

Budget – 2019
Growth and Development Perspectives
TRADE, TELECOMS and TAX
Crossing the T's
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ICRIER



GROWTH & MACRO-ECONOMIC STABILITY: VISION FOR \$5 TRILLION ECONOMY

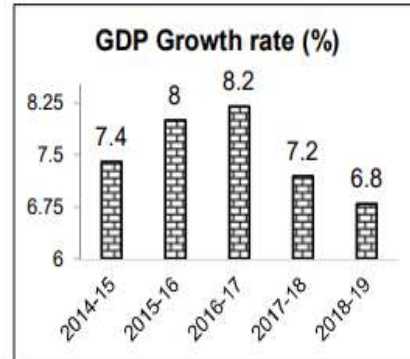
GDP

Fastest growing major economy in the world

11th largest economy in 2013-14



6th largest economy in 2019-20



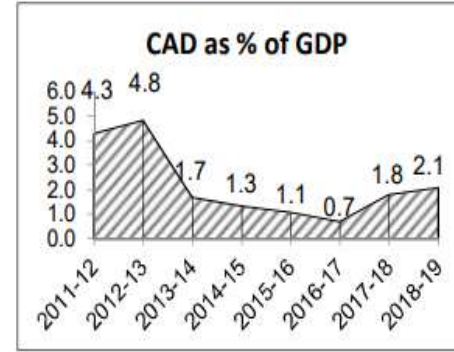
CAD



5.6% of GDP in 2013-14



2.1% of GDP in 2018-19



FDI & FPI

India attracted \$64.4 bn worth of FDI in 2018-19

100% FDI to be permitted for Insurance intermediaries



Statutory limit for FPI investment in a company increased to sectoral limit

Local sourcing norms to be eased for FDI in single brand retail

USD 5 trillion economy goal- Is it achievable?

- International experience, especially from high-growth East Asian economies, suggests that such growth can only be sustained by a ‘virtuous cycle’ of savings, investment and exports
- Investment-driven growth necessary with access to low cost capital is necessary
- It is estimated that India requires investments averaging INR 20 lakh crores every year (USD 300 billion a year)

Total Merchandise Trade –India (2011-2018)

(US\$ billion)				
Year	Total Exports (as % of GDP)	Total Imports (as % of GDP)	Net Exports/Balance of Trade	Current Account Deficit (as % of GDP)
2011-12	306.0 (17.0)	489.3 (27.4)	-183.4	4.2
2012-13	300.4 (16.8)	490.7 (27.5)	-190.3	4.8
2013-14	314.4 (17.2)	450.2 (25.1)	-135.8	1.7
2014-15	310.4 (15.6)	448.0 (22.7)	-137.7	1.3
2015-16	262.3 (12.7)	381.0 (18.9)	-118.7	1.1
2016-17	275.9 (12.3)	384.4 (17.3)	-108.5	0.6
2017-18	303.4 (11.9)	465.6 (18.0)	-162.2	1.9
2018-19 (April-Feb)	296.7	469.6	-172.9	2.5**

