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Economy This Week (20th May to 2nd June 2019)

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1. Merger of 12% and 18% GST rates

This news item is taken from Business Line (27th May 2019).

- The existing GST regime has multiple rates - 0%, 5%, 12%, 18% and 28%. Of these the 12% and 18% rates are referred to as standard rates
- Recently there has been a talk of merging the 12% and 18% rates to get a rate of 15%. This would simplify the structure and also counter the criticism of too many rates
- Such a merger of rates would lead to a revenue loss of ₹ 1 lakh Cr per annum. Such a revenue loss would be unwarranted as it would affect the fiscal deficit (Govt has targeted a FD of 3.4% for this fiscal). Another reason is also that the revenues of GST are yet to stabilise. Since the implementation in July 2017, there have been only 4 instances (months) where the collections have crossed ₹ 1 lakh Cr
- Govt has targeted collections of ₹ 13.71 lakh Cr for FY20 which would mean on an average a monthly collection of ₹ 1.14 lakh Cr
- Presently out of 1200 odd goods covered under the GST, 42% are being taxed at 18% and nearly 15% at 12%. Merging these two rates would mean fewer goods will be taxed at higher rate and larger number of goods will be taxed at lower rate which would lead to revenue loss

2. FC (Finance Commission) may not extend the GST compensation

This news item is taken from LiveMint (22nd May 2019).

- States have requested for an extended period for GST compensation. Presently the time period for which the GST compensation will be given is five years. The FC is unlikely to heed to the request of extending this period, as it thinks that tax buoyancy will take care of the shortfall in the revenue of some of the states
- The chairman has stated that the GST has almost settled, the growth in the revenues will happen in the coming years hence there is no need for extending the period of compensation
- As per the GST (Compensation to states) Act 2017, any loss of revenue to the states on account of implementation of GST shall be payable for a period of five years till 2021-22 (this will cover first two years of the award period of 15th FC). for the calculation of revenue loss, 2015-16 is taken as a base year for calculating projected nominal growth in the indirect tax revenues and a growth rate of 14% annually
- Some of the reasons for the shortfall in the tax revenues are natural and structural factors such as geographical location, size of the economy, endowments of natural resources, smaller taxable base, consumption pattern etc.

3. US withdraws GSP benefits for India

This news item is taken from The Hindu (2nd June 2019).

- POTUS has issued a proclamation announcing withdrawal of GSP benefits to India from June 5,

2019. However, the benefits could be restored provided both the countries could arrive at an agreement

- Under GSP program exports from developing countries are given non-reciprocal, duty free access to US markets
- In 2018 exports from India to the tune of $6.3 bn were covered under this. This forms 11% of the total exports done by India (to US)
- GSPs is a preferential tariff system extended by the developed/industrialized countries (donor countries) to the vulnerable/underdeveloped economies (beneficiary countries). Under this the tariffs imposed on exports from beneficiary country into donor country is either very low or nil
- Evolution of GSPs
    - Preferential tariffs were discussed mainly during 1960s in UNCTAD (United Nations Conference on Trade and Development)
    - It was discussed during the first UNCTAD Conference in 1964 and was adopted at UNCTAD second conference in New Delhi in 1968
    - Initially it was introduced for a period of 10 years and then in 1979, as apart of Tokyo Round a permanent waiver was given to GSP from the MFN clause
- In case of USA this is the oldest trade preference program. It came into implementation from 1976 as a result of passage of the Trade Act of 1974
- Under this a wide range of agricultural and industrial products originating from certain developing countries have been provided with a preferential access (in terms of lower tariffs or no tariffs) to the US markets
- US provides GSP for 120 designated countries.

4. Major export promotion scheme

This news item is taken from LiveMint (28th May 2019).

- According to a notification by the committee on subsidies and CV (Countervailing) measures in 2017, India's GNI per capita has crossed $1000 for three consecutive years ending 2015, but Indian government has argued that as earlier the countries with GNI higher than $1000 were given eight-year time period to phase out the export subsidies, it should also be provided with the same phasing out period
- India's GNI crossed $1000 in 2013 and presently is around $1978
- US has argued that India's export subsidies are not consistent with WTOs Agreement on Subsidies and Countervailing Measures (ASCM) and has quoted section 3 of the agreement which bars/prohibits export subsidies