Union Budget 2020-21
A deeper look from the standpoint of Trade, Technology and Trust

Rajat Kathuria
ICRIER

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Open Economy Macro

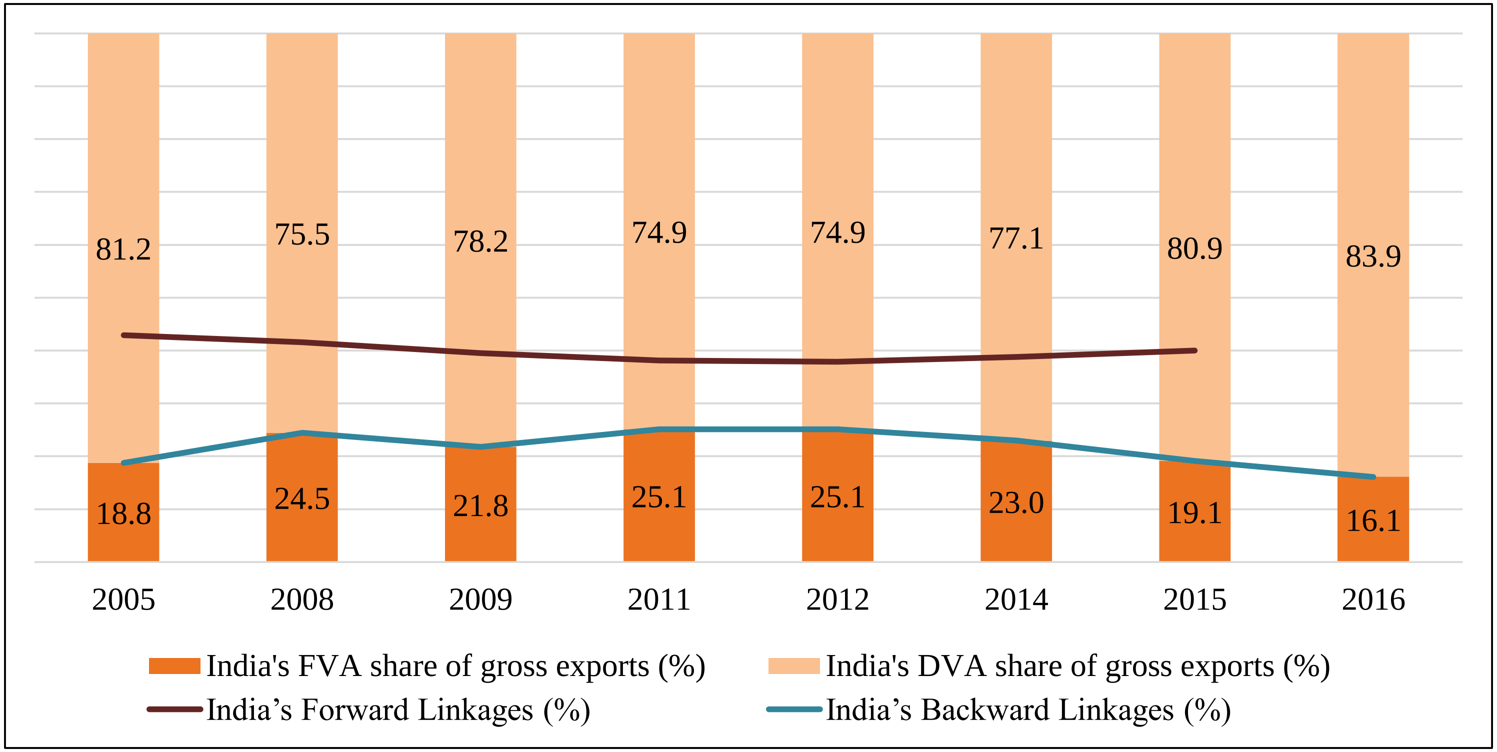
- In an open economy, national income (Y) or GDP can be split into consumption (C), investment (I), government expenditure (G) and net exports (X-M)
    - $Y = C+I+G+(X-M)$
- Need $ 1 trillion of exports to reach $5 trillion economy
- Export clusters matter, Exchange rate matters, Export logistics are important and Tax refund's matter
- Networked products (Assemble in India)
- Have FTA's been harmful? Economic Survey does not think so
- The idea sits uneasily with continued increase in customs duties.

