



ON IMPEACHMENT President of the US Donald Trump

I got Impeached last night without one Republican vote being cast ... Now the Do Nothing Party want to Do Nothing with the Articles & not deliver them to the Senate, but it's Senate's call!

NCLAT verdict is a severe indictment of the Tatas

The SC may overturn the NCLAT ruling, but the illegalities flagged by it show the Tatas in poor light

■ **HE UNCEREMONIOUS REMOVAL** of Cyrus Mistry from the post of chairman of Tata Sons in October 2016 has been pronounced illegal by the National Company Law Appellate Tribunal (NCLAT) which said he had been ousted without due process. In a dramatic reversal of the ruling by the Mumbai bench of the NCLT, the appeal court has upheld the Mistry family's contention that it was oppressed as a minority shareholder. Indeed, the move to convert Tata Sons into a private company has been viewed by the appeals court to be illegal. This newspaper had condemned Mistry's removal when it took place, and the subsequent actions taken to relieve him of all other posts in group companies. It had also said the conversion of Tata Sons into a private company appeared to be aimed at hurting the Mistrys who have been long-time stakeholders of Tata Group.

While the NCLAT ruling is not the last word and could well be overturned by the Supreme Court (SC), there is no doubt it comes as a big jolt for the Tatas. Even if not too many businessmen and corporate experts expressed their views publicly, the unseemly manner in which Mistry was sacked, and charges made against him, were seen to be unbecoming of India's most ethical business group. Several independent directors had, in fact, supported Mistry, applauding the very performance that was questioned by Tata Sons.

Going by the charges traded between the two camps, it appeared that Mistry's efforts to clean up the damaged balance sheets of some group companies and also to regularise matters at others were not always met with approval by Ratan Tata. Given most of the larger group companies are listed entities, the balance sheets clearly showed how unprofitable acquisitions and bad decisions had hurt businesses. Apparently, the various trusts had a bigger role in decision-making than the chief executives of the boards of the operating companies. Mistry had pointed out that directors left a meeting midway to discuss the agenda separately with Tata, something not expected in a Tata Sons boardroom, and probably why the NCLAT order asks Ratan Tata to 'desist' from interfering in the operations.

There is nothing to prevent Tata Sons from ignoring the court's observations altogether and continuing to operate in the same fashion as it has in the past; it is a large and powerful conglomerate. But, it would do well to take cognisance of the views and to reflect on its actions because, even if the SC verdict goes in its favour—and there are several legal experts who believe it will—the reputation of its board has been severely damaged. To be sure, no one will say so, but the appeals court order paints a poor picture of the company's boardroom practices. Tata Sons will claim that it has always followed due procedure and never once violated the law, and that is probably correct. However, it is the spirit behind the actions, and not the legal correctness that is being questioned. Indeed, the NCLAT's 174-page order would, and should, be read by other business groups. It is unfortunate that very few companies in India consider it necessary to maintain some standard of corporate governance; most, including those that are supposedly run by professionals, care little for ethics, with independent directors largely playing along with the rest of the board. But, the NCLAT ruling, even if it has overstepped its limits, should serve as a wakeup call. Mistry has done corporate India a service by fighting for his rights.

Developing human capital

Fixing higher education & rapid urbanisation critical

COUNTRYTHAT aspires to become a \$5-trillion economy in a span of five years must understand that it can't get there with a chunk of its youth having only school-level education. To be sure, India has made considerable progress in improving its gross enrollment ratio (GER) for tertiary education—from 21.5% in 2012-13, it rose to 26.3% in 2018-19. And, the government targets 30% by 2020. But, contrast that rate of progress with China's—the country pushed up its GER from 39% to 51% in just three years, 2014 to 2017. This, when, in 1995, China's tertiary GER lagged India's (4.48% of the school-leaver age cohort in the respective national population vs 5.5%). India has a very low human capital base for research—just 0.45% of the students enrolled in higher education are enrolled in doctoral programmes.

