EDITORIAL: INDIAN EXPRESS

GENERAL STUDIES 3: ECONOMY **DATE: 29.03.2025**
TOPIC: AGRICULTURE

A tax that served India's interests – no more

Genesis of the Equalisation Levy

- **Introduction of the Levy**: The 6% equalisation levy on online advertising was introduced in India through the Finance Act of 2016. This was done instead of incorporating it into the Income-tax Act.
- **Unconventional Approach**: By introducing it via the Finance Act, India ensured that companies could not use treaty protections to avoid the tax.
- **Primary Aim**: The primary aim of the levy was to address the low tax rates paid by major digital corporations globally, such as tech giants from the US, and to ensure that they paid a fair share of taxes in India.
- **Corporate Opposition**: Major digital corporations opposed the levy, as it disrupted their tax-saving strategies.
- **India's Proactive Stance**: Despite facing criticism, the levy was seen as India's proactive stance in addressing tax avoidance by global digital firms.

International Tax Challenges and India's Initiative

- **Evolving Global Tax Landscape**: While the global tax landscape was evolving to address tax avoidance, a consensus on how to tax digital companies had not been reached.
- **OECD's BEPS Initiative**: The Organisation for Economic Co-operation and Development (OECD) explored various options to tackle tax avoidance, but no clear international solution emerged.
- **India's Bold Step**: India took a bold step by becoming the first country to introduce the equalisation levy. However, it was viewed by many as a unilateral deviation from international tax norms.
- **Global Reaction**: Critics raised concerns about potential issues like double taxation and additional costs for consumers. Despite this, other countries were inspired by India's approach and began considering similar measures.
- **US Response**: The United States, where most major tech companies are based, took notice of India's digital tax initiative and became involved in the global debate.

The Struggle for a Global Tax Framework

- **Conflicting Positions**: As countries negotiated an international tax framework, significant disputes arose over how to allocate digital company profits between countries.
- **US vs. India**: The US favored taxing only the residual profits of digital companies, whereas India advocated for a more structured apportionment of profits based on where the digital companies operated.
- **Complications in Negotiations**: The negotiations at the OECD became increasingly complex as countries had differing opinions on how profits should be taxed.
- **US Engagement in 2021**: Under President Joe Biden's administration, the US renewed its engagement in global tax discussions, expanding the focus beyond just American tech giants.

India's Position and the Role of the UN

- **India's Commitment to OECD-led Talks**: India remained committed to participating in the OECD-led negotiations, but its influence was limited due to global economic power dynamics.
- **Limited Support for India**: While India received some support from African nations, it struggled to gain broader backing. As disagreements increased, some developing countries began looking for alternative tax frameworks.
- **UN Tax Convention**: In 2024, the United Nations (UN) received strong support from 110 nations for an international tax convention.
- **UN Proposal**: The UN tax committee proposed a simpler withholding tax to prevent double taxation, but like the OECD efforts, reaching a consensus remained difficult.
- **Alternative Models**: The UN initiative demonstrated that alternative models for digital taxation exist, offering countries more flexibility in protecting their tax interests.

Political Shifts and Trade Tensions

- **US Trade Representative Investigation**: In 2020, the US Trade Representative (USTR) investigated India's expanded equalisation levy, deeming it discriminatory against American tech companies.
- **US Retaliatory Threats**: In response, the US threatened retaliatory tariffs, which led India to withdraw its 2% levy.
- **Return of Donald Trump**: The risk of renewed tariffs resurfaced with the return of Donald Trump as president, leading to India's decision to withdraw the 6% equalisation levy in an effort to ease trade tensions with the US.

The Legacy of the Equalisation Levy

- **Criticism of the Levy**: Critics argued that the equalisation levy unfairly targeted specific companies and transferred costs onto consumers. However, without profit-based taxation, these criticisms lost weight.

- **Effect on Consumers**: While any tax can be transferred to consumers, there is no definitive evidence proving that the equalisation levy directly increased costs for consumers.
- **Revenue Generation**: Despite criticisms, the levy generated ₹40 billion in revenue in 2022, showing its effectiveness in raising funds.
- **Timing of Withdrawal**: The timing of the withdrawal is noteworthy, considering the lack of a global tax deal. Although India will no longer benefit from this revenue, the levy remains a significant example of how a developing country can assert its tax rights independently.

