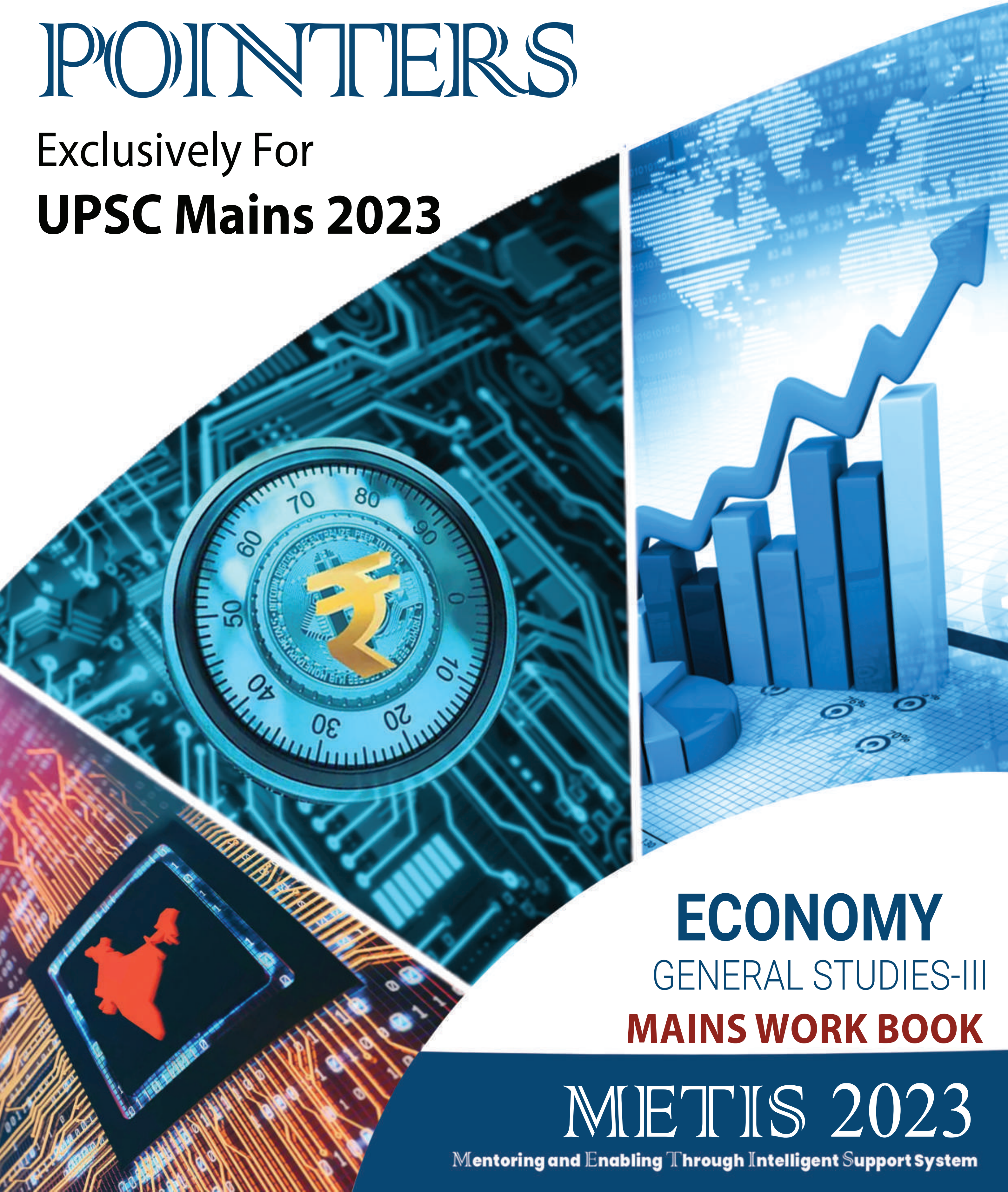
SIVARAJAVEL IAS ACADEMY
AN IDEAL INSTITUTE FOR CIVIL SERVICE EXAMS

TOPICS & POINTERS

Exclusively For
UPSC Mains 2023



ECONOMY
GENERAL STUDIES-III
MAINS WORK BOOK

METIS 2023
Mentoring and Enabling Through Intelligent Support System

ECONOMY

IMPORTANT THEMES OF ECONOMY

Growth and Its associated Issues- Recovery, Challenges, Types Determinants

1. Limitations of GDP
2. Methodology of GDP- Issues? Revision
3. Alternatives to GDP- GNH, GEP etc Feasibility
4. Export-Led Growth
5. Agri- Problems/prospects/Way forward
6. Services: Problems/Prospects/WF
7. Manufacturing: Problems/ Refer above
8. MSME- Driver of growth/ constrains and
9. Industry 4.0
10. Innovation Ecosystem in India
11. PLI scheme: Objective, Challenges
12. SEZ- Need for changes in the act
13. Capital Account Convertibility—Can we Implement?
14. Why is Doing Business Difficult in India?
    a. EODB discontinued- Why?

