

Opinion

WEDNESDAY, OCTOBER 2, 2019



PHIR EK BAAR...

Congress leader, Rahul Gandhi

Thank you Mr Jaishankar for covering up our PM's incompetence. His fawning endorsement caused serious problems with the Democrats for India. I hope it gets ironed out with your intervention

RBI will cut rates, the only question is by how much

With growth momentum slow, there is little expectation of a hike in inflation; RBI will continue to bat for growth

DESPITE THE HUGE fiscal stimulus of ₹1.45 lakh crore unleashed by the government in the form of a sharp cut in the corporation tax rate and some measures for the capital markets, the Monetary Policy Committee (MPC) will not really be on the horns of a dilemma this week as it deliberates on whether or not to cut the repo. Consensus suggests a 25 basis points cut, to 5.15%, primarily because inflation is expected to stay benign given there are few signs growth is going to revive meaningfully. To be sure, there is some momentum in core inflation, but as some economists have pointed out, the pace of food inflation could be higher than core inflation by Q4FY20. Also, while prices of crude oil do spike every now and then, for various reasons, the broad view appears to be that these will hold steady due to slowing global growth.

The central bank, therefore, is expected to bat for growth. Indeed, the shocking GDP growth reading of 5% for the economy in Q1FY20 has left economists paring their forecasts. Almost everyone agrees the cuts in corporation tax are a supply-side measure and aimed at attracting investment, and that this will play out in the medium term. Consequently, no immediate capacity addition that could create jobs is expected. Therefore, there is no expectation of a big pick-up in demand in the near term.

Despite an estimated fiscal slippage due to the tax cuts—0.35% of GDP, since the central government will pass on less taxes to the states—the repo will surely be trimmed. Having pushed banks to benchmark their loan rates to an external benchmark—such as the repo or treasury bill—RBI should be able to ensure transmission. The new system kicked in on October 1. While there is no guarantee that lower interest rates will trigger demand for loans, at this point, the government and RBI want to do everything it takes to kickstart growth.

The central bank will also ensure there is adequate liquidity support to support to aid transmission—the banking system has been in a liquidity surplus for a few months now. But, as economists have cautioned, RBI also needs to be watchful and calibrate liquidity as and when the rate cycle turns. The bond markets rallied on Tuesday, reassured by the government's gross borrowing programme in H2FY20, of ₹2.68 lakh crore (₹1.33 lakh crore in net terms), staying at budgeted levels. Although the supply of paper is light, bond yields have stayed in the region of 6.6-6.7% probably because investors feel that the scope for cuts in the repo is now less because of the stimulus. They probably believe that after the 35 bps cut in August and the expected 25 bps in October, the repo could remain at 5.15% or at best go down to 5%, but not below that.

The markets will listen carefully to gauge how much RBI is likely to cut in the future; some of the information will come from RBI's growth forecast for FY20. The consensus pegs the GDP growth at around 6%, which assumes an upward momentum for the rest of the year. If RBI's projection is close to 6% and the tone on inflation is dovish, the market would probably pencil in more cuts, but if it is closer to 6.5%, it may not.

Swachh Bharat gains

Flaws and all, it has put total sanitation within reach

GANDHI JAYANTI IS now also the Rashtriya Swachhata Diwas. So, the 150th birth anniversary of Mahatma Gandhi is likely to be a landmark for the sanitation campaign, Swachh Bharat (SB). While there are reports that the government will declare India officially open-defecation free—the household toilet coverage, as per the SB Rural dashboard, now stands at 100%—a more objective stock-taking will be needed. Perhaps, more so, because two children were recently beaten to death in a Madhya Pradesh village for allegedly defecating in the open. That aside, there can be no denying that the sanitation mission has resulted in unprecedented gains for the nation. Nearly 64% of the country's rural population is already practising solid/liquid waste management (SLWM), also known as open-defecation-free (ODF) plus. The Centre has stated that the next phase of the Swachh Bharat Mission will focus on waste management and access to tapped water. That will be a tall ask, given 75% of the households in the country—90% in the rural areas—don't have tapped water on their premises.

