

## Coronavirus: Misery of the Century and Opportunity of the Millennium for Uttar Pradesh

Uttar Pradesh's management of the Coronavirus pandemic has been very impressive on most accounts including quick administrative decisions, supporting the last mile communities, transporting the people stranded in different regions, and managing the morale of our frontline Covid warriors. UP's leadership and governance quality are summed up by one act of UP chief minister Yogi Adityanath not attending his father's funeral to respect Modi Ji's call for lockdown and to deliver his duties. Uttar Pradesh has shown tremendous promise in the last few years with remarkably improved infrastructure, up-ticking estimated GDP growth, large skill pool, and lower-wage advantage. The real question is if Uttar Pradesh's committed leadership will steer the system to get its pie from out-location business from China, an opportunity, analysts estimate could range from \$ 300 Billion to \$ 500 Billion in 5 Years. This article attempts to identify specific measures required to make the most of the shift.



Source - Eqmagpro.com

Global economies are melting and business models are in free fall. Romanticism with hyper capitalistic models around global centers of core competency and supply-chains is on the decline. A non-entity virus destroyed the myth about more advanced countries' readiness to deal with sudden large-scale surprises. Rabobank estimates global GDP to contract by 2.6% and Paul Krugman terms the Covid crisis as 'Ten trillion-dollar self-induced coma'. Crude oil futures have hit the floor and Gold prices are ruling the roost. In a bid to move away from the enviable Chinese manufacturing juggernaut, Japan, South Korea, the US, and many other countries are looking for an alternate host to power their plants and that's where there is a huge opening for Uttar Pradesh.

History reminds us that the biggest beneficiaries of the twentieth-century cold war were Germany and Japan, two countries that rose from the ashes. We are on the brink of yet another cold-war-like situation where two economic blocks may compete for not only global dominance but for placing their governance model at the center-stage. In the conflicting scenario of democracies and non-democracies, India with its deep soft power, credible governance systems under the Modi government, huge technical human capital, and a proven destination of high growth economy could become a front-running beneficiary. While Uttar Pradesh has been plagued with structural issues in the last decades, it seems to have already started moving in the fast lane of development with the largest Samsung plant, some of the longest expressway & power initiatives, and the ODOP program.

The virus crisis brings in the frenzy and unleashes nervous energy. The options are to grow or perish. Decades are lived in weeks and monumental achievements, completely out-of-box, could be achieved in order to keep going. I believe that Uttar Pradesh has its 'Moment of Truth' now. I would recommend the following measures for its disproportionate economic growth in the years to come and would focus on the steps the Uttar Pradesh government should take in the immediate term.

Immediate Term policy should be focused on attracting companies relocating out of China and looking for alternate locations. As per CNBC's report in March 2020, Apple, Google, Microsoft, and other 200+ US firms were looking to relocate their manufacturing facilities out of China, as per Mukesh Aghi of USISPF, and were having exploratory discussions with Vietnam, Thailand, etc. A survey by Tokyo Shoko Research Ltd., conducted in February 2020, found that 37% of 2600 Japanese companies are exploring to diversify out of China. The Japanese government has already announced a \$ 2.2 Billion package to support Japanese companies to relocate out of China. Hyundai and other Korean companies are in discussion with many authorities including Andhra Pradesh to set up their plants. As the Fortune 500 companies are deeply embedded in the Chinese supply-chain, plugging out is going to be a staggered and complex process. Their expectation from the new host would be tax benefits, a favorable investment environment, ease of doing business, the professional workforce in its skill & work ethic, and institutional support in innovation. While Uttar Pradesh has commenced the next phase of its economic journey, the corona conundrum has triggered the turbo button. Large milestones can be gained in weeks and months. The real gain in the first phase of the run will be in terms of incoming business as well as in readying the mindsets, policy infrastructure, and institutional space. I believe that Uttar Pradesh will need to build a \$ 10 Billion package (Including hard and soft sops) that can attract up to \$ 50 billion in FDI creating 1,000,000 direct and indirect jobs in 5-7 years. Following measures might help in envisaging its comprehensive relocation support package.

1. Tax Incentives – In alignment with the central government of India policies, the measures could include
  - a. 100% corporate income tax exemption Tax holiday for MSME sectors, Agri Processing, Agritech, Animal Husbandry, Tourism and other related areas for a period of 13 years, and a similar 75% corporate income tax exemption for Hi-tech industries in Intelligent Electronics, Robotics, Software, Biotech, Biofuels and Biochemicals, Edutech, Digital for a period of 7 years applicable to any investment above \$ 50 Million.
  - b. 50% corporate income tax exemption in strategic sectors e.g. Defence, Aviation & Aerospace, Power for a period of 10 years applicable to all investments on above \$ 100 Million.
  - c. Other perks in the form of single window clearance, subsidized land, credit incentives, reduction in water surface lease fee, Redressal of grievances by a Chief Ministerial led Panel, etc.
2. Investment Incentives
  - a. In order to develop a culture of innovation, the state government will match companies R&D expense with a ceiling of \$ 10 Million in the form of innovation-dissemination hubs through a technical institution or incubator
  - b. Taxpayers engaging in R&D activities can receive a tax facility of up to 200 percent in gross income reduction of total costs incurred
  - c. Enterprise finance schemes and Incentive for pioneer industries
3. Infrastructure / Special Economic Zones Incentives: Setting up 12-15 Special Purpose Hubs to set up 'Centres of Excellence' in collaboration with companies relocating in those regions. These hubs will be developed on the lines of successful IT SEZs (Special Economic Zones) and Gujarat's Japanese township and the German Corridor in Pune, Maharashtra.

4. Leverage India's FTAs (Free Trade Agreement) - As per Asian Development Bank Institute, India has one of the largest FTAs in Asian regions either signed or under negotiation. As a result of the FTA, India's trade has increased many times over with SAFTA, ASEAN, and other blocks. Uttar Pradesh would have an existing framework in FTA and DTA (Double taxation agreements) ready to leverage
5. Uttar Pradesh government panels to meet with the JETRO & MITI (Ministry of International Trade & Industry) from Japan leveraging JICA (Japanese International Cooperation Agency) in India, MOEF from South Korea, and USISPF in the US to position UP as the fast-emerging destination of business with aggressive investment plans.

IMF predicts that India will have the fastest GDP growth in 2021 globally and possibly its GDP would still stay in positive growth territory in 2020 despite Coronavirus malaise. With our lower oil bill, softer inflation, and bold RBI stimulus, India so far, seems to be placed well to weather the virus storm. States like Telangana, Delhi NCR, Tamilnadu, and Maharashtra have better track records of roping in FDI and have an eco-system to support it. Many states have already started courting the Japanese, American, and other investment boards on the lines of Thailand, Vietnam, and other East Asian countries. Gujarat Principal Secretary (Industries) Mr. Manoj Das has confirmed that the state government has sent pointed communications to JETRO (Japan External Trade Organization), USISPF (US India Strategic Partnership Forum), and other similar agencies to maximize the inflow in the wake of re-location drive. The million-dollar question is whether Uttar Pradesh is able to shift gears and start punching as per its weight.