



## Fragile momentum

The economic slowdown has been reversed, but the task of sustaining the trend remains

Turning around a large ship is never easy. So it must give policymakers a measure of satisfaction that the slowdown seen during the last fiscal year and in the first quarter has been reversed. Data released on Thursday show that economic growth as measured by the gross domestic product rebounded to 6.3% in the three months through September, from a three-year low of 5.7% in the preceding quarter. The reversal in direction apart, what is equally noteworthy is that this reversal was coterminous with the nationwide roll-out of the goods and services tax from July 1. Interestingly, it was manufacturing that was in the vanguard of the rebound, with gross value added for the sector recovering smartly from the first quarter's anaemic 1.2% growth to post a healthy 7% expansion. While the GVA data for the sector appear, on the face of it, to be significantly at variance from the Index of Industrial Production data that had been reported for the last quarter, the Central Statistics Office made it clear that the second-quarter IIP manufacturing growth figure of 2.2% was indeed factored in and used as a proxy for the approximately one-fifth of manufacturing GVA contributed by the "quasi-corporate and unorganised segment". A lion's share, or more than 70%, of economic activity in the sector was measured using growth among private listed corporate entities, based on the numbers reported by them.

Sustaining and building on this reversal of momentum may be more challenging in the coming months, given other economic data that are a cause for concern and some external headwinds. Specifically, agriculture remains in a slump, and this in a 'normal' monsoon year - GVA growth in the sector, which includes forestry and fishing, slowed to 1.7%, from 2.3% in the first quarter, and was considerably weaker than the 4.1% pace posted in the year-earlier period. Agriculture is a significant contributor to rural incomes and consumption demand, and the impact of a protracted agricultural slowdown on the larger economy cannot be overstated. Worryingly, the foodgrain output in the kharif season contracted by 2.8%, compared with a 10.7% expansion in the year-earlier period. This could portend a resurgence of inflationary pressures on food prices that would limit the room for growth-supportive monetary action by the Reserve Bank of India. Consumption spending by households also remains in a stubborn rut: the second-quarter growth at 6.5% was a tad slower than the 6.6% seen in April-June; it was 7.9% a year earlier. With global oil prices having risen appreciably, and the fiscal headroom for more pump priming by the government having narrowed drastically - the fiscal deficit at the end of October has already hit 96.1% of the budget estimate for 2017-18 - the coming quarters could well test the real mettle of the economic recovery.

## Accident-prone

The apathy over enforcing road safety rules must stop

The most effective measure to keep roads safe is enforcement of rules with zero tolerance to violations. But as anyone who uses India's roads knows only too well, that is not an administrative priority. Even the periodic directions of the Supreme Court in a public interest case, *Dr. S. Rajasekaran v. Union of India*, have not produced any dramatic change in the official attitude. In spite of the court setting up the Committee on Road Safety and appointing an *amicus curiae* to help implement its recommendations, it is mostly business as usual for the police in enforcing road rules, for engineers tasked with forming roads and pavements, and transport officials in charge of licensing. The death of 1,50,785 people in accidents in 2016, which represents a 3.2% rise over the previous year, indicates the scale of the challenge. Fortunately, the orders of the court now provide actionable points with deadlines for implementation. Governments should be called to account on these, and civil society must ensure that they act without compromise. The most important among these is the Road Safety Action Plan that each State and Union Territory must announce by March 2018, and roll out after giving due publicity. But police forces and transport bureaucracies need not wait for formalisation of the plan, and should start enforcing rules relating to lane-based driving, using CCTV cameras to penalise offenders, and conducting safety audits along with experts.

The absence of a scientific approach to accident investigation in India remains a major factor in fixing responsibility. This was pointed out by the Sundar Committee of the Ministry of Road Transport in 2007, but other than a failed attempt at creating a National Road Safety and Traffic Management Board, no real effort has been made at reform. The orders of the Supreme Court provide a road map, and the direction to States to form a District Road Safety Committee headed by the Collector before January 31, 2018 should ensure that someone is accountable when citizens file complaints on hazardous conditions. It bears pointing out that the court-appointed Committee on Road Safety has written to States on the need to prosecute every case of driving under the influence of alcohol and drugs, seeking imprisonment and fine, and to treat driving on the wrong side of the carriageway as an offence under Section 279 of the Indian Penal Code, which can lead to imprisonment, and not merely under the Motor Vehicles Act. Stringent penalties have a lower chance of being imposed, compared to fines that are proportionate to the offence. Yet, even the existing minor penalties are not being imposed, and road conditions remain hazardous due to poor engineering. This is proof of the apathy of the system. It's time to shake the system out of its indifference.

# Turning the corner

The next few quarters call for focus on consumption, private investment, agriculture and exports



AJIT RANADE

There was a collective sigh of relief when the second quarter GDP data were released officially by the Central Statistics Office (CSO). The government folks were relieved that a declining trend of four consecutive quarters of growth had finally been reversed.