Inclusive Growth and Issues:

15. Inclusive Growth- Meaning/Scope
16. Challenges and how to ensure?
17. Financial Inclusion
18. Sustainable Development.
19. Green Finance
20. Rising Income Inequality- Impact, Measures needed
21. Oxford Inequality Report - Facets of Economic Inequality
22. Unemployment- Measurement, PLFS findings
23. Jobless Growth
24. Labor codes and will it increase LFPR
25. Sen vs Bhagawati Growth Model
26. Skill→ Status, schemes, and way forward

Budgeting:

27. Union 2023-24 Budget Objectives/ Important Highlights
28. Fiscal Federalism during and after Covid.
29. FRBM—Time to revisit
30. Issues with GST- Assessment
31. GST-5 Years Achievements and Issues
32. GST compensation-> Extension.
33. Crowding out vs Crowding In? How Crowding in?
34. Direct Tax reforms?
35. Counter Cyclical fiscal Policy.
36. National Monetization pipeline
37. Social Stock Exchange- ESG??

Other Basics

38. Monetary Policy→ Effectiveness/Innovation/ Challenges?
39. Recent Economic Collapses
40. Cryptocurrencies—Regulate or Ban/Tax
41. CBDC→ Pros and Cons
42. Fintech Companies→Potential/Constrains/Steps taken
43. Bad bank→ Pro's cons
44. Digital Banking→ Prospects and challenges
45. Open Network for Digital Commerce→ Will it address problems of Kirana shops?
46. NaBFID- Objectives, Role and challenges

Land reforms

47. Land Reforms: Why/ Measures/ Assessment
48. Land Records Modernization- Benefits
49. Digital Schemes for Land Records

Infrastructure and Investment models

50. GATI Shakthi Master Plan
51. Importance of Infra/NIP Pipeline
52. Electricity Amendment Bill 2021
53. Energy Basket→ Status
    a. Coal shortages, Steps
    b. Renewables: Status, Constrains and Prospects
54. Railways, Roadways
55. Airports and Port Ways
56. Telecom Reforms
57. National Logistics Policy- 2022, Prospects, challenges and Steps taken
58. InVIT and REIT's status and role in Infrastructure
59. Ethanol Economy
60. PPP→ Models

Effects of LPG

61. Privatisation→Pros/cons
62. FDI vs FPI - Recent Status, why is it not taking off? / FDI in Defence
63. WTO 12th MC outcomes→ Indian Perspective
64. FOREIGN TRADE POLICY 2023
65. Trade wars and Protectionism→India's Position and Violations
66. Recent FTA's / India's advantages or disadvantages.
67. Cross Border Insolvency- Issues and UNCITRAL adoption
68. Economic Impacts due to LPG→ Assessment of 30 years
69. Internationalisation of Rupee and De-Dollarisation

PREVIOUS YEAR QUESTIONS

GS3 Syllabus Topic: Indian Economy (issues re: planning, mobilisation of resources, growth, development, employment); Inclusive growth and issues therein

Is inclusive growth possible in a market economy? State the significance of financial inclusion in achieving economic growth in India	2022
"Economic growth in the recent past has been led by an increase in labor productivity". Explain this statement. Suggest the growth pattern that will lead to creation of more jobs without compromising labour productivity.250 words	2022
The increase in life expectancy in the country has led to newer health challenges in the community. What are those challenges and what steps need to be taken to meet them?	2022
Explain the difference between the computing methodology of India's Gross Domestic Product (GDP) before the year 2015 and after the year 2015. (Answer in 150 words)	2021
Do you agree that the Indian economy has recently experienced V- shapes recovery? Give reasons in support of your answer. (Answer in 250 words	2021
Explain intra-generational and inter-generational issues of equity from the perspective of inclusive growth and sustainable development.	2020
Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP?	2020
Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments.	2019
It is argued that the strategy of inclusive growth is intended to meet the objectives of inclusiveness and sustainability together. Comment on this statement.	2019
How are the principles followed by the NITI Aayog different from those followed by the erstwhile Planning Commission in India?	2018
Among several factors for India's potential growth, savings rate is the most effective one. Do you agree? What are the other factors available for growth potential?	2017
Account for the failure of manufacturing sector in achieving the goal of labour-intensive exports rather than capital-intensive exports. Suggest measures for more labour-intensive rather than capital-intensive exports.	2017

