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Green Mobility: Automobile Manufacturers and Pollution Policy

BY ARJUN M K

A steady narrative has developed both at the global and national level to shift to electronic - vehicles to curb air pollution and to conserve fossil fuels. In this context, this article examines the effectiveness of policy initiatives undertaken by the GoI in this regard.

Union Minister of State for Power and Renewable Energy, Piyush Goyal has said that NITI Ayog is preparing a road map to ensure that only electric vehicles will be produced and sold in the country by 2030. And perhaps to cement his intent, he informed that the centre plans to procure at least 10,000 electric cars to phase out the government vehicles in New Delhi. He also rejected the need for a transition through hybrid technology in favour of all electric technologies. However, it is to be noted that Government of India's scheme for Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles (FAME) India – under the National Electric Mobility Mission Plan – was allotted only Rs. 175 crore in the 2017-18 budget while the Heavy Industries Ministry had estimated a requirement of Rs. 14000 crore for this initiative.

The Government offers incentives on electric and hybrid vehicles of up to Rs. 29000 for two-wheelers and Rs. 1.38 lac for cars under the FAME India scheme available till 31st March 2018. Mahindra has been one company to step into the domain of electric vehicles with their eVerito and e2o Plus models. The subsidy should have encouraged more players to move to green energy over the past 2 years when FAME was in place. One can argue that it is perhaps the uncertainty over the future policies that prevented automobile manufacturers from taking aggressive stance towards electric vehicles; a more likely reason would be that there was no firm push or commensurate incentive to move away from the established technology of combustion engine especially when the automobile industry is steadily growing at close to 11%. An enhanced impact is expected when the two-wheeler industry that account for 79% of annual vehicle production launches its electric models. Major manufacturers including Honda, Hero and TVS have made investments towards R&D and full-scale release is expected as early as 2020. However, there is very limited participation from the large commercial vehicle which causes more pollution than light vehicles.

Many prominent automobile manufacturers including Tata, Jaguar Land Rover and Toyota have reported that their margins would reduce with the shift to electric vehicles. The chairman of Toyota Motor Corporation, Akio Toyoda raised survival concerns due to the advent of technological challenges like automation, connected vehicles and electric mobility. The technologies for tomorrow are not directly available with the manufacturers but have to be sourced from tech firms. Partnering not only with the government but also among private players become vital in such a scenario. For instance, M&M and Ford have entered into partnership for connected vehicle programs, electrification, product development etc.

The upfront cost of an electric vehicle at present around 30% higher than comparable car running on petrol, but the running cost is around Rs. 0.80 per kilometre compared to around Rs. 4-5 for a diesel or petrol engine vehicle. While the range of car has improved manifold – the recently release Tesla roadster claims a range of 1000km – the availability of fast charging ports, its impact on the grid and most importantly the cost of battery (40% of the cost of the car) that will need replacement after 5 years are tall constraints that discourage customers. The battery cost may make the thriving second hand market irrelevant the consequent consumerism may not be a sustainable model at all. Battery technologies are expected to adapt to the requirements of the market over the next couple of years and prices shall fall. At present, all batteries are imported, but players such as Suzuki who has entered into a joint venture with Bharat Heavy Electricals for setting up a manufacturing plant in Gujarat will ensure availability from Indian markets.

The Government last week called for amending the Central Motor Vehicle rules to limit production of Bharat Stage (BS) IV vehicles till 1st April 2020 and sales till 30th June 2020. They also called for skipping BS-V and moving directly to BS-VI that confirms with the Euro 6 standard. This short-term solution is beneficial to the customers and the intent therefore from the Government is positive.

The question from the macro perspective is that most of the electricity in the country is generated from thermal power plants burning fossil fuels at much lesser efficiency than vehicles and therefore causing greater pollution. The only advantage therefore is that some amount of pollution is shifted away from highly populated urban areas where vehicular density is more. When Indian railways shifted from coal to diesel engines and phased to electricity, pollution control was one of the major objectives even at the expense of higher cost; this helped maintain its relevance as a mode for passenger travel.

A comprehensive pollution control policy is therefore a must and the best place to start is the automobile sector which is well managed due to registration and pollution control requirements. A compensation model where the government handholds the investments and incentivise sales and purchase i.e. both the manufacturer and buyer would yield better results. Subsidies for battery production may also be put into place but the manufacturer must also be in charge of the e-waste through extended producer responsibility.

It is time that the Automobile sector perhaps through the Society of Indian Automobile Manufacturers (SIAM) join hands with the Government to develop a clear roadmap for a pollution control and futuristic green vehicle policy.

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Instant Triple Talaq: A Primer

BY SYED ABBAS BASHEER

The Supreme Court of India in its landmark judgement in August 2017 struck down the practice of instant triple talaq or *talaq-e-biddat*, terming it unconstitutional and a violation of fundamental rights of Muslim women in India. The judgement was based on the interpretation of Koran that doesn't recognize instant talaq and hence, cannot be protected under Article 25(1) of Indian Constitution that grants freedom to an Indian citizen to profess, practice and propagate his own religion. The Supreme Court termed it as "manifestly arbitrary" to allow a man to "break down a marriage whimsically and capriciously". It has paved the way for a government of India to introduce the 'Muslim Woman Protection of Rights on Marriage bill' that will adjudicate instant triple talaq as a cognizable offense in all states of India, except Jammu and Kashmir. However, the judgment has opened the Pandora's Box for its consequences can be felt across various fields of policy making: gender equality, Muslim personal law in India, and the call for a Uniform civil code. In this essay, I will be looking at the various forms of talaq, the practice of talaq as validated by different countries, Muslim personal law and its modern relevance, and how the proposed bill can take shape in light of these facts.

Forms of talaq as recognized by Islam

The Islamic law gives only the husband the right to pronounce talaq except in a special case called Talaq-e-tafweez where it is delegated to the wife.