- **But an Investment led strategy is inevitably an export led strategy**

International Trade Issues for India

- Still less integrated into GVCs
- Manufacturing sector's growth is declining even in traditional export sectors
- Weak infrastructure and logistics adversely affecting export competitiveness

India’s DVA share content in gross exports & forward linkages in GVCs still very large as compared to its backward linkages…



Source: OECD-WTO TiVA Database (2018)

Will custom duty hikes further not slowdown the already lower and declining participation of Indian manufacturing in GVCs?

Make in India – case study of mobile phones

Items	2016-17	2017-2018	2018-2019	2020-2021
Cellular mobile phones	10	15	20	20 + 10 % service welfare cess
PCBA of charger/adapter and moulded plastics of charger/adapter of cellular mobile phones		Nil	10	20
Vibrator/Ringer of Mobile phones				10
Display Panel and Touch Assembly				10
Specified parts and accessories of cellular mobile phones		7.5/ 10	15	
Preform of silica for use in manufacture of telecom grade optical fibres or optical fibre cables		Nil	5	

- Mobile phone manufacturing is often cited as a successful example of Make in India.
- An import substitution policy has been visible to provide impetus to local manufacturing. Customs duties applicable on import of mobile phones has progressively increased
- Other policies included the Modified Special Incentive Package Scheme (MSIPS) of 2012 that provide capital subsidy, the Phased Manufacturing Program and the most recent National Policy on Electronics (2019)

In 2019-20 the customs duty on cellular mobile phones was kept unchanged though duties on camera modules, charger and adapter of mobile phones was reduced

Make in India – case study of mobile phones

- **While India's growth in mobile phone production has been impressive – from 2 manufacturing units in 2014 to 268 manufacturing units in 2019, exports are at less than one percent of global exports of mobile phones**
- India still depends on the import of several components. Import of chargers/ adapters increased from 38 million units in 2013-14 to 124 million units in 2018-19. The numbers for battery packs are 20 million units and 627 million units for 2013-14 and 2018-19 respectively
- **Inverted structures have largely been addressed** Value addition in India in the mobile phone space has improved from around 5 % in 2014 to about 10 % in 2017
- Indian brands such as Micromax, Lava, Intex and Karbonn that dominated the markets in 2012, have been completely wiped out by Chinese brands Xiamoi, Oppo, Vivo and the Korean brand Samsung. **Micromax has now entered the market for AI enabled e-vehicles**

Revenue collection from total customs declined, while from Basic Duty has increased since 2017-18

HEADING	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 (RE)	2020-21 (BE)
Centre's Total Tax Revenue (in Cr)	903615	943765	1101372	1242488	1317211	1504587	1635909
from Import Duties	181270	203075	222336	128636	115666	123335	135130
BCD	*52644*	*59684*	*64584*	*80755*	*104783*	*110445*	*124000*
from Total Customs	188016	210338	225370	129030	117813	125000	138000
Customs as share of tax revenue (%)	20.8	22.3	20.5	10.4	8.9	8.3	8.4
BCD as % of Customs	28.0	28.4	28.7	62.6	88.9	88.4	89.9

Source: Union Budget (2016-17 to 2020-21)

India's imports of machinery, raw materials, capital goods, etc. are large but with growing export potential - Imposition of more tariffs may adversely affect our export competitiveness in many products if our partners also start to retaliate

India's Trade Balance (in USD Billion)				
Category	**2013**	**2015**	**2016**	**2018**
Raw Materials	-171	-102	-89	-198
Intermediate Goods	-29	-49	-30	-85
Consumer Goods	111	74	77	74
Capital Goods	-35	-42	-44	-83

Budget 2020's Customs Duty Hikes – Way to Protectionism?

