

## Regulate bitcoins

Oversight will help prevent illegal activities

The government is considering setting up a regulatory structure to oversee trading of bitcoin, the digital crypto-currency. This would treat the virtual currency in a manner akin to gold, which is digitally traded on registered exchanges run under the oversight of the Securities and Exchange Board of India (Sebi). A move to formalise the thriving desi trade in bitcoin would not only bring it under the tax ambit but also help prevent its use in ransomware hacks, money-laundering and hawala transactions.

India generates high trading volumes and techno-savvy Indians view bitcoin as a convenient store of value, much like virtual gold, and an excellent way to circumvent currency regulations. Rupee traders are said to have transacted 11 per cent of all global bitcoin trades in June 2017, trading 16,750 coins worth about \$39 million. Only Japan, which formally recognises bitcoin as currency, and the United States generated more volumes in June. Bitcoin is the preferred currency for many hackers and the recent series of ransomware attacks across the world has brought it notoriety. The need to keep tabs on criminal activity is another reason why more

governments are seeking to establish regulatory controls. South Korea, for instance, released regulations recently for overseas money transfers denominated in bitcoin. Besides, bitcoin has seen turbulence in 2017 and it is due for more volatility in the next few weeks. It has also gained a whopping 250 per cent in value since January and the market capitalisation was above \$48 billion in mid-June when one bitcoin was being exchanged for about \$3,000 (around ₹1.93 lakh). Heavy selling has driven prices down and the market cap is now at about \$38 billion, but that still means that each bitcoin is well over five times as expensive as 10 grams of gold.

There is another reason for the panic selling. The technology underpinning bitcoin is about to be overhauled drastically and this may cause a split in the currency.

The so-called blockchain is a distributed ledger where every transaction ever made in every coin is recorded. Anybody can check the validity of all transactions, while anonymity is maintained. In fact, a transaction is not recognised as valid until it has been verified by many traders on the peer-to-peer bitcoin network. But the blockchain, as it stands, was conceptualised long ago. Each "block" — the locations where transactions are recorded — is small in size. Hence, verifying transactions is a tedious and slow process. There is a proposal to create larger blocks. A new "segregated witness" (or Segwit) protocol using bigger blocks will lead to much quicker verifications as well as reduce transaction costs and "mining fees" for generating new coins.

But the community is divided on the proposal. Segwit's advocates say it will be up

and rolling by August 1 — a day when Indian exchanges are likely to be shut to allow for any chaos to settle. There is a fair chance that Segwit will be adopted by consensus. But if there is no consensus, the currency could split in two with some exchanges using the old protocol. Hence, many traders, who are wary of being caught in the technological crossfire of this potentially "hard fork", are pulling out of bitcoin, at least temporarily.

The overall market capitalisation of crypto-currencies is now around \$80 billion and trading in these instruments is likely to see continued growth. Bitcoin is the oldest and most popular. But other crypto-currencies designed along the same lines have similar pros and cons. A comprehensive policy for the oversight of all crypto-currencies is required to prevent these instruments being misused for illegal activities.

## Ironing out the wrinkles in GST

If the government wants India to be among the five most competitive manufacturing nations by 2020, it needs to ensure that the tax structures are aligned with the goal of reducing the costs of setting up factories



Textiles is among the industries where the GST structure and procedure for getting tax credits suffer from anomalies

AMAR KAUL

The new GST regime for indirect taxes is being heralded as the biggest tax reform in post-independence India. There is no doubt that political will and consensus will help make India a much easier country to do business in, as goods start flowing easily through the length and breadth of the country. It will also further boost the manufacturing sector in India, giving an impetus to "Make in India".

The new regime will trigger a transformational shift from a complex multi-layered indirect taxation system to a unified indirect taxation system, propagating a positive change and bringing efficiencies in the economy. Manufacturers can now concentrate on their main business of production without the complexity of multiple tax compliances.

However, since these are still early days, we do need to look out for how smoothly processes will flow for transactions across the GST network. This is especially relevant for the manufacturing sector and, in particular, the capital goods industry, as they are highly capital-intensive and are run with huge cash-flow requirements. Therefore, while GST will have multiple benefits for the manufacturing sector, as it was earlier bogged down by multiple tax and compliance legislations and the collateral delays due to inspector raj, we are still looking to sort out some inconsistencies and hope that the process of getting credits for the sector is speedy and simple.

For instance, take the case of air compressors, where the duty rate has been fixed at 28 per cent, while major components used to manufacture the air compressor (such as castings, electric motors and valves) have been placed under the 18 per cent rate. This is not logical, as it does not allow the full tax benefit to flow to the consumer for a product which serves as a critical input for

sectors such as textiles, pharmaceuticals, refineries, FMCG, mining and power, among others.

