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## Core problems

*One-off factors had a hand in the contraction in core sector output, but that's not the whole story*

The index of eight core industries, believed to be a leading indicator of India's GDP numbers, for September 2019 plummeted 5.2 per cent year-on-year in its worst show in over a decade. There weren't any redeeming features in its break-down either, with seven of the eight critical inputs (save for fertilisers) in contraction mode. With this index occupying a 40 per cent weight in the Index of Industrial Production (IIP), the reading presages a continuation of the recessionary trends in IIP.

Yes, one-off factors had a role to play in magnifying this slump in industrial feedstock. Coal output was a key villain of the piece, registering a 20.5 per cent fall in September, after an over-prolific monsoon flooded Coal India's largest mines. Dwindling coal supplies had a knock-on effect on electricity output, trimming it by 3.7 per cent year-on-year. The extended monsoon also played spoilsport to construction activities, pushing steel and cement output into negative territory for the month. One can expect some reversal in these components in the coming months if the South-West monsoon decides to call it a day. But it would be a mistake to dismiss this slump in core industries as wholly attributable to Acts of God; there's a significant man-made component to it as well. Take coal supplies for instance. Despite sitting on prolific reserves and rich cash coffers, Coal India has been unable to meet its monthly production targets with any degree of reliability in recent times with accidents, strikes and weather events taking a frequent toll on its operations. After it managed just a 7 per cent increase in its output to 606 million tonnes, over 40 per cent of India's coal demand (991 million tonnes) from power generators, cement and sponge iron makers for FY19 had to be met by imports. Given that the miner has been complaining of difficulties in land acquisition to explore new mines, it is doubtful if the recent move to open coal mining to FDI will really help. While thermal power producers have been hamstrung by fuel issues, renewable energy players have recently run into new roadblocks in the form of State discoms threatening to cut tariffs. With significant unutilised capacity and many players lined up before the NCLT, the generation sector is in poor shape, with the parlous financial state of the discoms impacting both offtake and transmission.

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Most of the debate around India's economic woes today circle around demand-side problems arising from slow job creation, low income growth and the lack of animal spirits in the private sector. But the stalling output of industrial feedstock goes to show that, should the demand miraculously pick up, the supply side is far from well-geared to meet it. To address the bottlenecks, the Centre may need to set aside its penchant for big-bang reforms and get its hands dirty hammering out solutions to micro-level problems in infrastructure in conjunction with the State governments.

## OTHER VOICES

**Khaleej Times**

### For Erdogan, refugees are a bait to lure voters

As joint Turkish-Russian military patrol begins on Friday, security in northern Syria remains fragile, despite the Sochi Agreement reached by the two countries. Nevertheless, Turkish President Recep Tayyip Erdogan is eager to send Syrian refugees back. Currently Turkey hosts around 3.6 million Syrian refugees. Erdogan plans to send at least a million of these refugees, if not more, to the so-called safe zone — the area over which Turkey gained control through its Peace Spring military operation. DUBAI, NOVEMBER 3

**The Washington Post**

### Trump made an empty promise on guns — again

"We cannot let those killed in El Paso, Texas, and Dayton, Ohio, die in vain. Likewise for those so seriously wounded. We can never forget them, and those many who came before them. Republicans and Democrats must come together and get strong background checks. . . .We must have something good, if not GREAT, come out of these two tragic events!" That tweet from President Trump after back-to-back shootings over the summer killed 31 people raised some hope that action would finally be taken to combat gun violence. But Mr. Trump's talk about changing gun laws was — as is often the case with him — empty. WASHINGTON DC, NOVEMBER 4

**The Guardian**

### UK general election won't bring solutions

From the politicians who reluctantly voted for it, to the millions who must now make a choice and cast their vote, everybody surely knows it: this is a very, very weird election. Not just in terms of the borderline absurd timing, nor the sense that it will not resolve the fundamentals of Brexit, but much deeper tensions and contradictions. Large chunks of the public seem weary, and ill-disposed to both main parties. LONDON, NOVEMBER 4

# Dealing with FTA hit on direct taxes

India loses direct tax revenues on the value of its imports. The answer is to tax imports, and review levies such as MAT, DDT

V KUMARASWAMY

Most free trade agreements seek to introduce a level-playing field; in other words, the government collects the same tax irrespective of source, for domestic output or imports. This is apart from providing certain incentives for exports, and for transaction with free trade zones (FTZs).