There is no doubt that India has made significant progress in R&D capacity and output—in 2016, the US's National Science Foundation data shows, India overtook Japan as the fourth-largest producer of science and engineering research. Between 2003 and 2016, India's article count in Scopus, the world's largest catalogue of abstracts and citations went up from 27,000 to 110,000. But, over that period, China's went up from 87,000 to 426,000. Thus, the trend of rise in enrolment in science education in India at the graduate level, as AISHE data shows, is quite encouraging. The need, now, is to ensure that a critical number of science graduates receive the necessary support to enter post-graduation and get follow-on opportunities in research. It is also here that the fall in graduate engineering courses becomes worrying—technical education is key to innovation for the fourth industrial revolution, and India must focus on producing quality engineering graduates who can become part of the R&D ecosystem in companies, or enter the research pipeline at universities. Both quality of training and course content in engineering colleges must be radically rethought; else, the country will have the same high proportion of unemployable engineers that has been reported in the recent past.

Unemployment data from CMIE for May-August 2019 shows that unemployment rate is the highest for those with tertiary-level education. Either the bulk of those with tertiary level education who are part of the workforce don't have the skills that the industry requires or don't match up to the standards. Policymakers must pay heed to the recommendations that Mohandas Pai and Nisha Holla make in Human Capital Development *in India*, their report for Ficci. Pai-Holla advocate a greater role for the private sector in higher education through increased partnership with industry for infrastructure, teaching talent, and research. But, they argue, the government's spending capacity is central to this since higher education must also be affordable and accessible. Low urbanisation, and thus a lack of diversity in skilling and employment opportunities, is also holding back human capital development. Pai and Holla recommend that higher education institutions in India's villages and semi-urban areas focus on programmes that will skill the youth for the needs of local and traditional industry. Consolidation also must happen in the higher education space, as recommended by the draft National Education Policy, in which standalone institutions become part of multidisciplinary universities and colleges, to pool and optimise use of resources. Also, greater academic, financial, and administrative autonomy for higher education institutes will be key. The government hasn't really committed to this, despite making the right noises.

NutriAIN'T

PDS for proteinaceous foods is a bad idea; govt should go with cash transfers instead to push better nutritional uptake

ITI AAYOG IS mooting a proposal to extend government subsidy on food to protein-rich foods, including egg, fish, and meat, and make them available $through \,PDS. \,Given \,that \,India \,faces\, a \,double \,burden-housing\, a \,quarter\, of\, the$ global hunger burden while facing a growing burden of obesity—and that over 68% of deaths in India among children aged under five years are due to malnutrition, the proposal seems well-intended. However, India already spends nearly 1% of its GDP—the food subsidy bill for FY20 is pegged at ₹1.84 lakh crore—and expanding the PDS list like this will add a massive sum to the government's outgo. The government would be better able to meet nutrition goals if it were to focus on tied direct benefits transfer instead.

IFPRI and J-PAL South Asia studies found that cash transfers are not only less costly to implement but also encourage greater diet diversity. That Indians are moving toward "oily, sugary and spicy food" as opposed to diversifying to more nutritive options is, according to NITI Aayog's Ramesh Chand, one of the major reasons why the proposal is being considered. It is surprising that the government think-tank should recommend an avenue—inkind transfers—that research across the globe shows is guaranteed to fail to result in diet diversification. In addition, the battle against malnutrition must focus on social and behaviour change communication. For instance, despite the impact that such campaigns have had on health and nutrition, India has not seriously pursued any since the hugely successful 1980s campaign to promote egg consumption.

US-CHINA TRADE DEAL

THE BRIEF PERIOD OF UNCERTAINTY BEFORE IT BECOMES CLEAR IF CHINA WILL LIVE UP TO ITS END OF THE BARGAIN MEANS INDIA MUST URGENTLY BRING IN WTO-COMPLIANT EXPORT SCHEMES

Time running out to woo FDI exiting China

HE RECENT BILATERAL trade deal between the US and China has important implications for India. It hastens the need to conclude India's ongoing efforts to provide a policy framework for attracting foreign direct investment seeking locations other than China. The trade deal covers important areas of concern for the US, ranging across Intellectual Property Rights, technology transfer, currency related issues, greater market access for US products (goods and financial services), and dispute settlement for effective implementation.

