

MY VIEW | VOX HETERODOX

Managing India's economic downturn: the demand side

Supply-side measures can't do much to revive growth in the short run. We need a fiscal boost aimed at stimulating demand



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There is a downturn in India's economy that can no longer be ignored or wished away. Gross domestic product (GDP) growth in the first quarter of 2019-20 at 5% was the lowest in six years, even less than the last quarter of 2018-19 at 5.8%, which was the lowest in five years. The Reserve Bank of India (RBI) has reduced its 2019-20 growth forecast from 6.9% to 6.1%.

This slowdown has, inevitably, affected the disposable income of households, so that the increase in private consumer expenditure has witnessed a slump, dampening growth further from the demand side. The consequences for the automobile sector, which is the driver of manufacturing, and for construction, which is an important source of employment creation, are now being felt.

The fundamentals of the economy, except for the moderate consumer price inflation, are worrisome. Investment rates as a percentage of GDP are progressively lower. So are savings rates. The stagnation in the dollar value of exports continues. The problem is apparent even to those with a rudimentary understanding of the economy.

Yet, until recently, the government has been in denial mode about the slowdown. The Union budget presented in early July, following the massive electoral mandate, was a missed opportunity. It did little, if anything, to address the problem, obsessed as it was with the objective of keeping the fiscal deficit at 3.3% of GDP. Since then, as a consequence of significant changes introduced in the budget, stock markets have plummeted and business sentiment has flourished.

This led to some cognition of the problem in the government and a series of announcements by the finance minister. It began in late August with measures to boost the economy, correcting for mistakes on taxation, decriminalizing defaults on corporate social responsibility obligations, simplifying laws related to labour, companies and the environment, streamlining government procedures, facilitating capital flows in financial markets, and so on. Doing so many things, in the hope that something will happen, was akin to Freudian hyperactivity. It lacked cohesion and focus. Moreover, it did not recognize that there is bound to be a considerable time lag in any response of the economy to such measures on the supply side. If there is a proverbial slip between intention and implementation, a response might not even be forthcoming.

In late September, the government slashed corporate income tax rates. The effective rate, including the surcharge, was reduced from 35% to 25%. For new manufacturing companies, incorporated after September 2019, which start production by March 2023, it was brought down from 25% to 15%. It is hoped that this reduction, by as much as ten percentage points, will stimulate private

investment. But theory and experience both suggest that tax cuts work with a time lag and do not ever lead to an equivalent increase in investment.

Higher profits emanating from lower taxes could be used by firms to restructure debt and clean up their balance sheets, increase dividends paid to shareholders, or reward senior management with stock options and directors on their boards with commissions. In the present situation, where firms are saddled with high debt-equity ratios, stock markets are nervous, and corporate behaviour on payouts is what it is, all three could happen. Hence, higher profits will not lead to a *pari passu* increase in investment. In fact, this increase might be a tiny proportion of the enlarged profits, particularly if business confidence remains low.

The irony is that the government, which was unwilling to relax the self-imposed limit on the fiscal deficit just three months ago, has now decided to forgo tax revenues by as much as ₹1.45 trillion. This alone will increase the fiscal deficit by 0.7% of GDP, compared with budget estimates for 2019-20. Given the time lags and the uncertainties associated with supply side measures, or tax cuts, everything that the government has done so far will do little, if anything, to revive growth in the short run, while the economy could enter a phase of secular stagnation.

In the short run, it is possible to kick-start economic growth essentially by acting on the demand side. This could and should have been done in the Union budget by stepping up public investment and government expenditure. Through multiplier effects, it could also have provided a stimulus to private investment and private consumption. It

was suggested by many of us at the time. But the government, persuaded by fiscal conservatives, stubbornly resisted.

The silver lining to the cloud is that the government has recognized the problem with deficit fetishism. The magic number of 3% is not sacrosanct. Government borrowing is always sustainable if it is used to finance investment and if the rate of return on such investment is greater than the interest rate payable. Conforming to stipulated limits only leads the central government to fudge figures, or push out borrowing needs to state governments and public sector enterprises, or both. The time has come to abandon this obsession.

It is now absolutely essential to step up public investment and government expenditure to revive growth from the demand side before it is too late. For this purpose, letting the fiscal deficit rise by 0.5% of GDP will provide ₹1.06 trillion. Over time, as growth revives, the fiscal deficit will rise less because tax revenues will increase. In fact, the resource-transfer of ₹1.76 trillion from RBI has provided the government with a windfall bonanza, meant to finance the fiscal deficit, which can be used partly for this purpose.

The slowdown in the economy is visible. Even so, it is a quiet if not silent crisis. But economic downturns do have political consequences when they begin to hurt people—ordinary people.

Such crises then become audible in the streets. Past experience in India's vibrant democracy suggests that, once that happens, political goodwill erodes rapidly and parliamentary majorities do not suffice.

