# Economy This Week
# (22nd July to 28th July 2019)

## Direct cash transfers in case of food and fertiliser subsidy (IE 22/7/19)

- Govt needs to streamline food and fertiliser subsidy by converting them to direct cash transfers to identified beneficiaries, which can be done through JAM (Jan dhan, Aadhaar and Mobile)
- Such a measure would empower the poor and farmers; and save around ₹ 50000 cr for the exchequer every year. This can be used by the govt to invest in agriculture R&D and better water management, which would ensure food security for the country for the coming 25 years and also augment the income of the farmers
- Food subsidy
  - The food food subsidy bill in the budget stood at ₹ 1.84 lakh Cr
  - Apart from this, the pending dues of FCI stand at ₹ 1.86 lakh Cr. which means the govt is not providing the right amount of food subsidy as a result FCI is forced to borrow. If this is accounted for then the fiscal deficit will be much higher and the subsidy burden on the govt would balloon
  - The coverage of 67% under NFSA (National Food Security) is very high
  - Wheat and rice are subsidized at 90% (economic cost of rice is around ₹ 35 per kg and wheat is around 25 per kg, while they are issued at ₹ 3 and ₹ 2 respectively)
  - Rather than incurring subsidy in this form govt may shift to a regime wherein the subsidy will be transferred into the account of the beneficiary
    - Beneficiary will have the choice of buying rice, wheat, coarse grains, eggs, pulses, milk etc
    - This will lead to diversification of consumption, which means there has to be a diversification of farming
    - There are leakages in the system. As per Shanta Kumar Committee, the leakages are around 46% (govt has introduced PoS machines and has weeded out some fake ration cards)
  - Other recommendations are
    - Govt can keep some grains for strategic reasons and gradually reduce the procurement, especially in those areas where the water table is depleting fast
    - The coverage under NFSA has to be brought down
- Fertilizer subsidy
  - Allocation in the budget is ₹ 80000 Cr
  - The industry has claimed that there is a huge under provisioning and its dues to the tune of ₹ 38000 Cr are still pending
  - The urea price is the lowest in the world and the govt has been unwilling to revise its prices (the domestic cost of production is around $250 and imported cost comes at around $300; govt sells it at around $80 per tonne; on the other hand, some of the domestic units which were revived by the govt - Ramagundam, Gorakhpur - are producing it at $400 per tonne)

- This is leading to large leakages and is polluting the water table. The plants do not absorb more than 25% of the urea being applied
- There is a need to convert this subsidy into cash transfers based on per hectare basis.

## FPIs may turn to P Notes (BS 24/7/19)

- Since the govt has ruled out any rollback of surcharge on super rich, the FPIs may look at the route of P-Notes (Participatory Notes) in order to make investments in the Indian market
- The increased surcharge announced may affect 40 to 50% of the FPI investors and of these 10 to 15% may route their investments through P-notes
- P-Notes are issued by the foreign institutions to the investors who wish to invest in Indian stock market but do not want to come under the purview of SEBI (i.e. do not wish to be registered with SEBI)
- The issues are
  - This route has been regulated, hence the investments though this route has been unpopular in the last two years
  - Investments though this means that the investments in India are not directly owned by the FPIs
  - Investors will incur extra costs such as paying fees to the P-note issuing authority
  - Existing norms do not allow the Category III FPIs to issue P-Notes
- To overcome the issue of surcharge, the FPIs may also route their investments through corporate structures set up in Mauritius, Singapore etc but such investments may come under the ambit of GAAR (General Anti-Avoidance Rules)
- The effective tax rates on FPIs
  - Earning a profit between ₹ 2 to 5 Cr - rise from 11.96% to 13% (long term capital gains tax)
  - Earning a profit between ₹ 2 to 5 Cr - rise from 17.94% to 19.5% (short term capital gains tax)
  - Earning a profit of over ₹ 5 Cr - 14.25% (long term capital gains tax)
  - Earning a profit of over ₹ 5 Cr - 21.37% (short term capital gains tax)

## WTO - demand for amending the laws (LM 22/7/19)

- India has urged the WTO to ask its member countries to amend the domestic laws (inconsistent with WTO rules) which allow them to impose unilateral curbs on trade matters
- US on March 8, 2018 unilaterally hiked tariffs on aluminium and steel exports by 10% and 25% respectively on Indian and exports of many other countries under section 232 of National Security provisions if the Trade Expansion Act 1962
- Against this, many countries have dragged US to WTO dispute settlement body, a panel has been set by the WTO on this issue in December
- US has argued that these tariffs are allowed under article XXI of the WTO rules, whereas other countries have argued that these are in the nature of safeguard duties which protect the domestic companies
- In retaliation India has imposed tariffs on 28 US exports amounting to $217 mn.

# India warns WTOs appeals body may collapse (LM 22/7/19)

- India has warned about the impending end of the WTO Appellate Body, with US blocking the selection of judges
- US has been blocking the appointment of judges and has argued that the Appellate body has failed to follow the rules in the Dispute Settlement Understanding
- The Appellate Body will be down to a single member from 11th December
- Indian envoy Mr J S Deepak has urged the member countries to act - "The WTO membership must act before the Appellate Body moves from the ICU to the mortuary"
- If the body becomes dysfunctional then the most powerful countries will be freed from adhering to the multilateral trade agreements/rules
- US on the other hand has blamed big developing countries such as India, South Africa, which have failed to give up their special and differential flexibilities commensurate with their economic growth.

# CSR at gunpoint (BL 26/7/19)

- The cabinet has approved amendments to the Companies Act, in the case of the provisions related to CSR (Corporate Social Responsibility). Earlier the provisions under section 135 required the companies to have a CSR policy to be overseen by their boards. The companies were to have internal CSR committee to formulate policies to ensure that 2% of the average profits are spent by these companies under CSR. in case they are unable to meet this expenditure, then the company would give an explanation in its annual report
- As per the amendment, the companies will have to keep aside 2% of their average profits, with unspent amounts (if remains unspent for three years) to be transferred to any of funds set up by the govt under Schedule VII, apart from this the companies who have failed to spend the requirement could be penalised and the govt can direct these companies to spend the amount
- Some of the issues with such policies are
  - The profits of a private sector company belong to its shareholders
  - There is no reason to believe that such a company driven by profits, to be good in implementing social projects (which is in fact the duty of the government). This is one of the main reasons why CSR was introduced as a self-regulatory provision in the first place
  - The condition of ensuring that the money will be spent in three-year time is counterproductive. The companies should be given time to design and implement the projects in a time efficient and cost efficient manner. The provisions will drive the companies into implementing the projects just to meet the statutory requirement

# Panagariya - law on firing workers should be eased (BS 24/7/19)

- The govt should ease the norms for hiring and firing workers to make it easier for the companies to do business in India
- The easing of rules is important as the primary objective of the employer is not to fire the workers
- As of now, the govt is in the process of streamlining the labour laws, but there is also a need of reforming the existing labour laws
- The govt plan to introduce a single minimum wage across the country might hurt the businesses in smaller towns considering the wider differences in costs. It could affect the smaller exporters and erode their competitiveness in the international market