Items	From (2019)	To
Footwear (and parts)	25% (15%)	35% (20%)
Furniture goods	20%	25%
Stationery items; Glass beads, artificial flowers and statuettes, ornaments, mirrors, etc. of base metal; Household goods (Tableware, kitchenware, etc.); Electrical Appliances (fans, grinders, hair dryers, ovens, irons, etc.); PCBA of Mobile phones	10%	20%
Toys	20%	60%
Compressors of refrigerators & air conditioners	10%	12.5%
Commercial freezers	7.5%	15%
Welding and plasma cutting machine; Motors (Single Phase AC motors, Stepper motors, Wiper Motors); Colloidal precious metals, compounds of precious metals (chemical)	7.5%	10%
Rotary tillers/weeder	2.5%	7.5%
Completely Built Units of Bus and Trucks (EV)	25%	40%
SKD units of bus, trucks and two wheelers (EV)	15%	25%
SKD units of passenger vehicles and three wheelers (EV)	15%	30%
CKD units of passenger vehicles, two/three wheelers, bus, trucks (EV); Catalytic converter (auto parts)	10%	15%
Vibrator/Ringer of Mobile phones; Display Panel, Touch Assembly	Nil	10%
Completely Built Units of commercial vehicles (other than EVs)	30%	40%
Specified chargers and power adapters	Apl. Rate	20%
Fingerprint readers for use in cellular mobile phones	Nil	15%
Earphones and headphones	Apl. Rate	15%
Shelled Walnuts	30%	100%
Butyl Acrylate (chemical); Parts/inputs for manufacture of catalytic converters (auto parts)	5%	7.5%
Chemical: prepared binders for foundry moulds or cores	10%	17.5%
Noble metal compounds used in manufacture of catalytic converter	5%	10%

Tremendous revisions made in Union Budget 2020 to create level playing field for MSMEs and to promote 'Make in India'

- Raised duty rates on wide range of products from consumer goods and food items to electronics, auto & electric vehicles (varied from rise of 2.5-5% to 70%)
- To impose nominal health cess on imports of medical devices – ***but do we have capacities and competitiveness in manufacturing them?***

In fact Continuous Rise in Duty Rates in Selected Industries

(electronics, auto parts, footwear, furniture, toys, chemicals)

Items	Pre-Budget Rates	Budget 2018-19	Items	Pre-Budget	Budget 2019-20
Mobile Phones	10% (to 15% in Dec 2017)	20%	Indoor & outdoor unit of split system AC	10%	20%
Parts & accessories of mobile phones	7.5%/10%	15%	CCTV camera and IP camera	15%	20%
LCD/ LED/OLED TV panel & parts	7.5%/10%	15%	Digital and Network Video Recorders	10%	15%
Specified parts for manufacture of LCD/LED TV panels	Nil	10%	Capital goods used for manufacture of PCBA, camera module, charger of mobile phones	Appl. Rates	Nil
Wrist watches, clocks	10%	20%	Loudspeaker	10%	15%
Preform of silica for use in manufacture of telecom grade optical fibres or fibre cables	Nil	5%	Optical Fibres, optical fibre bundles and cables	10%	15%
Specified parts/accessories of motor vehicles, motor cycles	7.5%/10%	15%	Auto & parts	10%	15%
CBU imports of motor vehicles	20%	25%	Oil, petrol & intake air filters for internal combustion engines; parts of visual or sound signaling equipment, of windscreen wipers, defrosters of motor vehicles	7.5%	10%
CKD imports of motor vehicles	10%	15%	CBU imports of motor vehicles	25%	30%
Truck and Bus radial tyres	10%	15%	Base metal fittings, mountings suitable for furniture, doors, hinge for auto mobiles	10%	15%
Toys and games	10%	20%	Stainless steel products	5%	7.50%
Footwear (Parts)	10% (10%)	20% (15%)	Footwear	20%	25%
Furniture, mattresses, fittings	10%	20%	Articles of plastic	10%	15%
Silk Fabrics	10%	20%	Printed books	Nil	5%