Importers pay the equivalent of GST (CGST and SGST) as IGST on the value of goods they import. Similarly, when there is an import of service, the importers pay full GST as IGST on reverse-charge mechanism. When there are inward investments into India, any payment of interest and dividend is subject to withholding taxes, TDS, dividend distribution tax (DDT), and corporate taxes. These establish a level-playing field for the domestic manufacturers/service providers and exporters to India.

But what is not generally discussed in free trade forums is the impact of trade on direct tax collections. No doubt, exporters pay the direct taxes imposed by the host country in the country of manufacture and hence there is generally no discrimination, under the MFN principle.

But the point often missed is that the government of the importing country tends to lose that much revenue by way of lost direct taxes (corporate tax on profits, personal/corporate income taxes on salaries, interest and rent) which it could have gathered had the goods under import been manufactured within India. The shares of these in the value of output in India (as per ASI 2017-18) are 7.2 per cent, 0.27 per cent, 2.32 per cent , and 5.87 per cent respectively (15.66 per cent cumulatively).

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India's trade deficit was about ₹10.4 lakh crore in 2017-18. If the value equivalent to exports had been manufactured and sold within India, it may have yielded an additional direct tax revenue of ₹41,000 crore at, say, 25 per cent.

In the case of domestic production, there is also a secondary impact; this is of recipients spending their money leading to further goods/services being bought yielding taxes thereon. Even if one assumes a multiplier of three, the level of direct taxes would be around ₹1.23 lakh crore — or around 12 per cent of the trade deficit of ₹10.4 lakh crore.

Since this level of 'opportunity taxes' escape the system, the government has to look for alternative avenues of taxation either as direct or indirect taxes, both of which are detrimental to domestic manufacturers and citizens.

### A host of taxes

In order to make good this deficit, the government has been finding new ways to milk the nation. In the last about two decades, the government came up with dividend distribution tax, the reasoning being it wants to encourage reinvestment (taking Germany's example). But the tax tripped soon on its own logic.

Thus if the DDT is 15 per cent and a company wanted to distribute ₹100 as dividend, it would deduct ₹15 and pay the government and remit the balance ₹85 to the shareholder. This is if the levy is not 'grossed up'.

But under the current system, the company pays ₹17.65 to the government and remits ₹100 to the shareholder. Moreover, the government has sought to tax those receiving more than ₹10 lakh as dividend (those who are most likely to reinvest) once again in their individual capacity. Ridiculous indeed. Then came MAT. None of the ASEAN countries has it, that too at almost normal tax levels. The two countries that do — the Philippines and Cambodia — require an entity to pay 1-2 per cent and forget about all other requirements, including book-keeping.


**Ignored issue** What is not generally discussed in free trade forums is the impact of trade on direct tax collections ISTOCK

To cap the high rate of MAT, we have CSR (Corporate Social Responsibility) levies and this year's steep increase in surcharge.

### An equivalent tax

Instead of these measures, the government should levy a withholding tax (or with any other with a suitable nomenclature) on imports equivalent to the loss in domestic direct taxes such imports cause. This may merit a levy equivalent to about 12 per cent of the import value.

It is true that other countries would be tempted to levy similar taxes. Hence, it would be preferable to agree on a common rate in both countries and document the same through the free trade agreements. The importing country should collect the direct tax equivalent against which credit should be allowed to the exporter in the exporting country.

