

'India and China should together rewrite rules of global economy'

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NEW DELHI

By 2040, Asia will rediscover the economic might it had two centuries ago by claiming half of the world income, tilting the balance of power further in favour of Asia and eroding the hegemony of the West, according to Deepak Nayyar, economist and former vice chancellor of the University of Delhi. This significant shift in power nearly a century after the end of colonial rule in India also brings challenges, argues Nayyar, who is also chairman of the board of governors of Delhi-based think tank Centre for the Study of Developing Societies (CSDS), in his latest book *Resurgent Asia, diversity in development*. In an interview, Nayyar challenges the established notion that

as Singapore?

It is essential to recognize the diversity of Asia. The reliance on markets and the degree of openness in economies also varied across countries. Their politics too ranged widely from authoritarian regimes to oligarchies to political democracies. So did ideologies, from communism to state capitalism to capitalism. There were different paths to development.

Despite these, there are common patterns. Rising investments rates and savings rate combined with the spread of education were the underlying factors in countries that are success stories.

Growth was driven by rapid industrialization, often export-led with structural changes in com-

position of output and employment. The role of the government and the nature and degree of openness of the economy are crucial in this context.

Today, the World Trade Organization (WTO) seems to be on a ventilator. Nations are following less open, inward-looking trade policies. Does this not curtail the chance for India and other Asian nations to grow?

Asia is a world unto itself. Trade between Asian nations is a large part of world trade. As incomes rise in Asia, countries could find markets for themselves within Asia. Also, average income level is very low in Asia. There is surplus labour. So, they could produce labour-intensive manufactured goods for domestic markets. The world economy is going through a difficult period when globalization is under stress as openness in terms of trade and investment policies is in retreat. This is related to the political challenges that have surfaced in recent times, such as resurgent nationalism in industrialized and developing countries,

the rise in protectionism, and deep resentment for open immigration policies and open trading systems. The resurgent nationalism in industrialized countries in North America and Western Europe can in part be attributable to the rise of Asia.

India recently walked away from a Regional Comprehensive Economic Partnership as opening up markets within Asia too posed challenges to the domestic economy. Are you in favour of mega regional trade deals?

I am not. I believe that a multilateral trading system based on the principle of non-discrimination

such as the WTO is best, particularly for small and poor countries. Regional trade deals that dilute the non-discrimination principle of an open multilateral trading system are stumbling blocks, not building blocks. I would much rather we would all work towards strengthening the multilateral trading system.

Asia should do everything it can to rebuild the multilateral trade system, just as Asia with its growing economic strength and political voice should attempt to rewrite the rules of global economic

architecture. After all, the global economic architecture was created in 1945 when Asia had no voice. Today, Asia is a significant part of the world economy.



PRADEEP GAUR/MINT

Absolute poverty will probably be eradicated in Asia by 2030. But rising inequality and jobless growth will remain a challenge.

DEEPAK NAYYAR
Economist and former vice-chancellor of University of Delhi

Collective voices are much more likely to be heard than single voices. This cooperation is not yet visible whether in WTO or in the International Monetary Fund. It will depend on Asia's willingness to exercise influence to make international economic architecture more conducive to the development of countries that are late-comers and are still poor. It will be possible only if India and China decide to set aside their rivalry and work together to change the rules of the game.

The danger is that China has almost arrived and when these countries become influential, they will join the big boys on the high table and forget those that lag behind. Could we not have an Asian union that is a political arrangement, notwithstanding differences in national economic interests? It could be a political forum for cooperation. Countries such as Vietnam and Bangladesh have made much progress in manufacturing. Has India missed the bus on manufacturing and should we focus now on services as the engine for

growth?

If we consider the story of industrialization, India is a laggard. It is a sad story. Our peak shares of manufacturing in output and employment were achieved in the late 1980s. The past 25 years, the era of economic liberalization, has seen India de-industrialize. In the earlier years, we had created essential foundations to industrialize. Until about the mid-'80s, our industrial policies had problems. The biggest mistake was that we did not shift the emphasis of industrial policy in early 1970s when other Asian countries did. When we shifted it in 1991, we abandoned industrial policy altogether in the belief that markets will do their magic and we will become industrialised. We ended up de-industrializing.

The absence of a industrial policy is also a policy. Different governments over the past 25 years had no strategic sense on how to industrialize, which Singapore had. China's Deng Xiaoping learned it from Singapore. It is possible. We have to think ahead and leapfrog. After all, in space and satellites, we have developed technologies. Why not elsewhere? We have a comparative advantage in services. We have no choice but to re-industrialize India.



ALAMY

Asia should do everything it can to rebuild the multilateral trade system, which is based on the principle of non-discrimination.

challenges are persistent poverty, rising inequality, and jobless growth. Absolute poverty will probably be eradicated in Asia by 2030, even in countries such as India. However, rising inequality and jobless growth will be a huge problem, which will be a big challenge for the economy and polity. The role of governments is going to be critical in the next 25 years. Anyone who believes the phenomenal growth of Asia in the past 50 years was the magic of markets and open economies is wrong. The role of the government was critical and made the difference.

What stood in the way of India becoming a global manufacturing hub or a financial services hub such

SHORT TAKES

States stare at over ₹1 tn revenue gap post GST compensation waiver



New Delhi: States might be facing a consolidated revenue gap of up to ₹1.23 trillion on account of withdrawal of compensation at the goods and services tax (GST) transition period, says an economic think tank report.

At the time of GST implementation in 2017, the Centre had promised to compensate states' revenue loss for five years. **PTI**

Tax haven trusts come under scanner for Swiss bank accounts

New Delhi/Berne: A number of trusts set up in overseas tax havens using a complex maze of entities have come under the scanner of Indian and Swiss authorities for suspected tax evasion by parking of illicit funds in Switzerland-based banks, as per notices

issued to those entities.

