

The reformer's big test in India

INDIA, FROM PAGE 1

two years ago. That included the dreaded octroi, a British import from medieval times that allowed states and some cities to collect taxes whenever goods crossed a boundary.

Mehta Creation's budget was contorted by corruption. To avoid the octroi, which could triple the cost of a delivery and add delays, Mehta paid drivers about \$5 for each parcel of jeans and then reimbursed them up to \$6 per parcel to bribe the local police at every border, said Dhiren Sharma, the company's chief operating officer.

Mehta's costs dropped after the government abolished 17 taxes, including the octroi, two years ago and established instead a national value-added tax on most business activity.

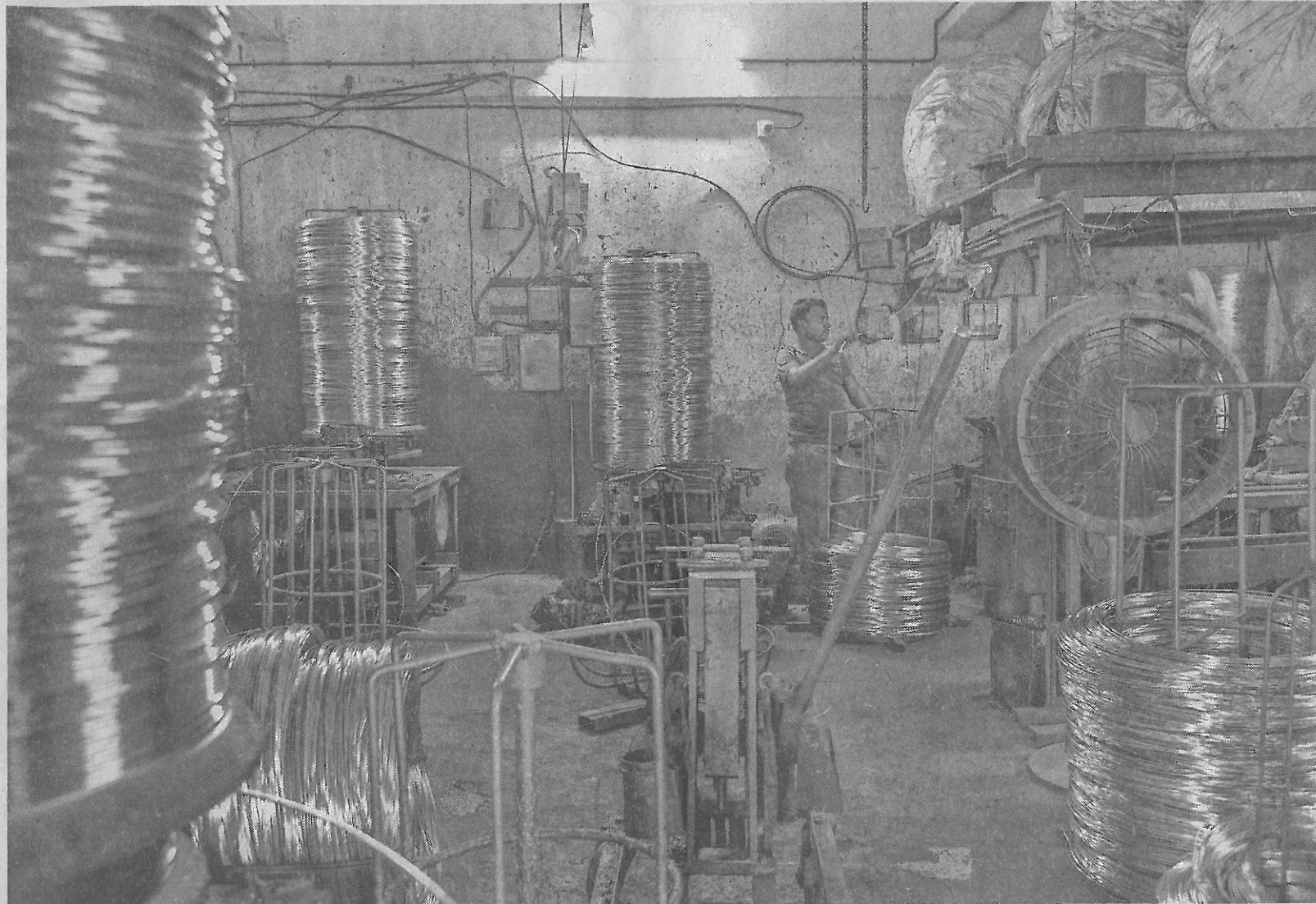
Then Mehta had a zipper problem. The single tax was fine for companies, like Mehta, that had been reporting income. But smaller businesses — like the zipper company it depended on — largely worked on cash payments and had seldom paid taxes.