Nearly 40 million Indians suffer from waterborne diseases annually, and 200,000 die, while 73 million working days are lost due to these diseases, leading to an economic loss of \$600 million a year. A recent study by the Research Institute for Compassionate Economics (RICE) had pointed out, citing findings from Madhya Pradesh, Uttar Pradesh and Rajasthan, that while toilet coverage has significantly expanded under Swachh Bharat, toilet usage still remains a concern. However, even if the usage data isn't a spot of cheer like the 100% coverage is, India is already starting to reap the dividends of the campaign. The Economic Survey 2018-19 shows how the sanitation campaign, among other factors, has helped bring down the incidence of diarrhoea, malaria, low birth weight and still-births in villages that saw drastic improvements in toilet coverage. The economic gains from improved health are significant—a Unicef study shows, on average, every household in an ODF area saves around ₹50,000 due to lower morbidity. The poorest households gain the most—financial savings, over a 10-year period exceed costs by 1.7 times on average, and 2.4 times for the poorest households under conditions of 100% IHHL coverage.

Given its immense potential for economic and social well-being, the Swachh Bharat campaign is the richest tribute that can be paid to Mahatma Gandhi's legacy. A focus on SLWM and tapped water access could influence usage as much as nudging behavioural change. With Swachh Bharat 2.0, total sanitation could well be within the country's reach in the next few years.

Crying WOLF

Brick-&-mortar stores must realise that a customer focus will help them compete with e-tail, not regulations

THE COMPETITION COMMISSION of India may be keeping a close watch on festive discounts, but the brick-&-mortar stores seem to have concerns about e-retail players like Amazon and Flipkart queering competition in other ways. Brick-&-mortar mobile phone store operators have written a letter to the commerce ministry, department for the promotion of industry and internal trade and the Competition Commission of India demanding that government put a curb on online launches of mobile-phone by manufacturers, and exclusive tie-ups between them and e-retail players. According to the *Economic Times*, the All India Mobile Retailers Association (AIMRA) has asked the government to level the playing field by ensuring "same product, same time and same price".

The government, last year, had barred companies from getting into exclusive tie-ups and predatory pricing, but AIMRA's concerns are centred around the online-first policy followed by a lot of mobile manufacturers. Although prices for online sales have rationalised, demanding the banning of exclusive tie-ups and online launches seems uncalled for. Online platforms have a far better reach than brick-&-mortar stores, especially with regards to delivery in Tier-II and Tier-III areas is concerned. Besides, online launches and exclusive tie-ups aren't unilateral moves with e-retail players enjoying leverage over phone manufacturers. But, more important, brick-&-mortar retailers can always choose not to market products that follow an online-first policy. More importantly, what AIMRA needs to realise is that they are not losing out to online launches and exclusivity but to e-retail players' customer-centric approach. If they provide better services, they can acquire a larger share of the market—though, with prices nearly the same across the market given the crackdown on e-retail discounts, chances are brick-&-mortar already enjoys a healthy market share. OnePlus, Xiaomi and Vivo are opening more stores across the country. Apple US is trying to transform its stores into town squares, trying to provide Apple experience rather than selling products.

ECB REFORMS

LAGARDE BRINGS A UNIQUELY WELL-SUITED SKILLSET TO THE CHALLENGE OF AVOIDING A SECOND LOST DECADE OF LOW, INSUFFICIENTLY INCLUSIVE EUROZONE GROWTH

Lagarde's edge is Europe's opportunity

A HIGHLY REGARDED doctor assumes the care of a chronically impaired patient who is growing weaker, and more vulnerable. The patient's longstanding treatment is not only becoming less effective but also introducing harmful side effects. A better approach exists, but it is not available at the new doctor's hospital. And, in the facilities where it is available, the doctors are too distracted to take on the case.

The new doctor is Christine Lagarde, the widely admired former managing director of the International Monetary Fund (IMF), who will soon succeed Mario Draghi as president of the European Central Bank (ECB). Her challenge will be to avoid a second lost decade of low, insufficiently inclusive eurozone growth. How the patient fares under her care—and whether she can get key eurozone governments to provide the necessary treatment—will define not just her own legacy but also that of Draghi.

There is little doubt now that the European economy is losing momentum. The earlier, overly optimistic prognosis of a sustained growth pickup has finally given way to the grim reality that both structural, and cyclical headwinds are bearing down on economic activity. The previous consensus growth forecast of around 2% for 2019 is now converging on around 1%; it could well go even lower.

Still to come, is a broader realisation that Europe is at risk of suffering what economists call "stall-speed growth." Under such conditions, growth may remain positive, but it will be insufficient to accommodate the demands of other forces: pockets of excessive indebtedness, rising demand for social services, the need for better infrastructure, and deepening popular anger,

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political polarisation, and alienation.