Aim to increase domestic value added and give some protection to local firms mainly MSMEs to produce high-quality labour-intensive goods…

On the other hand in Budget 2020…

Items	From	To
Very low sulphur fuel oil	10%	Nil
Calcined Petroleum Coke	10%	7.5%
Calendared plastic sheets used in manufacturing of smart cards	10%	5%
Polyester Liquid Crystal Polymers for manufacture of connectors	7.5%	Nil
Platinum/Palladium used in manufacture of colloidal precious metals	12.5%	7.5%
Spent Catalyst/Ash containing precious metal	12.5%	11.85%
Sports Goods	Appl. Rate	Nil
Base/cover of Micro-fuse/sub-miniature fuse used in manufacture	7.5%	Nil
Parts used in manufacture of Microphone (cartridge, holder, body)	10%	Nil
Uncoated paper used for printing newspaper and Newsprint; and lightweight coated paper used for printing magazines	10%	5%

- Reduction in custom duty on raw materials imported by domestic manufacturers – *this needs to be accompanied with their use in exported final goods*

- Abolishing anti-dumping duty on PTA (a critical input for textile fibres and yarns) – *much awaited step to boost the industry*

Make in India

- Make in India was launched to make India a manufacturing hub with higher domestic value addition, promote investments, industrial corridors and generate employment, and to connect better with world markets and augment exports and be better positioned in GVCs
- Question- W*ill continuous rise in customs duty help achieve these objectives?*

or

- *Should we improve logistics infrastructure (both soft and hard) and the manufacturing environment*

Labour intensive manufacturing – textiles, footwear and furniture

- Budget 2020 increased custom duty on imported footwear and furniture to promote domestic manufacturing
- According to a National Skill Development Council (NSDC) report, India’s furniture and furnishings industry will need 11.3 million skilled workers by the year 2022
- Nearly every successful economic growth take-off in post-war history in East Asia has been associated with rapid expansion in clothing and footwear exports in the early stages

Sector	Jobs per lakh investment	Female Jobs per lakh investment
Apparels (NIC 14)	23.9	8.2
Leather & Footwear (NIC 15)	7.1	3.4
Footwear (NIC 1520)	7.7	3.8

Source: Economic Survey 2016-17

Dominance of self-employment: Subsistence entrepreneurs or dynamic entrepreneurs?

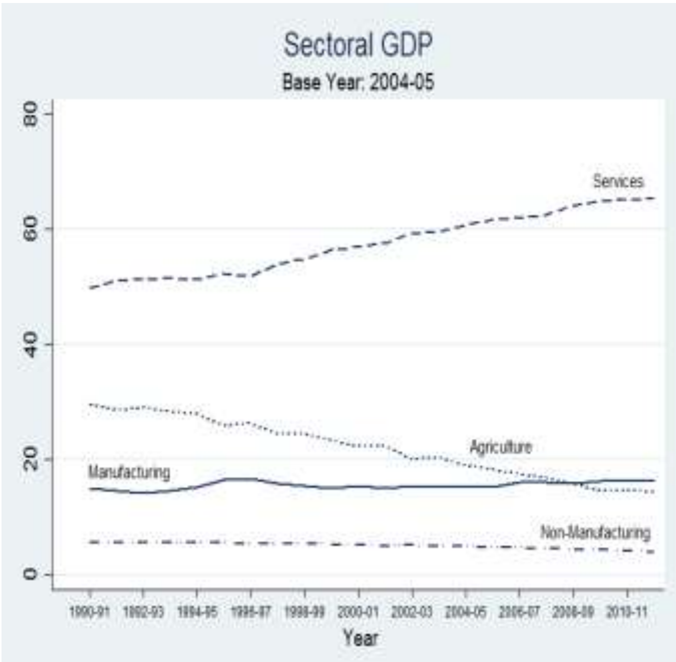
Distribution of workers by status (15+)

