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GST to be Introduced Soon in India amid the high growth and continued poverty

Akira Nakamura
Deputy General Manager and Principal Economist
Institute for International Monetary Affairs

In India, introduction of Goods and Services Tax (GST), a long-standing agenda for India, was finally decided to be implemented from July 1 2017. Instead of unitary tax rate initially contemplated, four-tier structure of tax rates ranging from 5% to 8% was to be adopted. However, as the new tax system will simplify and replace the former tax structure consisting of more than 15 kinds of taxes, companies can expect a reduction of tax filing costs, which will improve the investing climate for foreign affiliated companies.

Prior to the introduction of GST, the Modi administration had achieved some positive results to improve India's infrastructure scheme both on the hardware side and the software side. They include (i) deregulation on foreign capital controls like an increase of foreign ownerships in defense industry and insurance industry, (ii) opening of railroad business to private sector and foreign companies, and (iii) promotion of port development. Although the amendments of land expropriation act and labor law have not been realized yet, the administration has succeeded in enacting bankruptcy act, thus steadily paving the way to the introduction of other important legislations. Supported by a stable price development due to the low level of oil prices in addition to the positive effects of those achievements noted above, the economy has been keeping strength with the real GDP growing at around 7% level. The concerned adverse effects of the abolition of high denomination bills implemented November 2016 seem to have been limited to a temporary and relatively small one. The continuing strength of the Indian economy for the last few years is outstanding among the developing economies

The high growth rate of the macro economy in India, however, has not contributed to the resolution of poverty and improvement of income levels of low income class. South Asia, together with Sub-Saharan Africa, is one of the regions that have a large pool of bottom of the pyramid but India has an especially high poverty ratio among them (Table 1)

Table 1 : Poverty ratio and Per Capita GDP in South Asia

	Per Capita GDP as of 2015,USD	Poverty ratio	
		%	Reference Year
South Asia	1,538.45	15.1	2013
India	1,593.26	21.2	2011
Bangladesh	1,211.70	18.5	2010
Nepal	743.32	15.0	2010
Pakistan	1,434.70	6.1	2013
Sri Lanka	3,926.17	< 2.0	2012

(注) Poverty ratio means ratio of people living on less than \$1.9 a day in population

(Source) Compiled by the IIMA based on "World Development Indicators" of the World Bank

Specifically to be noted is that India has poverty ratio higher than Bangladesh, Pakistan and Nepal despite the fact its per capita GDP is larger than in those three countries. It suggests that the contribution of economic development is rather small to the solution of poverty problem. According to Prof. Amartya Sen, an economist who represents India, and others, the impact of economic growth to the social welfare is quite limited in India, and an increase of wage and income of many workers is very slow except for the high-tech workers¹.

The introduction of GST is an important policy measure that can lead to an elimination of inefficiency related to tax system and tax filings and has a significant meaning. It will help improve the business climate in India for companies including foreign affiliated, thus contributing to the economic growth and development. However, if the benefits of the strong economy are limited only to some portion of the people without spreading to every corner of the society, poverty will not be eradicated and income gap will expand. Professor Sen and other people argue that important things in developing countries are the development of public services such as school education, healthcare, and supply of safe pure water. In India, it is highly expected that at the same time the government implements economic policies aimed at promoting growth, it also has an active discussion on policies for income redistribution that takes care of many poor people who have been left behind from its high economic growth.

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¹ Jean Drèze & Amartya Sen (2013) An Uncertain Glory: India and its Contradictions, Princeton University Press,