Under the trade deal, the US will maintain its 25% tariff on imports worth \$250 billion, reduce its 15% tariff to 7.5% on \$120 billion worth of imports, and not implement the planned tariff increase on the so-called List 4B products, which include mobile phones, laptop computers, apparel, and toys.

For List 4B products, the window of commercial opportunity is now open for a longer period because the planned US tariff increase is not being implemented. The US-China deal provides a framework for a potential longer-term solution to US-China problems. However, the US trade representative, Robert Lighthizer, has noted that whether or not China will live up to the commitments is as yet uncertain, and depends on whether the hardliners or the reformers in Beijing will prevail during the implementation of the trade deal. Both, the US and large multinational companies will be watching the implementation of this deal, to assess whether or not the Chinese leadership will effectively implement the agreement.

This period of uncertainty is significant because it allows the window of opportunity to be open, but only to a limited extent. In such a situation, India has only a short period of time to conclude its intense process of policy consideration, which has been going on for the past several months, with the objective of making India an attractive investment destination. The window of opportunity is closing, but the opportunity to establish credibility and attractiveness of India as an alternative investment destination is still present if the policies under consideration are finalised and implemented within a couple of months. Time is of

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essence now.

India is a large market, but an export hub that replaces the aspirations for global trade links of large companies considering alternatives to investing in China requires access to a much larger marketplace within the context of global value chains. This, in turn, needs significant reform in operational conditions. India's policymakers have been focused on creating such reform-based improvement, and have considered the possibility of initiating reform in some major sectors. The recent report of the High Level Advisory Group on international trade also emphasises such an approach. The current developments are very significant in this regard.

List 4B, for which the US has postponed its planned tariff increase on imports from China, contains at least two product areas which India has emphasised for its key national objectives—apparel for employment, and mobile phones for technology. Such an emphasis is required for these two sectors. Bangladesh and Vietnam now have double the apparel exports compared to India, rising from much smaller levels in 2000, or even 2005. Both these countries have expanded their exports with the help of FDI. India seems to have missed out on attracting large FDI in the apparel sector. Extensive reform is required, along with policy support, factor market reform, international institutional engagements, upscaling existing enterprise, and modernising smaller enterprises. The required reforms and incentive policies are important for both rejuvenating the established domestic industry, and attracting FDI.

For mobile phones, the top exporting economies, i.e., China, Vietnam, and Hong Kong (China), account for over 70% of the global market. India's global export share is about 0.6% at present, but the nation has high aspirations in this sector. India's National Policy on

Electronics (NPE), 2019 aims to achieve an export of \$110 billion for mobile phones by 2025—an approximately 70-fold increase. The aim is to increase in domestic design and technological ecosystem, as well as to generate a major rise in foreign exchange earnings.

The large increase in mobile phone exports can take place only if major multinational companies with extensive global market presence invest in India at scale. It is significant that

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the largest global mobile phone companies are present in India. However, their additional investments and commitment to a business plan that helps achieve the NPE 2019 target would depend on policy changes and reform. This has to happen during the short period for which the window of opportunity for countries to attract investment that seeks locations other than

China is still available. This

period is of not more than a few months. A quick decision and implementation within a couple of months or so would give India credibility, bringing back the attention of large investors to the country in this period of uncertainty. Other countries such as Vietnam

attract FDI due to their ease of doing business and by implementing an incentivising policy framework. These policies give FDI in Vietnam a commercial advantage of about 9-12% over India's mobile phone production. In this competitive situation, a WTO panel has found India's main export incentive schemes, like the Merchandise Exports from India Scheme (MEIS), to be inconsistent with WTO provisions. India will have to phase out MEIS, and some of the other schemes found to be in violation of WTO provisions. Meanwhile, ironically, India has

actually reduced the level of its prevailing MEIS incentive, thus lowering the support provided to investors/exporters. While the window of opportunity is closing, Indian policy incentives are actually becoming less attractive.