	2004-05	**2011-12**	**2017-18**
Own Account Worker	31.72	33.01	36.68
Employer	1.35	1.46	1.98
Unpaid Family Worker	23.68	17.71	13.54
Self Employed	**56.76**	**52.17**	**52.19**
Regular Salaried	**14.39**	**17.92**	**22.85**
Casual Public Works	0.15	1.52	0.86
Casual Other Works	28.71	28.39	24.09
Casual Labour	**28.86**	**29.91**	**24.95**

Source : Periodic Labour Force Survey (2017-18)

85% of self employed earn Rs 10,000 or less on a monthly basis, while 0.5% earn more than Rs 50,000 on a monthly basis

The Imperative of Manufacturing-led-Growth



Sectoral Breakdown of Employment

Sector	2004-05	2011-12	2017-18
Agriculture	58.3	48.8	44.1
Mining & Quarrying	0.6	0.5	0.4
Manufacturing	11.6	12.7	12.3
Electricity, Gas & Water supply	0.3	0.4	0.6
Construction	5.6	10.6	11.7
Trade, Hotel & Restaurants	10.3	11.5	12.4
Transport, Storage & Communication	3.9	4.4	5.2
Finance, Business, Real Estate	1.6	2.6	3.8
Public Ad, Health, education	7.8	8.3	9.5

Source: NSS (various rounds) and PLFS (2017-18)

Manufacturing led growth will

- generate faster growth of employment for low skilled and medium skilled workers compared to services-led growth.
- demand development of physical infrastructure (boosting construction), drive growth of employment in services that are required as inputs in manufacturing, and raise growth of non-traded services through the income effect.

Need for an Industrial Policy

Need to focus on labour intensive industries in a capital scarce economy

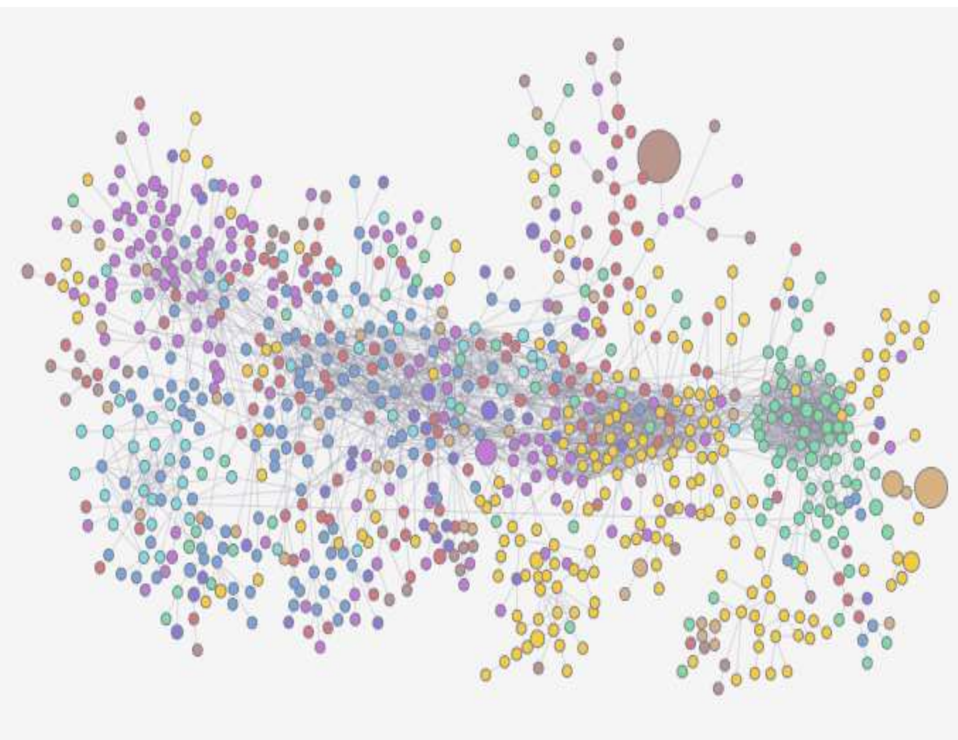
"*RIL reports $110 billion in assets and 250,000 employees across its various ventures. Therefore, it employs five workers for each $2.2 million in assets. Shahi Exports, which is India's largest apparel exporter, has assets worth $185 million and employs 106,000 workers in its apparel factories. Therefore, it employs 1,260 workers for every $2.2 million in assets. For the same investment, Shahi Exports creates 252 times the jobs that RIL does.*"

