Unedited Event Transcript

Tax Reforms in India: Vision for the Future

Arun Jaitley, Minister of Finance of India

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Adam Posen: Ladies and gentlemen, thank you very much for joining us. If I could ask you to take your seats. People seating in the back, please feel free to—that last table marked “reserved” really is not, so please feel free to move up.

It's my pleasure as President of the Peterson Institute for International Economics, to welcome you and to all our friends watching online for an important presentation on Tax Reforms in India: A Vision for the Future, by the Finance Minister Arun Jaitley. We will shortly introduce the Minister at—but just to say that we are delighted to have him we had his, I think, probably most useful and most noisy employee, Arvind Subramanian, and our dear colleague here for a speech last month, working with the US-India Business Council and that was on the new budget. But now to ascend into a different level of the longer-term reform vision coming directly from the Finance Minister is a great opportunity for all of us and I’m grateful to the Minister for joining us.

We're also grateful just to have so many friends here from the US-India Business Council. And in that regard, I’d like to call on my colleague, Mukesh Aghi, who's President of the USIBC to give a few remarks. Thank you.

Mukesh Aghi: Thank you, Adam. Honorable Ministers, Ambassadors, ladies and gentlemen. On behalf of USIBC and Peterson Institute, I’d like to welcome you, especially the Honorable Minister to this event. We did have Arvind, give us a state-of-the-budget speech, which was extremely positive, and I think today we are anxious to hear from Minister about going forward and especially, on the tax arena and the budget proposal, which Arvind put together.

But I just would like to, on behalf of the US business community, would like to compliment the Indian government in regards to, in the last 12 months they’ve been able to bring down the inflation, been able to balance the budget quite assertively, and Moody’s ratings moving from stable to positive is a very very positive sign on the budget, put together by the Minister and his team itself.
I think the US business community is keen to partner with India in lot of areas and we are moving quite aggressively in that arena, but I think the focus we have also embarked on with the US business community is trying to see how we can support your initiatives on smart cities, making India, [inaudible 00:02:46] and Screen India and Digital India and beyond that itself. The team at USIBC is focused on trying to see how we can drive the vision all both India and the US of having trade almost five hundred billion dollars in the next five years itself and that's where the focus is. We're trying to drive this from a vertical basis itself.

I think, let me just take a couple a minutes introduce the speaker. I think a lot of you know him, but being the Finance Minister earlier, he was also leading the portfolio on the Ministry of Commerce and Industry and then earlier on law and justice itself. And I would say that he is an advocate in the Supreme Court and he also was the Additional Solicitor General of India itself, but I have to say he is one is the best orator I've come across and especially, Mister Minister, your speech as the opposition leader, you have really led the Indian Government in a different perspective. So on behalf of the attendees here, the US business community, Peterson Institute, and USIBC, I'd like to welcome you and over to you, Mister Minister.

Adam Posen: Thank you very much. Just while the Minister ascends the stage, just two points: first, he's very generously in recognition of the substance he has to present and the quality of our audience. He's agreed to do this rather informally seated and we're hoping to create a tone of interaction and we will continue with that in a moment.

But secondly, just picking on what our dear friend from the USIBC said, we have been doing a lot of work here at the Peterson Institute about expanding the US-India economic relationship. Arvind Subramanian, of course, was leading that for us before he went off to actually make policy, for which we're so proud of him. My predecessor and distinguished colleague, Fred Bergsten, had been working with Arvind on that and will be coming out in the next couple months with a major paper based on that work, about the vision we have for US-India Economic Interchange and Development and we're grateful to the business community as well, for helping us do that. But if I may, that was athletic. Let me turn it over very quickly and in great order.

Arun Jaitley: Thank you very much Adam, for your very gracious invitation to the Peterson Institute. Indeed, an institution of great repute and credibility and a lot of for our dreams is establishing think tanks in India. A process which has just about to start in India would be to have a large number of similar institutions, considering the size of the country. And also thank you very much for sparing Arvind Subramanian for us. For what he's been doing,
he’s been of great value as far as the Ministry of Finance is concerned and
government of India is concerned.

You’ve asked me to speak on the tax vision, a subject which is certainly
being surrounded by a lot of questions in the Indian context. But then
before I speak on this, just a brief comment on what else has been
happening in India. We are now in April 2015 and if a year ago in March
or April 2014 or slightly before that, anyone from India would have come
here and spoken in terms of a large number of factors. Well from a double-
digit inflation, we’ll be able to be down to less than 5% inflation. We are
looking at two years from now, our fiscal deficit to be below 3%. Our
current account deficit this year may be below 1%. Our growth rate, from
a disappointing figure, suddenly we move up 7, 7.5% last year, targeting
about 8% this year. And this has given us the confidence to aspire in terms
of a double-digit growth.