Moreover, previously unthinkable conditions that could undermine the very integrity of a market system will suddenly become possible—even likely. Negative interest rates in Europe, for example, do not look likely to be reversed any time soon. Worse, in what is already a structurally impaired economy, Europeans have yet to deal fully with the detrimental impact of global trade tensions, which have hit export-dependent industries in Germany—the region's powerhouse—especially hard.

Despite all of these negative developments, European authorities continue to rely on just one response: unconventional monetary policy, involving negative interest rates and large-scale purchases of securities (quantitative easing, or QE). To be sure, this approach was effective in containing a debt crisis that was threatening both the monetary union, and the single currency earlier in the decade. But, it has proven increasingly ineffective in promoting sustainable economic growth.

Concerns over the ECB's protracted reliance on the same old medicine have been increasing, even within the ECB, owing to a growing awareness of the detrimental effects of negative interest rates. Negative rates can curtail the provision of long-term financial-protection services (such as, life insurance, and retirement products)

to European households, thereby undermining economic security. They encourage excessive risk-taking, which can lead to financial instability down the road. And, they promote an inefficient allocation of resources across the broader economy.

To the extent that these risks are real, and mounting (which I believe they are), the ECB will find it increasingly difficult to continue pursuing the same policy in the face of growing complaints, and political pressure. But, it cannot simply stand still, given the deterioration in the European economy. And, it can scarcely even consider the option of unwinding the unconventional policies of the past decade, as that would raise the risk of immediate economic, and financial disruptions.

The ECB's lose-lose-lose trilemma can be resolved only through a comprehensive pro-growth approach at both the national, and regional levels, involving measures that are not available to central banks. European countries need deeper structural reforms—including infrastructure modernisation, and worker retooling and retraining—to boost the productivity of both capital, and labour. Where possible, they should be pursuing fiscal stimulus, and resolving persistent

debt overhangs that are stifling existing growth engines, and impeding the emergence of new ones. And, at the regional level, Europe needs to expand, and improve its policy architecture, not least by completing the banking union, and resolving long-standing differences over fiscal integration.

The hope now is that Lagarde—with her exceptional mix of interpersonal skills, professional networks, and national and international policy experience—will jump-start the pivot that Europe needs. The challenge is one of political will, not engineering, and Lagarde's recent accomplishments at the IMF—where she put a spotlight on the economic implications of gender bias and climate change—show that she is capable of ushering in the necessary changes.

This is not to downplay the scale and complexity of the challenges Draghi has faced. They are real, and they have become deeply embedded in the structure of Europe's political economy. Still, they are not insurmountable.

Lagarde brings a uniquely well-suited skillset to her new position, and she is taking the reins at precisely the right moment for Europe to make the changes needed to avoid a second lost decade. Her legacy will now be bound up with that of Draghi, whose courageous promise in 2012 to do "whatever it takes" to save the euro has since been overshadowed by the renewed threat of recession and financial instability.

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Trade policies starve healthy diets

It is important to step away from the reactive and interventionist domestic and international trade policies aimed at alleviating short-term price fluctuations

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Views are personal

A RECENT LANCET study regards dietary factors to be amongst the biggest risk factors for death and disability in India. Healthier, safer and more nutritious diets are keys to fighting high levels of under-nutrition and rising levels of obesity in India.

What characterises Indian diets? Indian diets are typically low on proteins—both animal and plant-based—fruits and vegetables; 57% of the total calorie intake in rural and 48% in urban areas comes from cereals. This is combined with high consumption of unhealthy fats and processed food; the trend cuts across income levels and the rural-urban divide. Indian diets fall short of the recommendations made by the EAT Lancet Commission for healthy and sustainable diets as well as the benchmarks set by National Institute of Nutrition (NIN). Between 1993-94 and 2011-12, the only significant change in the percentage share of calories has been for cereals (decrease by 10%) and oils and fats (increase by 3.5%).

There has been almost no change in the share of pulses, nuts, vegetables, fruits, meat, eggs and fish in consumption, despite rising income levels, urbanisation and lifestyle changes. This lack of diet diversity and consumption of unhealthy calories is a compelling enough reason to back a concerted move towards getting the Indian diets right.