Source: Directorate General of Foreign Trade (DGFT) & RBI

**Q3 of 2018-19 (October-December 2018)

Bilateral Merchandise Trade:2013-2018

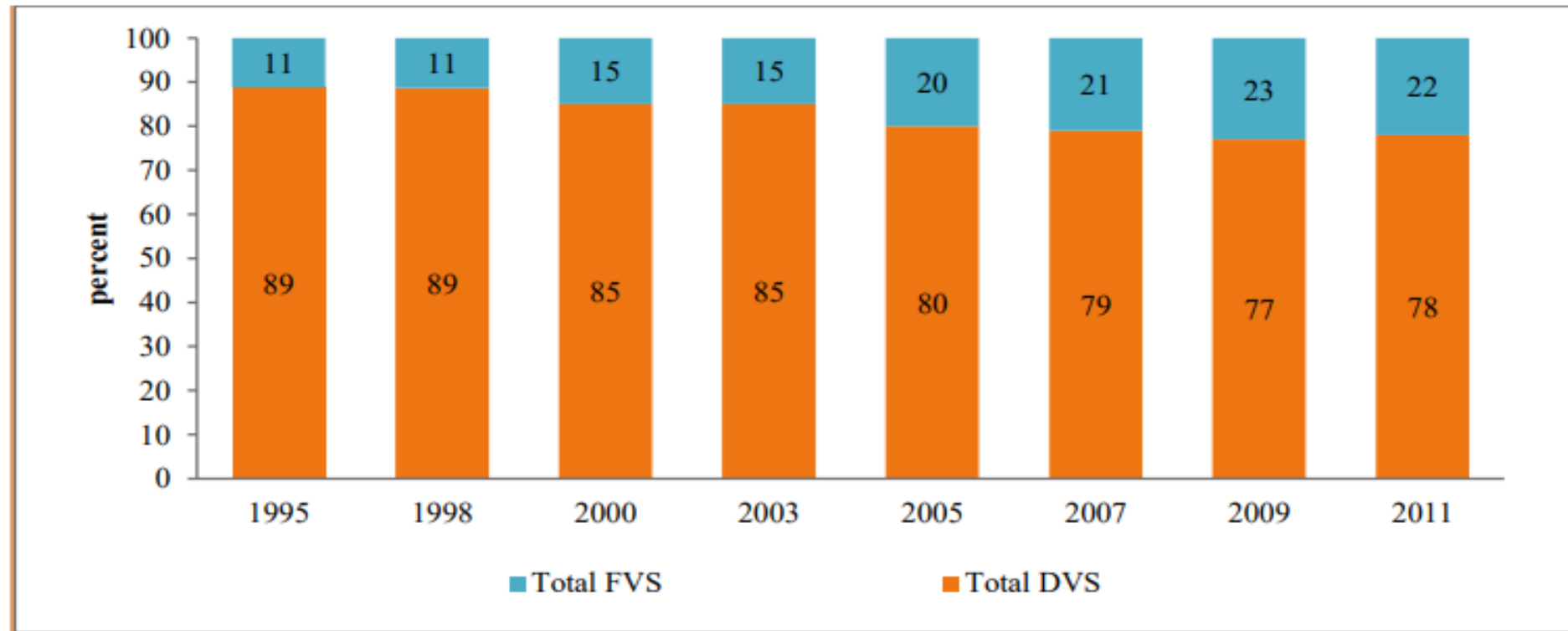
Year	(US\$ billion)					
	India-China		India-United States		United States-China	
	Exports	Imports	Exports	Imports	Exports	Imports
2013-14	14.8	51.0	39.1	22.5	121.7	440.4
2014-15	11.9	60.4	42.4	21.8	123.6	468.4
2015-16	9.0	61.7	40.3	21.7	115.8	483.2
2016-17	10.1	61.2	42.2	22.3	115.5	462.4
2017-18	13.3	76.2	47.8	26.6	129.8	505.2
2018-19	16.7	70.3	52.4	35.5	120.1	539.6

Source: DGFT & Census Bureau, United States

List of Companies that have already or are considering to pull out of China

S. No.	Name of Company	Sector	Country of Origin	Expected or set Destination
1	Pegatron	Telecom equipment	Taiwan	India / Vietnam
2	Sketchers	Shoes	US	India / Vietnam
3	Apple	Telecom	US	India
4	Iris Ohyama	Fans	Japan	South Korea
5	Komatsu	Construction equipment	Japan	US / Thailand / Japan
6	Toshiba Machine	Injection molding machines for plastic parts	Japan	Japan
7	Keihin	Auto parts	Japan	Japan
8	Sumitomo Heavy Industries	Robot components	Japan	Japan
9	G-Tekt	Auto parts	Japan	Japan
10	Mitsubishi Electric	Lasers	Japan	Japan
11	Casio computer	Wristwatches	Japan	Thailand
12	Ricoh	Printers	Japan	Thailand
13	Sailun Tire	Tires	China	Thailand
14	Citizen Watch	Wristwatches	Japan	Thailand
15	Asus Tek	Personal computers	Taiwan	Taiwan
16	Compal Electronics	Routers and other telecom equipment	Taiwan	Taiwan
17	Hewlett-Packard	Personal computers	US	Taiwan / Vietnam / Philippines
18	Dell	Personal computers	US	Taiwan / Vietnam / Philippines
19	Mitsuba	Auto parts	Japan	US / Vietnam
20	Asics	Running Shoes	Japan	Vietnam
21	Kyocera	Printers	Japan	Vietnam
22	Sharp	Personal computers	Japan	Vietnam
23	Nintendo	Video game consoles	Japan	Vietnam
24	TCL	TVs	China	Vietnam
25	Brooks sports	Running Shoes	US	Vietnam
26	Goer Tek	Wireless earphones for Apple (Airpods)	China	Vietnam
27	Nidec	Auto parts, Home appliances	Japan	Mexico
28	Panasonic	Stereos, other in-car equipment	Japan	Mexico / Thailand
24	Funai electric	LCD TVs	Japan	Mexico / Thailand
25	GoPro	Small video cameras	US	Mexico