Now, exactly a year ago this would have appeared to be a lot of an empty
boost, something not reasonably possible and with the decisive change
that took place in India, I think one important aspect of the decisiveness
was that after thirty years we had a government which had a majority on
its own in the Lower House of Parliament. Now most of the economic
decisions in India are either executive decisions or decisions in terms of
financial legislation, which is only required to be approved by the Lower
House. So a lot of financial business in India is only constitutionally
required to be approved only by the Lower House. It’s only when non-
financial business requires a legislative change that you will require the
approval of both Houses of Parliament. And that is where we run into
several challenges because in the Upper House we don't have a clear
mandate as yet. Hopefully, a year from now, the situation would be
somewhat improved if not entirely improved.

And notwithstanding that in the last 11 months, you have had both
legislatively and two executive mandate, a very large number of decisions
which have been taken which have an impact on India's economic
situation. Petroleum products have been deregulated. What is not still
deregulated, those subsidies are already being transferred to a direct cash
system. Now on the 1st of April we started to everybody giving the subsidy
them cooking gas to a cash transfer. And now there’s 140 million homes in
India already receiving it in the last four months through a direct transfer
into their bank accounts.

You had the largest financial inclusion program in the world. In fact, we
were surprised that the Guinness Book decided to include it in their
records, but that's only a small satisfaction. You had almost 140 or 130-
140 million bank accounts. Of those families which have never an access
to a banking instrument, being open in a four-month period. And here I
must still compliment the banking staff, who to various agencies and
instruments which we have created, went from home to home, in one of the world's most populated democracies, almost 100% of homes were visited. The only ones which were left out which are not accessible or which were in the Ultra-Left Wing influence areas where it was not, from a security point of view, safe to visit those homes. So over 99% of the homes visited said, yes let's have a bank account.

And now you have the second stage of all state support money going into these bank accounts. So now, you have the actual process of moneys getting into these bank accounts. All these poor people now have a debit card of their own. Their supports are going there and now we are working on one of the largest social security schemes, which in the first instance is now going to cover, in addition to their right to get subsidized food, an accident insurance, a life insurance, in some cases a pension scheme, and currently we are working on a health care system to support this weaker section. And we are looking at almost 40% of India's population which would get covered by this process. A few days from now, one of the more difficult taxation reforms in India, which I’ll later speak about, the Goods and Services Tax, seems plausible.

In the next couple of days Parliament will perhaps approve the amendment to the Indian Constitution for it. It took us 10 years and we were wavering in the decision-making process. Despite opposition from some quarters, we've been able to raise caps as far as insurance is concerned. Defense did not require a legislative amendment. Railways did not require a legislative amendment. Real estate and smart cities did not require a legislative amendment. They've all been approved by an Executive Fiat and I think it's the unleashing of the potential that we have in mines, mineral, and coal Coal with its particular impact on the electricity generation in India. And from a regime where there were large number of controversies, we’ve all been able to do it smoothly without a single allegation or a charge of a reform being raised.

Of course, land is required for development and growth and that's going to be one of our main challenges in the next few years. How do we rationalize a very difficult law which the earlier government had enacted, which makes land for you and rural infrastructure or industry or affordable housing for weaker sections almost impossible? There's a lot of investment which we’ve put in from budget support into infrastructure. And these are the some of the key areas in terms of change that we moved into.

Now, when we come and look at the taxation regime, our government had clearly stated and I’ve repeated it several times, that we are not a high tax government and therefore, our taxation policies won’t be guided by that principle.
Secondly, what was a highly adversarial regime, we intend rationalizing it and making the tax department a lot more friendly to the assess-ee itself. Now, one of the various steps which we are going to take in order to rationalize India's taxation structures. I think the first big reform that we've planned and probably in independent India since 1947, this will be the single most important taxation change, that we are going to switch over to what's called the Goods and Services Tax. Now, if you want to manufacture a product in India, now the raw material that you import from outside, there will be customs duty on it. That part of the taxation will still remain. That's not covered by the GST. But then when you start manufacturing it, you have manufacturing tax called the Excise Duty. You have the import tax on various items which are used in that commodity itself. Now, when you move from one state to another, every state has its own value-added taxes, so at the entry point of every state you have transportation vehicles piled up in hundreds waiting to clear their taxes at work it.

If you enter a city, you are liable for taxes within the city. It's called an Entry Tax or an Octroi. Finally, when the consumer buys the product you have to pay a certain amount of sales tax. Now, this inherently stops India from becoming one universal market. This also involves multiple taxation. Multiple taxation means several points of evasion. Additionally, it makes the goods costlier because there is an in-bulk tax on the tax. Even though some may be viable at a subsequent stage.

Now, the proposal currently is: by amendment to the Constitution of India, which is a very difficult thing, the Constitution of India can only be amended at both houses of Parliament by a 2/3 majority approved that procedure and then 50% of the state legislatures accepted. And therefore, you need to build a larger national consensus in order to amend that law, that all states agree, the central government agrees, that all these taxes, barring the customs duty, stand abolished. Instead of these taxes there is one tax, which is charged at the endpoint at the destination. And this destination tax through and IT backbone which is created, is then transmitted between the center of the state and even the third layer of the government, which is the municipalities, the local bodies itself.