Talaq al-sunnah: It is considered in consonance with the teachings of the prophet. It is of two types-Ahsan and Hasan. Ahsan, which means very proper is the single pronouncement of talaq in the period of *tuhr* (purity), which is the period between two consecutive menstruations cycle and is revocable before the expiry of *iddat* (waiting period of 3 tuhr or 90 days). Hasan, which means "good", is three pronouncements in three consecutive *tuhr* or three intervals of 30 days in case of a non-menstruating wife. In both the above cases, sexual intercourse is prohibited during the *iddat*.

Talaq-e-tafweez: Under an agreement, the husband can *tafweez* (delegate) to the wife the rights to divorce in case of certain agreed situations.

Khula: The wife initiates for talaq by returning the *mehr* (a payment made by the groom's family to the wife). It can either be through mutual consent else wife can approach the court.

Mubarat: It is divorce by mutual agreement where either one of husband or wife can make the offer, and once accepted, it becomes irrevocable during the period of *iddat*.

Talaq al-bid'ah: This form of talaq was introduced later and is not considered as purely Islamic. In this case, the 3 pronouncements can be made in a single *tuhr* or instantly. It is irrevocable irrespective of the *iddat*. Though acknowledged by the religious leaders as bad, it has still been a valid form of talaq in India. This is the form of talaq that was declared unconstitutional by the Supreme Court of India.

Muslim personal law in India

Muslim personal law in India, unlike other communities, is uncodified and governed by the Muslim Personal Law (Shariat) Application Act, 1937. Unlike Hinduism, where marriage is considered sacrosanct, in Islam, it is a civil contract based on mutual agreement. The woman doesn't severe her ties completely with her family and therefore the dissolution of marriage needs to be looked from a different perspective. The Dissolution of Muslim Marriages Act, enacted in 1939 granted them the right to obtain a decree for the dissolution of their marriage on multiple grounds such as neglect by husband, impotency, insanity, imprisonment etc. It was a major reform and paved the way for a progressive personal law in India by recognizing the rights of the women.

Islamic law is dynamic and is based on multiple interpretations. This situation is complicated by the presence of multiple sects who are at conflict in most of the matters. However, this has led to the emergence of multiple distorted laws based on personal beliefs of the clergy and guidance provided by various Muslim personal law boards. Low literacy and poor understanding of Islamic law have only aggravated this situation. The legislative and administrative mechanism has also failed to address the issue citing the supremacy of religious laws or at times due to political compulsions. The repeated failure of the government to grant equality of marital status to the women is evident when the Muslim Women (Protection of Rights on Divorce) Act, 1986 restricted the responsibility of the husband to provide alimony to his wife only during the period of *iddat.* The Supreme Court in its ruling in

Shabana Bano case rectified this issue by clarifying that Muslim women are entitled to receive alimony even after the period of *iddat* under the Criminal Procedure Code (CrPC). It tried to address the fundamental flaw in personal law by extending this period till remarriage.

Instant triple talaq in other countries

More than 20 Muslim countries have abolished instant triple talaq. Pakistan through its *Muslim Family Law Ordinance* made it illegal in 1961 by making it obligatory for the husband to send a written notice to the local council and observing the *iddat*. Turkey implemented a modern civil code under Mustafa Kemal Ataturk in 1920s. Egypt, in 1929, made it mandatory for the husband to give a talaq in each *tuhr*. Similarly, countries like Tunisia, Malaysia, and Algeria have made a reconciliation period of maximum 90 days and validation by a court mandatory for dissolution of marriage. Sri Lanka is a special case, where Muslims are in minority (~ 10 %) and so the resistance is of similar nature as India. However, there also the presence of a Qazi (judge of sharia court) is required initially for initiating the reconciliation process that lasts for 30 days.

Proposal for the draft bill

The fundamental question that arises in these scenarios is that to what extent the Indian state (secular) can interfere in the matter of personal laws especially when they have been granted the status of fundamental rights. Challenging the supremacy of religious laws especially those of minorities in India is a difficult turf for any government. For many Muslims, these personal laws are the source of their Muslim identity and any interference, judicial or legislative, is seen as a direct infringement of their religious rights. The minority status of Muslims is a major barrier in this case; any act can be seen as a form of persecution by the majority.

The recent judgment of the Supreme Court has clearly indicated that right to religion under article 25 is not absolute. The fear of state intervention, as cited regularly by the All India Muslim Personal Law Board (AIMPLB), though valid, is no ground for inaction. AIMPLB's stand for an antediluvian form of personal law has no place in a modern democracy. The reform must start from these personal law boards that need a fair representation from all sects and sections of the Muslim community and a policy that acknowledges the equal rights of these sections. The draft legislation must make it mandatory to contain provisions in the *nikah nama* (Islamic marriage contract) that derecognizes triple talaq or *talaq-e-biddat* as a legal form of divorce. The provisions must recognize and state the rights of women in a marriage including the equal rights to severe it. The provision of an alimony must be made obligatory as a part of *nikah nama* as long as any one of the partner is not financially independent. The proceedings of dissolution should be through a court of law so that a conducive environment and sufficient time is given for reconciliation. The court should obligate the presence of witnesses from both sides during the pronouncement of talaq spread over the period of *iddat,* confirm that the party pronouncing is in a sound state of mind and ensure that the grounds are justifiable. The bill should move towards establishing the autonomy of women in decision making during all the stages of marriage.

The role of women in a marriage needs to be uplifted from a passive spectator to an active partner. The draft 'Muslim Women Protection of Rights on Marriage Bill' should be a step forward from mere religious rights to the recognition of economic and social rights of women. Its right time to move beyond 'reactive interventions' in policy making to one that recognizes one of the most important rights of women that triple talaq had been consistently violating- the right to a life of dignity.

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From GDP to Crime, Statistics are Unreliable Storytellers

BY SIBIN SABU

Denmark, the second happiest country in the world also happens to be the second-largest consumer of anti-depressants.

Statistics can be extremely deceptive to the unaware. Depending on the statistic one chooses to use or ignore, contrasting images can be drawn before the public.

What can you infer from crime rate statistics?

Kerala, the southern state of India, offers several interesting insights. Although known for its excellent social indicators and governance, the state has the highest crime rate in the country.