Panagariya (2018)

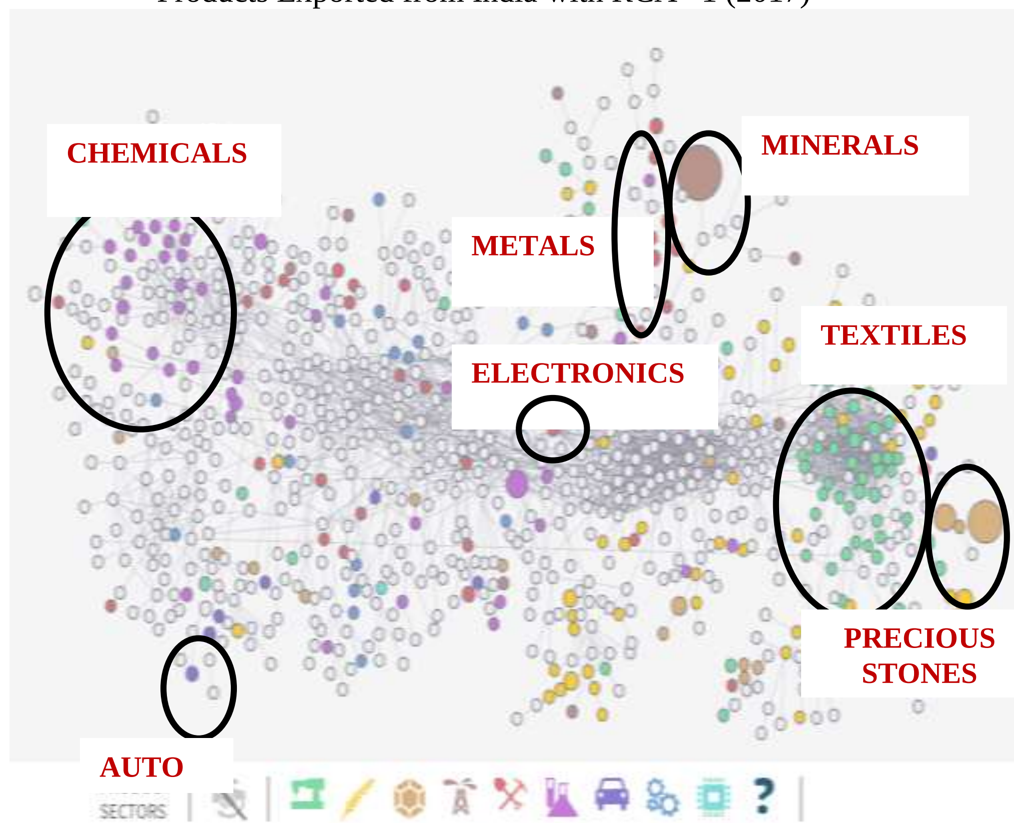
Industrial policy and Hausmann's product space

- The product space depicts the connectedness between products, based on the similarities of know-how required to produce them
- It reveals that India's immediate opportunities for diversification based on what it currently exports largely include minerals, agricultural products, textiles and chemicals

Products Exported from India (2017)



Products Exported from India with RCA >1 (2017)



Source: Atlas of Economic Complexity

Need for a well thought out Industrial Policy’

- **Framework for Analysis of Competitiveness**
  - **Supply side:** Identify products and industries that are in line with the current endowment structures (Labour-intensive industries).
  - **Demand side:**
    - Domestic Demand (consumption baskets by income groups)
    - Exports
- **An effective IP needs to go beyond sectors and focus on enterprises and firms**
  - Strategy for Effective Cluster Development : Well-designed clusters around uniform products, complementary technologies could be a better way to generate a virtuous cycle of output and employment growth. This calls for careful localised state interventions.
  - Collective efficiency : Growth path for SMEs
  - A symbiotic relationship between local industry and the state is an important catalyst for SME growth