Now, this will involve A, first a consensus being built up, which they delivered us. In the last 10 months, I almost brought in a near consensus. Almost every regional the country's in agreement with this. I’ve had to assure the state's that if any one of them loses any revenue for the first five years, center will supplement that loss of revenue. In order to make this deal possible, one product permanently and one transiently has been kept out of the GST because bringing them in at this stage would have been a deal breaker. That is petroleum. It’s out of it transiently. It’s for the present out of it. It is zero-rated at the moment, but if the GST Council agrees, at a latest stage it can be brought in. So the constitution amendment would
cover it, but the rating in terms of taxation currently would be zero until in the GST council decides otherwise. For the states who are insistent on keeping alcohol out of it, because that's one major source of their revenue. So that's a compromise I have to be make.

Now, after passing the Constitution amendment in the current session of Parliament would begin on the 20th, so hopefully by mid-May, the amendment would be through. Three supporting pieces of legislation would have to be brought in in the course of the year. The IT backbone is being prepared and our target date is that on the 1st of April 2016 we put this tax into play. Now, this will bring a seamless transport of goods and services across the country. The whole of India becomes one market. There is evasion, which is plugged at all stages. There is no harassment of either industry or trade, that in every state you have to pay taxes and then start claiming a refund in a subsequent stage of payment. And therefore the goods and services will be taxed only at one last stage. Currently service tax is only charged by the center, but now it would also be shared with the states itself.

Now, observers believe that consuming states are going to gain largely. The manufacturing states initially may face a challenging situation but then our past experiences has been that broadly from day one, they also stand to gain, because the weight from the tax base itself increases. This also has a potential, according to many independent economists and tax observers, to push up India's GDP by 1-2% itself, this reform. So conceptually this will be the one on the most landmark taxation changes that we've made since independence, because the major federal polity in India, it requires the consent in the approval of all states, which we are doing so.

On direct taxes we've been working on a somewhat separate road-map. And I think the most important change in direct taxes that we've brought is what I have announced in the budget this year. It will probably take some time for India's political system to absorb the impact of the change. In fact, this year, while I was reading my budget speech, this was the only one question on which there was some adversarial noise as to why you're doing it. When I announced a 4-year road-map for reducing corporate tax or corporation tax as it's called in this part of the world, from 30% to 25%. So each year by 1 to 2%, I intend reducing it in phases and phasing out the exemptions.

The rationale for this is that along with 30%, there is some surcharge. India therefore, has the image of a country, which compared to its neighborhood and competing economies, at a much higher rate of taxation. The ASEAN region has about 21 to 22% corporation tax. And therefore, any investor would prefer to go and invest in those countries because he straightaway optically gets an advantage by investing in those countries.
But we have so many complications of a various forms of regional and product-based exemptions. It almost becomes like rent-seeking. The governments are pressured into giving exemptions. Then I have a dual disadvantage. I have an image of a government, which charges a high taxation, 30% plus surcharge, but my effective realization is 23%, because of the exemptions. So a straightforward change, which is being brought out, that I gradually phase out most of the exemptions and bring the rate of taxation down to 25%. So four years down the road with 1 to 2% reduction each year, India’s corporation tax would be 25%, which is fairly compatible as far as the region is concerned.

There are several other changes in direct taxation which we are making. Wealth was subject to tax, in addition to income, and particularly wealth lying idle was subject to tax. Now, this wealth tax would lead to evasion, which led to mis-declarations, which led to various bureaucratic complications, and the total realization in terms of Indian rupee was only 900 gross; less than a thousand gross to be directed. So I’ve simplified the procedure, since it is only the wealthy who want to pay this tax, I’ve abolished this completely, scrapped the entire Parliament Department, which is working on this tax, which had a high cost and almost no yield, as far as a state was concerned, and substituted it by just a surcharge on the super-rich. Super rich is a very small a number of taxpayers in India, probably about 40,000 people, who will have to pay a 2% additional surcharge. And by that surcharge, I more than make up this loss without any complication whatsoever in the taxation process itself.

There's always a question raised about India’s tax structure, as to whether too few people are paying taxes. That's true. As far as direct tax is concerned, the number of assesses is very small. We have about almost 37 million people paying those taxes, as well as direct tax is concerned, but then indirect taxes to be paid by everyone. And therefore, Indian income's being not so large, it's theoretically easy to speak about expanding the base, but then you would be targeting those sections of the people in whose pockets that we need to put in more money so that their spending capacity and saving capacity goes up.

India’s saving grid, which are taxed 36% at one stage was down to about 29% and therefore, we need to incentivize saving. So on direct taxes in a country which is a pension-less society, we are trying to create several changes so the indirect taxes to individual assesses, unlike corporation tax where I’m phasing out the exemptions. The object of the exemptions, and I have expanded those exemptions, is to ensure that there is an incentive on savings and these are savings which you can utilize later on in life.