What are the salient features of 'inclusive growth'? Has India been experiencing such a growth process? Analyze and suggest measures for inclusive growth.	2017
Pradhan Mantri Jan-Dhan Yojana (PMJDY) is necessary for bringing unbanked to the institutional finance fold. Do you agree with this for financial inclusion of the poorer section of the Indian society? Give arguments to justify your opinion.	2016
Comment on the challenges for inclusive growth which include careless and useless manpower in the Indian context. Suggest measures to be taken for facing these challenges.	2016
The nature of economic growth in India in described as jobless growth. Do you agree with this view? Give arguments in favour of your answer.	2015
Craze for gold in Indians have led to a surge in import of gold in recent years and put pressure on balance of payments and external value of rupee. In view of this, examine the merits of Gold Monetization Scheme.	2015
Capitalism has guided the world economy to unprecedented prosperity. However, it often encourages short-sightedness and contributes to wide disparities between the rich and the poor. In this light, would it be correct to believe and adopt capitalism driving inclusive growth in India? Discuss.	2014
With a consideration towards the strategy of inclusive growth, the new companies bill, 2013 has indirectly made CSR a mandatory obligation. Discuss the challenges expected in its implementation in right earnest. Also discuss other provisions in the bill and their implications.	2013
"Success of 'Make in India' programme depends on the success of 'Skill India' programme and radical labour reforms." Discuss with logical arguments.	2015
While we found India's demographic dividend, we ignore the dropping rates of employability. What are we missing while doing so? Where will the jobs that India desperately needs come from? Explain.	2014

GS-3 Syllabus: Govt budgeting

Distinguish between Capital Budget and Revenue Budget. Explain the components of both these Budgets. (Answer in 150 words)	2021
Explain the rationale behind the Goods and Services Tax (Compensation to States) Act of 2017. How has COVID-19 impacted the GST compensation fund and created new federal tensions?	2020
Enumerate the indirect taxes which have been subsumed in the Goods and Services Tax (GST) in India. Also, comment on the revenue implications of the GST introduced in India since July 2017.	2019
The public expenditure management is a challenge to the government of India in the context of budget-making during the post-liberalization period. Clarify it.	2019

Comment on the important changes introduced in respect of the Long-term Capital Gains Tax (LCGT) and Dividend Distribution Tax (DDT) in the Union Budget for 2018-2019.	2018
One of the intended objectives of Union Budget 2017-18 is to 'transform, energize and clean India'. Analyse the measures proposed in the Budget 2017-18 to achieve the objective.	2017
Women empowerment in India needs gender budgeting. What are the requirements and status of gender budgeting in the Indian context?	2016
In what way could replacement of price subsidy with Direct Benefit Transfer (DBT) change the scenario of subsidies in India? Discuss.	2015
What are the reasons for introduction of Fiscal responsibility and Budget Management (FRBM) act, 2003? Discuss critically its salient features and their effectiveness.	2013
What is meaning of the term tax-expenditure? Taking housing sector as an example, discuss how it influences budgetary policies of the government.	2013
Discussion the rationale for introducing Good and services tax in India. Bring out critically the reasons for delay in roll out for its regime.	2013

GS3 Syllabus Topic: Infrastructure (energy, ports, roads, airports, railways); Investment models

