

Reform the economy to defeat tariff threat

- By *Amitabh Kant**

The world is in flux, and India is being tested. But every challenge is also an opportunity. Tariffs and global headwinds should not weaken our resolve; they must galvanise us. India must act boldly to seize this moment. This is our once-in-a-generation opportunity to lead. We must not let it slip.

From August 27, India faces a 50% tariff, the highest of President Trump's 'reciprocal' tariffs. The US accuses India of financing Russia by buying Russian oil. However, Türkiye, the largest Russian oil importer, faces 15% tariffs, the same as the EU, which has paid EUR 297 billion for Russian gas since January 2022. The White House also remains unaware of US imports of palladium or fertilisers from Russia. Prime Minister Modi has heavily invested in the Indo-US economic, trade, and political relationship. However, the US's antagonistic stance will impact future cooperation. Our strong institutional memory emphasises our strategic autonomy.

Let us be clear, our energy security and strategic autonomy cannot be compromised. Let us also be clear that this is not about Russia. India is rightfully refusing to bend, as we have so many times in our history. Global pressure should not intimidate us. It should galvanise us into pushing through the once-in-a-generation reforms India urgently needs.

Fix Taxes

The Goods and Services Tax (GST) was India's most significant tax reform. Seven years on, collections are rising, and GST has enabled formalisation of the economy. Now is the time to move forward with strong political will for GST reform. We need to move to a two-rate GST structure and overhaul the GST business processes. New companies and startups being registered must receive their GST numbers along with their PAN/TAN. Technology must be leveraged to minimise the need for physical visits for GST registration. Income tax reforms must also be brought in.

Eliminate Red Tape

A decade ago, a significant push to improve ease of doing business yielded notable results. Now is the time to take it a step further and make India the easiest place to do business in. Pending items, such as notifying the rules of the labour codes, should be completed as soon as possible. States must go beyond incremental reforms and truly embrace single-window clearances. Many of the most cumbersome processes have not been made part of the National Single Window System (NSWS).

Unlock Capital

The cost of capital for private enterprise must be brought down. The statutory liquidity ratio (SLR) mandates that commercial banks hold 18% of their assets in government securities. This reduces the pool of loanable funds in the economy and raises the cost of capital for private enterprise. The SLR must be brought down to zero. This will unlock lakhs of crores of additional lending, bringing down the cost of capital.

Liberalise Trade

We must recognise that a liberal trade regime is crucial in building up our manufacturing ecosystem. In recent years, there has been a massive proliferation of quality control orders (QCOs). These QCOs raise the cost of crucial imports and make our manufactured goods uncompetitive in global markets. These QCOs must be scrapped. Further, our tariffs on intermediate goods are too high and must be brought down as well. We need to diversify our export markets by fast-tracking negotiations on trade deals.

Destination India

Tourism faces no tariffs. India, with its natural beauty, history, heritage, culture, and diversity, sees a 1.5% share in international tourist arrivals. If we remove the visits of non-resident Indians (NRIs), then this number falls even further. There has been no concerted branding or marketing campaign for Indian tourism in the past decade. In a time where countries are stepping up their efforts to attract tourists, we are lagging. We need the biggest global branding and marketing campaign to unleash India's potential. Otherwise, with the 1800 planes Indian airlines are buying, we will just be ferrying Indians flying abroad for holidays. We must attract global tourists.

Free our Cities

Our cities are the first impression visitors get when landing. For too long, city governance has been stuck in limbo, relying on state governments for financing, planning, and human resources. Despite the Constitutional Amendments that devolved powers to cities, it has not been implemented in practice. Our cities must be made autonomous and financially independent.

Crowd in Investment

In the Budget of 2021-22, a New Public Sector Enterprise (PSE) policy was announced. The policy intended to minimise the presence of PSEs operating across the gamut of the Indian economy. This needs to be taken up in mission mode. In the last financial year,

disinvestment receipts stood at Rs. 10,000 crores only. From minority stake sales, we must move to strategic disinvestment. In the most recent budget speech, a second asset monetisation plan, worth Rs. 10 lakh crores, was announced. This needs to be operationalised at the earliest, too.

India is far from being a 'dead economy'. We are, in fact, the world's fastest-growing large economy, driven by a decade of structural reforms, digital innovation, and investment in infrastructure. Over 250 million people have exited multidimensional poverty, and the extreme poverty rate has fallen below 3%, reflecting real improvements in quality of life. Women are increasingly participating in this transformation. 80% of Stand-Up India loans and 68% of Mudra loans have gone to women entrepreneurs. India's Digital Public Infrastructure (DPI) has revolutionised financial inclusion, while public capex on infrastructure has more than doubled, laying the foundation for long-term productivity. India has also met its 2030 green energy target five years early, and is investing heavily in AI, quantum computing, and deep tech. Challenges remain, but the direction is clear: this is an economy on the move, powered by ambition, resilience, and reform.

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