Secondly, there is incentive also on savings in various pension instruments, which was earlier, almost unknown in India. So this year I’ve
taken a big leap and said that everybody who invests in the National Pension Scheme gets a big exemption itself, which is capable of providing a social security later in life. And therefore, I've been using the power of exemptions indirect taxes for middle class and individual assesses in compelling them to save and save through various instruments which are going to provide them Social Security much later.

For instance, to bring about a change in Indian society from a social order, the girl child had been, in some parts of the country, been discriminated against. So for the growth and development of the education and well-being of the girl child, we're one of the few societies which has now brought out a taxation saving instrument. In fact, the highest interest rate, coupled with a tax saving, is available for any parent who starts investing any amount in favor of the girl child. So these are powers of taxation being used to encourage a change in the social thought process in India. So if you invest in the name of your daughter as she's born or at any stage in life, the highest small saving interest rate, it’s a very high rate give, about 9.3%, it's only available for a girl child. In addition to the 9.3 for every money that you invest in, you also get a deduction as far as your tax is concerned. So a lot of people are coming now in investing in favor of the girl child and this is in areas where the child was discriminated against, being used to bring about a very important change.

Now having said all these good things, I come back to a more difficult area. And that difficult area is tax administration in India, which in either the larger world was seen as an unfriendly department. So how do we change the image of that department? And I think it climaxed with an important defining moment against India when we decided in 2011 to impose a taxation with retrospective effect. Now a taxation with retrospective effect, at the time it was imposed I was one of the few people in Parliament who, there in the opposition, very strongly opposed it. And our party strongly committed ourselves against that whole process.

So if I look at my table, the problem areas are not these new initiatives which we are taking in terms of GST or corporation tax or exemptions with a purpose. My problems really are the legacy issues which I’ve inherited. I therefore, announced when the levy took over, that our policy would be that the present government would not use the instrument of a retrospective taxation at all because it unsettles your tax planning.

Two, even under laws which were legislated earlier, unless a particular procedure is found ordinarily no new notice of any tax to be levied retrospectively would be issued to anyone. We've stuck to our promise. So there is absolutely no legislation which is retrospective. And even under the old laws enacted by the earlier government, there is not a single notice which has been issued.
What I have on the table today is actions taken before the government took over during the last government's regime. The number is not too many but the cases are symbolic and therefore, our efforts have to been to make sure that these issues get sorted out by a judicial process. Now, some of those cases have been sorted out with those tax demands being quashed. I've repeatedly said that the policy of the present government is that taxes which are payable should be paid and we'll go to any extent to recover them. But the taxes which are not payable, no unfair demands can be sustained and therefore we are not going to make it issue our little unfair demand.

Some of these contentious cases in all honesty, have not given me a single rupee of revenue so far. They've only brought a bad name to me. And this is essentially because of all the legacy issues. Now, a number of these cases have been sorted out by courts and those demands have been quashed. So after the demands were quashed by the courts, rather than agitate them further in appeal, I took the whole issue to the Cabinet and we decided that even though there was a potential for filing an appeal, in the issue of larger tax stability in India and to get a bad image to the tax department, we accepted the court's judgment and put a quiet as to all those issues.

There are however, two categories of cases which are still pending. Some under the Investment Treaties are pending in arbitrations and somewhere notices have been issued earlier, but assessments are being completed now. Now, do the cases which fall in one category itself? We are waiting for any judicial process to pronounce on them so that the last of those surviving legacy issues itself could be settled one way or the other. There has been a recent—there's just been one recent case, in relation to some foreign institutional investors, an application of minimum order of taxation to them. They had represented to the government that it was an unfair tax. So in the future I will abolish it.

So in effect, on 1st of April 2015, it's not payable. But having gone to a judicial tribunal, the FIA has lost the case. Now, their expectation that having lost the case the state must now intervene. That looks a little difficult from my point of view. And therefore, they have the option of agitating their remedies in law. It may not be possible for any government after a court verdict, which is a transient court verdict, which is still subject to appeals, to intervene in those particular matters.

I think one of the very interesting sets for taxation laws, for which we are giving notice today itself for Parliamentary passage, relates in two different areas, relates to the unaccounted money which operates in India. So far governments have taken halfhearted steps and not been able to achieve too much. This time I've taken a little sterner action, which is also
invited adverse comment from those who probably may be at the receiving end of these particular legislations.

With regard to the parallel economy which operates within the Indian system, and I can tell you that a lot of it which operates. It operates in the property market. It operates in the jewelry market. It operates in the luxury goods markets. We are prohibiting in the property market, the use of any cash. It can only be through a banking system that any advances for properties can be paid.

With regard to cash transactions, following the internationally compatible model, if anybody spends more than one lakh rupees, which is the broad equivalent of something little less than $2,000 in India, in the US in cash, your PAN number, which is equivalent to your social security number here, would have to be given. And therefore, this is going to create problems for a large number of people. But if we are able to start implementing it, and I hope in the next three weeks in the Parliament session to pass this legislation, making the use of cash transactions extremely difficult in India.