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While the government has finally acknowledged the slowdown and responded with a series of measures, these don't just lack focus and cohesion, they will take effect with a considerable lag.

To spark a revival in the near future, the obsession with fiscal deficit targets needs to be dumped and government investment stepped up for its multiplier effect to kick in.

Jobs will help Bangladesh address its poverty

Bangladesh has come a long way from the days of being associated with poverty and famines—we are now a nation of great economic vitality, with admirable growth numbers and a dynamic exporting sector. Nevertheless, we must be realistic about the fight against poverty, while acknowledging the great progress that has been made so far. According to a World Bank report, in the six years from 2010 to 2016, some 8 million people were lifted out of poverty; 90% of this poverty reduction and improvement in living standards happening in rural areas, driven by higher labour incomes. But the challenge of poverty alleviation is a complex one, and it is estimated that 54% of this demographic is at risk of falling back into poverty.

The fight needs to be stepped up in that case, particularly in urban areas, where half of the country's poor population is projected to live by the year 2030. This will involve widespread job creation, because even though our economy has grown consistently, much of that growth has been jobless, and so unemployment has continued to be a major problem. To that end, it is good to see the government take the initiative for the creation of some 10 million jobs across the country through the establishment of 100 special economic zones.

The Dhaka Tribune

Informal meets are good for Sino-Indian ties

From Friday to Sunday, Chinese President Xi Jinping will have an "informal meeting" with Indian Prime Minister Narendra Modi and pay a state visit to Nepal. The belated official announcement of Xi's visits to the country's two South Asian neighbours, only 48 hours ahead of the informal meeting, was proof that Beijing and New Delhi cherish the opportunity to improve bilateral ties through the personal chemistry between their top leaders.

The idea of holding informal meetings is to create an atmosphere for person-to-person communication free of the usual issue-driven, formality-bound distractions. The first informal meeting between Xi and Modi, held last year in Central China's Wuhan, Hubei province, offered both leaders an opportunity to compare notes about bilateral relations and global trends and phenomena. Beijing believes personal ties built through such level of face-to-face communication are conducive to building trust. Despite their historical disputes over some sections of their boundaries Beijing and New Delhi have by and large done a good job preventing such issues from marring the "big picture" of bilateral relations... While it remains to be seen what Xi and Modi can accomplish in Chennai, the potential of greater bilateral engagement certainly supports a relationship that is far more positive than one that is just stable.

China Daily

A Nobel Prize for a revolutionary technology

Akira Yoshino, an honorary fellow with Asahi Kasei Corp. and a professor at Meijo University, won this year's Nobel Prize in chemistry along with two other scientists for the development of lithium-ion batteries, technology that is used in smartphones and other devices that have become essential to our everyday affairs. They indeed deserve the prize for developing what the Royal Swedish Academy of Sciences called a technology that "revolutionized our lives" and for laying out "the foundation of a wireless, fossil fuel-free society".

Lithium-ion batteries were commercialized in the early 1990s. Due to their far higher performance the small, lightweight power cells have become indispensable in a wide range of electronic devices... The technology enabled people to use such devices in places where access to power is unavailable. In recent years its use has expanded to vehicles, and there are expectations that its application in power storage devices will help achieve a stable supply of electricity from renewable sources such as solar and wind, thereby expediting the move away from fossil fuels. Yoshino says it was his "curiosity" that mainly motivated his research. "The real form of lithium-ion is full of mystery. If I go back to the basics of my research, I could discover ideas and technology different to what we have now. It's very exciting," he said during a news conference after he was awarded the prize.

The Japan Times

Trump wants a fight but Pelosi can hit back

The House of Representatives has undertaken the impeachment inquiry of a president only four times in American history. Each time, the House has set its own ground rules. This requires Congress to be rigorous in setting out the rules for conducting an inquiry. It also makes the impeachment process vulnerable to misrepresentation and caricature. According to an astonishing letter from the Trump administration to House Democrats, it is right for the president of the US to use his immense power to solicit a foreign government's interference on his behalf in an election—even, possibly, by way of extortion. The letter is a formal assertion of executive power and impunity without precedent in American history... From the Democrats' perspective, there are several reasons not to hold a full floor vote. Most significant, Speaker Nancy Pelosi wants to avoid a situation in which the House leadership is conceding that the White House can dictate any of the terms of how an impeachment is conducted, and what sort of process counts as "legitimate."

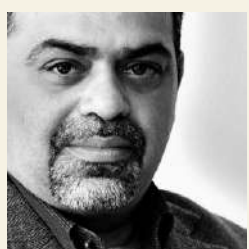
The bottom line is that Democrats need to honour basic fairness and conduct a thorough inquiry, but they also need to set hard limits on how much time they are willing to spend on any given negotiation. They are engaged in an asymmetrical struggle with a White House that has shown itself willing to set fire to the Constitution to protect Mr. Trump from the consequences of his own misbehaviour.