Clearly, if the government wants India to be among the five most competitive manufacturing nations by 2020, and increase the contribution of the manufacturing sector from 16 per cent of GDP to 25 per cent, then it needs to make sure that the tax structures are perfectly aligned with the goal of reducing the costs of setting up manufacturing operations. The point is further emphasised by the fact that the second-highest driver of growth, according to a study done by Deloitte on manufacturing, is cost competitiveness, next only to talent (where we have a natural advantage).

No doubt, doing away with the cascading effect of taxes and the abolition of central sales tax will bring down the cost of production and synergise the supply chain in the GST regime. However, we have a situation where inter-state transfers to own warehouses are taxable, and though credit is available, it will lead to an increase in working capital requirements as well as increase in transactions for the government.

With online return filing and the requirement of invoice level matching to avail of credit, suppliers are worried about possible delays and disputes in availing of credit, and this will remain until the credit is given. Further, interest rates in India are still among the highest, especially for working capital. Therefore, the competitiveness of manufacturing companies is likely to get impacted, as finance costs will add to the burden. To improve competitiveness, automatic credit needs to be given in order to make the system more efficient.

Another example of this is exports of manufactured goods. The new GST policy does not provide for automatic credits for exports under the EPCG or Export Promotion Capital Goods scheme (which allows import of capital goods, including spares, for pre-production, production and post-production at zero duty, subject to an export obligation of six times the duty saved on capital goods imported under the EPCG scheme, to be fulfilled in six years). Therefore, exporters must take the benefit by way of refunds. In a framework where we are looking to remove intervention and let number-based credits be provided automatically, this is a lacuna. This is especially glaring for exports. Remember that we run a current account deficit and the government is always looking to boost foreign exchange reserves.

It is also important to note that all these factors impact micro, small and medium enterprises (MSMEs) even more than the larger players. Therefore, the government needs to look at providing clarity on these issues on a priority basis, so that any adverse impact on manufacturers is averted.

I am hopeful though that the GST Council and the government will consider these lacunae and address them quickly, because the intent is to "Make in India" and soon regain the title of the fastest-growing economy in the world. The manufacturing sector and the capital goods industry need all the support that the government can provide, because they are working in a global market where trade restrictions are coming down every day and the manufacturing sector is a big potential employer of our workforce.

The writer is Chairman and Managing Director, Ingersoll Rand (India) Limited. He is also a member of the CII National Committee on Capital Goods



## Seat belts most critical in reducing road fatalities

CV RAMAN

India's automobile industry is going through a major transformation. A new set of vehicle safety norms is set to come into effect, starting October. The car industry is rapidly upgrading its products to meet these stringent safety norms. The Union ministry of road transport and highways has, after studying the best vehicle safety practices across the world, laid down these norms, which are on par with safety standards in Europe. Interestingly, these safety norms cover not just car users, but also aim to minimise injury to pedestrians who may be hit by an automobile.

The car industry is investing in new equipment such as airbags and anti-lock braking systems. But that alone is not enough. Companies are making other innovations so that the additional equipment, while delivering higher safety, does not unduly increase vehicle weight and compromise on other important aspects like emission, performance and customer comfort.

Car companies are investing in extensive research, testing and evaluation to ensure that these cars meet advanced safety norms. In Maruti Suzuki, for example, we crash-test 35-40 cars of each model at our advanced R & D Centre in Rohtak (Haryana) before we can be satisfied that it meets the forthcoming safety norms.

All this effort and investment is being made to minimise injury and fatalities in road accidents. Nearly 150,000 people die on Indian roads each year. Disturbed by this, Nitin Gadkari, the Union minister for road transport, highways and shipping, has taken the challenge of bringing this down to half by 2020. As automobile engineers, it gives us great satisfaction to be contributing our efforts to a national goal.

However, all these efforts may be nullified if we do not acquire a basic habit: Putting on the seat belt while travelling in an automobile. Strange as it may seem, the more advanced the safety features in a car, the more critical is

the role of the humble seat belt. For example, in a vehicle with airbags, if the passengers are not wearing the seat belt at the time of a crash, an airbag could end up causing harm to the passengers.

According to a World Health Organisation report published in 2015, wearing a seat belt reduces the risk of fatality among drivers and front-seat passengers by 45-50 per cent! The risk of serious injuries comes down by 45 per cent. Among passengers on the rear seat, according to WHO, seat belts reduce fatal and serious injuries by 25 per cent. In fact, this is leading countries to not just adopt comprehensive seat belt laws, but also strengthen enforcement.

This expert view is reinforced by our experience in the R & D lab. In our crash lab tests, we use dummies made of steel and rubber with sophisticated sensors embedded in them to simulate the human body and measure the damage caused during a crash. We have dummies of different sizes and shapes which represent a typical male or a female or a child sitting in the car. Our tests show that the impact is much more severe on dummies that do not wear a seat belt.