There have been a large number of cases in the disclosures which were made by the HSBC in Switzerland, of a number of Indian entities owning undisclosed assets and income internationally. Now, in the new regime, which is building up a part of the G-20 initiative and as a part of the United States law in this area, India's taking an active part in being a party to it, so that there is an automatic platform for any information. This is creating a little bit of panic amongst those who had unlawfully kept assets or resources outside the country.

So I have now introduced in Parliament, a legislation which deals with undisclosed foreign assets and income. It's a law for taxation on that income, where a compliance window would be open for a certain period. You'll be liable to make a disclosure of that asset or income, pay your taxes, pay the penalties, bring the asset or income back to the country within the compliance window and if you fail to do that or in future, if you did keep it after the compliance window closes, there's a very stiff prosecution with a jail sentence up to 10 years. That's what the law provides. Both these pieces of legislations, I intend in the course of the next three weeks, to get a Parliamentary assent to these laws itself.

Now, if I look at the big picture from where I started, between getting this money in the parallel economy back into the system, between implementing DST, these are capable of adding to India's GDP. We already touching 80% without that. Coupled with the extra investment, which we are making into our infrastructure, one big neglected area has been our irrigation. And any future resource that I have in my hand in the years to come, we are in principle, in agreement in investing a lot into
irrigations, because agriculture is one area which can actually push-up a real income of a large number of people and add to our GDP and the net impact of whatever reforms we have done in the 8, 9, or the last 11 months or so, I think if this is looked at collectively, its potential impact on Indian economy is going to be far more possible. And therefore, if you already 80% without all this, I think this is comfortably a road-map to a double-digit growth as far as India is concerned. That's all I have to say in somewhat the longest comment. I’m sure there will be—

Adam Posen: It's not so much—please, join me. It's not so much a longest comment Mister Minister as a masterwork. You've got so many levels from, as you put it, the investment in the girl child, up to a direct distribution of benefits, which is something we've been talking about on this stage. [Inaudible 00:33:32] Connie was here talking about it. Arvind's, talking about that, that you're actually making it happen. The changes in the energy subsidies, the obviously, extremely important rethinking on the retrospective taxation. I mean, you have, if you forgive the German, a gestalt concept, and it's wonderful to hear because I just compare that to the US, where our FNP and Peterson and so many other friends of ours, have been pushing for years for really thoughtful, radical reform of the US tax code and we never get anything like that. And what you're talking about potentially passing the Parliament in the next session is something that would be potentially transformative. So thank you for going through it with us in such length and such detail.

Before I open it up to questions, I just wanted to pursue one particular issue, which is, you mentioned in passing, some of these cases have anything to do with investment. There's obviously, been some issues at the state level, I think, of Uttar Pradesh on IT rules, who owns intellectual property. When you think about India for as you obviously, are doing as our colleague Arvind is trying to help you do, for the medium to long term, it's one thing to talk about the getting the corporate tax rate down to a comparable to your competitors and base prodding getting away with exemptions. That's wonderful.

What do you think is necessary if you want to talk about some of the things that that our colleague from USIBC spoke about? About made in India? About utilizing Indian IT talent? About getting India integrated in global supply chains? Is this something that the tax code should be dealing with? Is this something that other parts of your government should be dealing with? How do you see that sort of developing the high end, let's say, of Indian business, going forward in the global sense?

Arun Jaitley: See, if I look at it, the various steps which are required, I think the easiest of the lot is to take a decision to open out. If you open your door, that's policy, so one decision and you open your door, I think that's the easier decision that has been done. I referred to taxation in the course of the
discussions just now. I think for the future, it's possible to bring away very large number of positive change. It'll still take a few more months before some of the legacy issues get completely eliminated and put behind us. That's reasonably possible. What are the more difficult areas where I would still say it's work in progress?

And I think the first would be, what broadly gets referred to the ease of doing business. And in the ease of doing business, the time taken between the investor's decision to set up business in India and the actual start of his business. It is here that we require the level of the central government and the states to pull up our socks. And therefore, it is this gap that we have to eliminate. Opening the door is inviting the investor, which is very easy. Laying down a red carpet for him is very easy. But then he can't indefinitely walk on the red carpet, because then he was actually start his process of manufacturer and therefore, we have to insure that he doesn't ever run from office to office. All clearances that are required are given as soon as possible. And at the end of the day, the infrastructure, which we are in the process of improving, is also conducive to his business.

Now, it is this second part which I said, that his ability to start his manufacturing quickly, I think is the biggest challenge that we have. And if there is one area where everybody is to put his head together and reform is that area. So in the budget this year I’ve set a group, which is already working and that group is seriously considering whether all prior permissions required for establishment of your business can be substituted by a regulatory mechanism. Now, it could be crystal grazing because it's a very difficult challenge, but the group with actually working that what other prior permissions which could actually be eliminated and be just substituted by a regulatory mechanism, with guidelines which are laid down? I’m hoping to have some headway as far as this area is concerned.

