

# GDP Numbers have Their Silver Lining

### Sectional data points to a stronger fourth quarter

GDP growth for the third quarter (Q3, October-December) is now estimated at a lacklustre 4.7%, but it is entirely possible that Q1 and Q2 figures would be significantly revised upwards once provisional figures are out in May. Note that the growth rate for 2012-13 has since undergone downward revision, which would mean a lower base, or a statistical upside, for the current fiscal. So, it seems quite likely that 2013-14 would not, after all, be the second successive year of below-5% GDP growth. It has never been the case, post the reforms of 1991. Besides, disaggregated figures for Q3 do show that the one vital economic sector, that of "Financing, insurance and business services", has posted a torrid 12.5% growth. It points to spadework underway to boost investment, or gross fixed capital formation, which in turn can well be expected to shore up the overall growth momentum.

Next, the latest figures do also suggest that demand is picking up economy-wide. Notice that the head "Change in stocks" has taken a severe beating in Q3, with the segmental growth rate much reduced from Q2. Running down of stocks points to rising demand, which sooner rather than later should also rev up capacity addition (read investment) in the private corporate sector. Note also that private consumption expenditure is on the uptick, and the segment of "Trade, hotels, transport and communications" has posted rising growth all along this fiscal.

Farm growth in Q3 at 3.6% is lower than that in Q2, but what is more notable is that horticulture (read fruit and vegetables) is expected to notch a smart 4.1% growth this fiscal (over the like period last year). Given that the continuing strong demand for the superior foods has led to heightened inflation, their rising supply should tame the overall price rise as well, provided supply rigidities improve. Further, export growth has been buoyant too, and together with the reduced growth in import consumption—for example, the reduced demand for gold of late—should all boost domestic value addition. A growth turnaround seems very much on the cards.

# Rahul Wants Them is Not Reason Enough

The government would do well not to go ahead with plans to enact six new laws by issuing Ordinances. It is constitutionally improper: an Ordinance has to be ratified into law by Parliament within six months, and that job would fall to a new, 16th Lok Sabha. If Bills introduced in a Lok Sabha expire with the term of that Lok Sabha, the logic should apply to Ordinances as well. Further, getting the laws through via Ordinance would be politically counterproductive. The Opposition has already said, convincingly, that this last-minute commitment to the laws in question, after five years of inaction, is motivated solely by electoral considerations.

That the Bills in question are all sensible ones—on markets regulator Sebi, prevention of corruption, creating a citizens' right to time-bound delivery of services, tightening the law to prevent atrocities against scheduled castes and tribes, the disabled and the Delhi High Court—does not alter the argument. Rather, it gives the ruling party and its allies some ammunition against the Opposition for having stalled these vital, pro-people Bills in Parliament. Sustained disruption of Parliament, after all, is the reason why the 15th Lok Sabha has earned the distinction of being the least productive one India's history.

Combating corruption, delivering good governance or gaining political credibility is not so much a function of passing laws as of political conduct. This is where the Congress and its allies have failed. Conduct includes communication. While there has been serious corruption under and within the UPA, the public at large credits it with far more and more egregious corruption than actually took place, thanks to poor communication on the part of its leaders. This is what the UPA needs to address, instead of some futile Ordinances.

In an age of discord, small words might make a marriage work

# The, A, An, Or and But of Him and Her

The language of marital discord, as a wise sage observed (or perhaps didn't), has a complex grammar. One isn't talking about the old stuff, the two-different-beings-coming-together with attendant niggles that might or might not have to do with squeezing the toothpaste at the wrong point or the proverbial toilet-seat-up-or-down dispute. Or even mixed marriages, where, say, in India, a couple may find both terms of endearment as those of disagreement being expressed best in respective, and possibly unintelligible, tongues. That, as any reader will aver, might cause a problem or two. But now we seem to have another of those awesomely important pieces of research that pins all this down even further to personal pronouns and articles. That's right. A Texas Tech University researcher, using speed-dates analysis, found people with a common fondness for the appropriate functional words have a better chance of staying together longer.

Which, in English conversation, means one should not say "apple a day", rather, "an apple a day", or not "open jam bottle" but "open the jam bottle". Not "I was saying..." in an argument but "and I was saying..."—thereby giving the other party the chance to suspect that you had, in fact, been listening to whatever was being said by him or her. Little things, friends, they make the difference.

Dismal third-quarter GDP numbers have effectively scotched all hope of quick recovery

# Whither Green Shoots?



Mythili Bhushnurmath

Third-quarter GDP numbers released by the Central Statistical Organisation last Friday have effectively demolished any hope that the economy has bottomed out. At 4.7% growth, quarter-on-quarter, not only has GDP clocked sub-5% growth for the fifth successive quarter, but the likelihood of the economy growing at even 4.9% in 2013-14, as projected by the CSO in its advance estimates earlier, now looks bleak.