Getting the diets right is incumbent upon getting the markets right. This requires looking at diets in the broader context of a food system. The availability and affordability of, and access to, healthier diets depends on more than just choices made by individuals and families. It depends on the food that is being produced, processed and marketed for consumption, which, in turn, is sensitive to multiple systemic drivers. While agriculture, health, education, social welfare, women empowerment, energy, water, and environmental policies are recognised as the key levers in the food system, one node that is critical but less emphasised upon, is trade and other macroeco-

nomics policies (taxation, industrial, etc). For instance, a major change like the GST is certain to leave system-wide footprints. Trade influences the four pillars of food security—availability, accessibility, stable supply and utilisation. Beyond food security, these can be leveraged for nutrition security as well.

Both domestic and international trade policies have been used for controlling rise in prices of food stuff for which there is little political appetite for a price-rise—cereals, sugar, pulses and vegetables (particularly onion). With trade policies, the incentive effects in production and consumption often get overlooked. An example of the trade policy-diets connect is the liberalisation of edible oil imports in 1992, when it was taken off the negative list. Almost immediately, the cheapest edible oil, i.e., palm oil from Indonesia and Malaysia, became the main item consumed with drastic reduction in prices and increased presence in household consumption, processed food and restaurants. On the production side, this "cheapest" oil only further depressed production of oilseeds by Indian farmers.

Analysis of NSSO consumption data shows *vanaspati*, with the maximum share in total fat intake, reaching 50% of total intake in both rural and urban areas by 2009. Palm or palmolein oil are the main ingredients of *vanaspati*; these are high in trans fats, consumption of which is associated with the risk of cardio-vascular diseases. Other oils also blend palm oil to keep their prices competitive. World Health Organization now recommends elimination of industrially produced trans-fat from global food supply, and the Food Safety and Standards Authority of India in 2018 has committed to reducing trans-fatty acids to less than 2% by 2022.

Domestic trade policies reinforce or offset the effects of international trade policies. Domestic food markets are characterised by unhealthy food crowding out healthy, nutritious food because of both demand- and supply-side fac-

tors. In this outcome, policies have a large part to play, ranging from cereal-centric price support, unregulated promotion of food processing and marketing regulations. Only recently some states have started delisting fruits and vegetables from the APMC; e-NAM does not seem to have taken off for perishables at all. In addition, the incentives for cold-chains have not been large enough to make any sizeable difference to availability of perishables.

Finally, a big part of the food system in India and domestic trade comprises public programmes like the public distribution system (PDS) of cereals, mainly wheat and rice with, state-specific additions like coarse cereals or pulses in the portfolio. Improved access to grains for the poor was expected to reduce malnutrition by improving food security, but most surveys do not indicate adequate reduction in childhood undernutrition, anaemia and adult undernutrition. Policies need to be cognisant of the general equilibrium impact. Dumping subsidised cereals in markets has a huge bearing on the food system. If Bihar is self-sufficient in rice, dumping of additional 2-3 million tonnes due to National Food Security Act 2013 is a fundamental impact shifter, affecting cropping choices and consumption decisions. Indeed, while subsidised cereals should have released money to buy fruits and vegetables and animal-source foods, the net effect from the perspective of healthier diets remains unclear.

It is important to step away from the reactive, and interventionist domestic and international trade policies aimed at alleviating short-term price fluctuations, and look at long-term impact on the food environment. The food system needs to invigorate the producers, consumers and other stakeholders to choose and provide healthier diets. Awareness campaigns can bear fruit only if accompanied by a conducive food environment.

LETTERS TO THE EDITOR

On banning of single-use plastic

A bold initiative such as imposition of a blanket-ban, is a pre-requisite and an effective way to reduce the volume of non-biodegradable waste and potential risks to life, especially when microscopic-plastic in the present capacity, is being consumed by almost every living form. Plastic goods contaminate the food chain, demand continued production due to difficult recycling-measures, and cause environmental havoc when carried away to long-distances. That said, it is equally important that producers and consumers are given a sufficient length of time to identify/establish viable alternatives. Although bamboo and sea-weed are decent substitutes, due-diligence and robust planning is needed to ensure that packaging by eateries, and availability of daily-use bottles, caps/lids, garbage bags, cutlery, straws, cups, glasses, sachets, plates etc is not hampered. Ironically, production of plastic bags, involves a process which is environment-friendlier than any other procedure used to manufacture alternative materials viz polyester, fabric, paper or cotton. Also, a substitute would have to be reused a large number of times to negate the pollution of its production and to match a single-use polyethene's environmental-footprint. It is important to design/develop cheaper, easier to store and convenient to open/fill non-plastic products, besides ensuring high re-usability, before the one-time plastic goods are phased-out. Plastic bags reduce food-contamination/bacterial risks and fare better when compared to handling of liquid-goods versus fabric counterparts. With one-time-use items comprising nearly forty-percent of the total produce, a significant reduction in plastic-manufacture can impact the unorganised segment/industry, which presently acts a large source of employment and generates a huge annual-turnover.
— Girish Lalwani, Delhi