Adam Posen: That's fantastic. One more quick question if I could. En passant, you mentioned the enormous strides. I’m not big on the Guinness Book of World Records, but the enormous undeniable strides that India’s made in terms of financial inclusion in recent years and that obviously, some of the things you're doing with the tax code, in terms of the direct distribution of debit cards and benefits and that, plays to that. And so, I was just wondering what kind of role—how much further do you think that has to go in terms of where the gains in the next fruit, in terms of financial inclusion? And how much that is going to be an Indian government project, versus Indian Private Sector project, versus having some foreign international players involved in creating the inclusion? How do you see that?

Arun Jaitley: You see, the private sectors or the foreign banks also, their participation in financial inclusion has been very modest. It’s the state sector banks, which did a commendable job. In fact, the entire participation of the private
sector banking including international banks out of those 140 million was only 2.3 million.


Arun Jaitley: It was miniscule. Therefore it is, since it was a not-for-profit area, I didn't see a great enthusiasm and which is the something for them to ponder over. The accounts have opened. About 30% of the accounts have some limit money, which they have invested their own savings into it. Now in the balance, scholarships, poor people's pension, aged people's pension, widow's pension, the other state supports which we have, the state government and the central government, so all these are now being put into those accounts. The cooking gas subsidies are being put into that account. And more and more state subsidies and supports, which are being rationalized are now going into that account. So today they are passing through those struggle works, where moneys are actually being put into their accounts to make them functional.

The third stage is when these social security program they're going to get linked to these accounts itself. But at the end of the day, these accounts can’t survive on basis of state support in the social security programs, but for these people we want to look, they have to get work. They can’t just survive only on the dolls. And therefore, the strength on India's economy if it grows close to 8%, to a double-digit growth. I think the avenues for finding work for them and I personally have always believed that this is where this amendment to the land law which we are bringing about is very significant.

Other changes to the laws are bad. There is a provision in the land law for a more liberalized availability of land. That for industrial corridors which run through rural areas, availability of land will be made easier. The whole procedure is a little easier. And therefore, rather than just have a cluster of industries in one part and nothing for the next hundred miles, I think it's these running corridors to rural areas which are able to invite jobs for people living in the adjacent villages. And the number of people in India who are landless is 300 million and therefore, it is those who are the bulk of these account holders. So at the end of the day, you have to find jobs for them and jobs for them will have to come from industries. Industries will have to be set by private sector.

And therefore, one of the big challenges that we are facing in the land acquisition law is requiring land for these industrial clusters. And therefore, it's for those opposing that amendment to realize that it is these three hundred million that they actually opposing.

Adam Posen: Terrific. Let me open it now to our distinguished audience. This is on the record. Thanks to the Minister being very gracious. As usual, Jessica’s
upfront with the traveling mic. Those of you in the back, if you want to go to the standing mic, please go ahead. That's the quickest way. Get up and go to the standing mic if you're physically capable of doing so. Thank you. Please. Sorry, could you just--just identify yourself.

Emil Sunley: Emil Sunley, formally of the International Monetary Fund. I was incredibly impressed with your outline of the tax reform, which India has struggled with for so many years. But I've very narrow question relating to the excisable goods. Traditionally, countries impose their general sales tax or value-added tax on all goods and services but then save a few goods for separate excise taxes. The primary ones are alcoholic beverages, tobacco products, and petroleum products. You said petroleum products may come into the GST delayed. Alcoholic beverages are outside, held back still for the states is under current regime. What about tobacco products? Is there going to be an attempt to rationalize the treatment of tobacco products, possibly make them subject to GST, plus an excise tax?

Arun Jaitley: No. You see all taxes will be subsumed in the GST and they've already demand by several steps to keep tobacco outside but we've not kept it outside. Alcohol is the only product that is kept outside completely. As far as petroleum is concerned, at the moment it is the within the ambit of the Constitution amendment but not being taxed for the present. It will be taxed only when the states collectively decided that it be taxed.

Emil Sunley: Tobacco products would therefore be subject to the general GST rate?

Arun Jaitley: The GST rate. The amount of rate will depend from product to product.

Adam Posen: Bob please.

Anit Mukherjee: Anit Mukherjee from the Center for Global Development. When I was working at the National Public Finance and Policy doing a lot of these GST calculations, we had a joke that you need to be less a finance minister and more a foreign minister to get consensus, so it's to congratulate you on that and would like to hear your views on how you've managed to forge a consensus.

My question is, how would you see GST in the light 14 Finance Commission Awards, which you have talked about yesterday, to foster company brand and cooperative federalism? How do you see GST fitting into that wider fiscal architecture going forward? Thank you.

Arun Jaitley: You see, 14th Finance Commission was a test for any government's commitment to federalism. I believe that there is a very important change which has taken place in India. In our 68 years since independence, the initial two to and half three decades, they were issues of democracy, surviving issues of India's integrity and sovereignty. And I think once
we've settled all those issues, the last three decades you've seen this increased emphasis on regional aspirations. It's not merely the emergence of the regional parties. Is not merely the participation of regional parties in simple governance, but everybody has a kind of a commitment and that certainly reflective of India's federalism.

