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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**INDIA'S NEXT REFORM: LOWERING
COST OF DOING BUSINESS IN INDIA**

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INDIA'S NEXT REFORM: LOWERING COST OF DOING BUSINESS IN INDIA

Context

- India needs to shift focus from procedural reforms to **cost rationalization**, as it faces **high business costs impacting competitiveness**. Addressing **high structural costs** like credit, land, inputs, logistics, and compliance expenses is crucial for countries like India.

About Cost of Doing Business in India

- Cost of doing business refers to the **total expenses incurred by firms** in production and operations, including cost of capital; land and labour costs; input and power costs; logistics and supply chain costs; and compliance and regulatory burden.
- India has improved procedural ease, but **structural cost disadvantages persist**, affecting global competitiveness.

Key Determinants

- **Cost of Capital:** India's credit-to-GDP ratio (~50–55%) is far below global average (~148%).
 - ◆ High government borrowing crowds out private investment.
 - ◆ Higher interest rates compared to China/Vietnam.
- **Input Costs:** High electricity tariffs due to cross-subsidization.
 - ◆ Inverted duty structures increase the cost of intermediate goods.
 - ◆ Limited access to advanced technology inputs.
- **Logistics Costs:** Logistics costs reduced **from ~13–14% to ~8% of GDP**, still higher than global benchmarks.
 - ◆ Port delays, customs inefficiencies, and uncertainty persist.
- **Land Acquisition:** Fragmented land markets, unclear titles, and disputes increase costs.
- **Compliance Costs:** Heavy regulatory burden, especially on MSMEs; and lack of proportional, risk-based regulation.

Related Issues & Concerns

- **Structural Cost Disadvantage:** India's firms face **higher input and financing costs**, reducing export competitiveness.
- **Logistics & Trade Inefficiencies:** Delays and unpredictability in customs increase transaction costs.
- **Credit Constraints:** Limited financial deepening restricts MSME growth.
- **Regulatory Overload:** Excessive compliance discourages formalization.
- **Land & Infrastructure Bottlenecks:** Project delays increase financing and operational costs.

Key Government Efforts

- **Union Budget 2026-27:** It reinforces **Ease of Doing Business** as pillar of growth and development, while focusing on **digitisation, tax certainty, investor access and litigation reduction**.
 - ◆ Focus on digital trade facilitation by single, interconnected digital window for custom clearance and **Custom Integrated System**.
 - ◆ **Exemption from Minimum Alternate Tax (MAT)** to all non-residents who pay tax on presumptive basis.
 - ◆ Trusted importers recognised in risk systems, reducing physical verification and enabling factory-to-ship clearance.
- **National Single Window System (NSWS):** It guides in identifying and applying for approvals according to the business requirements.
 - ◆ It integrates approval processes across 32 Central Departments and 32 State Governments, and has access to over 698 central and 7435 state approvals.
- **Digital financial ecosystem** like UPI, GST data, Open Credit Enablement Network (OCEN) for credit access
- **PLI Schemes** to boost manufacturing competitiveness.

- ◆ These reforms have improved processes, but **cost reduction remains incomplete**.
- **Ease of Doing Business reforms** (digitization, single-window systems)
- **National Infrastructure Pipeline (NIP)** and **Gati Shakti**
- **National Monetisation Pipeline (NMP)** (16 lakh crore target)
- **GST implementation** for reduced cascading taxes

How India Can Compete with China & Vietnam?

- **Lower Cost of Capital:** Reduce **Statutory Liquidity Ratio (SLR)**, improve credit access; and use fintech (GST, UPI data) for risk-based lending.
- **Rationalize Input Costs:** End cross-subsidization in power; correct inverted duty structures; and encourage technology-linked FDI.
- **Improve Logistics Efficiency:** Shift to **tech-enabled, trust-based customs**; reduce dwell time at ports; and expand multimodal transport.
- **Land Reforms:** Standardised leasing models; and clear land titles and faster dispute resolution.
- **Regulatory Reforms:** Introduce **risk-based, proportionate regulation**; and sunset clauses to reduce regulatory burden.

Way Forward: From Ease to Cost Competitiveness

- Benchmark India's cost structure with **China, Vietnam, and ASEAN economies**.
- Focus on **factor market reforms** (land, labour, capital).
- Promote **export competitiveness** through cost efficiency.
- Encourage **public-private partnerships and institutional reforms**.

Learn from Vietnam & China

- **Vietnam:** Export-oriented policies, efficient logistics, FDI integration
- **China:** Scale economies, infrastructure depth, cheaper credit

Conclusion

- India has successfully improved the **ease of doing business**, but the next phase requires **reducing the cost of doing business**.
- A competitive cost structure is essential for boosting exports, expanding manufacturing, creating formal employment, and achieving **sustained economic growth of more than 8%**.
- Thus, **cost competitiveness will define India's global economic position**, along with **procedural ease**.

Source: ET

Daily Mains Practice Question

- [Q] Discuss the key structural factors contributing to the high cost of doing business in India. Suggest reforms needed to make India competitive with countries like China and Vietnam.