India's record with regard to seat belts is dismal and shocking. In most parts of the country, vehicle users are not even expected to wear a seat belt. There is practically no enforcement of this rule. Even where enforcement is stringent, it is confined to the passengers in the front seats. For some strange reason, rear-seat passengers are not expected to wear the seat belts provided for them.

I see this as a big opportunity. If we could only adopt this simple act of wearing a seat belt each time we use a vehicle — voluntarily, in areas where it is not enforced — we would be bringing down road fatalities by a significant number. As cars become more sophisticated in terms of safety, it is even more critical that we belt up every single time for ourselves and our loved ones.

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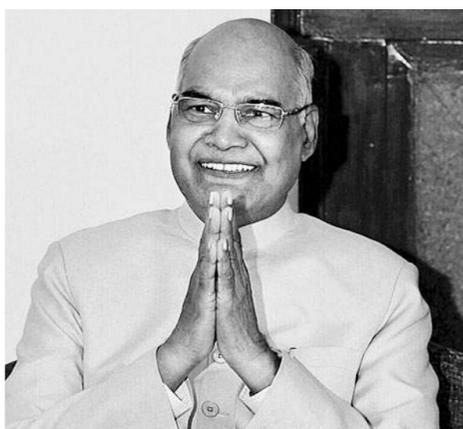
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#### Use of discretionary powers will define new presidency

Ram Nath Kovind must rise above political and social identities

As India's 14th President, Ram Nath Kovind will be expected to play the important role of safeguarding the spirit of the Constitution and the foundations of our parliamentary democracy. Unlike his immediate predecessor Pranab Mukherjee, Mr. Kovind moves into Rashtrapati Bhavan after a stint in a Raj Bhavan. Arguably, it is a Raj Bhavan, and not the office of the Vice-President, that is the best preparatory ground for the non-ceremonial duties of the President, particularly those that may involve invoking the office's discretionary power. Also, while the use and abuse of Article 356, and the imposition of President's Rule, are now monitored closely by the higher courts, as President he will necessarily have to use his own discretion should the Union Cabinet send such a recommendation. On contentious pieces of legislation, he can be extremely influential when he counsels caution, using his moral authority and the weight of his public office.

He is a Dalit, and his nomination was intended by the BJP to signal a socially inclusive agenda. But as President, Mr Kovind will have to rise above political and social identities. He will be called upon to apply his mind and distinguish



between settled conventions and questionable precedents in arriving at decisions. The office of the President was not conceived as merely a ceremonial post. The discretionary powers that he has demand a delicate balance without slipping into being either an unthinking rubber stamp or an overzealous interventionist.

The Hindu, July 21

#### Heed the warning in Tripura

Ethnic problem needs a lasting solution

For more than 10 days, since July 10, Tripura's connection with the rest of the country was severely restricted, with the Indigenous People's Front of Tripura (IPFT) laying siege to the national highway and the state's only rail head. On Thursday, the tribal outfit, which has been demanding a separate state, "Twipraland" for nearly eight years, called off the blockade after the Centre assured IPFT leaders that it will hold talks with them. Tripura's essential commodities crisis might well be over. But there is no indication of an enduring solution to the discord. This does not bode well for the state which has a long history of tension between its tribal and non-tribal population. The IPFT was a fringe player in the state's politics till 2013, when it organised a highway and rail route blockade in Tripura. Last year, it mobilised more than 10,000 agitators to cut off the state's road and rail links with the rest of the country for more than a day. The tribal outfit's 10-day long agitation this month portends a return to the times when ethnic matters upstaged all other issues. The past 10 days should be a warning to the Centre and state government that, in spite of the decade-long peace it has enjoyed, Tripura is still searching for a lasting solution to its ethnic problem. They must work together to bring it about.

The Indian Express, July 21

#### A deadline for peace in J&K?

More is required than just a firm hand

The Indian Army has played an oversized and stellar role in managing the Kashmir insurgency. It learnt the ropes of managing a civilian insurgency the hard way with a lot of blood and sweat while a live border with Pakistan diverted its energies. It has now set for itself the task of wiping out insurgency from the Kashmir Valley by September. It is also noteworthy that the senior Army officer who has set the marker for an end to insurgency has also added a caveat: the proposed extermination will take place with the full support of political parties.

The tactic is sensible and acknowledges a fact that hyper-nationalists miss by a wide margin: The Army is only among the several tools to stabilise, manage and bring peace

to the region. But setting military deadlines for ushering in peace is a slippery slope, as the Americans found out in Afghanistan. Indian policymakers have also been fascinated by the prospect of a heavy hand quickly smashing militancy. New Delhi's predisposition towards the cultural and social straitjacketing of the country is complicating the task of bringing public opinion around in Kashmir. More than the setting of deadlines, Kashmir today needs a massive but quiet, nose-to-the-ground reconstruction effort. The Army has to remain an integral component but it should refrain from setting out markers that are hardly likely to be achieved.

The Tribune, Friday, July 21