CPRG NEWSLETTER

SEPTEMBER 2019 | EDITION 4

ECONOMIC POLICY

SOCIAL POLICY

REGIONAL INTEGRATION

GOVERNANCE

HOW MODI USED HOUSTON FOR INDIA

Written by Mahak Mittal

PM Modi on Sunday addressed a crowd of over 50,000 American-Indians in Houston, the energy capital of the world. The event was attended by the bipartisan group of senior elected officials, leaders from the US government including, senators, governors and mayors. US President Donald Trump, well known for his lack of attention and short term concentration, did not only attend the event, but was there until the last and was seen circling the stadium hand-in-hand with Modi.

Although the event was organised by the Indian-American for the Indian-American during PM Modi's visit to the US for the UN General Assembly, Modi's words, Trump's presence and their friendly behaviour tells a different story.

The show was a showcase of MODIPLOMACY (as termed by experts) and he left no stone unturned to use the event in enforcing India and his prestige and rapport on the world. He hosted the biggest crowd ever by a foreign Head of State on US soil thus the event being linked to International and Domestic prestige of Modi and his public identity as a global leader.

The presence of Trump and other members of the government have several faces. At one hand it shows the importance of the politically Democratic Indian-American crowd which he aimed to vow for the upcoming US elections and on the other it shows India's counter weight to China when it comes to relations with the super power and thus the changing world order.

PM Modi has very wisely leveraged the Indian diaspora in America for developing diplomatic bilateral relations with Trump. Both the leaders were seen walking hand in hand around the stadium after the event, showing signs of Modi's strong personal rapport and a hope for better trade ties. Just before the beginning of the UNGA, Modi has created grounds for partnership with Trump when it comes to the Pakistan matter or negotiation of trade ties. Modi also indirectly appealed the audience to vote for Trump in the upcoming elections, thus wooing him more. Modi spoke about the achievements of his government and even got the audience applaud for the members of parliament on the abrogation of article 370. Modi also tried to clear the speculations around Hindi being thought as a national

language, by using 7 different languages in his speech along with targeting those who challenge India's democratic structure due to the abrogation of article 370.

Talking about the economic benefits, Modi was seen meeting various industry leaders and business tycoons before and after the event, in an objective to clench some deals and gather information regarding India's position when it comes to favourability in terms of FDI. He has also pointed out on how reduction in tax rates are seen as a positive move and he will be there to facilitate any other bottlenecks faced by foreigners while investing in India.

However, Trump has not yet made any significant decision when it comes to trade with India, given that he has expressed his angst on Indian tariffs by slashing off India from preferential trade. Trump's appearance can then be regarded as one for his own benefit, i.e., wooing the Indian-American community for votes. The whole event may also backfire if Clinton wins the upcoming elections and takes Pakistan's stance on Kashmir issue as Modi's diplomatic ties with Trump are strong and has openly endorsed him for re-elections. If positive, the outcomes may lead to a change in global order and a great amount of credit will go to Modi's oratory, diplomacy and personal rapport with world leaders.

NIRMALA SITHARAMAN'S GIFT TO CORPORATES

Written by Divya Gupta

The government on September 20 slashed corporate taxes in a surprise $20.5-billion break aimed at reviving private investment, seeking to lift growth from a six-year low that has sapped jobs and fueled discontent in the countryside. Finance Minister Nirmala Sitharaman told in a news conference that the effective corporate tax rate will be lowered to around 25 per cent from 30 per cent, which she said would be on par with India's Asian peers. The measures announced by the FM can be described as a 'New Deal' for the Indian economy. Reduction in effective corporate tax rate to 25.17 per cent and for new manufacturing companies to 15 per cent and reduction on MAT are big boost to investment. The psychological stimulus from this 'New Deal' will be higher than the fiscal stimulus. Animal spirits and enthusiastic start-ups will definitely respond positively. The tax cut announcement came as Indian Prime Minister Narendra Modi's government attempts to spur the country's slowing economy. As of the end of June, India has seen its GDP growth rate fall for six straight quarters. As of now, much has been written and said about the ongoing economic slowdown in the Indian Economy.

