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Critical Analysis on Indian Economic Structure during Covid-19 with Decoupling of GST Chain

EDUNURI NAVEEN KUMAR REDDY[1]

ABSTRACT

Firstly, Compared to previous financial crises, the global pandemic (COVID-19) has wrecked the world's economy and elicited a very different response to indirect tax regimes in particular, because governments have been unable to lean on policies that might increase demand and standard fiscal stimulus for an economic downturn. During this period global economy has got the flu resulting trade surplus reflecting on GST chain and depressed economic demand. Exports and imports have been falling since March which impacted the tax community with regard to GST returns due to unprecedented crisis which also in turn impacted other economic activities like interstate and intra state trade transactions. This situation was driven by Cessation of economic activity and is threatening to turn into a massive financial crisis despite the several steps taken by government to ensure that the financial contagion is arrested. Similarly proactive measures in GST are perhaps imperative regardless of the fiscal strain.

Keywords: *GST, pandemic situation.*

I. INTRODUCTION

GST chain has been effected wherein a taxpayer could not file returns and also impacted in policy rates. Furthermore, a customer is allowed input tax credit, to the extent that their supplier has paid taxes to the government. Covid-19 induced shrinking of economic activity for the past few months and continued to have its impact on government's tax collections with revenue under the Goods and Services Tax (GST) falling far below the psychological level that second consecutive month in August to Rs. 86,449 crore, on year-on-year basis, the August collection was 12 per cent lower compared to Rs 98,202 crore mopped up in the same month last year. The GST collections have faltered since the beginning of the current fiscal as COVID-19-induced lockdown hampered economic activity. The revenue in April was Rs 32,172 crore, May (Rs 62,151 crore), June (Rs 90,917 crore) and July (Rs 87,422 crore) however, in august and September GST revenue had slightly raised , Hence all these statistical data shows mass

[1] Author is a student at Reva University, India.

destruction of GST chain and also showed impact on airlines, necessary food products due to increase of inflation about 6.8%.

II. Indian economic structure during Covid-19 with decoupling of GST chain

In this unprecedented crisis of Covid-19 resulted the magnitude of the Economic impact like effect on Indirect taxes, decreased money flow in market. Individual failed to pay tax returns because it impacted on household incomes. However every taxpayer is liable to pay tax returns, without paying tax dues how could they pay tax returns, these all impacted due to linking GST chain with different aspects so, by decoupling of GST chain can be helpful to grow tax return and Economic Growth in India[2]

One way to establish the linkage between Indian equities and other markets is through correlation analysis. Our analysis of correlation between MSCI India and other regions, in recent months, threw up some interesting results.

For the period between February 15 and April 20, the correlation between MSCI India and MSCI US indices turned negative at -0.11, indicating that the two markets moved in opposite directions in this period.

Similarly, MSCI India's correlation with MSCI EU also turned negative at -0.21. The US and the countries in the EU bringing infections and death rate under control, coupled with brisk pace of vaccination, has resulted in gains for these markets over the last couple of months.

While MSCI India's correlation with MSCI EM and MSCI Asia was positive since February 15, indicating that the markets moved in the same direction, the correlation has weakened significantly when compared with 2020, when India's correlation with these regions was above 0.90 (see table).

The weakness in Indian markets has been led by foreign portfolio investors turning averse to Indian equities. After net purchases of ₹2,74,032 crore in FY21, FPIs have pulled out ₹7,042 crore of stocks in April 2021.[3]

The World Bank and rating agencies had initially revised India's growth for FY2021 with the lowest figures India has seen in three decades since India's economic liberalization in the 1990s. However, after the announcement of the economic package in mid-May, India's GDP estimates were downgraded even more to negative figures, signalling a deep recession. (The

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[2] CHATURVEDI & S.M. PITHISARIA, *INCOME TAX LAW*,7[TH] EDITION AUG (2020)

[3] (N.d.). Retrieved May 8, 2021, from Thehindubisunessline.com website: http://www.thehindubisunessline.com.

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ratings of over 30 countries have been downgraded during this period.) On 26 May, CRISIL announced that this will perhaps be India's worst recession since independence. State Bank of India research estimates a contraction of over 40% in the GDP in Q1. The contraction will not be uniform, rather it will differ according to various parameters such as state and sector. On 1 September 2020, the Ministry of Statistics released the GDP figures for Q1 (April to June) FY21, which showed a contraction of 24% as compared to the same period the year before and the impact of coronavirus pandemic on India has been largely disruptive in terms of economic activity as well as a loss of human lives. Almost all the sectors have been adversely affected as domestic demand and exports sharply plummeted with some notable exceptions where high growth was observed. An attempt is made to analyze the impact and possible solutions for some key sectors. GST chain has been gradually decoupling because GST rates in India are fairly high and to ensure compliance, the prescribed framework is rigid and taxpayer cannot file returns unless they pay the entire tax due Moreover, a customer is allowed input tax credit, to the extent that their supplier has paid taxes to the government. Further, unlike bulk of the GST world, India does not give any leeway to adjust tax liabilities in case of bad debts. It is evident that such an interlinked ecosystem has the potential of exacerbating the expected ensuing financial crisis and needs to be decoupled. The limitation of this topic extends only to the tax regimes and study of Economic Growth of India which effected during covid-19 and fluctuating in repo and reverse repo rate

The outbreak of COVID-19 has impacted nations in an enormous way, especially the nationwide lockdowns which have brought social and economic life to a standstill. A world which forever buzzed with activities has fallen silent and all the resources have been diverted to meeting the never-experienced-before crisis. There is a multi-sectoral impact of the virus as the economic activities of nations have slowed down. What is astonishing and worth noting is an alarm bell which was rung in 2019 by the World Health Organization (WHO) about the world's inability to fight a global pandemic. A 2019 joint report from the WHO and the World Bank estimated the impact of such a pandemic at 2.2 per cent to 4.8 per cent of global GDP. That prediction seems to have come true, as we see the world getting engulfed by this crisis.