A back-of-the-envelope calculation shows that the only way GDP growth could touch 4.9% for the year would be if the economy were to grow at about 5.7% in the January-March 2014 quarter. In the present scenario, that is near-impossible. Especially since this is also a period of heightened political uncertainty, given that the general elections are now only a couple of months away and most investment decisions will be on hold.

### Growing, Growing, Groan

So, in all probability, we are set for another year of 4.5-4.7% GDP growth. The last time we had consecutive years of sub-5% growth was during 1984-85 to 1987-88 when growth averaged just 4%; something we have not witnessed in the post-reform period till now, after a decade of UPA rule!

Yet, it was not so long ago that the government took every opportunity to point to how India's GDP growth rate

was among the highest in the world, next only to China's. As recently as July 2013, the finance minister P Chidambaram sought to assuage worries on the growth front. "People should remember India continues to be the second-fastest-growing economy after China. Even China's growth, which was at 10%, has come down to 7% now, while our growth has slid to 5% from 9%," he said, while inaugurating a branch of Indian Bank in his Sivaganga Lok Sabha constituency.

### Badly-Run Also-Ran

Today, the metaphor has changed completely: "Only a handful of countries were able to keep their head above the water, and among them was India," said the FM in his Interim Budget 2014 speech in Parliament. There's no mention of India being the second-fastest-growing country. Why?

Because we're not even among the top five or 10! A look at recent World Bank data on GDP growth in 2013 shows we've been overtaken not just by China but by a host of countries: Cambodia (7.3%), Philippines (6.9%), Indonesia (6.2%), Myanmar (6.8%), Vietnam (5.1), Sri Lanka (7.0%) and, hold your breath, Bangladesh (5.8), and possibly Pakistan as well.

The first and most immediate fallout is that the numbers presented by the finance minister in his Interim Budget now look more suspect. The second is that the sectoral composition of GDP growth—with agriculture a key driver of growth along with relatively flaky sub-components of the services sector—raises serious doubts about whether we will be able to sustain even the present low growth rate. Farm sector growth remains subject to the vicissitudes of nature and early indications are that the next monsoon may be subnormal; in which case agriculture growth is lik-



SALAM

ely to revert to the familiar pattern of one year of healthy growth followed by anaemic growth in the next.

Take the fiscal deficit. Tax revenues are the first casualty of slow growth. A comparison of the revised estimates in the Budget at a Glance for 2013-14 with numbers released by the Controller General of Accounts for April-December 2013 shows the government assumed almost 40% of the tax revenues for the entire year could be collected in the last quarter. This looks like a pipe dream now.

### Devil and Deep Blue Sea

With growth slowing on a sequential basis, the only way the government can achieve the fiscal deficit/GDP ratio of 4.6% is with further expenditure compression—with all the attendant adverse repercussions on growth since the squeeze is invariably on capital expenditure. Alternatively, we will end the year with a much higher fiscal deficit, leaving the next government with virtually no fiscal space for any stimulus package to jump-start the economy.

Am I being too pessimistic? What about the green shoots government spokesmen periodically claim to sig-

ht? A look at the disaggregated numbers scotches all hope on that front. Agriculture has grown a full percentage point lower than the 4.6% projected by CSO in its advance estimates.

Worse, manufacturing, a key sector for when it comes to providing jobs for our growing number of youngsters, has declined 1.9% during the quarter. The net result is that manufacturing growth for April-December 2013 is now back in negative territory, down to -0.7% against 1.25% during April-September, suggesting the rot in manufacturing is not just deep-rooted but is getting deeper.

So what is the prognosis and is there a way out? Unfortunately, not in the near future! For now, we will just have to hunker down and sit out the pain. The usual levers of macroeconomic policy—fiscal and monetary policy—have been rendered inoperable, thanks to the persistently high inflation and a high underlying fiscal deficit. The only hope is that the external environment will come to our rescue. If there is a strong growth revival in the advanced world, that could provide thrust to lift the economy and give the much-needed fiscal space and, hopefully, monetary too.

So, is there a way out? For now, we will just have to hunker down and sit out the pain. The only hope is that the external environment will come to our rescue

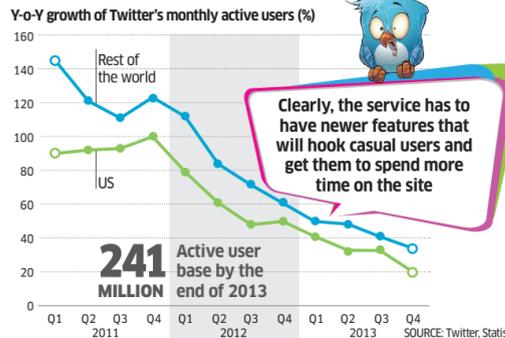
### WIT & WISDOM

"Because of their size, parents may be difficult to discipline properly."

