab, costs billions of dollars to build. A sudden jump in orders, such as occurred in 2017, is met with increased capacity. But when demand falls, the fabs just keep producing. They are highly automated with few staff, so running costs are low. Continuous output makes sense but leads to occasional gluts and sagging prices, as happened through most of last year. Stocks become bloated. When demand picks up again, as it did late last year, stocks are drawn down and prices begin to stabilise.

> Technology's share of global GDP will continue to grow. In principle, then, these signals will become even more closely watched

Until quite recently the industry's rhythms, and the tautness or slackness of Asia's supply chains in general, were dictated by the two- or three-year life-cycle of smartphones. Export orders for Taiwanese electronics, for instance, tended to spike whenever a new Apple or Galaxy handset was launched. But the smartphone market is now saturated. Consumers find that an old model works almost as well as a newer one—and this might still be the case even when the new 5G generation of phones reaches the market. What drives growth in demand now is cloud computing, electrification of cars, wearable gadgetry and gaming, says Shawn Kim of Morgan Stanley. The cloud is a particular force. As firms ramp up capital spending of all kinds, that in turn spurs investment in cloud capacity, where business-related software lives.

What signals should market cryptologists be looking at? One measure is exports of semiconductors from South Korea, says Alicia Garcia-Herrero, chief economist for Asia at Natixis, an investment bank, who is based in Hong Kong. South Korea is pivotal to Asia's supply chain, she says, and its shipments of semiconductors help predict exports in the region more generally. After a brutal 2019 the trend has bottomed out and is turning. Another signal is the financial health of big Asian chip companies, such as Samsung and SK Hynix. Those averse to digging deep into financial statements could simply monitor industry share prices. Or they could look for inflection points in the price of DRAM, a type of memory chip used to store data on servers, computers.

Technology's share of global GDP will continue to grow. In principle, then, these signals will become even more closely watched. But other forces are at work. China has designs to be self-sufficient in electronic components, a goal made more urgent by the trade-tech wars. The short-term effect is to give a boost to Asia's tech industry. But in the longer term, firms might find themselves displaced by Chinese rivals, at least in China's own market.

To the extent that China succeeds, it will devalue the signals that arrive from the more open parts of emerging Asia. Market-watchers will come to feel the same frustration felt by Mr Harris's fictional codebreakers at Bletchley. The codes keep changing. For now, though, the message from Asia is that the sun is peeking through the clouds—or, at least, that it has stopped raining.

THE ECONOMIST

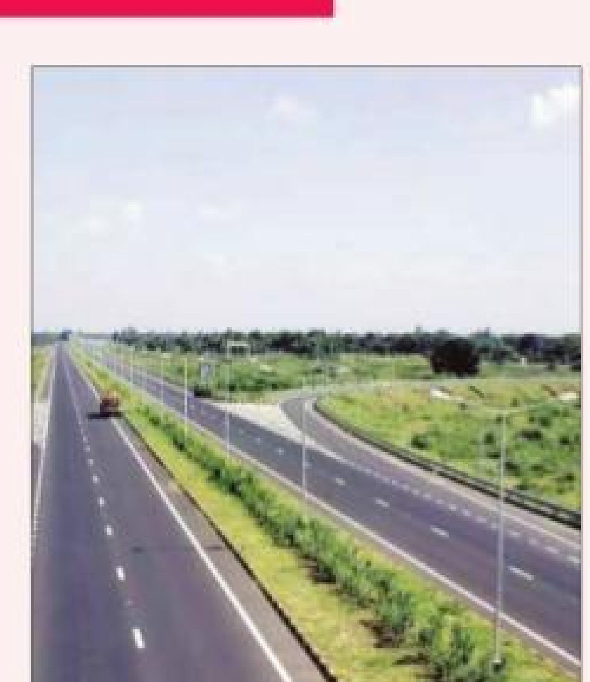
UTTAR PRADESH

Progressive steps towards growth

UP is moving towards both ease of doing business as well as ease of living

RAHEES SINGH

The author is an expert in economic affairs. Views are personal



DURING THE INAUGURAL address of the Investors Summit held in Lucknow, Prime Minister Narendra Modi said that change is visible in Uttar Pradesh. This 'change' is the result of chief minister Yogi Adityanath's implementation of the strategy for the development of the state within a year. The PM also said that UP has the potential to become the growth engine of the country, and to make it a reality, he chanted the 5P mantra—potential, policy, planning, performance and progress. The first four are mandatory for the implementation of the last P, i.e. progress. The question is: Whether the Adityanath government was able to fulfil all these criteria? And to what extent was UP able to match this scale in 2019?