This mechanism would neutralise the unfair advantage created by countries exempting exports in various ways.

It is true that other countries would levy such a tax on India's export of services. India's net service exports in 2017-18 were ₹4,99,968 crore and its net trade deficit was ₹10,31,727 crore, as per the Economic Survey.

The net imports of goods and services on which such a levy would have applied is ₹5,31,759 crore. At 12 per cent, the government would have netted ₹63,811 crore on its net deficit on trade in both goods and services in 2017-18.

This amount would be sufficient to forego the levy of taxes on dividend distribution, dis-allowance of CSR expenses, securities transaction tax, estate duty, wealth tax, fringe benefits tax and banking transaction tax.

Without such an equalising levy, the burden on the direct tax payers would keep rising along with the increase in our trade or current account deficit and bizarre ways of levying taxes on residents would continue. An equalising levy would also help partially improve the cost competitiveness of Indian industry.

*The writer is author of 'Making Growth Happen in India'.*

# Industries must use water responsibly

Apart from being major consumers, they pollute by discharging wastewater. Tech that uses water efficiently must be adopted

LOUIS JUDE SELVADORAY

Chennai's recent water scarcity received wide media attention. In one respect, however, the coverage was wholly wanting. Though the city is an industrial hub, issues concerning industrial water rarely gained focus. Locally and globally, the conversation coalesced around water sourcing, conservation and reuse — but usually only with reference to the supply side and domestic consumers on the demand side.

Industries account for a fifth of the water the world consumes. According to the UN's World Water Assessment Programme, "industry creates marked pressure on water resources from the impacts of waste-water discharges…than by the quantity used in actual production". In India, every litre of wastewater industries discharge pollutes a further 5-8 litres on average, suggesting the share of industrial water could be as high as 50 per cent, according an Indian environment research organisation.

The elision of industrial water in public discourse has serious consequences for India and other nations facing acute water stress. First, it fuels misgivings in local communities, as continuing incidents of conflict illustrate.

Second, technologies that have helped industrial economies responsibly use water remain underutilised in emerging economies. This weakens global efforts to mitigate water stress. Most significantly, the silence on this issue conceals the opportunity industries have, especially in an arid global economic climate, to considerably reduce costs by focussing on water-savings.

### Episodes of conflict

Water is already an incendiary issue in the arc of the Global South, spanning Latin America, Africa and South Asia. At the turn of the century, Bolivia witnessed this era's first "water war", when protests over the privatisation of water convulsed the city of Cochabamba. The Andean nation's economy leans heavily on the water-intensive mining industry. Spasmodically, other countries in the neighbourhood have experienced similar social tensions over water.

**Much pressure** on water resources

In India, readers will recall the wave of public protests that swept Tamil Nadu two years ago. Inadequate water allocations for farmers, and the perceived water largesse beverage companies enjoyed, was a grievance which found deep resonance with the protesters.

### What governments can do

Governments seeking industrial growth to battle poverty are caught in a bind when allocating scarce water resources. This is because the policies they ply are brittle inheritances from a past with a vastly different socio-economic air. Governments urgently need to invest in data.

It will improve diagnostics and interventions, as also help re-imagine policies for emerging social orders. In fact, a data-driven approach will help governments harness natural resources equitably while pursuing industrial growth. Most importantly, it will inform debate rather than stoke conflict.

### What industries can do

Experts warn that more than half the world will face 'severe' water stress by 2030. Businesses will particularly suffer shortages because water for agriculture and domestic consumption is always accorded priority.

Moreover, enterprise sustainability and corporate social responsibility will hinge ever more heavily on the responsible use of water. Green regulations too are turning less forgiving, globally.