This results in a number of adverse effects. One, it results in future policy uncertainty for investment decisions Two, it reduces the attractiveness of establishing export hubs in India when other competing countries are providing incentives, especially for large investors. Three, for large export orders—India wishes large firms to increases exports by several billions of dollars—a 2% lower margin of competition due to reduction of MEIS would have a large aggregate impact on earnings and ability to compete. Four, the business of large exports necessitates creating advance orders,

inventory planning and hiring of workers to address export demand, systemic clearances (including from the importing market) to ensure that the planned exports can take place smoothly, and established business relationships to create and maintaining large exports. A significant change in the incentive past several months and competitive margin disrupts all these aspects, and creates a reluctance on the part of major investors to

> invest and make large efforts for exports. An alternative support policy is required to mitigate these negative impacts. Indian policymakers have been

aware of the need to implement policy support and incentives. Intense discussions and efforts have taken place in several government departments and institutions for some months now, to develop WTO-consistent policy alternatives that will encourage invest ment by major firms in India, particularly in areas with high technology and export potential. This process should now be concluded, and the relevant policies implemented in the near term to encourage major investments and exports, especially for the priority areas for which US tariff increases have been postponed, i.e. products in List 4B mentioned above.

TRUMP IMPEACHMENT

A shot in the arm for the US Constitution

Impeachment vote is the single most significant action that the House can take in defence of the Constitution. It isn't enough. But, it is a start

THE HOUSE OF Representatives' historic vote to impeach president Donald Trump comes near the end of the president's third tumultuous year in office which is also the third year of the prolonged stress test he has been giving to the US Constitution. It is an occasion to check in on the most basic question that can be asked in a democracy: What is the state of our Constitution?

The short answer is that the Constitution is, so far, holding up in the face of the most extended challenge to its principles and norms that it has confronted since World War II. The impeachment itself is actually a significant improvement in the Constitution's performance. It signals that at least half the legislative branch—the House—is now taking seriously its own responsibility to uphold the Constitution in the face of presidential contempt for it. Until now, it is the other branch of government—the judiciary that has been almost the only effective check on Trump's recurring impulse to violate the Constitution. When Trump has signed executive orders that break the Constitution, courts have often struck them down. The courts have also blocked other unlawful executive branch action. So when it comes to the formal constitutional rules that courts interpret and apply, the Constitution has been functioning remarkably well

tering is in the significant erosion of our informal, unwritten norms. These have constitutional weight even if they aren't identifiable as strict rules of constitutional law. They include things like the politicisation of the department of justice and the FBI, and the subtle corruption of the presidency through Trump's continuing pursuit of his business inter-

ests while in office. For most of the last three years, Trump has successfully undercut those kinds of hard-won, unwritten norms.

Since taking office, Trump has committed a wide range of acts that could plausibly be classified as impeachable high crimes and misdemeanors. The House chose not to impeach him for those—like the obstruction of justice described in Robert Mueller's report but for high crimes and misdemeanors that specifically violated the constitutional principles of democracy and the separation of powers.

The first article of impeachment, for abuse of power, stands for the House's insistence that the Constitution prohibits the president from using his office for personal political gain, and from corruptly influencing his own reelection with the help of a foreign power. Although no statute clearly prohibits this conduct, it is barred by the Constitution itself through the clause that prescribes impeachment for "high crimes". The impeachment puts flesh on the bones of basic principle that the president can't try to break democracy.

The second article, for obstruction of Congress, stands for the principle that the president can't stonewall the legislative branch and thus render himself beyond the reach of the Constitution. Here the House is vindicating the principle of separation of powers. Here, too, there is no legal provision saying the president can't refuse to cooperate in an impeachment inquiry. But, it is a principle embedded in the Constitution itself specifically in the logic of Congress's

NOAH FELDMAN

to stand up for the Constitution. If, as seems likely, the Senate does not remove Trump, it could imply that Trump's conduct is acceptable. The result could erode constitutional norms still further.