The forecasters and economists were relieved that the announced data had mostly conformed to their expectations. Industry and business people were now hopeful that this was the first instance of a sustained upward trajectory of growth. GDP growth came at 6.3% for the quarter ending September, higher than 5.7% in the previous quarter, but still lower than 7.5% a year ago. The Finance Minister said that the effects of the demonetisation and initial rollout of the goods and services tax (GST) were behind us. (In saying so, he implicitly endorsed the view that indeed demonetisation and the GST rollout had been negative for the GDP, at least in the short run. But this is not the occasion for such minor nitpicking!)

### Devil's in the detail

All these responses of being assured that we had turned a corner are justified if we see some of the positive details from the GDP data. For instance, industrial growth accelerated from 1.6% during the June quarter to 5.8% in this September quarter. Its subcomponent, manufacturing, too grew faster at 7% compared to only 1.2% during the previous quarter. This



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data is a bit puzzling since it seems inconsistent with the data on the Index of Industrial Production (IIP), whose growth is only 2.2% during this quarter. The services component of trade, hotels, transport and communications also grew smartly at 10.5% for the half year, as compared to 8.3% a year ago. So much for the good news.

Industrial revival is an absolute must for sustained growth in employment and output. It should also be accompanied by an increase in private sector investment, which is still lacklustre. The portion of GDP growth coming from fixed capital formation (which stands for investment activity) declined from 27.5% in the first quarter to 26.4% now. This has to be closely watched, and needs high policy priority. All the improvements in the Ease of Doing Business (EODB) ranking are meaningless unless we see substantial pick-up in private sector investment. More about this later.

There was one more silver lining in the data. The CSO says that GST collections data are provisional, and could be an underestimate. To that extent an upward revision of the GDP data is possible in the future.

So if the GDP trend is satisfactory, why did the stock market react

so negatively? It is of course hazardous to impute motives to the stock market index movements, since there are multiple influences, both domestic and global. Several caveats are in order. The stock market has been scaling new peaks, even though GDP growth had been declining. The stock market is always a forward-looking entity, a harbinger of things to come. Whereas the GDP data released by the government describe what happened two or three months ago. The stock market is swayed by a relatively small minority of deep pocket investors (and increasingly algorithms and bots), so its reaction is not representative of what's happening to the broad-based economy. Even so, despite these caveats, it's useful to pay heed.

### Spooked markets

The market was spooked by the data on fiscal deficit. At this stage of the fiscal year, the deficit is running at 96.1% of the annual target. Last year at this stage it was only at 79.3%. The revenue expenditure component (roughly salaries, pensions, interest payments, etc), which is not the productive spending on items like infrastructure, is growing at twice the rate as budgeted (10% against 5%). The higher

deficit would have been acceptable had it been on account of higher capital spending, not higher revenue spending. The government can either cut further into capital spending (which tends to be discretionary, or can be postponed to the next budget year) or it can increase its market borrowing to tide over this year. Either way it is not good news for the markets. That's because the former implies lower economic growth, and the latter implies higher interest rates. This could be the main reason for the markets crashing. Indeed, a fiscal slippage right after an upgrade by international rating agency Moody's does not sound auspicious. Rating agencies tend to be fiscal fundamentalists, focussing disproportionately on fiscal deficits. They in turn influence bond investors, who might suddenly stop pouring dollars into India's bond and stock markets. But markets are notoriously fickle. They might very well be more jubilant if the government exceeds its privatisation target this year.

Moving away from sentiments of Dalal Street, it is important to focus on the weaker components, which should become policy focus area. As said above, private sector investment is still anaemic. It is constrained by low capacity utilisation, deleveraging of balance sheets (as companies are reducing loan burdens), insolvency resolutions and large influx of imports, especially manufactured goods. Second, consumption spending has started losing steam. Its growth went down a notch from the last two quarters.

Nearly two-thirds of India's GDP is consumption spending, and remains the key to sustaining the growth momentum. Its slowing means that purchasing power both in rural and urban areas is under pressure. Mounting infla-

tion rates are not helping. The situation on job creation is still bleak. Large job creating sectors like construction, agriculture, textiles, leather and tourism need to exhibit more vim.

### Exports are the key

Finally, among the biggest worries are India's exports. The world at large is experiencing one of its strongest growth phases. Indeed, the International Monetary Fund has revised its growth projections upwards for most countries. In such a scenario, India's sluggish exports stick out like a sore thumb. When the world economy does well, India's exports should be flourishing. The exporting sector's fortunes are closely linked with the manufacturing sector. Exports create jobs, especially in small and medium enterprises. Why can't India's small enterprises sell on global portals like Alibaba and Amazon? What are the hurdles? Is the GST framework (with delayed refunds) inhibiting the growth of exports? What are the policy and other bottlenecks? These are the issues that we need to grapple with to sustain an upward growth path.