In 2012, the National Crime Records Bureau pointed out that the crime rate in Kerala (455 per lakh of population) was more than double the all-India average (196). What is more interesting is that Uttar Pradesh (96) and Bihar (127) reported much lower crime rates.

Going by data alone, it appears reasonable to conclude that God's Own Country, Kerala, is the most dangerous place to live in, while UP and Bihar are among the safest. The missing element here is that these conclusions are drawn from *reported* crimes and not the *incidence* of crimes. This breathes sense into otherwise befuddling data. Being more educated and empowered, Keralites are more likely to report crimes than those in other states. The effectiveness and approachability of the police could be another reason.

To complete the story, the crime rate in Somalia (1.5), Iraq (2) and Libya (2.9) is minuscule compared to crime rates in countries such as Sweden (6456) and U.K (4447). This further illustrates that areas with high crime tend to report a low crime rate statistically.

A high crime rate may, therefore, be a reason to celebrate! Ironically, what we cannot infer from crime rate statistics is precisely what they are supposed to define -- the actual crime rate.

Evidence-based policy making: a myth?

Governments usually attempt to collect a plethora of data to frame better policies. The idea is to undertake evidence-based policies instead of ideology-based ones.

The challenge, however, is in discerning the "evidence" used in policy making. The ideological inclinations of policymakers may prompt them to be choosy in the use of statistics.

A couple of years ago, Arvind Panagariya, the former Vice-Chair of the NITI Aayog, came in for sharp criticism for being selective in his use of statistics when he presented the Kerala model as the Gujarat model in disguise.

"[Jagdish] Bhagwati and Panagariya see government restrictions everywhere, while Drèze and Sen can't take their eyes off poverty and inequality," Sir Partha Dasgupta of Cambridge University had noted in his review of the books written by these economists. His comments highlight how ideological views may inhibit holistic understanding of an issue.

It is also important to note that given the multitude of studies available -- often contradictory in nature -- it has become easier to find or even generate evidence to force-fit one's ideas and ideologies.

A 2013 study by CRISIL found Kerala to be the most equitable state in the country. Around the same time, the National Sample Survey Organization (NSSO) came up with its report which found Kerala to have the highest economic inequality in India. The only significant difference between the two studies was in their methodology and it is astonishing to observe the impact it had on the results.

A question of motivation

The fallacy could be in considering statistics to be objective and impersonal. Its subjective nature is reflected in how data is derived and interpreted. The appropriateness of the methodology of the study or survey, the quality of data cleaning, and the motivation of the individual(s) conducting the research are some of the factors that result in its subjective nature.

Think-tanks, which complement the government in policy making, are good examples. Reports published by think tanks that are run or funded by the government will often side with the stance of the policy initiated by the ruling regime – perhaps because those at the helm of these institutions are often selected into those positions because of their support to the ruling government's ideology. It is not surprising that Mr. Panagariya is an ardent supporter of the Gujarat model.

Likewise, it is difficult to establish the credibility of reports published by think-tanks funded by corporate and private agencies. In recent years, several reports have surfaced suggesting that oil companies fund think-tanks to generate reports of climate change denial. The ideological leanings of the organization or individual conducting the study can also affect the nature and purpose of study undertaken, and the interpretation of data.

Monopoly and the concern over accuracy

Perhaps the biggest challenge is not in interpretation, but in guaranteeing the accuracy of the data used for policy-making.

In January 2015, the Indian government had introduced a new methodology to compute GDP. Several economists, including RBI governor Raghuram Rajan expressed their scepticism regarding the subsequent growth figures.

Since GDP growth has become a matter of national pride and is considered to be an indicator of good governance, one cannot completely rule out the possibility that the dubious GDP data is a deliberate attempt by the government to create an "optical illusion" of high economic growth.

Governments have a monopoly over a lot of data -- including GDP -- often for good reason. There have been instances when this monopoly power was exploited for its own vested interests --interests which were, perhaps, not shared by the public it represented. If a public body feels that it can get away with misrepresentation of facts for its own survival, it might do so.

The Greece debt crisis should still be fresh in memory. The country admitted to fudging its budget accounts in 2001 to secure entry into the Euro. What ensued later needs no reminder.

The message is clear. One needs to realize that statistics, being a product of individuals with their own views, is a subjective tool.

Before drawing conclusions from a "statistical finding", it is important to dig deeper and make oneself familiar with the ideology of the researcher and the methodology of the study. It often gives more context to the study.

Ignorance of these underlying factors can have disastrous consequences and may lead to erroneous policy-making. It helps to be sceptical and cautious. This doesn't mean that one should be dismissive of a research merely on account of the author's ideological inclination, but rather, turn to data to disprove them.

In his book 'Of People, Of Places', Kaushik Basu put it aptly: 'A theory in itself can be true or false, but not right wing or left wing... Once we understand this, we would no longer say that Prof Eysenck is wrong in claiming that whites are cleverer than blacks 'because that is tantamount to fascism'. Instead one would turn to science and facts to challenge his findings.'

(Note: A version of this article by the author had appeared in The Huffington Post. The author can be reached at sibin.sabu@astra.xlri.ac.in)

How Domestic-Global Interactions Shape Economic Policy

BY RITISHA MISHRA

Introduction

The globalization of the world economy has not only provided a conduit for importing international trends in policy making, but also for exporting domestic policies and influencing global trends. In such a dynamic feedback system, it becomes necessary to examine exactly what kind of factors affect policy making in any economy. To that end, this essay explores the case for domestic factors, the case for global pressures, as well as domestic-global policy interactions. Modelling these interactive effects on policy is complex and beyond the scope of this essay. However, it is possible to study the impact these factors have on the various areas of economic policy, namely, privatisation, liberalisation, regulation, central bank independence, and taxation.

The argument of this essay is that although both domestic factors and global trends play a crucial role, their roles are quite different. I argue that while international policy diffusion determines the overall course of economic policy in any economy, it is the domestic factors that limit the *extent* to which international trends can influence policy. The exact nature and shape of policy is ultimately contingent on domestic interests, ideas and institutions.