Nonetheless, the House at least has conveyed the message that Trump has breached the Constitution. And he has done so more markedly than any president in US history, with the possible exception of Richard Nixon. Andrew Johnson was impeached for ignoring a law, itself unconstitutional, that said he couldn't fire his cabinet members without Senate consent. Bill Clinton was impeached for lying under oath about his sexual relationship with an intern, an act that was legally and morally wrong, but not obviously a violation of a bedrock constitutional principle. Nixon, who resigned before he could be impeached, covered up his campaign's efforts to subvert democracy—much like Trump. And he obstructed Congress, albeit less absolutely than Trump did. Nixon's actions were also directed against the Constitution. Theywere high crimes and misdemeanors, like Trump's. And they have gone down in history as exemplars of unpresidential conduct.

When historians tell the story of Trump's legacy of weakening the Constitution, they will now include the House's response. That matters. The Constitution is not the dead hand of the past. It is a living tradition whose meaning evolves in real time, and is affected by what today's constitutional actors say it means.

The impeachment vote is the single most significant action that the House can take in defence of the Constitution. It isn't enough. But, it is a start.

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners

THE EDITOR

LETTERS TO

Unity in diversity

The nationwide agitation by the people, irrespective of their religion, against the Citizenship Amendment Act (CAA) enacted by the BJP government conveys one thing very clearly—the people of our nation cannot be divided in the name of religion. Though the CAA is alleged to be only anti-Muslims, the solidarity shown by Indian people of different hues seeking its cancellation is really amazing. We have witnessed the avowed principle of our nation, 'unity in diversity' in their spontaneous agitation against the Act. It is time the government understood the sentiment and wishes of the people and rescinded the Act, which appears to be against the principles of secularism engraved in the sacred Constitution of our country. — Tharcius S .Fernando, Chennai

Impeaching Trump

For the third time in history, the United States House of Representatives voted to impeach a President. The lower house of Congress voted to impeach Donald Trump for abuse of power. The Senate, the upper house, will now weigh in on the trial—and on account of it having a Republican majority, Trump, in all probability, will be acquitted. However, this is still being seen as a historic win for the Democrats, who initiated the impeachment enquiry against Trump, permanently marking the President's tenure. With this, the bid for a re-election for President Donald Trump looks doubtful and he may be rejected for lowering the image of the country. — Bhagwan Thadani, Mumbai

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since January 2017. Where the Constitution has been fal-

> authority to oversee the president. Impeachment on its own is only part of what the legislative branch should do

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CHLOROPHILE

Mirzapur could wipe away India's onion tears

The sandy loam of the Indo-Gangetic Plain is just right for onions as it drains well. A drive, thus, to encourage production in this belt could check onion price fluctuations

IVERSIFYING THE AREAS of production to northern India, adopting raised-bed planting practice along with drip irrigation and reducing losses with better storage technology can help avert episodes of price slumps and

spikes that afflict the onion trade. A majority of onion supply (60%) comes from the rabi crop which is planted in December and January, and

harvested from March to June. Farmers store onions on premise, in ventilated structures with asbestos or thatched roofing, for release till October, after which the kharif crop, planted in July-August enters the market. There is also a late kharif crop, planted in September-October and harvested between December and February. Kharif and late-kharif onions have a short shelf-life. They last for about a month after harvest. About a

quarter of the annual supply comes from the kharif crop, and 80% of it is from Maharashtra and Karnataka. Disruption of supply from these two states has a ripple effect across the country.

This year late onset of monsoon delayed the kharif planting season. The October report, of the agriculture ministry, said 7% less area was planted. Heavy and prolonged rain damaged the transplanted seedlings and also destroyed late kharif nurseries. Official reports highlighted production at 52 lakh tonnes during the two seasons was 26% less than last year. Besides, stored rabi onions were also damaged because of high humidity. Of the buffer stock of 77,000 tonnes created with the price stabilisation fund, about 39,000 tonnes had to be discarded because of spoilage. Farmers and traders suffered from such losses.