Now, one difference between the present government and the earlier ones, that we understood this whole desire of the states and the region's much more than the earlier government. And therefore, when the 14 Finance Commission said the states must get 10% more, that's actually a big challenge for me, the Finance Minister, because I have to balance the country's budget with 10% less money in my pocket. It was extremely difficult but we did it.

We not only did that. In order to help the states, which were more deserving states, because they had lesser resources, the most mineral-rich states in India were the poorest states: Chhattisgarh, Jharkhand, Odisha, West Bengal. The second most important decision we took was that all the resources we are getting by auctioning coal and mineral, rather than the central government keep it, will give it to the states, which actually where those minerals are geographically located.

Now, the 14th Finance Commission and this decision to transfer the mineral money to the states has done one good. Now, most states have presented their budgets and that's going to have a great impact on India's economy, either by the center or the streets. No new or additional taxes have been imposed. So by and large the states have remained conservative in terms of taxation. No new taxes have been imposed. And therefore, product manufacturing enterprise is going to be a lot more competitive. They were reduced to the states, which we are now clearing up as the earlier government had committed.

Now being convinced of our commitment to federalism, then we are to accommodate the interest of the states. For instance, if I'd stuck on alcohol in GST then it would be a deal breaker, so I did decide to a compromise on that. We found a halfway solution as well as petroleum products are concerned. The state's decided to agree on some other factors. We give them a comfort level, that if they lose any money for the first five years, we'll compensate them and this has now had the effect of most states coming on board. So the language being spoken by most of them is a very positive language.


Alfred Bergsten: Mister Minister, you're here obviously, for a series of international meetings - IMF, World Bank, G20. I'd like to turn to some of the issues in that context with one general question and one specific question.
The press has made a lot out of the fact that the growth rate you're projecting for India now are in excess of China and that India may be growing faster, in essence the most dynamic of the emerging markets. How much does that competition with China motivate you in determining your economic policy, your growth strategy, the reforms you're putting in place?

Adam Posen: You're allowed to say not at all.

Alfred Bergsten: But I want to ask specific question too, because you may say not at all. It's specific question. Also a lot of discussion recently about this new Asian infrastructure investment bank that the Chinese have initiated, but which I think India is the second largest shareholder. I'd like to ask your perspective on that new institution and how you see it in comparison with the new bank that the BRICS as a group have put in place, which I believe is agreed to have an Indian as its first president? So how do you see the relation between the new institutions, India's role, which is obviously very big in this context?

Adam Posen: Thank you.

Arun Jaitley: China is concerned. We should always be conscious of the fact that China managed an average of 9% plus growth rate for three decades and that's where China reached where it was. I only wish what we started 1991 had been dated back another 20 years, probably we'd have been speaking of a different India today. We started late. And having started late, we had another important challenge. One of our biggest assets, India's Parliamentary Democracy, also required a decision making process in several areas where you had to carry a large number of people along with you. And therefore, China never had that problem. They would take a decision and implement that decision.

And therefore, our decision-making was relatively slower. Post 1991 we've never had a majority government until the present government came. And therefore, we've now realized that we have a potential of this 8-9% plus growth rate in and we'd have to continue it for a reasonable number of years. So the fact that in a given year, we are numerically more than them in a growth rate is all right, but I think the long distance we have to cover. And therefore, I'll always remain conscious of that.

At times, even when we are recovering our growth have been patchy. So you grow in one among the next month's figures are a lot more challenging. So I still think coupled with these large number of decisions we are taking, plus the other factors that I mentioned in the opening comment, these are areas where we have a lot of distance to cover.
But there is a new found confidence in India. And therefore, the whole object that we can grow faster, that seems to be a sentiment of policymakers. Both the institutions are going to supplement whatever the other global efforts on, whether it's the Asian bank or the BRICS bank, as you call it, the institutions aren't in their evolving stages yet, but because of the global uncertainties, funding for development, funding where contingencies are rising, these are all the areas in which the potential of these banks will have to be realized. I don't see them in conflict with the existing institutions. I see them as a supplement as far as the institutions are concerned.

Adam Posen: Very good. Thank you for that Fred. Gentleman at the back.

Sadanand Dhume: I'm Sadanand Dhume, from the American Enterprise Institute and the Wall Street Journal. Thank you for your fine review, Mr. Jaitley.

I have a quick two part question. The first relates to retroactive tax. I think your point that the retroactive tax was very damaging to India and that your government has been very clear that it takes a fundamentally different view of this is well-taken. However, what would you say to an investor who says, “I can trust you Mr. Jaitley. I can trust this government, but as long as that law remains on the books, how can I be sure that in seven years or eight years or in 10 years or twelve, it is not misused by another government that doesn't share your intentions?” So that's the first one.