This essay will proceed in the following steps. First, I will lay out the case for international trends affecting economic policy and the role of policy diffusion. Second, I will study the role of domestic factors in shaping economic policy. Finally, I will summarise the salient features of the argument and briefly mention its implications.

The case for policy diffusion

No industrialized or industrializing nation can insulate its economy from global economic pressures. (Dolowitz and Marsh, 2000, p.6) Policy diffusion is the process by which policy decisions in an economy are systematically conditioned by policy choices made elsewhere. Four mechanisms of interdependent policy-making are usually recognised: coercion, competition, learning and emulation (Simmons, Dobbin and Garrett, 2006). I will now delve into the role these mechanisms have had to play in the five areas of economic policy.

In the case of privatisation in OECD and Latin American countries, it has been found that *learning* and *emulation* played an important role in the privatisation wave of the of the 1990s. Economic rationales alone are insufficient in explaining why so many countries privatised together, and why then.

Purely economic rationales cannot explain why countries where public enterprises were working well—such as France, South Korea, Austria, Taiwan—decided to divest. Efficiency considerations are also inadequate as "it may well be the case that privatisation merely transforms a state monopoly into a private one." (Meseguer, 2004, p.302) Ideology, too, cannot explain why countries such as France and Britain saw both right-wing and left-wing governments supporting privatisation. In fact, it is learning from the experiences of countries which benefited from privatization or even emulating their "best practices" that played a major role in the incremental rise in privatization that was witnessed in the 1990s.

Closely related to the diffusion of privatisation has been the rise of regulatory capitalism. In an era where the logic of neoliberalism has gained eminence, it might seem paradoxical that regulation of the private sector should increase. However, this regulation does not come in the form of old-fashioned state command and control. Privatisation, it can be argued, is accompanied by a new division of labour between state and society, which has resulted in an increase in delegation and new technologies of regulation.

In fact, studies suggest that the rationale for regulation might be stronger than the rationale for privatisation. Regulatory solutions to market failure were initially shaped in North America and Europe and are increasingly internationalized and projected globally as models of good governance. Coercion (through non-governmental and inter-governmental organizations) and the spread of the ideas of "best practices" have contributed to this diffusion. (Levi-Faur, 2005)

Even transitions to economic liberalization, it has been found, cluster in time and space. The most influential factor in this instance of policy diffusion has been found to be *competition* for global capital, i.e., governments tend to liberalise when their competitors do. If country A's foreign competitor B chooses to liberalise, B becomes a relatively more attractive venue for investment. Fearing that investors will be drawn away from it, country A will feel a pressure to liberalise as well. In an era when developed countries are struggling to maintain positive growth rates and developing countries are racing to grow as quickly as possible, the significance of these pressures cannot be overstated.

Interesting policy convergence is also seen in the area of central bank independence, which has been on a radical rise since the 1990s. (See Figure 1) A central bank is said to be independent once it has gone through institutional reform whose explicit purpose is to grant it more autonomy from the government. Generally, functional explanations are provided: to tackle high inflation, increase credibility, acquire more expertise, et al. However, these explanations fail to explain rise of central bank independence in countries without high inflation. Moreover, studies have failed to prove a significant relationship between central bank independence and low inflation rates. Therefore, the waves of convergence in such policies are explained by policy diffusion – in particular, though *coercion* and *emulation*. Further, scholars like McNamara (2002) have critiqued this "one size fits all" type of governance that claims to result in better economic outcomes, even though no conclusive evidence is found to justify such rationales.

Fiscal policy, too, is not insulated from global pressures. Tax impacts of internationalization are more complex than globalization theory suggests, but it cannot be denied that there has been significant policy convergence in this area of economic policy as well. Figure 2 illustrates how the top income tax rates have fallen systematically across various economies.

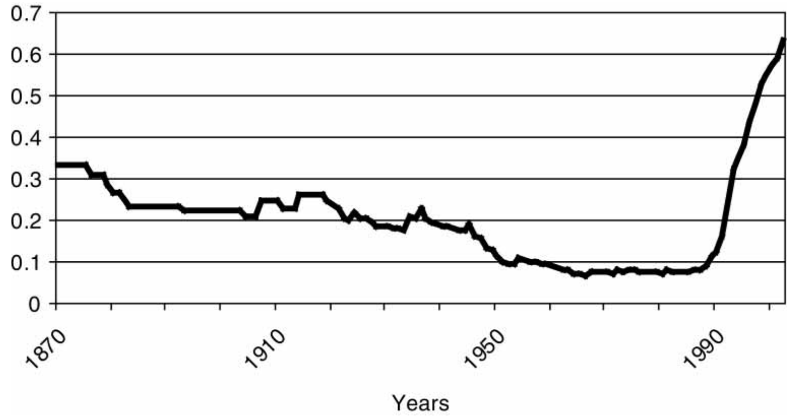

Figure 1 - Proportion of central banks with legal independence, 1870–2003 (Source: Marcussen, 2005, p.906)

