ETW 1st to 7th July 2019

- **FTP to be revised (BL 2/7/19)**
  - Commerce ministry has started working on a new foreign trade policy (FTP) and has invited suggestions from the stakeholders
  - This would revise the current FTP, applicable for the period of 2015 to 2020
  - The new policy will be important as the export subsidies such as MEIS will be withdrawn as they are not compatible with the WTO guidelines/rules. The export subsidies will have to be replaced with the other systems such as giving rebate on the inputs paid by the exporters, subsidies for R&D and modernisation of production process
  - The new FTP applicable for five years (2020-2025) is expected to be released by September this year
  - US Govt has questioned the export subsidies given by the Indian Govt at WTO, on the ground that these are not eligible, as per the complaint raised by US, the Indian Govt provides subsidies to the tune of $ 7 bn per year

- **Centre ratifies convention to curb company profit shifting (TH 3/7/19)**
  - Govt has announced that it has ratified the international agreement to curb base erosion profit shifting (BEPS) to stop the companies from moving their profits out of the country and depriving the govt of tax revenues
  - India has ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (Multilateral Instruments - MLI)
  - It was signed in 2017 in Paris by representatives of more than 65 countries
  - BEPS refers to a phenomenon where companies shift their profits to other jurisdictions which have a lower tax rate
  - MLI is a result of concentrated work by G20 countries to tackle the issue of BEPS
  - The MLI will be applicable along with the existing tax treaties and will be modifying these treaties in such a way that the revenue loss because of BEPS will be tackled and profits are taxed where substantive activities generating profits are taking place. India has 93 tax treaties and of these 22 countries have already ratified the MLI and the DTAA with these countries will be modified by MLI. for the remaining countries, the MLI will come into force once they ratify it
  - The MLI will come into force for India from October 1, 2019

- **India needs a new fiscal policy framework (LM 3/7/19)**
  - The budget is being presented during a period of sharp economic slowdown, hence the most important issue will be measures to be taken to regain the economic momentum that has been lost in the last three quarters
  - The present Govt does not have enough fiscal space to stimulate the economic activity. If the borrowings increase then the market will be spooked by it and if there is a sharp reduction in fiscal deficit, the slowdown may worsen
  - Budgets ideally should be countercyclical, rather Indian fiscal policy making has been pro cyclical very often i.e. it has been expansionary in good times and restrictive in

difficult times. It is restrictive because Govt does not save enough during the good times. This pro-cyclicality of fiscal policy has to be changed
    - India needs a new fiscal policy to replace the FRBM (Fiscal Responsibility and Budget Management) Act 2003. There is a need to focus on the ratio of public debt to GDP and stabilize it at a particular level
    - Need to have an independent agency - Fiscal Council - to analyse and oversee the tricky issues of estimating the trajectory of sustainable public debt over the medium term and level of potential GDP (like Congressional Budget Office in US)
  - How to address the slowdown in the economy
    - Go for asset sales (privatisation), using these revenues promote the investments in infrastructure
    - Use the monetary policies to pump money into the system, as long as the inflation is under control

- **<u>US drags India to WTO (BS 5/7/19)</u>**
  - For 2017-18 India's exports to USA stood at around $48 bn and imports at around $27 bn, which means India has the trade surplus
  - US has dragged India to the WTO, against the increase in customs duties announced by India on 28 US exports
  - US has alleged that these tariffs are inconsistent with global trade rules, it would lead to nullifying the trade benefits that US enjoying from these exports under GATT 1994
  - GATT (General Agreement on Trade and Tariff) 1994 is an agreement signed by all the member countries of WTO, which aims to promote the global trade by reducing/eliminating the trade barriers like customs duties
  - US has alleged that these tariffs are violating two of the provisions of the GATT and has sought consultations with India under the aegis of Dispute Resolution Mechanism of WTO
  - Consultations is the first stage in the dispute resolution. If within 60 days, the dispute is not resolved, then the member country may ask for setting up of a panel

- **<u>2 years of GST (TH 1/7/19)</u>**
  - GST has
    - Subsumed a large number of indirect taxes, cesses
    - Widened the scope of input tax credit
    - Achieved a uniform tax rate for goods and services across the country
    - Tangible benefits
      - Faster refunds
      - Lesser interaction with tax officials
      - Abolition of check posts
  - With the introduction of GST, the customer can source from any part of India and supplier can sell in any part of India (has led to expansion of the market)
  - Though the industry is happy with the GST, there are certain issues which have been flagged
    - Increase in compliance requirements
    - Frequent battles with GST portal

        - Potential loss of ITC on account of supplier facing similar problems
        - Frequent changes in the structure
    - Gains of Govt
        - Widening of tax base
        - Data mining methods have helped Govt detect tax evasion in early stages
        - The monthly revenue of the Govt from GST has crossed ₹ 1 lakh crore
        - Formalisation of the economy
    - Govt is worried of
        - Fake invoices
        - Another issue is of the functioning of Advance Ruling Mechanism (is presided by the tax officials)

- **<u>PM KISAN - A scheme for the farmers that has not reached the farmers (TH 4/7/19)</u>**
    - It has become effective retrospectively from December 1, 2018
    - It is a cash transfer scheme started by the government. Though the cropping season has begun, the support has not reached the farmers in most of the parts
    - The scheme was to provide benefit to small and marginal farmers and to augment farm incomes. The coverage of the scheme has been expanded to cover all categories of the landowners
    - The scheme provided cash benefit of ₹ 6000 per year in three instalments. This comprises about one tenth of the total cost of production incurred per hectare, hence though the amount is meagre it provides certain relief to the farmers/households
    - There are 125 mn farming households owning small and marginal holdings of land in the country (these were the original intended beneficiaries) and as of now, the list of beneficiaries includes only 32% (40.27 mn) of these households. This means majority of the intended beneficiaries are yet to get the first instalment
    - The implementation has been unsatisfactory even across the states
    - For the scheme to be effective it needs to be implemented uniformly across all the states
    - Having said so, the cash transfer is not a substitute for the other structural reforms that are required in the agri sector (such as irrigation, market reforms etc)
    - Further the scheme recognises the landowners as the beneficiaries, whereas the tenant farmers incur 13.7% extra cost in the form of land rent and they are not covered under the scheme. Hence there is a strong case for including them also