The second is about privatization. And ask you because, of course, you're one of the pioneers of privatizing loss-making Indian public sector units, going back to the first Indian government. And when one compares these two governments, at least so far, one finds that in terms of actual privatization, taking a loss-making state-owned firm, selling its shares, handing it over to private investors who could perhaps do a better job, this government has arguably been slower than India 1. So if you could just take a quick stab at these two questions thank you.

Arun Jaitley: Thank you. You see as far as retrospective taxation is concerned, I think India’s experience of the 2011 law has been very adverse. And therefore, if any government did indulge in that misadventure ever in future, the cost involved would be too heavy.

Now, let's say even if I say I can’t override Parliamentary sovereignty. I can read a law which says that Indian Parliament loses its site ever enact a law retrospectively. Even I did that it would be illegal. Every legislature has that power. So any future Parliament of the future government would have that power. But we've been doing a little bit in restating and reemphasizing, that it was not a sensible decision to do so and therefore, I think the dangers of that retrospective legislation and the context in which
it was brought has been driven home, barring that one case which is pending under that law or another case which has now arisen, I think most of the other issues we've already put them to rest, as far as it retrospective legislation.

You ask me on disinvestment. If you saw my budget speech this year, I use the word strategy of disinvestment and that almost indicates the direction in which you've asked the question. But there is a difference between the last India government and the present one. And the present government is not counting on this investment as the only course of possible economic reform possible. But numerically, I’m collecting much more than any government in the past has done.

For instance, even in the year just concluded, my disinvestment target is the largest ever divestment in Indian history. And this year it's going to be much more, if not twice as much as the last year. And therefore, certainly strategic disinvestment, in some case is a part of my agenda, which are company I choose for it or we make that decision known at a later stage. But in terms of quantum of disinvestment oblique privatization, we are way ahead of any government in the past.


Mukesh Aghi: Mister Minister, I'd like to bring you back to international. What is your position on TPP and bilateral investment treaty which the process has started? What are your priorities on that and are you putting time-lines to that?

Arun Jaitley: You see, there's a considerable amount of debate in India. We've had a large number of investment treaties with countries internationally and both kind of alternative views are being expressed. Now, the concept of an investment treaty insofar as it gives a political investment, I think is a welcomed concept. We'd like to encourage it. The terms and conditions will always be a question of discussion. I’m currently—we've come up with some model drafts. Some of my international partners want to have some additional terms. We have certain doubts about them and I think that's still a work in progress.

Adam Posen: Yeah. I was going to say if the Minister will allow us. The lady who's been waiting patiently at the back. One question please.

Sho Chandra: One very quick question.

Adam Posen: I'm sorry could you identify yourself please.

Sho Chandra: I'm sorry. I'm Sho Chandra with Bloomberg News.
Mister Minister, you've I'm laid out a very bullish growth scenario for India. I want to know what your concerns are and what level of risk you think there is from the external environment, given that the Federal Reserve here in the US is poised to start raising rates this year, which has implications of flows? And does that pose any kind of a threat or a setback to your growth goals, if you will?

And a related question, about the rupee, which actually has had a very short term run-up recently, to the point we're hearing some exporters talk about the page from the currency. I know India doesn't intervene been except to stabilize the rupee, but any relief plans in the works? Thank you.

Arun Jaitley: You see, by and large, the strength of the Indian economy is also reflected in the fact that the rupee has remained relatively most within the stable range. And we do believe that the rupee will find its real value or real strength, in the international currency market. even when several currencies did face a serious challenge recently, it's been relatively more stable. Even with relationship to the dollar, with regard to most other currencies, it has strengthened in comparison.

International factors obviously, have an impact. Now, our entire effort is considering the wasp depth and size of the Indian market, our ability to absorb those shocks is far stronger. So even in the past, when international trends have been far more volatile, our dependence on our own domestic markets has made us relatively more stable than ever.

And I think, I wouldn't call it threats or risks, if we continue with our own internal ability to carry on with our own reform process, it's a strength. And as long as we continue that, I think our ability to absorb various international possible scenarios would be reasonably high.

Adam Posen: Fantastic. Finance Minister Arun Jaitley, you've been a terrific visionary in articulation of your vision. As I said before, I don't want to belabor this, but when I compare what you feasibly are actually going to implement, in terms of re-conceiving your tax code and doing it in the long-term to the kinds of things the US has fiddled with through the years, it's just a stunning thing and very obviously hopeful for India and for the world.

As Fred rightly said, we recognize you not just as a leader in India, but as a member of the G20, as someone who's going to be critical in the international discussions going forward this weekend. And so we're delighted to hear you talking about India, in a sense, dealing from a position of internal strength and optimism. And we hope that that will allow you to continue to contribute to a more constructive world for all of this together.
And most of all, thank you for letting Arvind Subramanian and convince you with his efforts of what a wonderful place the Peterson Institute is, and we'll look forward to having you back at any time you're willing to share your time with us. Thank you.

Arun Jaitley: Thank you.