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ILLUSTRATION: SHYAM KUMAR PRASAD

every other type of phone technology out of the water. It revolutionised the way the world communicates—5G offers a similar potential to leap into an exciting new world of advanced digital communications.

This is why the Department of Telecom founded a formidable cross-functional body of 5G expertise, the '5G high-level forum', and submitted a report on the investment, infrastructure, policies, and more required to implement 5G. The Digital Communications Commission is deliberating the next steps to a 5G rollout and related spectrum pricing.

Another important reason for 5G trials is security. With 5G, devices around the globe will be empowered to collect, transmit, process, and store large amounts of real-time data. Though this connectivity is essential for the world's digital future, it poses potential security risks that need to be addressed prior to full-scale deployment. While the noise surrounding 5G is impossible to ignore, a relatively under-appreciated technology is the enhanced 4G LTE, or 4.5G. One of the main benefits that 5G technology touts is the reduction in latency speeds (delays in transmission of data across the network) to less than one millisecond! While this is indeed fantastic, few are aware that 4.5G offers a latency speed as low as five milliseconds—much superior to existing levels, and rich in benefits. This is a great time to boost 4.5G adoption in India.

While we have made many admirable strides in the field of Telecom, we are ranked 109th, in a list of 124 countries, for internet speeds—even lower than neighbouring Pakistan, Sri Lanka, and Myanmar. Mobile internet download speeds in India are about 10.7 Mbps, less than half the global average of ~27 Mbps. Sure, 5G can offer unfathomable speeds of more than 10 Gbps, but with 4.5G LTE, we can achieve download speeds as high as 3Gbps—an incredible improvement on existing technology that will greatly benefit our country. One advantage is that 4G operators are already invested in 4G technology, and can ramp up their efforts around the country.

Meanwhile, India will have to invest, and actively participate in 6G research efforts. Why bother when it might take about ten years to be developed? Elizabeth Warren's quote explains it best: "If you don't have a seat at the table, you're probably on the menu". Countries involved in early-stage research get a leg up in capitalising on manufacturing the technology. India will get to have a say in how testing is conducted, standards are set, costs are estimated, and infrastructure is developed. Indian manufacturing will get a much-needed shot in the arm. By aligning ourselves with 6G research, India can ensure our challenges and issues are addressed, and the technology is developed with India and its citizens in mind, instead of retrofitting the technology ten years down the road.

Earlier this year, 250 researchers from across the world met in Finland to begin 6G-related discussions, including the very basics, such as what it is, and if we need it. The 6G program is set to run for the next eight to ten years, and is funded through both public and private partnerships. Initial thoughts are to shoot for internet speeds of 1 Terabyte/second! At this stage, our brains might not even compute the significance and advantages of this speed, but the 6G forum will research, and map this over the next few years, and set 6G standards. Samsung has set up a 6G research center in Seoul, intending to incorporate satellite communication for enhanced global coverage and faster speeds.

It is a great point in time for Indian entrepreneurs, researchers, and policy makers to play the tri-pronged approach for taking India to global leadership in the Digital Society of 5G and 6G.

Research inputs by Chandana Bala.

INDIA-US TRADE DEAL

Is Trump asking for too much?

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It remains to be seen when Modi will budge and give in to Trump's demand to effectively implement TMR and lower tariffs

ASTHE FAMOUS saying goes, politics dominate even the most casual conversations. This holds true for the latest bonding between the US president Donald Trump, and the Indian prime minister Narendra Modi. While Trump has repeatedly called India 'Tariff King' for imposing high tariffs on American products, there seems to be a shift in sentiment, owing to the 'Howdy Modi' euphoria.