Why is Public Private Partnership (PPP) required in Infrastructural projects? Examine the role of PPP model in the redevelopment of Railway Stations in India	2022
"Investment in infrastructure is essential for more rapid and inclusive economic growth." Discuss in the light of India's experience. (250 words, 15 marks)	2021
Explain the meaning of investment in an economy in terms of capital formation. Discuss the factors to be considered while designing a concession agreement between a public entity and a private entity.	2020
With growing energy needs should India keep on expanding its nuclear energy programme? Discuss the facts and fears associated with nuclear energy.	2018
Access to affordable, reliable, sustainable and modern energy is the sine qua non to achieve Sustainable Development Goals (SDGs). Comment on the progress made in India in this regard.	2018
Examine the developments of Airports in India through Joint Ventures under Public-Private Partnership (PPP) model. What are the challenges faced by the authorities in this regard?	2017
What are 'Smart Cities? Examine their relevance for urban development in India. Will it increase rural-urban differences? Give arguments for Smart Villages' in the light of PURA and RURBAN Mission.	2016
Justify the need for FDI for the development of the Indian economy. Why there is gap between MOUs signed and actual FDIs? Suggest remedial steps to be taken for increasing actual FDIs in India.	2016
There is a clear acknowledgement that Special Economic Zones (SEZs) are a tool of industrial development, manufacturing and exports. Recognizing this	2015

potential, the whole instrumentality of SEZs requires augmentation. Discuss the issues plaguing the success of SEZs with respect to taxation, governing laws and administration.	
The right to fair compensation and transparency land acquisition, rehabilitation and resettlement act, 2013 has come into effect from 1 January 2014. What implication would it have on industrialisation and agriculture in India?	2014
National urban transport policy emphasizes on moving people instead of moving vehicles. Discuss critically the success of various strategies of the government in this regard.	2014
Explain how private public partnership agreements, in longer gestation infrastructure projects, can transfer unsuitable liabilities to the future. What arrangements need to be put in place to ensure that successive generations' capacities are not compromised?	2014
Adaptation of PPP model for infrastructure development of the country has not been free from criticism. Critically discuss the pros and cons of the model.	2013

GS3 Syllabus Topic: Effects of Liberalisation on the economy; Changes in Industrial policy & their effects on industrial growth

How would the recent phenomena of protectionism and currency manipulations in world trade affect macroeconomic stability of India?	2018
"Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far the recent changes in Industrial Policy are capable of increasing the industrial growth rate?	2017
How globalization has led to the reduction of employment in the formal sector of the Indian economy? Is increased informalization detrimental to the development of the country?	2016
Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis industry in the country? Can India become a developed country without a strong industrial base?	2014
Foreign direct investment in the defence sector is now said to be liberalised. What influence this is expected to have on Indian defence and economy in the short and long run?	2014
Examine the impact of liberalization on companies owned by Indian. Are the competing with the MNCs satisfactorily?	2013
Discuss the impact of FDI entry into multi-trade retail sector on supply chain management in commodity trade pattern of the economy.	2013
Though India allowed foreign direct investment (FDI) in what is called multi brand retail through joint venture route in September 2012, the FDI even after a year, has not picket up. Discuss the reasons.	2013

GROWTH AND ITS ASSOCIATED ISSUES- RECOVERY, CHALLENGES, TYPES DETERMINANTS		
1.	**Limitations of GDP**	
	Limitations of GDP – The exclusion of non-market transactions – The failure to account for or represent the degree of income inequality in society – The failure to indicate whether the nation's rate of growth is sustainable or not – The failure to account for the costs imposed on human health and the environment of negative externalities arising from the production or consumption of the – GDP doesn't count unpaid volunteer work – GDP doesn't account for quality of goods – Treating the replacement of depreciated capital the same as the creation of new capital	
2.	**Issues with methodology of GDP.**	
	– Volatile Revisions: In overall GDP numbers, the revisions appear to have an upward bias, raising concerns about the credibility of GDP results – Informal sector overestimation bias: The new GDP series assumes that the informal sector has expanded at the same rate as the formal manufacturing sector. – Use of Deflators: • Wholesale price index (WPI) as deflator for several sectors of the economy (particularly services) is inappropriate – Use of MCA21 database: The use of an untested corporate database, MCA-21 under new GDP series is contentious – Shift from establishment to enterprise approach: The activities of firms are much more diverse than factories and would not qualify as manufacturing – Administrative Issues: Lack of transparency and effective audit of the GDP database point to inadequate oversight of the NSO. **Revision:** • MCA21 database should be properly authenticated • New data sources and methodologies can be explored • Greater transparency on the methodology and better data dissemination standards • Data comparability need to be given focused. • Inclusion of environmental cost also.	