Key messages

- Maximisation of employment and not just GDP needs to take centre-stage
- Creation of jobs that have the capacity to deliver a living wage rather than just a minimum wage will create a larger spending category at the lower-middle-class level
- Dynamism at the enterprise level is critical to the productive jobs agenda
- Not enough to reduce multiple labour laws into four codes. Mere compilation/number reduction without a change in the content of the codes will make no difference
- Erosion of the standard employer-employment relationship calls for a rethink on who is a worker

THE FUTURE OF DATA CENTRE PARKS IN INDIA

- Budget 2020 -policy on Data Centre Parks
- The data centre market in India has doubled in the last 3 years and is projected to grow 1.5 times by 2020.
- MIDC, Adani among others
- **China US$ 0.18 per hour, 0.292 per hour in India**
- **The annual expenditure on a data centre in the US is USD 200 million compared to USD 396 in India**

THE FUTURE OF BHARAT NET

- The initial proposal for the National Optical Fibre Network (rechristened Bharat Net) as conceived in 2011 was to connect 2,50,000 Gram Panchayats.
- Budget 2020-21 allocated Rs. 6000 crores to the Bharat Net programme.

Missed Deadlines
Launched in October 2011 with a target completion date of October 2013
Pilot started in March 2013
December 2013 – Centre completed MoUs with states
January 2015 – first district was completed
Missed deadline of connecting 100,000 villages (Phase 1) by 2015. Overall deadline of 2016 missed.
Deadline extended to March 2017, further extended to December 2018 and March 2019, thereafter. All of them were missed

Vivad se vishwas – addressing the trust deficit

Budget 2020 introduced a one-time measure to waive off interest and penalty if tax demands were paid by March 31st, 2020

According to budget 2020, there are 4,83,000 direct tax cases pending in various appellate forums involving Rs. 9.32 lakh crore

According to industry sources the government could recover Rs. 30,000 crore through the scheme

The faceless assessment scheme has been extended to deliver faceless appeals

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

Compiled from Receipt Budgets

Vivad se vishwas – addressing the trust deficit

ICRIER conducted a study on Barriers to Compliance and Cost of Compliance for Direct Taxes in India

The estimates of cost of compliance for direct taxes in India is high

The top ranked barriers to compliance include inefficiencies in tax administration, fear of scrutiny and litigation, feeling of inappropriate utilization of tax payer's money, harassment by tax officials and bribery, frequency of changes in tax law, etc.

The recommendations (i) perception management (ii) adopting a customer-centric approach (iii) focusing on improving tax payer services and (iv) developing a communication strategy that is integrated with overall compliance

The recommendations included strengthening of the Citizen's Charter that included the Vision, Mission and Standards of Service Delivery to taxpayers. Mandating the the Central Board of Direct Taxes (CBDT) to adopt a Taxpayers' Charter in Budget 2020 is a very welcome step

TAX PAYER CHARTERS

- Her Majesty’s Revenue & Customs (HMRC), The Australian Tax Office

- Taxpayer Charter citizen rights and obligations
  - Fair and reasonable treatment
  - Being honest
  - Fair use of the government’s access to information gathering powers
  - Protecting information and respecting privacy
  - Being responsive
  - Being helpful and efficient

Challenges Ahead and Policy Focus

Stabilize GST implementation to remove uncertainty for exporters, facilitate easier compliance, and expand the tax base

Completing the Twin Balance Sheet actions by focusing on 4R's

Disinvestment/Privatization

Staving off threats to macro-economic stability

Areas of policy focus over medium-term

Finding good jobs for the young and burgeoning workforce, especially for women

Creating an educated and healthy labor force

Raising farm productivity while strengthening agricultural resilience.

Integrating into the value chains

Thank you