Domestic and Foreign Content in India's Exports-1995-2011



FVS- Foreign value added share , DVS- Domestic value added share

Source : Domestic Value Addition and Foreign Content (Goldar et al.) , ICRIER Working Paper No. 332 (2017)

Domestic and foreign value added share in merchandize and service exports- India

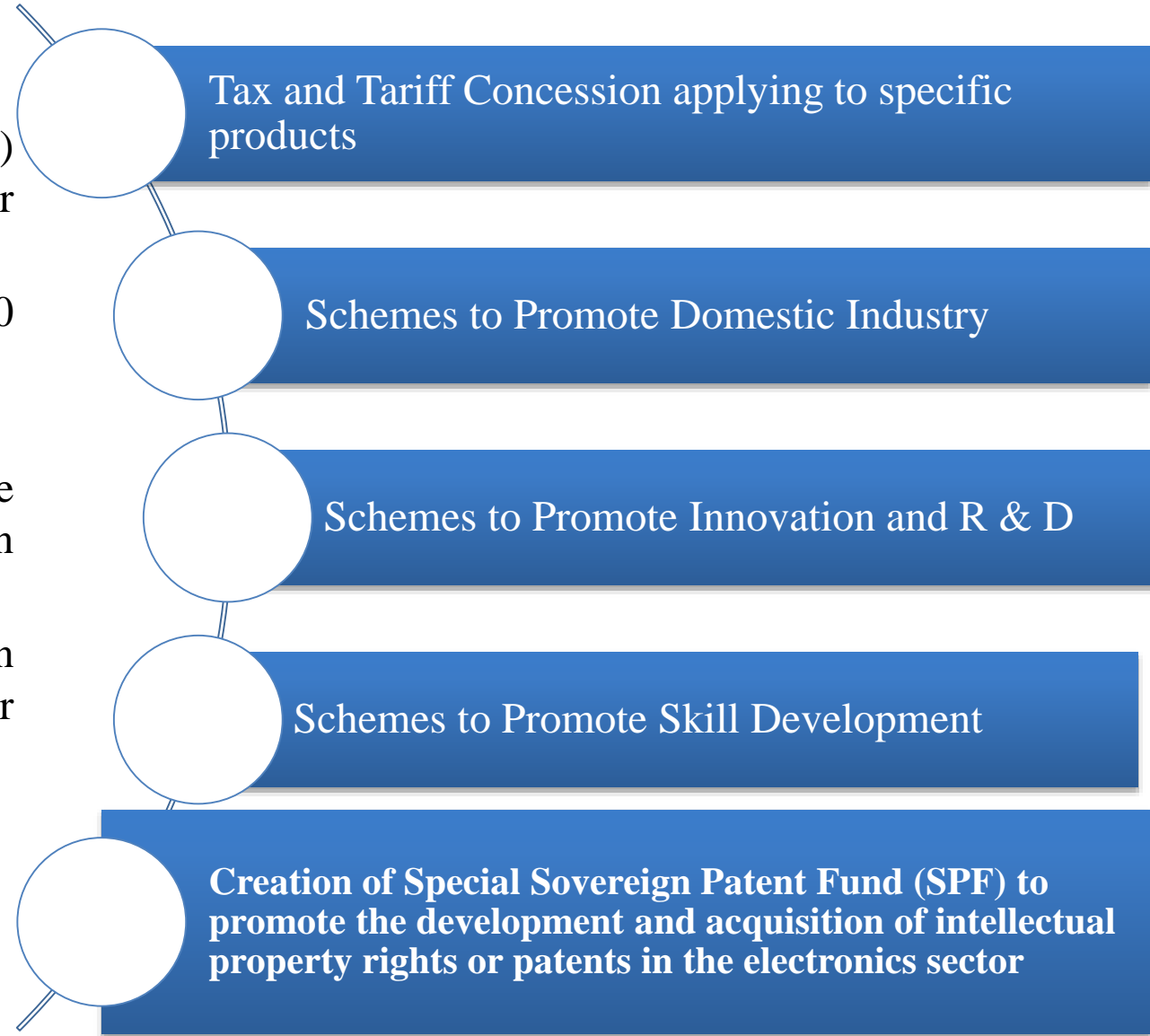
Sector		1995	1998	2000	2003	2005	2007	2009	2011
Merchandize exports	DVS	88.83	87.78	84.34	82.94	75.96	74.62	72.74	74.28
	FVS	11.17	12.22	15.66	17.06	24.04	25.38	27.26	25.72
Services Exports	DVS	93.65	93.56	91.68	93.76	90.75	89.70	91.43	91.53
	FVS	6.35	6.44	8.32	6.24	9.25	10.30	8.57	8.47

