DAILY EDITORIAL ANALYSIS

TOPIC

POLICY PREDICTABILITY FOR INDIA'S VIKSIT BHARAT VISION

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Context

- Discussions on India's growth strategy in recent times have underscored the importance of **predictable taxation, transparent regulations** and **efficient trade facilitation** for drawing long-term domestic and foreign investment to achieve the **Viksit Bharat@2047 vision**.

Policy Predictability: What is it and Why is it important?

- Policy predictability is a governance system where **laws, taxes, regulations and administrative decisions are clear, consistent, transparent, and stable.**
- It allows companies to assess risks accurately, make long-term investment decisions and integrate into global value chains.
- India wants to be a **developed country by 2047** and that means maintaining **8-9 per cent annual GDP growth.**
    - This would imply an increase in the investment rate from about 30% of GDP to nearly 40%.
- For this domestic savings alone are not enough. The country needs to attract **Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI)** and expand exports.
- But investors want both market potential and policy certainty. Uncertainty raises the cost of doing business, and effectively discourages long-term investments.

Key Issues & Challenges

- **Tax Uncertainty:** Frequent disputes and different interpretations of tax laws erode investor confidence.
    - Long-drawn litigation adds to uncertainty, as seen in cases like **Vodafone's retrospective tax and Tiger Global's tussle over capital gains tax.**
    - India's tax rates for **Foreign Portfolio Investors (15-24 per cent)** are relatively high compared to a number of competing emerging economies, making it less attractive for global capital.
    - Dispute resolution takes long periods, ties up capital, increases compliance costs and affects ease of doing business.
- **Customs & Regulatory Uncertainty:** Discrepancies in customs classifications lead to different regulatory outcomes.
    - **For example:** The inconsistent advance rulings issued to **Volvo and VinFast** on the import of EV components underscore the lack of uniformity in the criteria for classifying **Completely Knocked Down (CKD), Semi-Knocked Down (SKD) and Completely Built Unit (CBU)**.
    - Regulatory transparency is hampered by the absence of publicly available and consistent advance rulings.
- **Trade Facilitation and Digital Integration:** Efficient trade requires coordination among several government agencies.
    - Importers currently have to deal separately with C**ustoms, Directorate General of Foreign Trade (DGFT), Goods and Services Tax (GST), Banks and Border Regulatory Agencies.**
    - It results in double documentation, repeated registrations and customs clearance delays. Delays in the import of raw materials and machinery increase the demand for working capital and reduce the competitiveness of exports.
    - India's customs system is still largely dependent on physical inspection.
- **Risk-Based Customs Administration:** Challenges include delays in cargo clearance, high transaction costs, absence of scanning and testing infrastructure and limited use of data analytics for risk assessment.
    - **Risk-based inspections** benefit compliant traders and enforcement targets high-risk consignments around the world.

Recent Efforts and Initiatives

- The Government has carried out a number of reforms in the area of predictability and trade facilitation:
  - **National Single Window System (NSWS)** to make business approvals easier with digital integration.
  - **Faceless Assessment** under Customs to improve transparency.
  - Expansion of **Authorised Economic Operator (AEO)** programme for trusted traders.
  - **PM Gati Shakti National Master Plan** to improve logistics efficiency.
  - Budget announcements on interconnected digital approval systems, Customs Integrated System, greater use of non-intrusive cargo scanning, and longer validity of advance rulings.
  - Focus on **Ease of Doing Business,** digitisation and export competitiveness with initiatives like Make in India and National Logistics Policy.
- These steps are in line with the government's larger objective of creating a transparent and tech-enabled regulatory eco-system.

Way Forward: Institutionalising Policy Stability

- India needs to institutionalise policy certainty and move beyond episodic reforms to sustain high growth and attract long-term investment. Key priorities are:
  - Stable and predictable tax policies, avoiding retrospective or ambiguous interpretation.
  - Reduce tax litigation by faster resolution of disputes, filling vacancies in appellate bodies and improving administrative capacity.
  - Implement a real National Single Window based on the 'submit once' principle, to enable seamless data sharing across Customs, DGFT, GST, Corporate Affairs and banks.
  - Publish regulatory guidelines on CKD, SKD and CBU classifications with clear criteria on multi-port and split consignments.
  - Expand risk-based customs administration by using AI-driven risk engines, modern scanners and non-intrusive inspection systems.
  - Require time-limited advance rulings and publish decisions, including reasons for deviations, to increase transparency.
  - Publish service standards and service delivery metrics for regulatory approvals, assessments and appeals to increase accountability.

Daily Mains Practice Question

[Q] Policy predictability is as important as economic potential in attracting investment and achieving sustained high economic growth. Discuss and examine the challenges arising from taxation uncertainty and regulatory ambiguity.

Source: BS

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