Conclusion

- **End of a Bold Measure**: The withdrawal of the 6% equalisation levy marks the end of a bold and independent digital taxation initiative by India. While it generated revenue, the measure faced significant international resistance.
- **Balancing National and Global Interests**: The decision highlights the challenge of balancing national tax interests with global trade and diplomatic pressures.
- **India's Ability to Assert Tax Rights**: Despite the withdrawal, India's equalisation levy demonstrated its ability to implement progressive tax policies to tackle the global issue of tax avoidance by digital corporations, without waiting for international consensus.

Source: https://www.thehindu.com/opinion/op-ed/should-the-free-movement-regime-between-india-and-myanmar-remain/article69383147.ece

Why India fell behind in the cotton race – an aversion to science and technology

The Boom Years: A Cotton Revolution

- Between 2002-03 and 2013-14, India saw a huge rise in cotton production, tripling from 13.6 million bales to 39.8 million bales.
- The rise was driven by the adoption of genetically modified (GM) Bt cotton hybrids, which improved yields and reduced pesticide use.
- India became a major cotton exporter, surpassing the United States by 2015-16, marking a cotton revolution in the country.

About Cotton

- Cotton is one of India's most important commercial crops, contributing to 25% of global cotton production.
- Around 67% of India's cotton is grown in rain-fed areas, and 33% is grown in irrigated areas.

- Cotton grows best in hot, sunny climates and well-drained soils, though it is sensitive to waterlogging.

Decline in Cotton Production: A Self-Inflicted Crisis

- By 2024-25, India’s cotton production dropped to 29.5 million bales, the lowest since 2008-09.
- India became a net importer of cotton, relying on supplies from countries like the US, Australia, Egypt, and Brazil.
- This decline is mainly due to domestic policy failures and regulatory hurdles, not external factors.
- National lint yields have dropped from 566 kg per hectare in 2013-14 to below 450 kg per hectare.

Technological Advancements and the Role of GM Cotton

- India’s cotton rise was fueled by innovations like H-4 and Varalaxmi hybrid cotton varieties, followed by the introduction of Bt cotton in 2002-03 and Bollgard-II in 2006.
- However, reluctance to approve new GM technologies has led to stagnation in recent years.

Policy Paralysis and the GM Crop Ban

- Policy decisions, especially during the UPA and NDA governments, hindered agricultural innovation, including a moratorium on GM Bt brinjal and restrictions on GM crop trials.
- GM crops were classified as "hazardous substances" under the Environment Protection Act, discouraging scientific progress.

Regulatory Hurdles and Their Consequences

- Several indigenous GM crop innovations, like pest-resistant cotton, faced regulatory delays.
- The regulatory system, driven by fear and activism, blocked progress, leaving farmers without access to advanced crop varieties.
- Courts intervened in issues that should have been handled by experts, complicating the approval process.

The Economic Fallout: India’s Growing Cotton Imports

- India’s cotton imports have doubled in value, rising from $518.4 million in 2023-24 to $1,040.4 million in 2024-25.
- Cotton exports have also fallen, from $729.4 million to $660.5 million.

- The resurgence of pink bollworm infestations worsened the crisis, and the refusal to adopt newer pest-resistant GM cotton varieties left farmers vulnerable.

Who Benefits? The Global Cotton Giants

- India's shift to becoming a net importer of cotton benefits countries like the US and Brazil, who may lobby to remove India's import duties.

- This situation mirrors India's decision to allow imports of GM soyameal, setting a precedent for future GM crop imports.

The Farmer's Plight and the Activist Influence

- Indian farmers have been denied access to modern agricultural technology due to activist opposition and bureaucratic delays.

- While activists blocked GM field trials, they remained silent about GM imports like soyameal and corn, putting farmers at a disadvantage and making them reliant on expensive imported cotton.

Conclusion

- India's cotton crisis is a result of poor policy decisions, reluctance to adopt new technologies, and bureaucratic inefficiencies.

- To regain its position as a global cotton leader, India needs to embrace scientific advancements, streamline regulatory approvals, and focus on the needs of its farmers.

- Bold policy decisions are needed to foster innovation and ensure a sustainable future for Indian cotton production.

Source: https://indianexpress.com/article/opinion/columns/why-india-fell-behind-in-the-cotton-race-an-aversion-to-science-and-technology-9912107/