Source : Domestic Value Addition and Foreign Content (Goldar et al.), ICRIER Working Paper No. 332 (2017)

Increase in import content of exports was more in merchandize exports than in agriculture and services exports

Recent Announcements and Policy Measures

- National Policy on Electronics, 2019 (NPE, 2019) aims to position India as a global hub for manufacturing and export in the ESDM value-chain
- ✓ Economic development and a turnover of USD 400 billion by 2025.
- ✓ Generate employment for 10 million by 2025.
- ✓ Increase the domestic mobile production to one billion units by 2025, valued at USD 190 billion (approximately INR 13,000 billion).
- ✓ Increase exports to 60% of the domestic production (around 600 million units worth USD 110 billion or INR 7,000 billion) by 2025.



Revisions in Custom Duty

Electronic Items	Custom Duty (%) (2016)	Custom Duty (%) (2017)
Microwave Oven	10	20
Mobile Phones	10	15
VCR/ DVD Players	10	15
TV / Digital/ Video Camera	10	15
LCD Lamps	10	20
Electricity Meters	10	15
Lamps and Lights Fittings	10	20
Set-Top Box	10	20
Petroleum Coke	2.5	10
LCD/ LED/ OLED TV PANEL	0	7.5

What it means?

- **Consumers :** Imported electronics and Mobile become expensive
- **Domestic Manufactures :** Greater protection from Imports . Annual imports of these items amount to \$42 billion
- Companies such as Apple to speed up local manufacturing programmes, giving a boost to the government's Make in India programme.

Budget 2018

- ↑customs duty on mobile phones from 15% to 20%
- Import duties on chargers, adapters, battery packs, microphones, wired headsets, keypads, antenna, side-keys, and USB cables, were from ↑ 7.5% or 10% to 15%
- Similarly, import duty on printed circuit boards (PCBs) has also been levied at 10%
- Custom Duty on certain parts of TVs to 15%

This measure will promote creation of more jobs in the country

Budget 2019

Duty Rates

Electronic goods and machine	From	To
Indoor and outdoor unit of split system air conditioner	10%	20%
Stone crushing (cone type) plants for the construction of roads	Nil	7.5%
Charger/ power adapter of CCTV camera/ IP camera and DVR / NVR	Nil	15%
Loudspeaker	10%	15%
Digital Video Recorder (DVR) and Network Video Recorder (NVR)	15%	20%
CCTV camera and IP camera	15%	20%
Optical Fibres, optical fibre bundles and cables	10%	15%

Source : Union Budget 2019

- The Custom Duty hike and Make in India
- To promote India as an investment destination for companies looking to diversify manufacturing operations from China.
- The move also intends to give some protection to domestic producers.
- The hike in import duties on the identified items is likely to have a modest impact on curtailing the size of the current account deficit (CAD)

Impact Of Custom Duty Hike On India's Electronics Sector

Electronic goods imports have grown rapidly over the last two decades to reach US\$ 55.63 billion in 2017-18 and are currently the second largest import item in India's import basket-Data the New Oil?

