

India Reboot @2020, Because Never Let A Crisis Go To Waste **by Rameesh Kailasam**

- ***The economic crisis brought about by Covid-19 gives an opportunity for a full reboot of the system.***
- ***Here, sops without correcting for regulatory anomalies may not work.***

India is currently in the grasp of a global economic crisis driven by a life-threatening pandemic. The government has appreciably risen to the occasion and rightly prioritised human life over economic fallout by coming up with appropriate relief measures. The crisis makes it amply evident that a country with a billion plus people needs to be more self-reliant.

The coming months would tell who and which industries have survived or will survive. The self-organised businesses, traders, gig economy, Internet-based startups would have undoubtedly borne this brunt.

Critical businesses like travel, hospitality, entertainment would take a longer timeline to revive until the fear factor goes away and the trust comes back for people to step out. These all need immediate regulatory ease and economic handholding, else we may see 75 per cent job losses in these sectors in the coming months. This crisis is a huge wake-up call and an opportunity for an 'India Reboot 2020' that will require immediate regulatory fixes and big bold economic measures at the highest political levels. Whether Covid-19 or not, the economy, which was anyway on an acceleration mode with full brakes on, now moves into a space which can be referred to as 'strangulation mode'. Hence sops without immediate regulatory fixes may not work.

The Economic Survey puts the onus on the private sector to drive economic growth, yet, this sector today is severely suffering from a huge 'working capital' issue due to certain indirect tax-related policies and also a 'level playing field issue'. Irrespective of Covid-19, this scenario needs urgent fixing to infuse life back into the economy. This fixing would have to be steered by an economic and political vision that is not dependent on the 'steel frame' recommendations. The sectors that need immediate regulatory relaxation and attention will obviously need them in short- and medium-term to begin with to kick-start the economy:

1. Agricultural Reforms

The government's plans of doubling farmer's incomes by 2022 will require significant on ground reforms right from modernising agriculture to changes in procurement, supply chain, storage, marketplace, unshackling APMC (Agricultural Produce Market Committee) to encouraging an Ola-Uber equivalent for farm equipment usage besides recognising CSR (corporate social responsibility) contributions to farm equipment at *panchayat* levels, helping small farmers, and preventing crop burning.

2. Land, Labour, And Environmental Laws

Land reforms require fixing basic things such as 'public purpose' and consistency of laws across states, besides leveraging wastelands for industrial projects than fertile agricultural ones.

What is also needed is simplifying labour laws and making them more relevant to current times and ensuring laws are not left to discretion and interpretations.

With necessary safeguards for environment protection, it is essential to quicken the decision-making process on environmental clearances and bring regulatory clarity that is essential to ease of doing business.

3. Tax Reforms 2.0

While goods and services tax (GST) has been an indirect tax game-changer, it has also been a bottleneck because invaluable working capital is trapped and unutilised. This is due to a peculiar so-called inverted structure for many industry sectors including textiles and a huge 'level playing field' issue in services sector in the consumer Internet space. The concept of set-off or refunds needs to be brought in to save the industry.

It belies economic logic when one has to pay 18 per cent GST on premium of a term insurance or an online entity has to open 37 offices to do business in the whole country.

Rates of services need to be brought down and numerous economic, business-friendly recommendations lying with the GST Council need to be taken up on war footing for GST 2.0. Customs and foreign trade policy needs to stop leakages of unnecessary imports, free trade agreement (FTA) misuses, nuanced dumping etc. With respect to sector-based criticality, if there is domestic production of a particular good with scale and technology, we should immediately suspend imports of such for the next two-three years including those covered under FTAs. In case an anti-dumping investigation is commenced against a foreign manufacturer, provisional duty must be imposed pending final decision with no refund irrespective of final outcome.

In case of direct taxes, to boost consumer spending at this juncture, a relook is essential and individual tax rates need to be immediately brought down to a maximum of 25 per cent and refunds processed quickly.

4. Consistency Of Laws Across States

What's legal in one state is prohibited in another or treated differently. This endangers an emerging pillar of innovative startups in the country. While there is 'one nation one tax' there continues to be one nation different state regulations for the same service.

5. Domestic Manufacturing

To graduate from a consuming nation to a manufacturing hub, necessary infrastructure backed by a smooth favourable compliance regime is a must. While post lockdown our exports may suffer, being a consuming economy, we may see increased dumping taking place and while anti-dumping measures take time, the damage may have been already done. It is important to be liberal on raw material imports necessary to manufacture finished goods and take a sector-specific view on imports and exports.

To fix the labour migration issue, it is important to tap into labour in towns and districts, especially in textile and micro small and medium enterprises (MSME) space, convert district headquarters into manufacturing hubs and put procurement supply chains in place.

6. New Industrial Policy

Such a policy should ideally incentivise and reward innovation, promote creation of an industrial infrastructure, and provide access to low cost capital. India urgently needs to build sector-specific export-focused 'industrial estates', where companies can move in and get

power, water, roads and rent free for two years, and a direct tax holiday for two years, but with GST being payable on local sales. Global economies would be now seriously looking at de-risking one-country manufacturing exposure, which is an opportunity.

7. FDI In Key Sectors

Post an foreign direct investment (FDI) announcement, multiple approvals take anywhere between a year or more, thereby creating lack of clarity on investment timelines and capital destined for India being deployed in other geographies. There needs to be a quick timeline defined from announcement to notification besides clarity on ambiguous areas.

8. A Focused Startup Policy Action Programme

Startups innovate and grow despite all on-ground policy hurdles such as those which question the legitimacy of their businesses state after state to heavy compliance and tax-based burdens. There is a need to activate the 'startup advisory council' and address these issues immediately as this sector employs India and Bharat and has the potential to become the largest 'attractor' of investment and indirect livelihood creator.

9. Promote Innovation, Manufacturing R&D Through Tax Sops And Relaxation In Regulations

Indian R&D (research and development) expenditure is very low and this is a key challenge for any innovative manufacturing and service for future. Necessary tax holidays and sops should be announced for this sector.

10. Internal Trade

Internal trade is a crucial pillar of the economy that includes shopkeepers, traders, hawkers, small businesses, direct sellers, online vendors. This sector has shown resilience over time and helped the nation through multiple crises, including the recent lockdown through supply of essential commodities. Regulatory clarity, lesser compliance, access to low-cost capital, insurance and national reclassification of essential commodities across India is necessary for this critical sector.

The coming months may be disruptive with unemployment/salary cuts. This makes the case for a strategic outlook and a 'Reboot 2020', essential to prevent a crisis and unlock an opportunity to ensure the economy bounces back with full force.