Spreading the production of onions across the country and close to the places of consumption can help avert such situations. Major Singh, director at the Directorate of Onion and Garlic Research at Rajgurunagar near Pune reports encouraging results from trials in eastern UP's Mirzapur district. He says the sandy loam of the Indo-Gangetic Plain is just right for onions as it drains well. Flooding is an issue for which he recommends raised-bed planting. In all, 140 farmers have participated in as many field demonstrations which the directorate has held since the monsoon season last year. Five farmers did very well. They swapped local varieties for improved ones like Bhima Dark Red and Bhima Super, and adopted better agronomic practices. Reported yields of 4,857 kg and 9,360 kg an acre, earned a profit of ₹2-2.5 lakh per acre, according to the Directorate, helped by the spike in onion prices. A drive, thus, to encourage production in this belt could check onion price fluctuations.

Better storages will also help. Currently, onions are stored at ambient temperature in raised floor structures with side slats (for ventilation) and asbestos roofs. These are low-cost storages, which the Maharashtra government subsidises. Yogesh Thorat, managing director, Maharashtra Farmers Producer Company (FPC), a state-level consortium of FPCs, says it wants to create large storages totalling 25,000 tonnes in 10 locations, but cannot home in on the right technology. In open ventilated storages, losses can be as high as 30-40% or even more, depending on the outside temperature and relative humidity. Onions last longer in cold storages, but sprout when kept in the open, unless irradiated. Singh says losses were found to be lower—10%—in bulbs stored for four months at 27 degrees celsius. The monthly running cost was 30-50 paise per kg, about five times less than that of cold storages. The 20-tonne prototype which the directorate has developed needs to be scaled up to a few hundred tonnes and validated for commercial use, for which Singh wants financing partners.

India has the largest area under onions (13 lakh hectares), but yield at 17 tonnes per hectare is less than China's 22 tonnes. Productivity in countries like Netherlands (51.8 tonnes/ha), Germany (46 tonnes/ha) and Iran (38.5 tonnes/ha) is higher, but their cultivation is limited to a few thousand hectares and, therefore, can give better attention.

India's production was almost flat between 1991-92 (47 lakh tonnes) and 2001-02 (53 lakh tonnes). It doubled to 108 lakh tonnes by 2006-07, and has doubled again since. Annual production currently is about 209 lakh tonnes, which exceeds the domestic demand. Exports have increased from 4.42 lakh tonnes valued at \$70.73 million in 2001-02 to 20.62 lakh tonnes worth \$470 million over the last few years.

Anil Khar, an onion breeder at the Indian Agricultural Research Institute (IARI), New Delhi, says yields can be increased with hybrids. Hybrid onions are of uniform size, shape, colour and maturity unlike open-pollinated varieties, which have a mix of A, B and C grades. Developing hybrids, he says, is a tedious process as onions are a highly cross-pollinated crop. India should sequence the onion genome, he says, to discover the genes responsible for particular traits. This can help in faster breeding through marker-assisted selection, an agribiotechnology tool, for higher yields, longer shelf-life, processing quality (more solids, less water) and resistance to pests, diseases and climate stresses.

Singh says the directorate has hybrids, but has not been able to popularise them because they are not higher yielding than open pollinated varieties. He says the package of practices it has developed including planting on raised beds (ridges) and use of drip irrigation can improve yields. There are a set of farming practices to improve durability including lesser use of nitrogen, maintaining moisture during dry spells, and stopping irrigation a fortnight before harvesting. Shade curing for two weeks and disinfecting the storages to prevent fungal infections will

also help keep rabi onions longer. There is a lot of demand for onions from Bangladesh, Sri Lanka, Malaysia, Indonesia and the Gulf countries. India has not been able to make a dent in the European and American markets, where bigger and less pungent onions are preferred. Singh says exporters do not take the trouble of obtaining certification for good agricultural practices. These countries are also strict about infections like black sooty mold.