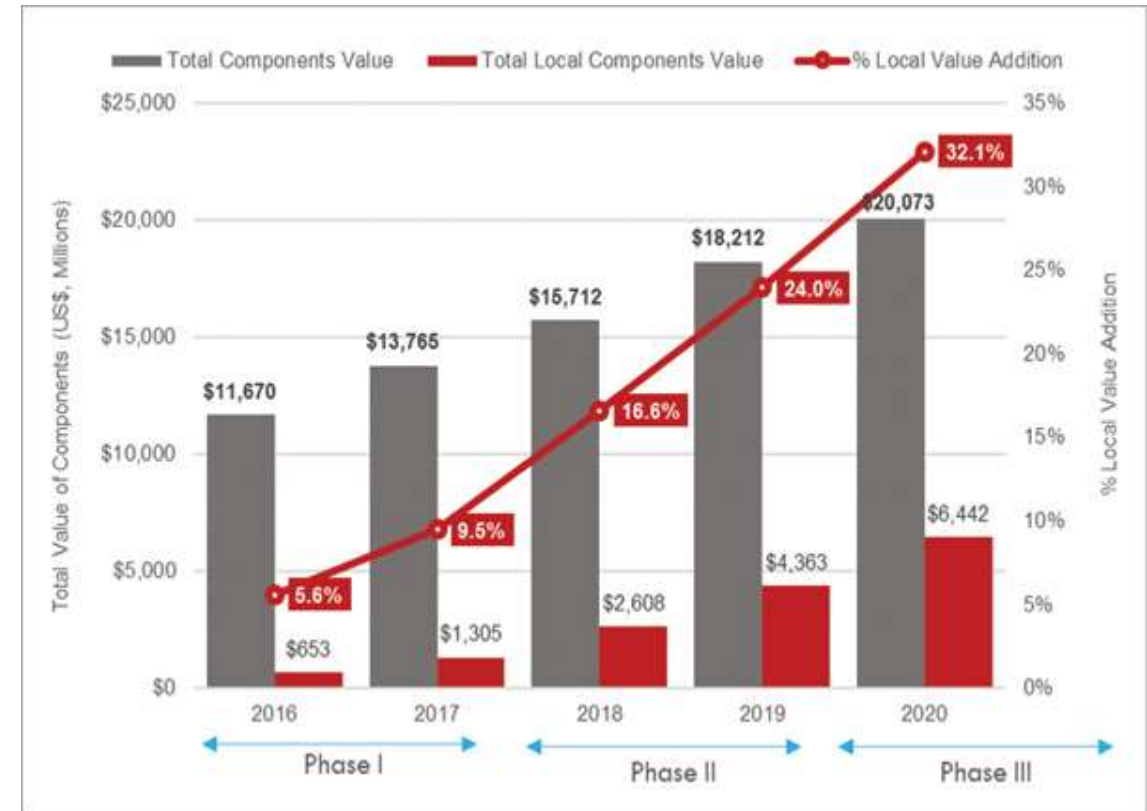
- The profile of imports, especially in the mobile phone industry, is showing changing
- CBU (completely built units) import, which was over 75%, is now below 10%
- Sub-assembly import went up with the CBU import coming down, but even that has fallen substantially after PCBA (Printed Circuit Board Assembly) started last year

Source : DGFT

Trends in Value Addition

- The Phased Manufacturing Programme (PMP), coupled with the imposition of higher import duties, has incentivized local assembly.
- 268 manufacturing units for cellular mobile handsets and their parts have been set up in the country in last 3-4 years providing employment to 6.7 lakhs people
- Indigenous production of mobile handsets went up from 11 crore units in FY16 to 15.5 crore units in FY 2017. Total value went up from Rs 54,000 crore in FY16 to Rs. 90,000 crore in FY 17.
- Value addition in India in the mobile phone space has improved gradually from around 5 per cent in 2014 to about 10 per cent in 2017.
- The Phase 3 which involves manufacturing of semiconductor components locally can maximize the local value addition beyond the 30% level, depending upon the semiconductor fab players India can attract from outside as well as domestically.

Local Value Addition In Indian Mobile Phone Manufacturing



Source : *Maximizing Local Value Addition In Indian Mobile Phone Manufacturing: A Practical Phased Approach* by Traun Pathak, Chrantan Chatterjee and Neil Shah

Duty Rise -Has it been Successful?