In addition, several individuals who are suspected to have moved abroad after evading taxes back in India are also being probed. Those named in these notices include businessman Atul Punj, Gautam Khaitan, Satish Kalra and Vinod Kumar Khanna. **PTI**

India deeply concerned about situation in Gulf, says Jaishankar

New Delhi: The situation in the Gulf region has taken a "very serious turn" after the killing of Iranian Quds Force commander Qassem Soleimani in a US drone strike, said external affairs minister S. Jaishankar. "Just concluded a conversation with foreign minister



Mohammad Javad Zarif of Iran... India remains deeply concerned about the levels of tension," he tweeted. Jaishankar also reached out to the US Secretary of State Mike Pompeo and foreign minister of Oman.

New Delhi views Tehran as a partner, given India's efforts to secure a route to Afghanistan and Central Asia via Iran's Chabahar port. **ELIZABETH ROCHE**

Govt has taken steps to address issues even before budget: FM



Jaipur: Finance minister Nirmala Sitharaman on Sunday said the Centre has taken steps to address the challenges faced by various sectors without waiting for the budget. The goods and services tax collection will remain "good" in coming days, she added.

Stating that the Centre does not differentiate between Bharatiya Janata Party-ruled states and non-BJP ruled states, she said that dues of states were not being held back by the Centre, and funds were being given as per the recommendation of 14th Finance Commission. **PTI**

Centre de-allocates coal block given to PFC arm for power project

New Delhi: The Centre has de-allocated a coal block in Odisha allotted to a wholly owned arm of Power Finance Corp. Ltd (PFC) for a 4000MW power project on account of delays in the development of the mine.

The coal ministry noted that even after lapse of nine years since allocation of the coal block (Bankhuti), no progress has been made to operationalize it. **PTI**



BLOOMBERG

Eight states finalize action plan for agriculture export policy: govt

New Delhi: The government on Sunday said eight states have finalized action plan for agriculture export policy, which aims to double such exports.

"Maharashtra, Uttar Pradesh, Kerala, Nagaland, Tamil Nadu, Assam, Punjab and Karnataka have finalized the State Action Plan," the ministry of commerce and industry said in a statement. **PTI**



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FRAYING FEDERAL POLITY CAN DERAIL ECONOMIC AGENDA



With politics becoming more fractious, odds of a consensus at GST Council are worse off than before. **PIB**



Uddhav Thackeray allocates portfolios to his ministers. Ajit Pawar gets finance ministry bit.ly/2RAWJZ

On 18 December, the 38th meeting of the Goods and Services Tax (GST) Council decided to take a vote on a proposal for imposing a uniform tax rate on lotteries. It was the first time that the federal indirect tax body, since its inception two-and-a-half years ago, had dispensed with consensus.

The point of dispute was the variance in the GST on lotteries—12% for lotteries offered by the state government and 28% for those sold by private entities. Kerala wanted all lotteries to be taxed at 28% and rejected any compromise. Consequently a vote was called on the proposal, which was carried as it was favoured by 21 states and opposed by seven, while three abstained.

Despite the claims proffered by spin doctors after the meeting to not read too much into the vote it is clear that the carefully crafted bi-partisan peace pact, the credit for which must accrue in large part to the then finance minister Arun Jaitley, had been breached. It could be a landmark moment in the country's federal polity, which had scaled a new high with the introduction of GST.

Indeed it was remarkable that in a country which is so politically diverse, an idea like GST ('one nation, one tax') could be evolved with consensus—the states had ceded part of their fiscal sovereignty for a national cause. Though, with the benefit of hindsight, it is apparent that the price this consensus extracted was a flawed GST model with multiple rates.

To the Council's credit, it has embarked on a project to rework the GST to iron out the glitches. That is exactly why the developments in the 38th Council are a cause for worry. The consensus that was carefully crafted for a record 37 meetings despite (sometimes petty) political pulls and pressures is now history. With politics becoming more fractious, especially after the passage of the Citizenship (Amendment) Act, the odds of a consensus are worse off than before. In other words, the task of the much-needed overhaul of GST has just become that much more difficult.

Tragic, because the GST Council was seen as a forerunner for similar alliances on equally pressing issues like agriculture, education and health, all of which are increasingly posing a drag on India's ability to realize its potential. All three subjects fall under the purview of the states as well as the Centre. Failure to evolve consensus means states ruled by parties opposed to the Bharatiya Janata Party (BJP)—the dominant partner in the coalition ruling the Centre and the country's principal political pole—would either reject a Union government initiative or simply put it on the back burner (we are seeing something of this nature play out in Delhi over the implementation of the Ayushman Bharat scheme, which very ambitiously seeks to medically insure nearly half of the country's population).

It has also long been apparent that the next phase of growth will be determined by the action taken at the state level. The Union government—especially when taken together with what has been done in the last four decades—has already checked most to-do items in the list of macroeconomic reforms. Bereft of consensus, good economic practice could fall prey to political pique or oneupmanship.

The GST experiment had put in place a template. Something similar had been achieved in Gujarat in the mid-1990s when the two arch (and often bitter) rivals, Congress and BJP, inked a document guaranteeing continuity, regardless of regime change, in the reform agenda they agreed to for availing a loan from the Asian Development Bank. It actually laid the basis for the big surge that the state experienced from the turn of the millennium. It was a unique political experiment that would not be repeated till the GST moment on 1 July 2017.

Presumably saner voices will prevail over the new political fault line that has emerged in the last month or so. The new federal polity etched by the GST Council cannot be buried at the altar of politics.

Anil Padmanabhan is managing editor of Mint and writes every week on the intersection of politics and economics. Comments are welcome at anil.p@livemint.com