What was being indirectly said about several economic indicators flashing warning signals for the last year or so, what has triggered the present criticism is the GDP (Gross Domestic Product) figures for the last quarter which came in at 5.7% and suddenly brought the issue into a full public glare. Some of the reasons to start with for the economic slowdown are that private consumption has taken a beating due to Demonetization as consumers suddenly prefer to hoard cash or keep it in the bank instead of spending on consumer goods. Moreover, demand has also collapsed in the rural areas as the entire rural economy runs on cash and Demonetization led to the loss of jobs as well as incomes thereby squeezing the rural consumer who now prefers to wait and watch as well as postpone consumption except that of essential goods and services. Next, small and medium businesses or the so-called SMEs to withhold investment since they too operate on a cash basis and the cash crunch has left them high and dry. Added to this is the fact that most Public Sector Banks are saddled with high NPAs or Non-Performing Assets that have resulted in them tightening lending and instead, seeking deposits and otherwise repairing their balance sheets by making provisions for Bad Loans. Indeed, absent recapitalization of such banks by the government, one might very well see a vicious cycle wherein bad debts and demand collapse lead to no lending and no fresh investment in addition to any consumption. The most important factor is that there is also a global economic slowdown that is happening and given the fact that India is a large commodity exporter, there has been a slump in the volumes of exports. Apart from that, the global slowdown has also been accompanied by a retreat of globalization which has resulted in Foreign Direct Investment being only in the areas of speculative finance and distressed assets purchases rather than into investments that help the Real Economy. Thus, it can be said that ongoing global headwinds have been a major contributor to the slowdown in the Indian Economy.

For a government better known for its daring and often audacious political decisions, Friday's announcements will go down as the most impressive step till now on the economic front: bold and long term, sudden yet rational, it has chosen to disregard the slowdown that is putting off investors and crimping the ability of businesses. The government's move of slashing corporate tax rate will have a chain effect and bodes well for the market in the long term. The chain reaction is that comes out of such moves. The money that the companies save because of lower tax rates either gets reinvested or gets paid to shareholders in terms of high dividend. Many companies in the consumption bracket are going to see their operations over a period of time coming out of the tax incentive zone. The immediate benefit is increased cash flows to corporate India that will be either channelized into debt reduction or incremental investments in increasing capacity. Also, taxing new production facilities (that come up by 2023) at 15 per cent will enable attraction of global capital and spur a beleaguered investment cycle. Corporate tax rate cut has been regarded as the bold measure because India's corporate tax has become very competitive as compared to other emerging investment centers and now India will be able to attract higher FDI going forward. Moreover, FMCG companies are expected to witness 5-12 per cent increase in earnings on the back of corporate tax reduction. More importantly, the possibility of passing on these benefits and propelling the volume growth would be the only likely possibility. FMCG companies would be passing on the benefit in terms of price reduction, which would result in increase in demand specifically in rural India. Tax cuts are good but are not enough to reverse the economic slowdown and again jump start the economy. The government cannot rely on a tax cut alone, and needs a monetary boost through further policy rate cuts and, perhaps, even increase its spending. In 2008-09, the fiscal boost proved to be quite effective in lifting aggregate demand because it was led by both tax cuts and expenditure ramp-up, accompanied by massive monetary easing while maintaining the fiscal stimulus. While rate cuts are still expected to be on the table, it is too much to ask for increased spending from the government, given its fiscal position. The economists estimate the fiscal deficit to widen to 3.8-4% against the projected 3.3% of the GDP. The Centre thus had already curtailed spending to some extent simply because it didn't get enough money through tax revenues, it may end up tightening it more. Against that backdrop, an additional headwind of about 0.7% of GDP from the tax cut will push the fiscal deficit to much higher levels this year.