The New York Times

MY VIEW | PEN DRIVE

The Golden Triangle and the great drug game

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The mighty Mekong appears to be in a drug-induced stillness on a moonlit night. There's no breeze, no noise, no movement at all at the riverfront in Chiang Saen, the Thai border town 900km north of Bangkok. From our perch on the first floor balcony of a seemingly empty hotel, my travelling companions and I gaze down at the famed Golden Triangle that lies at the confluence of the Ruak and Mekong rivers. On the left lies Myanmar, wooded and dark. On the right, we see the rolling hills of Laos. "The smuggling boats will be crossing over later tonight downstream," says one of our group, only partly in jest.

Long before somebody thought of linking up Delhi, Agra and Jaipur on the tourist map, a Central Intelligence Agency operative coined the term Golden Triangle to highlight what was then the world's largest drug-producing zone. This broadly mountainous region covers north-eastern Myanmar, northern Thailand, northern Laos and

the north-eastern corner of Vietnam. This region is a major producer of *Papaver somniferum*, also known as opium poppy. Author Frank Dikotter eloquently describes it as "silky flowers held high on elegant stems, turning entire fields white, red, pink and purple". The morphine of the opium poppy is extracted from the latex. From this, heroin is produced, which enters the global market via southern China and Hong Kong.

Before the 1980s, Thailand was the big transit hub for heroin. However, now it appears to have cleaned up its act (a big sign at the Golden Triangle makes a sharp if grammatically-incorrect point: "Death sentence is for person smuggles in drugs"). One can't say the same about Laos and Myanmar, though.

According to a recent United Nations report, drug production has surged in the Golden Triangle. Many of the drug syndicates have switched to lab-produced crystal meth and other synthetic highs.

Our small group is a mixture of old friends and new, marking a midlife moment with a quick weekend road trip. Elevated by blaring 1970s rock, we reach the Golden Triangle after a stunning drive through a longer, hilly route from Chiang Mai, 300km away.

Chiang Saen has converted its infamous tag into a cheesy tourist spectacle, with day trips, boats rides and a variation of a photo booth to mark the Golden Triangle. It's quite underwhelming, apart from a large museum dedicated to opium. It has a bizarre, dark, long tunnel with anguished human figurines in the walls showcasing the effect of the drug on the human mind. There are also helpful demonstrations of how to make opium, and a collection of pipes.

The museum also reminds us that India was the largest producer of legal opium in the 1800s (Patna, Bengal and Malwa served up the top grades). There's a dedicated section that talks about large opium "factories" in Patna and Ghazipur.

Beyond the touristy stuff, a lot is obviously happening below the surface in Chiang Saen, one of the oldest enclaves in Thailand. Given that much of the drugs finds its way to the

US, the Americans have a large presence in this seemingly tranquil town. The Chinese have recently set up an observation centre just a little downstream from where we were staying.

Other governments, including India's, are keeping a watchful eye. You sense murky interests at play here and the need for discretion.

A young lady photographs us as we gingerly step into a small high-powered boat. Skimming over the water, we enter Myanmar waters in a few minutes and view a large casino on the shore. However, there's more to come on the Laotian side, where we disembark.

After a cursory immigration process (no passports required), we walk into a golden domed complex that has shopping (along with a KFC!) and is filled with Chinese tourists. In the distance you can see construction cranes dotting the skyline. Gambling is the new

drug in this 3,000-hectare Golden Triangle Special Economic Zone (SEZ).

Funded by China's Kings Romans group, this multibillion-dollar project has been carved out of communist Laos. As gambling is banned in Thailand, the casinos will attract visitors from the mainland. It will also feed the insatiable appetite for gambling in China. There are nightclubs, hotels, and even an international airport planned.

"In the SEZ, everything from currency to cuisine is Chinese," writes Tom Fawthrop in *South China Morning Post*. The Chinese are running the show in this enclave, which is far removed from the poor Laos beyond its borders. UN agencies have voiced concern that the casinos will launder drug money. There's also a flourishing sex trade.

In particular, the action has shifted to the Wa state in Myanmar. Its border with China is one of the most dangerous in the world for trafficking of drugs and humans. Meanwhile, in Thailand, the *Bangkok Post* reported that 12,000 cannabis sprouts were planted in Chiang Mai in the first industrial-scale medical cannabis-making facility in the Asean region.

Clearly, the great (drug) game continues to be in play.

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The Golden Triangle, so named by a CIA operative, is a region in South-East Asia that's notorious for hosting a global hub of narcotics production.

A road trip through the region, with an opium museum in Thailand and a gambling hotspot in Laos among the must-do ports of call, reveals enough signs that shadowy-if-discreet drug networks thrive around here.