

Existential fear is the most potent weapon to grow: Coronavirus is misery in short term and could be an opportunity of the Century

As Plato said large accidents legislate the future course of action. Coronavirus's global spread is a terrible accident causing economic meltdown globally but it may conclude with some countries laughing their way out of it. Germany and Japan were the two biggest casualties of the deadliest war ever fought by mankind but within 4 decades, both rose from the ashes and romped into the top 3 economies of the world. Ex-US President Kennedy was noted inferring that catastrophic events can emerge as incredible opportunities replacing or blending with the traditional paradigms. I believe that Coronavirus is a piece of terrible news in the short-term and could potentially be a terrific occurrence for Uttar Pradesh if leveraged well.

The coronavirus is making us nervous because we don't know enough about it...nearly nothing is certain about it and its socio-political implications. What causes it, dependable precautions (except lockdown) and next steps, vaccine readiness, or if it is mutating as we talk. But there is a silver lining that no one knows it and that makes the current situation an even playing field. Uttar Pradesh, given its effective pandemic containment measures, is faring way better than many other regions and that margin gives it tremendous opportunity to explore alternate economic pastures that will pave its path for 'Uttam Pradesh' in a true sense.

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 the advanced countries' readiness to deal with sudden large-scale surprises. Rabobank estimates global GDP to contract by 2.6% and Paul Krugman terms Covid crisis as 'Ten trillion-dollar self-induced coma'. Crude price futures 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. Internal situations have never been this favorable (for Uttar Pradesh) with approx. 6% YoY GDP growth between 2011-2019 which places it next to Gujarat and Karnataka in

terms of size of GSDP, Same party government in Delhi, and a state government committed to get the basics right namely on Infrastructure, Law & Order, and other similar measures.

History reminds us that the biggest beneficiaries of the twentieth-century cold war were Germany and Japan. We are on the brink of yet another cold-war-like a 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 could become a front-running beneficiary. At a smaller level, Uttar Pradesh is a replica of India with a significant GDP growth rate in the last 10 years, hygienic conditions for economic development largely in place, Price & subsidy advantage, and tremendous potential to grow. Uttar Pradesh's economy is predicated around Agriculture and MSMEs as the anchors but these anchors are missing out on innovation-led ecosystems, market-making ambassadorial institutions and home-grown large successes on the lines of collectives like AMUL or corporate houses like TATAs & Ambanis.

Existential crisis brings in a frenzy and unleashes nervous energy. 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 Uttar Pradesh government should do in the immediate term.

Immediate Term policy (Apart from other government initiatives e.g. ODOP) 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 firms were looking to relocate their manufacturing facilities out of China and were having exploratory discussions with Vietnam, Thailand, etc. The Japanese government has announced a \$ 2.2 billion package to support Japanese companies 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, favorable investment environment, ease of doing business, professional workforce in its skill & work ethic, and institutional support in innovation. While Uttar Pradesh has been preparing itself for the next phase of the economic journey, the Corona conundrum has triggered the

turbo button. It is time to run fast and grab its pound of flesh or the party is over soon. The real gain in the first phase of the run will be less in terms of incoming business, more in the way of readying the mindsets, policy infrastructure, and institutional space. I believe that Uttar Pradesh will need to build a \$ 10 billion package that can attract up to \$ 50 billion in FDI creating 1,000,000 direct and indirect jobs in 7 years. Following measures might help in envisaging its comprehensive relocation support package.

1. Tax Incentives – In alignment with the central government of India, the measures could include
 - a. 100% corporate income tax exemption Tax holiday for MSME sectors (in nonstrategic sectors), Agri Processing, Agritech, Animal Husbandry, Tourism, and other related areas for a period of 13 years. On a conditional basis, this exemption can be extended.
 - b. 100% corporate income tax exemption for Hi-tech industries in Intelligent Electronics, Robotics, Software, Biotech, Biofuels and Biochemicals, Edutech, Digital for a period of 5 years applicable to any investment above \$ 50 Million. On a conditional basis, this exemption can be extended.
 - c. 100% 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. On a conditional basis, this exemption can be extended.
 - d. 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
 - d. Foreign companies can invest & own in the existing entities (excluding the reserved items) as per the guidance of DIPP (Department of Industrial Policy)
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). State-based incubators,

technical colleges (Engineering, Biotech, Medicine, etc.), and industry forums will be mapped and specific provisions of campaigns, exhibitions, and publications would be made to accentuate the impact.

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's representatives, consisting of Economic, Business & Policy experts, to meet with the MITI (Ministry of International Trade & Industry) in Japan leveraging JICA (Japanese International Cooperation Agency) in India, MOEF from South Korea to position UP as the fast-emerging destination of business with aggressive investment plans. At this stage, Gujarat, Maharashtra, Tamilnadu, Andhra, and Telangana are the choicest investment centers for the Japanese, South Koreans, and German companies.

IMF predicts that India will have the fastest GDP growth in 2021 and possibly its GDP would still stay in positive growth territory in 2020 despite Coronavirus malaise, unlike western economies which might contract, in real terms, up to 7%. With our lower oil bill, softer inflation, and bold RBI stimulus, India so far, seems to be placed well to weather the virus storm. In fact, some states like Andhra, Telangana, Tamilnadu, Maharashtra have better track records of hosting foreign investments and an eco-system to support them. Gujrat Principal Secretary (Industries) Mr. Manoj Has already 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 the re-location drive. Mr. Mukesh Aghi (President, USISPF) indicated that approx. 200 US manufacturers may be exploring an alternate location to China to base their production units.

The real question is would Uttar Pradesh be able to shift gears and start punching as per its weight.