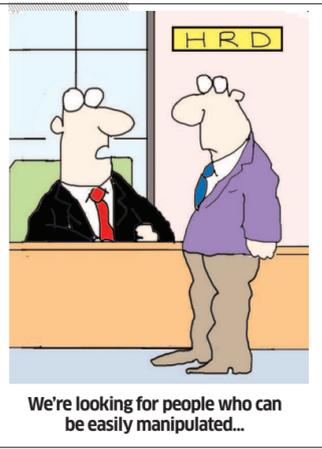
P J O'Rourke  
American satirist and author

### Twitter's Problem

Twitter is having a problem: new users are proving hard to come by and the existing ones are checking in less often. Though CEO Dick Costolo is planning many changes, experts say the ultimate challenge is how to make the service more mainstream...



### Blinkers Off



### WTO COMPLIANCE

# US, Canada Wrong on Wheat Export Subsidy



Tejinder Narang

The US and Canada have objected to "subsidised" export of two million tonnes of Indian wheat. Their objections are misplaced.

Canada wants to move the World Trade Organization (WTO) on India's criteria for lowering the minimum export price from \$300 to \$260 fob per tonne, while this is "lower than the price of the same quality wheat from Canada (and other countries) in the range of \$270-275 per tonne. How does India determine the floor price for wheat exports?" Canada has asked.

US Wheat Associates (USW), which promotes US grain sales, says, "India, which offers its farmers a minimum of \$13,500 (\$218) per tonne, has consistently ignored promises made to the WTO over subsidising exports. Given transport costs of some \$80 a tonne for getting wheat from India's interior to port, sales prices of \$279.52-283.60 a tonne at a tender which closed on January 14 imply shipments are indeed being financially supported."

From an analyst's perspective, exports from the Food Corporation of India's (FCI) inventory by Indian public sector enterprises made through international tendering appear to be fully compliant with the WTO.

The Canadian contention merits following response. There is no mention in the tender documents of state agencies of any floor price, though internal guidelines do define the lowest dollar value at which shipments can be made. The cost of acquiring grain and estimated handling expenses can

be accepted norms for such a minimum export value.

Further, lowering minimum export price from \$300 to \$260 was done owing to depreciation of rupee from ₹54-55 to ₹61-62, or about 15%, and it has nothing to do with depressing intrinsic rupee value of export that remains around ₹16,500 per tonne. In 2012-13, average price realisation through global tendering was \$310 (₹16,730) fob per tonne, and this year, it has averaged around \$280 (₹17,360), which is above ₹16,000 per tonne.

On US' point of view, the logical explanation is: the "pooled cost" of grain as per FCI website is ₹12,200 (\$197) of 2012-13 versus minimum support price (MSP) of ₹12,850 (\$207) and ₹12,820 (\$206) for 2013-14, against current MSP of ₹13,500 (\$218) per tonne. It will be reasonable to assume that pooled cost of grain of FCI will take into account total wheat inventory—opening stocks as well (2011-12 and 2012-13). The MSP for 2011-12 was ₹11,700 (\$188). Thus, the current MSP is not assumed as the sole element for the costing of wheat.

The USW goes wrong when it pegs transport cost at \$80 per tonne. Pooled

rail freight from "Punjab/Haryana to west coast" and "Madhya Pradesh to east coast" does not exceed ₹1,500 (\$24) per tonne, while port handling costs, etc, could be an additional ₹1,000-1,200 (\$20) per tonne. Indian export even at \$250 per tonne appears to be compliant with the WTO.

Even if pooled costing is deemed debatable, the current MSP of ₹13,500 (\$218), plus \$44 handling charges, also amounts \$262 fob per tonne, which is closer to \$260. The principle is to take the cost sans local taxes—as taxes cannot be considered for determining export price. And "basis"—logistical expenses are added to the cost for arriving at the fob value at the port.

FCI wheat also competes with open market for exports. If local market falls below \$260, there will be no takers for FCI and PSUs tenders. Indian wheat export has, thus, a market-based self-balancing mechanism.

However, India too needs to be cautious. Pursuant to envisaged implementation of Food Security Act (FSA) in 2014-15, possibilities of greater diversions of 90% subsidised grains in the open market cannot be ruled out. This is bound to cause distortion both in the open market and exports.

WTO has granted India and some other developing countries an interim reprieve against legal action for four years—till 11th WTO meeting in 2017—of breaching farm subsidy limits, as part of a deal struck at the ninth inter-ministerial meeting of WTO in Bali on December 7, 2013, subject to compliance for furnishing pertinent data.