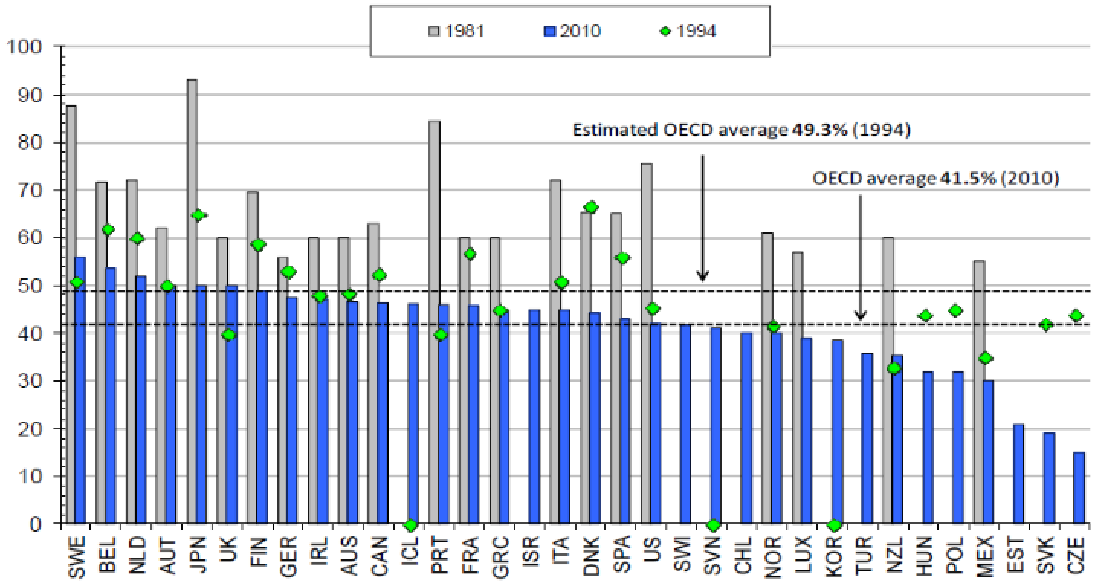

Figure 2 - Top (wage) income tax rates decreased (Source: Brys, Matthews and Owens, 2011, p.4)

The practicalities of the domestic economy

Policy diffusion does not imply that all nations will eventually have identical policies. On the contrary, it has been observed that more often than not nations tailor internationalized policies to suit domestic interests. These interests may be of powerful producer groups, or of politicians, or even (in an ideal scenario) of the citizens at large. These interests are aggregated through institutions, i.e., how interests are translated into outcomes depends on the strategic domestic environment, especially institutions and information.

Let us consider, first, the case of privatization. The decision to privatize in most economies might have been a result of learning by experience; however, policy diffusion proves to be inadequate in explaining regional variations in privatization. In some countries, privatization was undertaken for pragmatic reasons (for instance, in Southern Europe and India); in others, it reflected a shift in ideology to roll back the state (examples are Mexico and several Latin American countries). Thus, it is local economic and political conditions that dictate how privatization is carried out, what is privatized and how much is privatized.

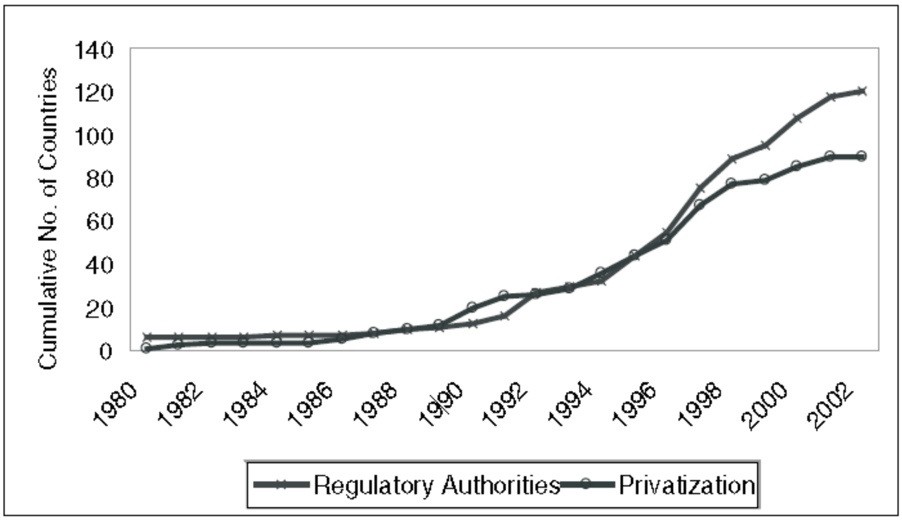

Figure 3 – The diffusion of privatisation and regulatory authority around the world (Source: Levi-Faur, 2005)

As in the case of privatisation, the timing of the rise in regulatory authorities can be attributed to policy diffusion. This does not imply, however, that the nature of regulation was the same in all countries. The increase in regulation in capitalist countries implies a growth in newer and more sophisticated instruments of regulation. The nature of these instruments, in turn, depends on the nature of the division of labour between state and society, which is contingent upon the policy goals and interest groups in the economy. This gives rise to national diversity in regulatory innovations and practices.

The case of liberalization is an interesting one. Although all globalised economies face competitive pressures to liberalise, they do not do away with protectionist institutions altogether fearing political backlash. There continues to be a need to protect vulnerable groups, especially in underdeveloped countries. Moreover, studies on the diffusion of liberalization do not predict a universal convergence towards liberalization; rather, they predict convergence among competitors only.

Liberalization in several economies is generally attributed to the coercive influence of the International Monetary Fund (IMF). However, some scholars (Mukherjee and Singer, 2010) have found that IMF loans have a positive effect on capital account liberalization of an economy *conditional upon* the amount of welfare spending in that economy, and the ability of the government to compensate domestic groups that are harmed by liberalization.

In the area of central bank independence, cross-national variations are quite clear. To begin with, the definition of ‘central bank’ and its functions varies from state to state. Independence of a central bank can be functional, legal, financial, or any combination of these. Moreover, the degree of autonomy and legal independence is a continuum—and no two central banks have the same combination of functions and powers.

Taxation is another area where variations are evident. Although neoliberalism has required a change in the content of tax policy almost everywhere, these changes themselves are specific to each country. This is, in part, owing to the degree of dependence on fiscal policy in the economy. More importantly, the number and nature of actors in the tax-design process significantly affect the design of tax policy. This number is far lower in developing countries than in developed countries, and results in important variations.

Summing Up

In this essay, I have attempted to demonstrate how the course of economic policy is affected by international factors and policy diffusion, while domestic factors determine the objectives of policies and their final forms. I have done so by looking at five areas of economic policy.

These observations lead to some pertinent questions about economic policy in the international context. First, why is it that global factors influence some countries more than others? What determines the extent to which a country can resist outside pressures? For instance, a country like France has a more active industrial policy than that of most other developed countries. Perhaps it is possible that the more developed a country is, the more it can afford to resist global pressures. On the other hand, it is also possible that policy diffusion plays a role in the rapid development of a country, making it difficult for the country to oppose international trends. Second, given that certain policies are propagated as "best practices" and enforced by the hegemony of certain countries and organizations, there arise important implications about the sovereignty of countries. The 20th century has been a century of decolonization, but is any country truly free in a globalized scenario where there is hegemony of a few powerful nations? Interactions between domestic and international forces are evidently complex—hence, these are some interesting areas where further research may be undertaken.