Industry associations do promote the responsible use of water amongst members. Laggards abound, nonetheless. Enterprises lax about water are usually so because they account for it with the tariff they pay at intake. But the true cost of water for an industry can be 100 times the intake tariff, if preparation, pumping, cooling, heating and discharge costs are included. Systematically adopting efficiency measures, studies show, can reduce water consumption by 30-50 per cent on average, and even up to 90 per cent in some industries.

Water efficiency is helping several businesses reduce costs and improve margins. Some of this is achieved by re-engineering processes or adopting technologies for smarter use of water. Such measures may be capital intensive. However, simple measures that do not require heavy investments, such as plugging leaks, fixing water meters and benchmarking consumption, are also yielding substantial gains.

For wider uptake, these success stories need spirited evangelisation, especially in India and across the Global South.

*The writer is Communications Consultant at the World Bank Group. Views expressed are personal.*

## LETTERS TO THE EDITOR

*Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.*

### Tackling slowdown

It refers to 'Slowdown: Aligning responses to causes' (November 4). The present slowdown in the Indian economy is due to multiple reasons. The export sector has suffered due to global developments, the demand side by rural and farmer distress, and the supply side of the economy by the lack of capex investment which is mainly due to lack of optimum utilisation of existing facilities.

Hence when the reasons are many, we need multiple solutions to tackle the problem. Corporate tax reduction will surely induce fresh investment, but the immediate concerns can be addressed only when the demand issue is addressed. One way is to cut individual tax rates and undertake initiatives to boost rural income so that demand rises in a few months down the line.

Land and labour reforms are needed. As these are structural in nature, they will have positive multiplier effects on the economy once implemented.

**Bal Govind**
Noida

### Export push

The WTO ruling in a critical trade dispute that India must stop all its export promotion schemes as they are only meant for poor nations with a per capita income of less than $1,000 didn't come as a surprise. While the implementation of the ruling can be stalled by appealing to the WTO's appellate body, one should not be oblivious to the fact that despite the existence of such export promotion schemes, our export performance has been dismal. That our merchandise exports have barely improved in the last five years is a case in point. It is time government addressed issues afflicting our export competitiveness without any delay considering its discernible impact on the country's economic growth.

**M Jeyaram**
Sholavandan

### Delhi smog

This refers to 'PMO reviews Delhi air situation as it worsens to 'severe or beyond' (November 4). Apart from taking some remedial steps, the Cabinet Secretary has now been tasked with monitoring the situation on a daily basis with the active participation of the Chief Secretaries of Punjab, Haryana and Delhi.

However, one earnestly wishes that both the Centre and the State governments concerned had risen to the occasion well in time as the air pollution level usually rises with the onset of the winter season each year. Why the situation was allowed to worsen to such an extent is surprising. Further, taking recourse to the 'odd-even' scheme and initiating measures like closing of schools and stoppage of construction work for a few days are not long-term solutions to the problem.

**Kumar Gupt**
Panchkula, Haryana

### Transporters' strike

This refers to 'TSRTC strike: KCR sets November 5 deadline for workers to rejoin duty' (November 4). The fact that the transport workers chose to go on strike from October 5, to coincide with the festival season made their intentions abundantly clear, namely to arm twist the government into acceding to their demands by causing maximum inconvenience to the public.

State Road Transport Corporations were formed as government companies 'to operate on commercial principles and to make a profit, apart from other objectives'. When TSRTC has incurred a huge loss of ₹928 crore for the year ending 2019, the workers' demands for a fancy pay hike, filling up of vacant posts and converting the corporation into a government department, are preposterous.

In software companies, for instance, every large project is treated as a 'profit centre' and is closely monitored for the revenue it generates, or is expected to. While it is true that government companies in public service cannot be too profit conscious, it is at the same time, imprudent to expect their recurrent losses to be borne by the taxpayers.

Against this backdrop, the tough stand taken by the Telangana Chief Minister is unexceptionable. As exhorted by him, the striking employees should resume duty at once, without playing into the hands of their union leaders with private agendas.

**V Jayaraman**
Chennai

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