If MSP continues to remain untamed, open-ended procurement with lavish bonuses continue and reforms in FSA remain in abeyance, WTO is sure to bite with penalties or trade sanctions. The policymaker must take advantage of this interim relief by WTO in setting the system right before it is too late.



### Citings

# Capital Musings

RANA DASGUPTA

This is not how people drive in other Indian cities. But Delhi is a place where people generally assume—far more, say, than in Bangalore or Mumbai—that the world is programmed to deny them everything, and that making a proper life will, therefore, require constant hustle—and manipulation of the rules.

Everyone, myself included, uses bribes and connections to get the things they need—a visa, a driving licence, a quick resolution of a legal case—and if this city seems obsessed by status, it is for good reason: power, wealth and networks deliver an immeasurably easier and better life.

People who run schools and hospitals spend much of their time not running schools and hospitals, but attending to the list of important people and their hangers-on who are haranguing them for preferential, queue-jumping treatment—which throws the systems of those places into a disarray as the one here on the roads...

One might think that a place of such inequalities would breed democratic fantasies but it is not the case: Delhi's fantasies are feudal. Those who have rather little social power respect the privileges of those who have a lot—perhaps hoping that one day they will enjoy the same for themselves...

Look at the advertising, with its incoherent mash of consumerism and aristocracy: this mass-produced item will turn you into the person who never has to stop at the barriers that hold back everyone else.

From "Capital: A Portrait of Twenty-First Century Delhi"

### Spiritual Atheist

# Great Guise

VITHAL CHADKARNI

On Mahashivaratri, your columnist is with noted singer Hariharan and the tabla wiz Zakir Hussain. Suresh Wadkar playfully refers to the duo as emanations of Bhoothnath, Shiva the Great Lord of the Spirits, himself. They have gathered to play annual tribute to Wadkar's guru, Pandit Jiyalal Vasant, who revived the *guru-shishya* tradition of imparting knowledge of the performing arts in post-Partition India.

Is Wadkar referring to the untrammelled hairstyles of Masters Hariharan and Hussain? They do bring to mind God-intoxicated musician-itinerants—singing *sadhus*, Sufis and Bauls—traditionally associated with Shiva's mystical cults.

The playback singer replies hastily that he is not being facetious: with mesmerising wizardry of melody and rhythm at their command, these musicians make anything seem possible with an ease that belies their unearthly talent. The myths of the Great Lord (Mahadeo) also speak of a similar concealment of his miraculous *Siddhi* under a beggarly cloak of mundaneness. That was his disguise to test the resolve of his dearest votary, Aparna-Parvati, the daughter of Himavan, the Lord of Mountains.

The severity of the tapas undertaken by Parvati—to obtain the Lord as her husband—makes her mother cry, "Oh Ma (Oh Don't!)" The exclamation becomes an appellation: Aparna (She eats not even leaves, forget fruit!) becomes renowned in the Three Worlds as Uma, the consort of Shiva!

Shiva also comes disguised as a tribal to test the mettle of the warrior-prince Arjuna. Initially fooled, he intuitively discerns the divinity within us all: *Tat tvam asi!*

### Letters

# Cross-Flow of Job-Seekers

This refers to 'Let Civil Servants Retire at Own Will' (ET, Mar 1). Matching the number of posts and bureaucrats is better dispensed with quickly. Allowing the bright minds to wait for promotions is a sheer waste of human talent at the highest level. Significantly, thanks to the medical science, nowadays people live much longer after retiring at 60.

As Michael Porter had said, the brighter and dynamic ones must prepare themselves for more than one career and there are ample opportunities for people to seize. Rich experience in government service in a growing economy should be of high value in private, cooperative and joint sectors. Simultaneously, lateral entry like those of economists and scientists is a proven success. Let government and private service be a two-way traffic so that the nation benefits.

KUMADA  
Mumbai

# The Crumbling Defence of India

The ministry of defence appears happy that they have pinned the "responsibility" of the sub mishap on the navy chief and now all that remains is to pick a substitute. What is happening in the navy has vindicated the former army chief's letter: the armed forces are woefully short of replacements and spares just to run their ships, tanks and planes, let alone new weaponry. China and Pakistan must be having a good laugh.

Defence minister A K Antony may want to sport a clean image, but if that image is at the cost of the country's security, he is barking up the wrong tree. He must know that keeping his attire spotlessly clean is an indication that he has surrendered internally to the *babus* and externally to the nations on the borders.

TR RAMASWAMI  
Mumbai

# A Correction

The column *Deviation of the Effective Fed Fund Rate from the Taylor Rule* in the graphic accompanying 'When Rates Don't Matter' (ET, Feb 27) should have read 0.49 for the 2007Q1-2008Q2 period, and not -0.49 as published. The error is regretted.