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GST: An Overview

Impact & Implications

BY NISHANT JAIN

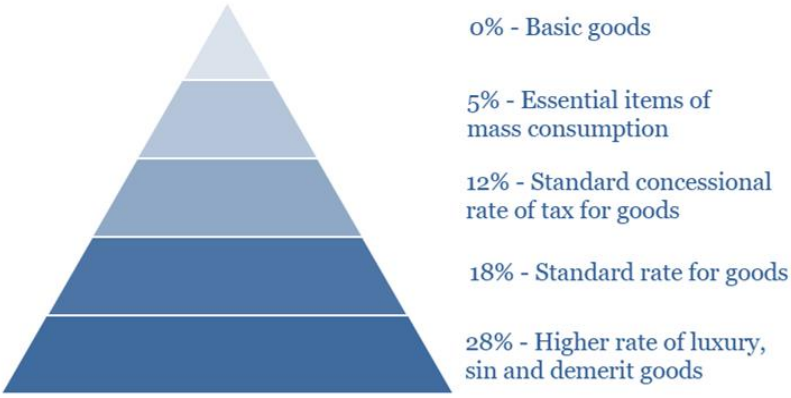
The Genesis of India's Greatest Indirect Tax Reform

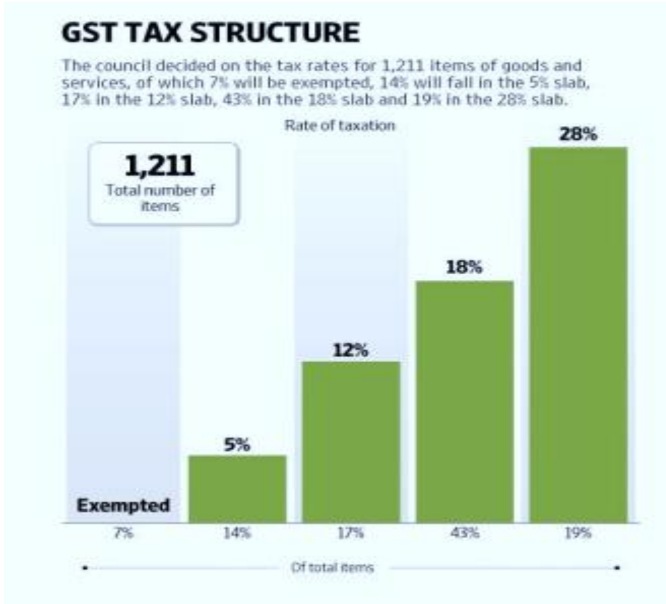
The news breaking concept of a Goods and Service Tax (henceforth referred to as GST) that hit India this year was not a novel one, in fact this kind of taxes have been adopted decades ago by various developed countries across the world. However, GST is huge positive step towards integrating the segmented and complex system of indirect taxation in India and removing various interstate barriers, which previously existed. It has subsumed 17 indirect taxes like service tax, excise duty, State VAT and entertainment Tax etc. In essence, GST is no different than VAT: It is a destination-based tax which will be charged on the value added at each stage of the supply chain while providing input tax credit on goods and services in the previous stage. The table below provides a list of taxes that have been subsumed and also a list of taxes that are outside the scope of GST:

GST : Taxes to be subsumed

• Central levies - Additional Duty of Customs (CVD) - Special Additional Duty of Customs (SAD) - Central Excise - Service Tax - Central Sales Tax - Central Surcharges and Cess	• State levies - State VAT - Other state levies such as Luxury tax, Octroi, Entry tax, Purchase Tax Entertainment tax levied by the states, etc. - State Surcharges and Cess related to supply of goods and services
• Basic Customs duty • Stamp duty • Taxes and duties on electricity	• Taxes and duties on alcohol for human consumption • Taxes on entertainment/ amusement by local bodies

As per the GST Council, the rates which will be leived are as follows:

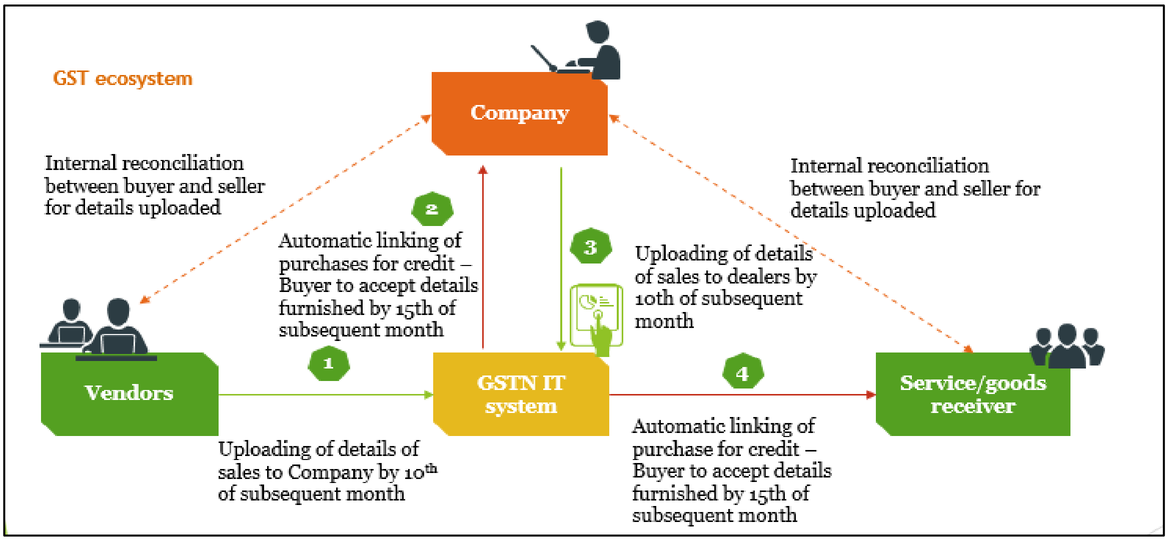




The Evolution of GST

A German economist first conceptualized the concept of GST, VAT or Harmonized Sales Tax (HST) during 18^{th} century. However, France was the first country to introduce VAT on 10^{th} April 1954. The following is the table highlighting the evolution of GST in India:

Year	Event
1994	Amaresh Baghchi Report, suggested that introduction of “Value Added Tax (VAT)” will act as a foundation for implementation of GST
2000	Ashim Dasgupta Empowered committee began discussion on GST
2004	While implementation of FRBM Act, 2003 Kelkar Task Force strongly recommended fully integration of ‘GST’ on national basis
2007	P Chidambaram announced introduction of GST in the Union Budget (2007-2008)
2007-2014	Various committees & Sub-committees where formed to discuss various aspects of GST and reports where submitted. GOI also issued discussion papers and table constitutional amendment to get concurrent taxing powers to state and center
2014	NDA government tabled the 122^{nd} Amendment Bill
2016	The bill received the assent of the president on 8^{th} September 2016 and became Constitution (101st Amendment) Act, 2016
2017 (March)	Various Centre and State legislations where passed in Lok Sabha & various assemblies
2017 (July)	Government rolled out GST by 1^{st} July 2017, By achieving consensus on all issues relating to it



The GST Ecosystem

The implementation of GST is not an easy task; it not only requires infrastructure at government's end but also systems and process at the individual's end. The implementation of GST is being supported by GSTN IT system, which is the heart of implementation of GST. GST will be instrumental in creating a process that will mandate the filing of return by supplier of goods, so that credit of the same can be availed by the buyer. The entire process reconciliation has been explained below:

Sector Wise Impact

The impact of GST will be something, which will be difficult to accurately measure as the benefit can accrue to the companies from various fronts. It has not only impacted the amount of tax paid or the timing of tax, but it has impacted the entire business model for various sectors. The implementation has been facing a lot of issues and unrest from the small business.

Automobile & Logistics

The buyers of automobile are one of the biggest beneficiaries of GST as effective rate of tax under GST regime will be 28% plus a Cess (1%-Small Diesel, 2% small Petrol, 15% luxury). This rate is significantly lower than the previous levy of 30%-45%, which is resulting a net saving of 10%. This saving is not the reduction of cost, which will be achieved by availing credit for inputs at each stage of value chain. Industry experts have estimated that the total price reduced to be nearly 8% of on road price.

The subsuming of various local taxes will further facilitate movement for logistics companies, which would increase the efficiency of each vehicle. This will further be impacted by the new provision which mandates an E-way bill for transportation of goods over 100 km and Rs. 50,000 in value. This will make it difficult for logistics companies to educate everyone involved in the process to be aware about the technology. Hence, this might result in a sluggish demand for commercial vehicles in medium term.

Real Estate

GST will impact the builders the most as they will get an input tax credit on key raw materials which they use, hence base price of property projects launched post 1st July are expected to reduce. *"For new projects with 100% input credit passed to the buyer and land cost being 50% of the project cost, we expect property prices to fall by around 1% in western and northern markets and around 3% in southern markets,"* said a report by Edelweiss.

Cab Aggregators

Under this regime, Tax rates are expected to rise from 14.5% to a range between 29% and 43% for drivers who do not own cars and are associated with cab-leasing programs. This increase is because of the lease being costly in post GST regime.

Pharmaceutical Industry

India has the 3rd largest pharmaceutical industry in the world and is the largest producer of generic medicines. This sector was imposed with 8 types of taxes, which made it very cumbersome, and with the introduction of GST it will be reduced to one.

Manufacturing Sector

The impact of GST on this sector is immense and which transform the sector on various fronts. Under current laws, a manufacturer pays around 28% - 30% as taxes whereas under GST they have to pay 18% tax. This will result in around 10% savings. The cabinet has approved area-based tax SOPs that will help in the prior benefits received by the manufacturing unit located in the hills and northeast. As GST is a destination-based tax, (which isn't the case for excise duty), it increases the working capital requirement for this sector. This reform will also impact the warehousing and logistics decision, as the movement of goods is simpler under GST hence this decision will be based on economic efficiencies.

E-commerce

As per the rules, every e-commerce operator would need to collect tax at source @1 % and deposit applicable GST when payments are to be made to the supplier. Under the GST law, transfer of goods without consideration will be treated as transaction and GST will be levied. This will result in blockage of cash until the company utilizes the credit.

Impact of GST

The implementation of GST will impact the State & central government in the following ways:

State Finance

The impact of implementation of GST on state finances should be negligible as the GST rate structure emphasizes as a Revenue Neutral Rate (RNR). In the medium to long term, GST is likely to increase the tax buoyancy of the Central and state governments by 0.6 per cent which is likely to reduce the gross fiscal deficit by 0.7-1.2 per cent of GDP if disinvestment receipts and non-tax revenues remain unchanged from the trend of the previous 5 years (CRISIL, 2014). GST will only be credited where the supplies are consumed as compared to the current situation where producer state is credited with CST on interstate sales.

Integrating informal economy with formal economy

The GSTN will act as a measure to force compliance of indirect tax laws that was evaded by many dealers. Invoice matching ensures that a rebate is given to a business only if tax on the item purchased is paid to the government by the material or service supplier. It helps in plugging the hole that existed prior to introduction of GST, as input credit was available merely on the invoice from the supplier. GST and Demonetization have also brought about increase in income tax returns. Integrating the informal economy with the formal one is expected to eventually lead to a wider base not only of indirect taxes, but also of direct taxes. The government has collected Rs. 90,669 Crores as GST in August, which is 3.6% less as compared to the collection in July. However, only half of these 6.8 million assessees who were to remit tax and file return, actually filed the return. This implies that actual receipts might go up further as people comply with the norms. While GST collections are in line with the total target for the Union & state governments, it is not yet clear if individual states have met their goals. If not, then the union government will have to compensate them for the shortfall.