Under the new law, Mehta had to pay a tax of 5 to 12 percent on each pair of jeans sold to retailers. Its suppliers, too, were obligated to pay a similar tax, and in this supply chain, Mehta was supposed to earn a credit for the taxes its suppliers paid. But the zipper supplier and half of Mehta's fabric vendors initially ignored the tax, Mr. Sharma said. Mehta was forced to pay the missing money. Mehta wrangled with its vendors to pay. So the Modi program energized a sort of accountability, from vendor to vendor, that was effective, if chaotic, in generating tax revenue.

"In the last two years, everything has changed," Mr. Sharma said. The national sales tax "is very good, but it could have been implemented in a better way."

Next door to Mehta, seven employees of Shakti Industries work beneath a large hook holding a huge roll of aluminum cord. Daily, they thin the cord into wire and flex it around spools to sell to jewelry makers. Before Mr. Modi was elected the tiny shop was visited by regulators from a dozen government agencies, with many demanding bribes, said Vipul S. Kamani, the owner.

Now, just three agencies are involved, he said. Licenses can be issued mostly online. A government computer generates a random inspection cycle, making it harder for inspectors to demand regu-



ATUL LOKE FOR THE NEW YORK TIMES

The owner of Shakti Industries said his shop near Mumbai used to be visited by a dozen government regulators, many demanding bribes. Now only three agencies are involved.



AMIT DAVE/REUTERS

The government's recall of large-denomination rupee notes left many scrambling.

lar bribes. Mr. Kamani said he was saving money and "saving a lot of time, too."

Changes seem to have touched most businesses. A restaurateur described how six years ago he needed 32 regulators to sign off on a new eatery. Even a signboard had to be licensed. Each approval required a bribe, the restaurant owner said. He calculated that he would need to pay \$1,200 per seat in bribes, a fortune in a neighborhood where meals usually cost \$6. The restaurateur waited until last year to open and paid far lower bribes — about \$450 per seat — because

the number of regulators had dropped to 14. Next year, he expects the number of regulators, and bribes, to fall sharply again. He asked for anonymity to avoid retaliation by the authorities.

Foreign companies have long complained about red tape in India. Foreign direct investment jumped sharply in Mr. Modi's first two years in office, but has slipped since 2016.

Investors say that while the amount of red tape has plunged, the problem now is demand within India.

Many economists and businesspeople

blame the dip in investment on the unexpected national campaign in November 2016 to recall large-denomination rupee notes. The so-called demonetization program was meant to curb the black market and shift the economy from cash. Digital payments, the government figured, could better track revenue and lead to efficient tax collection for money to pay for roads, subways and ports.

But the program was rolled out so quickly that businesses and households scrambled for paper money. People tried to rely on credit cards and elec-

tronic banking, but many businesses were not equipped to accept them.

In 2018, Mr. Modi shifted toward populist measures. He introduced restrictions that crimped Walmart and Amazon expansions and foreign internet services, and he demanded that Visa, Mastercard and American Express move more operations to India. He made all politics — and economics — local. He kept steep tariffs on imports despite Trump administration complaints and after India lost zero-tariff access to the American market for many goods.

He has won grass-roots support from many Hindus while pushing economic changes advocated by business leaders. He has been mostly silent on sectarian violence, including the lynching of Muslims and lower-caste Hindus. The political swing states of India lie mainly in the north, where Hindu nationalism runs deep, and Mr. Modi seems to have retained support there.

Corning has a factory north of Pune, an industrial hub, and it has witnessed improvements — although some began under the Congress party before Mr. Modi took office. The road outside its factory once had huge potholes. It has

Cutting red tape hasn't translated into broad economic growth.

been paved. Electricity blackouts occurred weekly; now electricity fails about once a month. And because of a new law, Corning can better force errant clients to pay their bills, improving the company's cash flow.

When it comes to red tape, India "certainly seems to be heading in the right direction," said Amit Bansal, Corning's managing director for India.

Gaurav Dalmia, the chairman of a family-controlled conglomerate that makes cement and heat-resistant tiles for steel furnaces, said big business was making a calculation in these last days of voting.

"If the Modi government is re-elected, as it is likely to be, you will get economic reform as well as social challenges," he said. "It's a package deal, whether you like it or not."

"On a net basis," Mr. Dalmia said, "many like me would buy that package."

Ayesha Venkataraman contributed reporting.