We need to acknowledge that unlike last year, this year the government has less fiscal room to pump prime growth. Oil prices have gone up in the past few months, taking away the fiscal dividend. GST, Real Estate (Regulation and Development) Act, Insolvency Code are all great reforms for the medium to long term. But the next few quarters call for sustaining consumption, inviting private investment, energising agriculture, and giving a big fillip to exports. We have our work cut out.

Ajit Ranade is an economist

# Scripting another Asian narrative

Japan is filling the vacuum created by the U.S.'s withdrawal from the region



PALLAVI AIYAR

Japan has long been an anomaly: an economic powerhouse within a geostrategic pygmy. But China's muscular ascent combined with the capriciousness of a Trump-led U.S. is causing Tokyo to slough off its diplomatic slumber and rethink its role in Asia. From proposing new security dialogues, to taking the lead in developing multilateral trade agreements, it is beginning to pick up some of the slack left by the U.S.'s "America First"-influenced withdrawal from leadership in Asia.

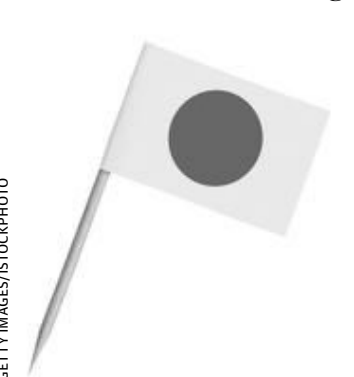
Japan is in a potentially explosive neighbourhood, and it no longer believes that a wholesale reliance on the U.S. for a defence umbrella is sufficient to secure its best interests. Foreign Minister Tarō Kōno said in October: "We are in an era when Japan has to exert itself diplomatically by drawing a big strategic picture."

Military normalisation is one prong of Japan's new foreign policy, but even if a controversial revision of Japan's pacifist Constitution, as proposed by newly re-elected Prime Minister Shinzo Abe goes through, the archipelago's armed forces will remain under strong, self-imposed constraints. The constitutional revision would merely recognise the legality of Japan's long extant Self-Defense Forces (SDF). Offensive weapons and preemptive strikes would remain outlawed.

His nationalist leanings notwithstanding, even Mr. Abe realises that remilitarising alone will not provide Japan with an effective solution to its diplomatic dilemmas. What Tokyo needs to prevent the region from succumbing to a Pax Sinica is to use its strengths, its capital, its technological know-how and its democratic credentials to win friends and influence countries across the region and beyond. It needs to beat infrastructure sugar daddy China at its own game.

### Countering China

A large part of China's rise has to do with its indispensability to global trade. But Japan is a trading heavyweight too, and is attempting to stake leadership on the regional platform with the Trans-Pacific Partnership (TPP). With the U.S.'s departure from trade negotiations, Japan has become the principal driving force keeping the deal alive. At November's Asia-Pacific Economic Cooperation summit in Vietnam, Japan got the 11 countries still involved to agree on the "core elements" of a deal. It wants to lead rule-making on trade



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in the Asia Pacific, rather than let China set the agenda with alternatives to TPP such as the Beijing-backed Regional Comprehensive Economic Partnership (RCEP).

At the same time, Japan is stepping up aid and investment in Southeast Asia. A train line near Manila, a seaport in Cambodia, and assistance in the reconstruction of Marawi City in the Philippines are some examples. As the top source of development aid to Vietnam, it has helped construct a new airport terminal in Hanoi as well as the first subway line in Ho Chi Minh City.

Mr. Abe recently committed 1 trillion yen (\$8.7 billion) to the Philippines over the next five years, with a continued focus on infrastructure development. Japanese investment in major Southeast Asian countries is estimated to have averaged \$20 billion per year, from 2011 to 2016, more than double the average annual flows bet-

ween 2006 and 2010.

Japanese sales pitches to countries in the region always have one eye on China, emphasising advantages in areas where Beijing is vulnerable such as safety, reliability and solutions that deliver benefits to local populations.

### Looking to India

China's \$900 billion, Belt and Road Initiative (BRI) infrastructure building campaign across Eurasia is a gauntlet that Japan has picked up by turning to the only country in the region with the heft to match China, India.

Japan and India have announced an Asia-Africa Growth Corridor, aimed at creating sea corridors linking the countries of the Indo-Pacific to Africa. In addition, Japan is cooperating with India in third country infrastructure projects such as Iran's Chabahar Port, Sri Lanka's Trincomalee port, and the possible joint development of the Dawei port along the Thai-Myanmar border.