But, is this shift of sentiment genuine, or there is more to the story that doesn't meet our eyes? An announcement on a bilateral trade deal was expected on September 25, 2019, on the sidelines of the UN General Assembly meeting, India's refusal to remove the 20% tariff on information and communication Technology (ICT) products seems to be the reason behind the delay. The US Senator Graham Lindsey had recently claimed that India has the worst tariffs in the world on US products; 67% of tariffs across the world have damaged America's trade deficit ratio.

India's import of medical devices jumped 24% to ₹38,837 crore in 2019, as per the latest export-import data.

If reports are to be believed, average tariffs in India are much higher than those in developed economies. An official report released by the USA asserted that India's tariff on other countries, who are members of the World Trade Organization (WTO), are the highest. The average tariff rate demanded by India in 2018 was 17.1%—much higher than the USA, Japan, and the European Union, whose rates ranged between 3.4% and 5.2%. The average tariff levels claimed by India, however, are more in line with other developing nations.

For instance, the average rate in 2018 in Turkey, was 10.7%, in Brazil, 13.4%, and in Egypt, 19.1%. India, however, has always maintained that it has adhered to WTO guidelines. The country cites another measurement of tariff rates, called trade-weighted average, which accounts for imports on volume, thus measuring the average of the tariffs collected. The trade-weighted average tariff of India was 11.7% in 2017—Brazil's was 10%, and South Korea's 8.1%. The trade-weighted average tariffs for the US, Japan, and the EU, however, were much lower at 2.3%, 2.4%, and 3% respectively.

India cites these reasons to have a 'No negotiations' stand, especially in the ICT products category. PM Modi is also concerned that if the tariffs are removed, the decision could open the market to a variety of Chinese products.

Nonetheless, there has been a positive buzz on Trump and Modi's attempts to establish a transparent, and predictable pricing mechanism for a variety of products in the agricultural, and medical devices sector. These interventions will promote quality treatment, with focus on patient safety.

Trump has been vocal about his demands as far as the medical devices sector is concerned, asking for much greater accessibility to the Indian markets for medical devices such as cardiac stents and knee implants, and removal of price caps. Consistent discussion on price control, between experts from the medical devices industry and the government, has also led to 'trade market rationalisation'.

The US expects the policy decisions to be in accord with the condition that global medical devices manufacturers be paid on a 'first point sale' basis, rather than on a 'landing price' basis. First point sale means that the payment should cover cost, insurance, and freight. It may be noted here that there are four to seven points of sale in the supply chain. This incurs expense namely freight, inventory in high-maintenance warehouses specially designed for medical devices, rental, sales and marketing overheads, wages, and service and statutory costs of compliance.

So, the big announcement is awaited. It remains to be seen when Modi will budge and give in to Trump's demand to effectively implement TMR, and, most importantly, lower the tariffs.

The trade-weighted average tariff of India was 11.7% in 2017—Brazil's was 10%, and South Korea's 8.1%

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GLOBAL DIGITAL LEADERSHIP

A trifecta for India: 4G, 5G & 6G

India must establish its own use-cases prior to its 5G rollout along with tapping into the potential of 4.5G, and engaging in 6G research to secure its future digital economy

6G research. This three-pronged approach is critical to securing India's economic future.

There is a dangerous sense of urgency worldwide to be amongst the first to implement 5G. However, for India, the winning strategy could be to wait and do it right, and in our own time. History is on our side. When the rest of the world rushed to implement 2G, we waited and introduced GSM digital 2G, and leapfrogged over the analog 2G of our neighbours. The late-entrant Indian telecom quickly surpassed other countries, becoming the second largest in the world, and a source of "neighbours' envy, owner's pride." Reputed international bodies, such as ITU and GSMA, sound several cautionary notes about rushing headlong into 5G implementation. ITU advises that "until the case for 5G networks can be clearly made, policymakers can consider enhancing the availability of and boosting the quality of 4G networks," warns about the "danger of [an] increasing digital divide," especially in the early years of 5G adoption, and offers "16 key issues for policymakers to consider," which will be instrumental to our success.

Clearly, there are a few challenges to address before implementing a 5G rollout. ITU, the global apex telecom standards body, estimates that the cost to deploy a small cell-ready 5G network for a small city to be \$6.8 million (nearly ₹50 crore), and \$55.5 million (approximately ₹400 crore) for larger cities. With India's incredibly dense cities, the investment required will be higher. These would be additional to the huge investments for fibre backhaul and backbone. The overall cost of 5G networks for India would run into a few lakh crores.