The gestation period for materialisation of basic infrastructure is much longer than smaller schemes, and so these are not able to emerge as a brand in a short period of time. But these have the capacity to change the picture of the state. Likewise, the infrastructure on which the government is working on will lead to change, be it Jewar Airport, Bundelkhand Expressway, Ganga Expressway, Purvanchal Expressway, defence industrial corridor to be built from Aligarh to Chitrakoot, waterway from Prayagraj to Haldia, or initiatives being taken in the field of MSME and agriculture. These will prove to be the strongest arteries of the development of the state.

There was a time UP fell under the category of Bimaru states, and it was considered absurd to talk of new hopes, opportunities and possibilities. The way in which the mechanism of political stabilisation and system worked earlier, the state was pushed behind not only in terms of ease of doing business, but also with respect to competitiveness, inclusive and sustainable economy, even though it has been a land full of skills, rich in resources and fertile. CM Adityanath is aware of the economic and demographic potential of the state, and knows that changes cannot be made easily without potential, policy, planning, performance and perfection. So, he focused more on those areas that could enrich financial or economic capital while enriching human capital. It is a different matter that basic change takes time.

The foundation of investment projects worth more than ₹2 lakh crore has been laid in UP through two ground-breaking ceremonies and other events. These projects range from infrastructure to manufacturing, which are the backbone of the economy. These will also lead to employment for lakhs of people (to mention, till now, about 5 lakh people have got employment from these projects). Along with this, the Business Reforms Action Plan has been implemented under Ease of Doing Business in the state, which makes UP amongst the leading states with a 92.87% score.

The government's development vision is the One District One Product (ODOP) scheme. Each district of UP is known for a specific product, but neither their capabilities are exploited nor do they get any recognition. In view of this, CM Adityanath decided to present this unique capability of these districts on the national and international stage. After the Investors Summit and the launch of ODOP, the MSME industry of the state became active, and the dependence of rural life on the agricultural economy started to reduce. Accordingly, the situation of agricultural surplus has started to reach the corresponding ratio. As a result, not only the output of the rural economy per unit increased, the proportionate output per capita also increased, resulting in an increase in per capita rural domestic produce. It is natural that villages and districts together started moving towards a self-sufficient economy. It also provided an opportunity to move towards the establishment of socio-economic justice, along with inclusive and sustainable development of the state. This is the reason why the PM commented on ODOP, saying that while we were familiar with the cluster approach, ODOP can create a holistic economic system.

PM's vision is to make India a \$5-trillion economy by 2024-25. Recently, finance minister Nirmala Sitharaman said in the US that the goal is realisable. But the important thing here is that the path to achieve this goal will pass through UP. Therefore, CM Adityanath has prepared a vision to achieve the target of \$1-trillion economy for the state. He also believes that UP can feed the entire world by producing foodgrains on its fertile land. For this, he has started holding meetings with the World Bank, ADB, IIM Consultant Forms and PwC. The government has identified potential areas—development of industrial clusters near major cities; skill development according to clusters; support and suggestion of local-level educational institutions, universities, engineering colleges, management institutes; and creation of posts like a mayor or CEO for each cluster. In fact, there is constant monitoring from the CM's office on the steps taken for the clusters, and setting timelines for each goal. So that the development is inclusive, district-wise GDP (gross district production) evaluation has been arranged.

Infrastructure is a lifeline for any economy. The defence industrial corridor will prove to be a lifeline for Bundelkhand in the coming times. Both the Purvanchal Expressway and Bundelkhand Expressway will expedite industrialisation in these regions. The proposed Ganga Expressway, Jewar Airport and the proposed Logistics Hub will provide momentum to the economy. The Eastern and Western Dedicated Freight Corridors will enrich the state's rail connectivity, thereby increasing the inflow of investments and speed of exports. For the past several decades, tourism in UP was proportionately far behind. But Kumbh and Deepotsav not only connected the state with the Indian faith across the world, but also connected the spiritual economy to tourism economy, and converted it into a formal economy. Tourism should be established as a multiplier of economic growth, and when the spiritual economic circuit of Ayodhya, Kashi, Mathura, Vrindavan is complete, it will give a new look to UP's economy.

Overall, under CM Adityanath's leadership, the environment of development, trust and order has helped UP move towards both Ease of Doing Business as well as Ease of Living.