Japan has bagged the \$17 billion contract to build India's first high speed railway line, linking Mumbai and Ahmedabad. Tokyo is also investing in development projects in the Northeast and the Andaman and Nicobar islands. And Japan's Diet gave the go ahead to a Japan-India civil nuclear energy deal earlier this year. The possibility of purchasing Japanese submarines and search-and-rescue planes to

help the Indian Navy is being discussed.

### Creating a 'Quad'

A free and open Indo-Pacific, a phrasing that places India as a major actor in the Pacific, is an idea being proselytised by Japan in conjunction with the U.S. This is a response to concerns over the expansion of the Chinese navy and Beijing's territorial claims in the South China Sea, waters through which a huge majority of Japanese energy supplies transit.

It is against this background that Tokyo's championing of the Quadrilateral dialogue with the U.S., India and Australia aimed at creating a community of democratically oriented interests in the region must be understood.

Tokyo wants to use the bilateral ties it is developing to create a multilateral architecture in the region. Like Germany in post-World War II Europe, Japan is aware that unilateral moves by it invariably conjure up images of militarism and expansionism. However, without making genuine amendments for its past aggressions, an idea that Mr. Abe does not seem interested in, Japan's attempts to shape the future of the region will remain constrained.

Pallavi Aiyar has reported from China, Europe, Indonesia and Japan. She is a Young Global Leader with the World Economic Forum

## LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

### Disturbing

Crime statistics speak the language of numbers, but their real significance springs from their insights into society's sociocultural norms and values such as gender equality, empowerment of women, and safety of women, besides reflecting the effectiveness of the law and order machinery in different States. The national crime data for 2016, released by the National Crime Records Bureau, reveal a disturbing spurt ("Spurt in rape cases, with M.P., U.P. leading the table", December 1). The high prevalence of crimes against women in the 'Hindi belt' is cause for concern and demands the attention of civil society, cultural and religious leaders, criminologists, the police, and the political class in these crime-prone

States. What is more disconcerting is the fact we are analysing crime data for 2016 during the end of 2017. It is shocking that a major information technology power like India should be struggling to put in place a real-time national crime tracking network that will connect all police stations across India. The fact that law and order is a State subject has made it difficult for the Central government to speed up the setting up of the Crime and Criminal Tracking Networks and Systems that was launched by the UPA in 2010. Many laggard States are yet to install the State-specific infrastructure required for this purpose. Is it not time that we initiate a debate to include law and order in the Concurrent List of the Constitution so that national priorities such as crime prevention and

counter-terrorism are not sacrificed at the altar of federalism?

V.N. MUKUNDARAJAN,  
Thiruvananthapuram

### Individual data

Our concept of data privacy has moved little from the Indian Copyright Act, 1957. The IT Act, to aid the revolution in digital transactions, is even now beset with a plethora of amendments. The Privacy (Protection) Bill, 2013 to safeguard sensitive data, was aimed more against social media posts. We are yet unclear on critical core areas of concern on data privacy in this exploding digital age. Recall that the NDA was utterly dismissive of Aadhaar during the UPA regime, yet three months in office, it was quick to sing paeans about it and now eager to wield it as a master

key. The issue of the right to individual privacy, for instance Aadhaar, now has the attention of the Supreme Court. One must hope that the case is thoroughly sifted for both the pros and cons and not be allowed to be overridden citing administrative exigencies.

R. NARAYANAN,  
Navi Mumbai

### Whither heritage

It is most unfortunate that there is scant regard for heritage building conservation across most parts of India. While in the West, there is great pride and investment in preserving heritage structures, it appears to be exactly the opposite in India. In Bengaluru for instance, the razing/destruction of the historic Krumbiegel Hall at Lalbagh and the University

Visvesvaraya College of Engineering building was and is unnecessary. The most advisable and practical plan would be to rebuild and refurbish heritage buildings. Technology in the form of photogrammetry, spatial information system technology, computer-aided design and drafting, and 3D scanning can be used to rebuild the same structure, retaining all its features. State governments should accord priority to prolonging the life of old, historic and beautiful buildings and retaining our history.

C.R. SATHYA PRAKASH,  
Bengaluru

It was a surprise to learn that Chennai has a British-era air raid shelter, in north Chennai, and later a shock that it has now been partially demolished, largely the

result of a deep ignorance of history (Some editions, "British era air raid shelter demolished", December 1). The fact that Madras came close to being bombed is something that most youngsters in the city and State are bound to be ignorant about. There are several heritage structures in the city which are in a state of utter neglect and being eyed by the real estate mafia. One only hopes that the extensive work being done by a small and unrecognised band of historians and conservationists bears fruit and that the Tamil Nadu government is deeply convinced of the need to save the glorious heritage of Madras/Chennai. With the availability of advanced technology, is it so difficult?

KAMALA NARAYAN,  
Chennai

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