There was a global rout in February triggered by the sharp spike in yields of US treasury securities on fears that the second wave of the virus and rising inflation could derail growth. But concerns of the advanced economies appear to have been assuaged to a large extent by the $1.9 trillion stimulus bankrolled by the Biden administration in March. The prospects of continued liquidity has been enough for equities in these countries to continue trading at elevated levels.

But there has been a stark change in the movement of the Indian equity market since March. It did not participate in the rebound in global equity markets since then and has even underperformed some of its emerging market peers over the past month.

The reason behind this under-performance is the ongoing second Covid-19 wave. India is currently reporting the largest number of new cases globally. With daily cases moving past 2,50,000, the healthcare infrastructure is gasping to cater to the rising case load, and States are resorting to limited lockdowns, impairing economic activity in the process. The vaccination programme is also stuttering, as of now.

This crisis comes at a bad time since foreign investors are closely monitoring the progress of the pandemic in each country to decide on their allocations. FPI flows have already turned negative and this is also responsible for Indian equities' relative under-performance.

In the past two years, "decoupling" has emerged, riding on the broader trend of deglobalisation. Where the latter followed an economic logic, often impelled by technology, wage rates and trade agreements, "decoupling" has been seen as a deliberate political step motivated by a notion of national well-being, if not national security. Politics has always intersected with economics on the issue of decoupling. Well before the word became popular, the notion of some kind of "uncoupling" or distancing between the US and Chinese economies has resonated politically in both countries.

As presidential candidate in 2016, Trump called for moving away from the trade relationship with China and "uncoupling" from it. This was part of his larger attack on America's trade relationships which he argued had "stolen" jobs from Americans. As President, Trump saw this as a major issue in the relationship and immediately demanded the redressal of the huge trade imbalance between the two countries and over the next two years, imposed a series of tariffs on imports from China. Beijing did retaliate, but as its imports from the US were not as large, it did not have the same impact.[4]

As for China, it did not say things out aloud, but its policies and plans spoke for themselves. As its manufacturing prowess grew, so did the idea of national self-sufficiency or "indigenous innovation". The December 2005 National Medium and Long Term Science and Technological Development Plan formed the basis of the strategy to move from the ability to "reinnovate" imported products to "indigenous innovation" based on domestic industry and R&D capabilities. Successive Five Year Plans have emphasised this idea of "National

[4] CHATURVEDI & S.M. PITHISARIA, *INCOME TAX LAW*,7TH EDITION AUG (2020)

Indigenous Innovation Capability (NIIC)".

China began to follow a systematic policy of replacing foreign technology with domestically developed technology in a range of areas. From the outset, for commercial and political reasons, China walled off its Internet from that of the world. In the last two years, faced with US policies aimed at restricting technology to China, Beijing has accelerated its efforts to develop its IT industry, especially in the manufacture of semiconductors.

Since 2018, Washington's approach towards Beijing began to operate at two levels—one to demand a balanced trade and the other, the walling off of its own technology through tightened export control regimes targeting Chinese investors and producers. In its dealings with both allies and adversaries, the US also signalled a desire to "reshore" jobs back home, often citing national security concerns, by creating a new regulatory framework, as well as encouraging the emergence of industry 4.0 technologies. The COVID-19 pandemic has sharpened these demands, arising in many cases from the experience of having been caught short of medical equipment and pharmaceuticals as the crisis deepened.

The pandemic also brought out the systemic weaknesses of globalisation. China had become the world's largest exporter of intermediate goods and components used to make final products. These goods represented almost two-thirds of Chinese exports. As China shut down in February, the impact reverberated around the world, especially in several East Asian countries like Japan, South Korea, Taiwan and Vietnam that emphasise "just in time" manufacturing. Many industries ran short of key assemblies and components. For about a month or so, a major pharmaceutical country like India was concerned about the shortage of Active Pharmaceutical Ingredients (API) that it imports to make drugs. Inevitably, even outside the geopolitical context countries have been forced to think about the need for building resiliency into their supply chains.

The pandemic has generated great bitterness in Sino-US relations, in part owing to the grievous hurt American people are suffering because of the COVID-19 outbreak, and also because Washington has found it convenient to blame Beijing for its own initial missteps. It has become grist to the US electoral mill in a year which will decide who will be president for the next term.

III. Suggestions

In this unprecedented crisis of Covid-19 resulted the magnitude of the Economic impact like effect on Indirect taxes, decreased money flow in market. Individual failed to pay tax returns because it impacted on household incomes. However every taxpayer is liable to pay tax returns, without paying tax dues how could they pay tax returns, these all impacted due to linking GST chain with different aspects so, by decoupling of GST chain can be helpful to grow tax return and Economic Growth in India.

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