The Samsung Story

- In July 2018, Samsung inaugurated the world's largest mobile phone manufacturing factory in India, thus keeping up with the government's 'Make in India' plans as well as fulfilling the company's goal of making India an export hub for the world.
- However, it recently announced that it would have to stop manufacturing its flagship models in India and curtail smart-phone exports unless the Make in India plan for components such as display and touch panels is delayed.
- As per the PMP, the government wanted companies to make these components in India starting February 2019 or face 10% import duty which would go up to 11% with a surcharge. These parts are not made locally in India and account for 25 – 30% of a mobile phone's production cost.
- Manufacturing companies had planned their investment with March 2020 in mind for starting local manufacturing of mobile phone parts.
- According to Samsung, its plans to increase smart-phone exports from India would have to be shelved as its production would become unviable due to high costs. Moreover, India-manufactured mobiles would not be able to compete with the costs of low-cost manufacturing economies like Vietnam.

Is there a Vision for GVCs? What Should India Do?

- ✓ A balance will need to be maintained on the import duty structures of electronic products.
- ✓ Focus on easing the way business : For instance, the time taken for border compliance of imports in India is more than five times that in Vietnam and the cost is almost 25% higher, as per the World Bank. China, Japan, South Korea, Thailand and Malaysia have become part of GVCs through the quality trade infrastructure route.
- ✓ GVCs demand high quality and on-time delivery, necessitating behind-the-border logistics support, with high-speed and reliable linking of industrial parks and ports.
- ✓ India is in a unique position in electronics GVCs because it has a strong presence in integrated circuit design, with most of the top multinationals having an office in India, albeit minimal manufacturing.
- ✓ For upgrades within a GVC, backward linkages between MNCs and domestic industry are critical.

Telecom sector contribution to the Exchequer

	Telecom Sector Revenue (Rs. crore)	Total Non-tax Revenue (Rs. crore)	% of Contribution of Telecom Sector to Exchequer
2017-18	32065	192744	16.6
2018-19 (E)	48661	245088	19.8
2018-19 (RV)	39245	245276.4	16
2019-20 (E)	50519	313179	16.1

Source: Budget Documents (2017-18 and 2018-19)

Tax Litigation

- The rising burden of tax litigation has been a source of concern for the department.
- According to the Economic Survey 2018, a total of 4,65,349 cases were pending in litigation at different levels of the litigation hierarchy as of March 2017.
- The survey also recorded that 85 % of the appeals as of March 2017, were made by the ITD, with a success rate of less than 30 %
- In July 2018, the ITD raised the threshold of the tax effect on matters below which an appeal can't be filed by the Department which eased the litigation backlog. The CBDT expects that this announcement will lead up to 34% cases being withdrawn at the ITAT level, 48% at the high court level, and 54% at the Supreme Court level.

Direct Taxes (Petition Rate and Success of the Department)

Court	Success Rate	Petition Rate
Supreme Court	27%	87%
High Court	13%	83%
ITAT/ CESTAT	27% (provisional)	88%

Source: Economic Survey 2017-18

Direct Taxes (Amounts Under Dispute in Rs Crore)

Receipt Budget	Over 1 year but less than 2 years	Over 2 years but less than 5 years	Over 5 years but less than 10 years	Over 10 years
2019-20	313387	271319	26384	12449
2018-19	386804	191267	21701	10618
2017-18	282575	265589	21046	8515

Source: Compiled from Receipt Budgets

High Pitched Assessments

- In 2018, the CBDT issued a directive to Department officers ordering a curb on high-pitched assessments. The ITD took action against 10 officers
- The CBDT Chief also directed that a compliance report on these cases should be sent to the Board every three months.
- Most recently the Finance Ministry ordered early retirement of 12 senior government officers under Rule 56 of the General Financial Rules on account of having illegal and disproportionate assets
- The e-assessment and e-verification scheme is a step towards eliminating the physical interface between tax payers and officers

Compliance using Nudge

- Tax Compliance is one of the primary objectives of tax policy
- Several studies have identified the barriers to tax compliance in India. Some of the common drivers are high rates of taxation, the fear of audit and scrutiny assessments, perception of public good availability, etc.
- Economic Survey 2019 suggests using nudge to move from tax evasion to tax compliance
- Nudge techniques help improve a country's overall *tax morale*

Thank You!