Another limiting factor for Telecom Service Providers is the prohibitively high 5G spectrum cost. Currently, while already burdened with heavy debt, there is little incentive for TSPs to switch to 5G—and, rightly so. We need to expand 5G tests, and establish clear use-cases that work for the Indian environment while the industry improves its financial health.

Why are 5G trial use-cases important? It is vital to demonstrate the business viability across the different applications on which 5G can have significant impact. The difference between 5G and 2G, or 3G, is akin to how the invention of the smartphone blew

A limiting factor for TSPs is the prohibitively high 5G spectrum cost. Currently, while already burdened with heavy debt, there is little incentive for them to switch to 5G

5G is poised to overhaul the way the world operates. It opens the door to mind-boggling broadband speeds, an all-pervasive IoT environment, self-driving cars, remote surgery, smart hospitals, remarkable manufacturing and agricultural efficiencies, and other incredible possibilities for the future. 5G is not an incremental innovation like 3G, or 4G, but the next level of digital disruption, revolutionising diverse industry verticals, like healthcare, manufacturing, agriculture, and entertainment. As a result, countries around the world have begun 5G rollout with unbridled enthusiasm, resulting in an estimated 31 launches by Q2FY19.

Given the game-changing nature of the technology, it is no surprise that pundits state it will take a few years before these countries overcome their teething difficulties, and determine how to achieve reasonable returns for their huge investments in 5G. This is good news since India can use this buffer time to learn from others' experiences, and establish India-centric use-cases prior to our own 5G rollout. Meanwhile, several benefits that 5G is expected to offer, like lower latencies, can be realised to a significant extent through the as-yet-untapped, advanced 4G version termed LTE A Pro (4.5G, as it is commonly known). Concurrently, India could begin influencing standards, and use-cases for

TAX CUT

Betting on India Inc

The FM's tax rationalisation measures show that the government is reposing faith in Indian business' ability to generate wealth

AJAY ROTTI

Partner, Dhruva Advisors, LLP



reduced to 22%, leading to an effective rate of a little over 25%. However, this is an optional rate—companies opting for this would not be entitled to any tax incentives, and would be outside the provisions of minimum alternate tax (MAT). Companies are required to elect the tax regime they want to be governed by.

Additionally, a new provision has been introduced to provide for a beneficial rate of 15% (effective rate of 17.16%) for manufacturing companies set up after October 1, 2019, and commencing man-

ufacturing before March 31, 2023. This should be a shot in the arm for the Make in India dream. The Ordinance also reduces the rate of MAT applicable from 18.5% to 15%.

While the impact of this on government finances, and a simplistic view of its impact on fiscal deficit would be the same as that of granting fiscal incentives, or tax holidays, the two are very different. A lower corporate tax rate leads to several positive economic impacts.

The foremost advantage is that the



move puts more money in the kitty of corporates, who are one of the most efficient deployers of capital in the economy. Corporates with additional profits due to lower tax rates could increase wages, increase distribution to shareholders, invest in additional capacity or expansion, or pass it on to their consumers (by reducing the price of products or services). Each of these has an immediate positive impact on the economy.

Lower corporate tax rate also encourages investment by newer entrepreneurs

or multinationals who aren't in India now. Investments decisions, which were put off earlier as not being feasible at the higher cost of capital, could be revisited. Any additional investment would lead to demand for labour, higher wages, and higher employment over time. It is no secret that a high tax rate was one of the reasons for India being regarded as uncompetitive in drawing investments. Not to deny that this was in addition to many other reasons, such as inefficient labour laws, etc.

As per a study undertaken by Tax Foundation, an independent tax policy research organisation, a year or so back, the average statutory corporate rate across 202 jurisdictions was 22.96%. India is now very close to the average, and, in fact, closer than ever before in history. A less talked about impact of the reduction in headline corporate tax rates is that it discourages 'profit shifting' by multinationals since India's tax rate would now be comparable to the average global corporate tax rate. In other words, the incentive, or the savings of shifting profits to tax havens would no longer be large enough to justify profit-shifting strategies.

The only trick the FM seems to have missed is providing certainty. Keeping out surcharge and cess on the new rates would have gone a long way in providing certainty to corporates, ruling out the possibility of increasing the rate indirectly by changing the surcharge rate. Overall, the rate rationalisation shows that the government is reposing faith in India Inc and their ability to generate wealth. The government is clearly betting on Indian business doing well, the economy expanding, and tax collections increasing with a lower tax rate and higher corporate profits.