Ease of Doing Business

The sheer number of taxes has gone down making it easier for all businesses. The compliance burden small and medium industry was a major concern that was recently resolved by the GST council by decreasing the frequency of return (Monthly to quarterly). GST and other reforms will propel India's rank in the World Bank ranking of countries for ease of doing business.

Reduction of cascading effect of Taxation

Prior to the GST regime, no credit was available to non-manufacturer of goods for the capital goods purchased by them and no credit is allowed for the state VAT on capital goods acquired by the firms in the service sector. Hence, there was a tax on tax that will be changed under GST. This will also help in reducing overall cost of goods.

Inflation

It has been observed by various countries that have implemented GST that there is a one off increase in inflation, which comes down post one year of implementation. As per a RBI study, this will be more prevalent in selected sectors like healthcare (excluding medicines). This moderate inflation will help the economy to grow and create demand and supply of goods.

Conclusion

In conclusion, a three-month period is too short a time period to determine the exact impact of the reform of this scale. GST has been implemented in all major economies across the world but the complexity and sheer scale of implementation is unmatched. This reforms comes a leap in a race in which India has been already struggling over last 10 years. The direct tax code and other taxation related reforms are still pending which help the countries and its citizen to comply. The existing system of Income tax is so complex and outdated that its compliance has been next to impossible. GST is a reform that has been awaited by the industry for a very long time. It will be up to the government to bridge its balance of trade deficit as the tax base will increase. This will also create a culture of compliance as traders and producers would realize the benefits of passing on the tax to the end consumer. The simplified version of indirect taxation is a step towards better and integrated economy. It has the potential to reform the way business is being done in this country.

Digital Transformation Amidst Financial Instability

BY ARPIT TALUKA

On 8th November 2016, Government of India announced its decision to demonetize high value notes in order to curb black money and counterfeit notes. This action came down heavily on small and medium businesses that used to depend almost entirely on cash. Revenues declined as customers cut down their expenditures. A question naturally arises on whether the SMEs are equipped to handle a shift to digital economy.

India has a long way to go to become a cashless digital economy. Out of 51 million SMB in India, only 1.2 million merchants are using mPOS solution, as per an estimate by RBI, India needs another 20 million M-POS devices in five years to provide alternative retail delivery channel to both urban and rural populace of the country, the total number of POS terminals in India is less than 700,000 which equates to 5.4% penetration. Only 40% of the total SMB in the country are influenced with technology in some manner which in comparison is way less than that of US which has over 90% of SMB adopting technology to remain competitive in market. There are about 666 Million credit/debit cards in the country but not enough merchants having POS terminals to enable transactions. The same is the case with mobile wallets PayTM, the largest player in the market has just 500,000 offline merchants and 122 Million wallet users. SMB's smartphone penetration is also low accounting for only 9.3 Million smartphones by 2015. These stats show that Indian SMB have a long way to go to evolve into digitally efficient organizations.

One of the major reasons why business entities in India don't want to adapt digital payments can also be linked to tax evasion tactics that have been the norm in absence of a transparent but a complicated system. With the government pushing towards a digital economy and other policies and regulations specifically the GST, it is going to present a brief period of economic instability. The disruption in the market will affect the regular way of doing business, the accounting practices will need to change and the way of how transactions were made will change. Some businesses were set up in certain areas because tax incentives were given to them, they will need to think about logistical changes. In all this chaos lies an opportunity for these businesses to prepare for what might come, maybe not in immediate future but 20 years down the line when we will see smart machines and better technically equipped online platforms taking away major chunk of market share. The history of our civilization can best validate my point. After the great depression of the 1930s, businesses in US started automating their processes to save on labor costs. Ultimately, it all come downs to saving costs and attracting more customers by offering personalization of services and differentiating themselves from the competitors in the market, both of which can be achieved by optimizing work processes through efficient digital adoption.

To give a better view, we can look at 5 technologies that are creating ripples in other sectors and can change the financial landscape in future.

1. *Blockchain:* Time and again, doubts have been raised over the safety and transparency of the digital payments. According to Juniper Research, value of global online fraud transactions is expected to reach $25.6 billion by 2020. Bitcoins give a pinhole view into how technology can be leveraged to give a better and transparent financial exchanges without involving any middlemen. A joint report from ARK Invest and Coinbase estimates that more than 10 million people around the world hold a material amount of bitcoin. With the invent of such a technology and growing demand of digitalization, third party payment processing companies will become irrelevant over the time. Critics argue that this technology is still not hack proof by giving instances like the hack of BitFinex in July 2016 and BitConica in 2012 but we should know that no technology can ever be hack proof with even the largest banks on the planet hacked in the past. Having said that, the blockchain technology is way ahead of its time and it will only improve from here

2. *Cloud:* Digitalization of any data backed platforms require ubiquitous connectivity. Businesses have already started adopting cloud for their accounting needs and we will see more

small and medium businesses storing their information on cloud due to its easy availability and cost.

3. *IoT:* Internet of things has a huge upside potential to provide greater convenience to consumers than ever before cutting across verticals. The financial transactions will shift from being P2P (people to people) to M2M (Machine to Machine). The number of M2M connections, for example, is set to reach 18 billion by 2022 from 2 billion in 2011.3 Connected devices, meanwhile, will grow to 50 billion by 2020. IoT will provide a great platform for other digital services to build on it and present a comprehensive offering

4. *Artificial Intelligence:* AI is still in nascent stage in this sector as most financial institutions are extremely gun-hy about utilizing it for any purpose except fraud detection. In other sectors too, it has only penetrated the bigger firms which are trying to drastically improve customer experience as in case of Amazon go. Nonetheless, it would hardly be an overstatement if we say that Artificial Intelligence is going to be a big thing in the coming years.

To make transition towards digital economy, we require adequate infrastructure, availability of affordable devices to support the initiatives like more POS terminals, Internet availability, awareness and training especially in the rural part of India. Private companies and service providers need to take active part in the change by making more customer friendly user interface. It is inevitable that the change will happen. Darwin's concept of evolution and natural selection can also be applied here, SMBs should either align themselves to the rigors of the environment or perish.

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