

# The Hindu & BL Editorials 132th Sep. 2020

## The EPFO needs to adjust its interest payout and set realistic expectations for subscribers



**Making a habit of interest payouts that exceed realised gains will entail the fund dipping into capital, a manoeuvre which got vehicles such as the US-64 into trouble** With interest rates plumbing the depths and stock markets volatile, the Employees Provident Fund Organisation (EPFO) is having a tough time this year declaring high returns to subscribers, which it has made a habit of. The Central Board of Trustees (CBT) has come up with an unusual solution. It has suggested that the interest rate be maintained at 8.5 per cent for FY20 in the light of the 'exceptional circumstances' arising out of Covid-19. But if the payout proves difficult to make, it be credited in two instalments — 8.15 per cent now from debt investments and 0.35 per cent in December from gains booked on equity ETF (Exchange Traded Fund) holdings. This idea is problematic on many counts and is likely to set an unhealthy precedent. The Finance Ministry must think twice before endorsing it.

The EPF's annual payout is funded by surpluses arising from the excess of investment income on its gilt, corporate bond and equity holdings over its running expenses. Between March 2019 and March 2020, yields on long-term Central government securities — the fund's mainstay — fell from 7.5 per cent to about 6 per cent, those on AAA rated corporate bonds dipped from 8.5 per cent to 7 per cent and the BSE Sensex lost 24 per cent in value. This offers enough evidence to demonstrate that the fund's declared returns for FY20 ought to be much lower than the 8.65 per cent paid in FY19. But the CBT appears to be unwilling to acknowledge this reality. Making a habit of interest payouts that exceed realised gains will entail the fund dipping into capital, a manoeuvre which got vehicles such as the US-64 into trouble. Using creative accounting to pad up subscriber returns for a year with equity profits booked the next year is retrograde, too.

This dilemma is symptomatic of the challenges that EPF will repeatedly face if it fails to align its return to markets and set realistic return expectations for its subscribers. Yes,

doing this will expose investors to market volatility. But if India's largest pension fund is to deliver inflation-beating returns in the long run, it has no choice but to raise its allocations to market-linked corporate bonds and equities. Given that these instruments are subject to judgment calls, the fund can protect subscriber interests by moving to more transparent disclosures on portfolio composition and performance. Reforms in the way it accounts for and apportions individual returns are imperative too. This calls for quick implementation of unitisation of its accounts, an initiative which has been hanging fire for three years now.

## **Glimmer of hope: On India-China five-point consensus**

**India and China have taken the first step to begin real disengagement at the border**

The **"five-point consensus"** reached by the Foreign Ministers of India and China in Moscow on Thursday provides a glimmer of hope of a diplomatic solution, while **thousands of troops from both countries remain deployed** along the border. It is, however, only a glimmer. Each point, outlined in a joint statement, has been affirmed previously by the two neighbours, both in past boundary agreements and in talks held since June that have failed to de-escalate tensions. The **LAC remains tense**, facing its worst crisis since 1962. Both sides have agreed to take guidance from previous understandings, including on **"not allowing differences to become disputes"**, a formulation of 2017 that has not lived up to its promise. They agreed the current situation suits neither side, troops should quickly disengage, maintain proper distance, and ease tensions. Both sides said they would abide by all existing agreements, continue dialogue, and expedite work on finding confidence building measures to maintain peace.

At the same time, stark differences remain, including on the key question of whether both sides will return to the *status quo ante* prior to China's transgressions. The issuing of the **joint statement** was somewhat unusually accompanied by separate press statements, which **struck discordant notes** on key issues. India stressed that peace on the boundary was essential for ties, and that recent incidents had impacted the broader relationship. The Chinese statement, on the other hand, sought to emphasise the importance of "moving the relationship in the right direction" and to put the border "in a proper context". China's statement also quoted India's Foreign Minister as saying India believed China's policy toward India had not changed and that it did not consider relations to be dependent on the settlement of the boundary question. This characterisation of India's stand was a sharp contrast from Delhi's recent public statements, which have emphasised border peace as a prerequisite to taking forward the broader relationship. Moreover, a day before the talks, China's official news agency issued a commentary placing the onus entirely on India to defuse tensions, accusing India of "reckless provocations", telling India "to learn from history", and reiterating that China "will not lose an inch of territory". It is welcome that India and China have finally found something to agree on. Thursday's consensus, however, is only the first step of a long road ahead. The continuing rounds of talks should be aimed sincerely at disengagement, and not at presenting a veneer of diplomatic engagement even while China strengthens its hold

along the LAC. India will need to verify before it can trust each of China's steps from now on.

## **Pushback: On U.S. revoking visa to Chinese students**

### **Chinese students are caught in a broad-brush U.S. response to espionage**

The Trump administration has **revoked visas for more than 1,000 Chinese citizens**, mainly students and researchers, deemed to be risks to national security owing to their alleged connections to Chinese military establishments and concern over industrial espionage. The White House's latest policy action has been housed under Mr. Trump's May 29 announcement responding to China's curbs on democracy in Hong Kong. Among the reasons stated was the intention to block the entry of persons associated with slave labour, thought to be a reference to **alleged rights violations of China's Uighur Muslims**. According to the Department of Homeland Security, the revocation is also targeting those who might engage in unjust business practices or attempt to steal **coronavirus** research, and, more broadly, abuse their student visa status to exploit the intellectual property of academia. This visa policy comes after measures that have tightened the screws on the U.S. immigration system, including halting the issuance of green cards and skilled worker visas and challenging the issuance of student visas for college programmes that have migrated entirely to online mode due to the pandemic. However, in the prior cases of visa issuance bans, the nationals of a single country were not targeted in the way that Chinese citizens have been under this week's visa revocation. The deeper context of this spat is the cycle of hostile tit-for-tat exchanges between Washington and Beijing, principally tariff wars in the realm of trade, but extending to human rights and China's COVID-19 response. On the one hand the Trump administration might have overreached in this broad-brush policy, perhaps sweeping up innocent researchers with no more than nominal association with a government-affiliated academic entity in China. However, it is more than likely, given the successive industrial espionage incidents that have been prosecuted by the U.S., that potential spies or saboteurs are facing removal proceedings too. Ultimately, countries such as China and Russia, which have arguably sought to interfere in the U.S.'s domestic affairs, could be facing a blowback. However, given the pressure-cooker conditions in U.S. politics due to an imminent election, there is a strong likelihood of a heavy-handed response to any further suspicions of foreign interference, especially because such a response would be of considerable campaign value to the incumbent. If Mr. Trump remains in the Oval Office, he will doubtless persist with his friendly approach toward Moscow, while seeking to keep Beijing on the back foot. The policies of his Democratic rival, Joe Biden, are expected to be the reverse to an extent, although Chinese President Xi Jinping would be unwise to anticipate a quick thaw in frosty bilateral ties in that case too. Either way, China's economic aggression will continue to face pushback from a wounded and angry America.