Will the tax cuts now suffice to tackle the ongoing economic slowdown? That calls for sustained investment. The loans that banks have been ordered to carry out with the dwindling interest rates will definitely put some purchasing power in rural hands. But for that to result in a sustained boom, investment in infrastructure must pick up. Thus, arises a need for fixing the broken financial mechanism, banks burdened with bad loans, draining foreign reserves, weakening of rupee against dollar, tottering NBFCs and dysfunctional debt market. A progressive tax rate cut is a news to be celebrated but let us hold on for it to bit back before we start building better hopes.

INDIA'S RCEP DILEMMA

Written by Aakriti Kandoi

The economic liberalization of India was initiated in the year 1991 which had a great impact on the structure of our domestic market. With the introduction of liberal reforms, India started to make its way towards a free-market economy where the state control was reduced and there was financial liberalization. According to several reports, the 1990s and 2000s saw a massive increase in the overall GDP of the country which thereby improved consumer's purchasing power as well the living standards. It was after this reform, India became a signatory partner at the World trade Organization and got loan clearance from the Breton Woods organization for its several agricultural projects.

In this aspect, the Regional Comprehensive Economic Partnership (RCEP) can also be considered as a second generation economic liberal reform. The RCEP is a Free Trade Agreement (FTA) between the ten ASEAN member states and other FTA Members, which includes India, Australia, China, Japan, New Zealand and South Korea. The purpose of this agreement is to create a gigantic trade bloc in the Asian Pacific region which can be economically beneficial to all the parties in the agreement. India's stance in this agreement will help boost its Act East Policy as well as further integrate the Indian domestic market with the other international regional markets, thereby, giving businesses an opportunity to have better and improved access. This partnership can also help India attract major foreign direct investments into the IT Sector services, healthcare and education.

Despite the advantages India can attain by entering into the agreement, several apprehensions has come its way on nature of RCEP and how countries like China and Japan can use their diplomatic relations to influence Indian markets. The strongest point of opposition against the agreement is that if India accepts the adverse provisions of trade, various sectors like dairy, automobile, textile, steel and others will be severely affected. The Forum of Trade and Justice have raised serious concerns on the agreement, stating that the pact can be detrimental to the small businesses since it will increase competition with foreign goods. Also, according to the *Economic Times* report on January 6th 2019, the trade deficit of India with China, South Korea and Australia stood at $63.1 billion, $11.9 billion and $10.2 billion respectively. Considering the figures stated above it is imperative for India to analyse the clauses in the agreement so that while establishing its image as an emerging global power it can also protect the interests of the domestic stakeholders who are a party to the agreement.

Another concern that needs attention is how this agreement can negatively affect the Indian manufacturers. It is to be noted that the manufacturing industry of India is not mature enough to compete with lost cost quality goods from countries like China and Vietnam. Special Mention needs to be given to Modi's Flagship initiative "Make in India" that encourages Foreign Direct Investment and establishing manufacturing units on the Indian Soil. Entering into this pact can help India realize its mission but at the cost of the welfare of domestic industries. Also, data, which is a highly prized resource for the functioning of e-commerce, can be easily accessible for countries like China, Japan, New Zealand and Australia. This can further erode Indian industries as countries like Singapore and New Zealand have better structure for data analytics as compared to India.

The discourse presented above does not imply that India should quit from signing the agreement but should take into consideration the concerns raised by several stakeholders who are worried about its impact on domestic producers. Finalising the deal will help India further strengthen its diplomatic relations within the South-Asian Region while maximizing it's benefits and minimizing the threats to domestic economy.

The **Centre of Policy Research and Governance (CPRG),** India strongly believes that in the 21st century an India deprived of gainful opportunities, necessary for the flourishing of a young and emergent India, will prove to be an impediment in the development of human capital and preservation of global security. CPRG thus works towards providing gainful opportunities in an effort to promote the involvement of young people in policy making and politics.

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