Can processing help tide over episodes of scarcity? Jalgaon-based Jain Irrigation has about 5,000 farmers on contract who produce processing quality onions with less water (88%). But dehydrating them to 5-6% moisture costs about ₹25 a kg, says senior vice-president Kalyanrao Patil. Akg of dehydrated flakes is equal to 10 kg of fresh ones. The company supplies to the military and some pizza chains.

Dehydrated onion flakes retail for ₹197 per 450 grams in online stores. Red onion powder sold in combination with garlic powder retails for ₹299 per 150 grams. Onion flakes, powder or paste are unlikely to be popular like tomato puree. The farmers of eastern UP and Bihar can satisfy India's love of fresh onions without having to cry about prices, if they are assured of profits.

Surging ahead

BANSAL

Author is Deputy CEO, KPMG in India. Views are personal

India is making strides but has more ground to cover

HE YEAR 2019 has been eventful. With two budgets being presented this year, India came out with decisive policies in the face of economic and trade uncertainty. Some key changes which were made by the ministry of finance have the potential to impact the country's future. These included the corporate tax cut and amendments to the IBC, aimed at streamlining the insolvency process and protecting last-mile funding. The Centre also announced a relief package of ₹25,000 crore to revive stalled housing projects. It also declared removal of all charges on digital payments to promote Digital India. Further, the Union Budget 2019 gave a boost to make electric vehicles affordable with a GST cut from 12% to 5%, and introduced a provision of additional income tax benefit of ₹1.5 lakh on loans taken to purchase electric vehicles.

The government has also laid emphasis on reducing the financial stress of farmers by offering them additional income opportunities. During the Interim Budget presented in February 2019, the government announced a ₹6,000 annual income support for marginal farmers, called the PM KISAN. The Union Budget, presented in July 2019, proposed innovative pilot programmes on 'zero-budget farming', scaling up of rural infrastructure under the PMGSY and incubators to develop 75,000 entrepreneurs in the agro-rural industry. Recognising the importance of capital for MSMEs, a 2% interest subvention on fresh and incremental loans was also announced along with a partial credit guarantee to public-sector banks (PSBs) for purchasing high-rated pooled assets of strong NBFCs.

In September, the finance ministry set up a task force to build a national brownfield and greenfield infrastructure project pipeline worth ₹100 lakh crore over the next five years. In the same month, the Union Cabinet approved 100% FDI, under automatic route, for contract manufacturing and commercial coal mining. The local sourcing conditions for singlebrand retailers were also relaxed. Such norms are expected to

In many ways, 2019 has created the base for India's future growth. The key would, however, be in implementation

reinforce India's position as a potential global manufacturing hub, and reduce dependence on imports. The ministry of finance also announced a stimulus package with an upfront disbursement of ₹70,000 crore for staterun banks and merger of 10 state-owned banks to form four large banks. If implemented well, these moves can revitalise the banking sector and enable PSBs to compete more effectively.

In 2019, India climbed 14 places to become 63rd among 190 nations in the World Bank's ease of doing business ranking (up from 77th rank in 2018). The country also attracted FDI of \$27.2 billion during FY2019. India's economic engine, however, hit a snag as GDP growth slowed, corporate revenues moderated, unemployment increased, urban wages and farmer income stagnated and consumption declined.

While the government has taken several initiatives to steer the meandering economy to the fast-growth lane, more work remains to be done on the policy front to shift India onto an accelerated growth trajectory. These reforms will have to include improvements to land and labour laws, a much more open trade regime and removing bottlenecks for accessing capital. The reforms could be supported with rationalisation of taxes with a GST 2.0, a stable regulatory regime and ensuring greater physical and digital connectivity across the country. Decentralisation of decision making by empowering states and creation of a coherent longterm vision could help guide the economy out of this slump.

Creating a conducive environment that will rebuild citizens'trust in the economy, improve investor confidence, stimulate investments and integrate India into global supply chains would need to be taken up on priority. Furthermore, providing universal healthcare, easy access to quality education and electricity, developing transport infrastructure and addressing sustainability issues will be the foundation for India's next stage of development. The country also faces immense pressure to create job opportunities for its large working-age population.

Despite uncertainties, the momentum of structural reforms is undoubtedly strong. The government has covered a broad gamut of trade and investment through its reforms. In manyways, 2019 has created the base for India's future growth. The keywould, however, be effective implementation such that India meets its objective of a \$5 trillion.

GST

NSOLVENCY AND BANKRUPTCY Code (IBC) and Goods & Service Tax (GST) were major structural reforms during previous tenure of the Modi government. There are some delays in resolution of cases, but IBC has gained momentum and various important amendments have been made to address the operational issues raised by stakeholders. The Supreme Court judgment in the matter of Essar Steel has

GST was biggest ever indirect tax reform. It was aimed to improve the ease of doing business by having a common set of law across the nation. It was also expected that GST will improve tax collections and curb evasions.

also settled various open issues and

scope of litigation has reduced.

While GST is, indeed, a game-changer, it is important to understand that its implementation is dependent on an IT platform. This IT infrastructure is the interface between taxpayer and the government. A majority of problems, thus, stem from poor design of GST returns. That is one of the primary reasons that the due date for filing of annual return for FY 2017-18 has been extended many times. It would be better if entities are given exemption from filing of annual return for FY 2017-18. Matching the input tax credit was a key under GST to check the tax evasion and this functionality is not yet enabled in the way it was envis-

Time for an operational change

If the policymakers want to augment GST revenues they should focus on simplifying the operational part and work on improving the IT infrastructure to curb tax evasion

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aged. Considering the uneven trend in tax collection, the government recently changed the rules relating to input tax credit for cases where amounts claimed as input is not shown by seller in her return. However, these are only temporary fixes, and both the taxpayer and finance professionals need a long term solution.

GST has affected service providers more than manufacturers or traders. It has not only increased the tax rate for service providers, but compliance burden has also

increased exponentially. Manufacturers were required to file factory-wise monthly return under erstwhile central excise regime, but service providers were filing half yearly return for their entire operations in form ST3. Now, service providers have to file a state-wise monthly return, thereby increasing the compliance burden. Moreover, the service provider has to take care of assessments for each state separately, a divergence from the centralised system of filing followed earlier. The gov-



FM NIRMALA SITHARAMAN AND REVENUE SECRETARY AJAY BHUSHAN AT THE 38TH GST COUNCIL MEETING IN NEW DELHI

ernment must consider taking states on board for a single comprehensive return for service providers. A system of centralised assessment based on the principle place of business as applicable for Income Tax purposes needs to be established.

GST is often criticised for multi tier tax structure and people demand rationalisation, but a multiple rate structure is needed for a country with large lower-middle class population. Besides, there are certain essential items which need to be taxed at conces-

sional rate or exempted fully from tax net. India is a vast country and having a single tax rate will not be in consideration of the social structure. Besides, an analysis of VAT rates in various European countries shows that there are multiple tax rates in place.

The government is facing an uphill task to meet the fiscal deficit target amid economic slowdown, as it requires public expenditure to go up. Union finance minister is in a tough situation given the fact that state governments are raising voice over **GST/VAT** rates in major **European countries in 2019**

Country	Standard rate (%)	Reduced rate (%)*
UK	20	5
Sweden	25	12, 6
Spain	21	10, 4
Portugal	23	13, 6
Poland	23	8, 5
Germany	19	7
Norway	25	15, 12
Italy	22	10, 5, 4
France	20	10, 5.5, 2.1
Hungary	27	18, 5
*(Rates for small businesses and special schemes) Source: Ernst & Young (EY) report		

delay in settlement of their share of cess collections. Considering the decline in demand, GST council has rightfully decided not to increase tax rate in the last meeting, held on Wednesday. Council has also given a major relief by waiving the penalty for non-filing of return, if these returns get filed by January 10, 2020. However, if the policymakers want to augment GST revenues they should focus on simplifying the operational part and work on improving the IT infrastructure to curb tax evasion.