3.	**Alternatives to GDP.**	
	Few alternatives to GDP – Human Development Index (HDI) – Genuine Progress Indicator (GPI) – Thriving Places Index (TPI) – Green GDP – Better Life Index (BLI) – Inclusive Wealth Index (IWI) – Genuine Savings Indicator (GSI) – Happy Planet Index (HPI) – GNH **Feasibility/Limitations.** – The HDI may hide widespread inequality. – It does not consider factors such as protecting personal freedom, pollution levels. – **non-economic variables are too subjective** – Govt doesn't want economic growth statistics affected by environmental factors. – Ecological footprint is a contentious measure of economic development. No proper tools developed objectively. – Qualitative assessment is subjected to non objective bias and difficult to comprehend.	
4.	**Export–Led growth**	
	Intro: – An export-led growth strategy is one where a country seeks economic development by opening itself up to international trade. – By the 1980s, many developing nations liberalized trade and began to adopt the export-oriented model in lieu of import substitution. – **India's Export to GDP ratio: 19-21% Last 3 years** **Body:** – India's market is too small to sustain import substitution strategy→ difficult to offer investors →incentivizing them to export. As India contemplates Atmanirbhar Bharat, two deeper advantages of export orientation are always worth remembering. – Foreign demand will always be bigger than domestic demand for any country. – If domestic producers are competitive internationally, they will be competitive domestically and domestic consumers and firms will also benefit.	

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India’s export-led growth strategy has been under the following initiatives:
– Special Economic Zones (SEZ).
– Agriculture Export Zones (AEZ).
– Electronic Software Technology Parks (ESTP).
– Electronic Hardware Technology Parks (EHTP).
– Export-oriented Units (EOU).
Advantages:
– Greater production can lead to larger economies of scale and better margins.
– Expansion of market – less dependent on a single one.
– They are an injection into the circular flow of income leading to a rise in aggregate demand and an expansion of output, thus raising the per capita income and reducing poverty
– Growing exports – Higher revenue and profits - Higher investment – increases a country’s productive capacity which then increases the potential for exports.
Disadvantages:
– Running persistent trade surpluses might incite a protectionist response from other nations who feel that the benefits of trade have been unequally skewed in favour of exporting countries.
– Huge trade imbalances remain a big concern in the global economic system.
– Over dependence on other economies leads to increased vulnerability to external economic and political shocks.
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<tr><td>5.</td><td>Agriculture</td><td></td></tr>
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Problems
– Instability: dependence on monsoon → food production fluctuates → hard to formulate policies and measures. 51% of Net Sown Area and 40% of total food production is rainfed.
– Low productivity: Per area productivity or yield for major crops is much lower than countries like USA, Brazil and China.
– Land Ownership: Some degree of concentration of land holding is still present. More farm labourers than farm owners.
– Sub-Division and Fragmentation of Holding: Due to population growth and break-down of the joint family system → continuous sub-division of agricultural land into smaller and smaller plots. And selling of land to repay debt causes further division. Over 70% of agricultural land owners own less than 1 hectare.
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- **Conditions of Agricultural Labourers**: problem of surplus labour or disguised unemployment → low wage → poor economic conditions → farmer suicides.
- **Fertilizers and Biocides**: depletion and exhaustion of soils → low productivity. The average yields of almost all the crops are among the lowest in the world.
- **Irrigation**: Although India is the second largest irrigated country of the world after China, only one-third of the cropped area is under irrigation. Rainfall is uncertain, and erratic. Most of the rainfall in just 3 months.
- **Lack of mechanisation**: most of the agricultural operations in larger parts are carried on by using conventional tools like wooden plough, sickle, etc. Limited to certain pockets like Punjab, Haryana and Western UP. Overall level of farm mechanisation in India is 40-45%
- **Agricultural Marketing**: absence of sound marketing facilities → farmers have to depend upon local traders and middlemen for the disposal of their farm produce → sold at throw-away price.
- **Inadequate transport and storage**: there are lakhs of villages which are not well connected with main roads or with market centres.
- **Falling Investment**: The Gross Capital Formation (GCF) in agriculture as a percentage of the total GCF in the economy has fallen from 8.5 % in 2011 to 6.5 % in Financial Year 2019.
- **MSP, subsidies and Related Issues**: Selective Procurement for 23 crops but only wheat and rice are procured in large quantities as they are required to meet the requirement of PDS; Stagnant Rates of MSP; Unequal Access(benefits do not reach all farmers and for all crops); Non Scientific Practices whereby the soil, water are stressed. Huge subsidies on power and water not only stress the budget but also raises concern in WTO.

Prospects:

- Labour intensive: Almost 50% of working population is dependent on agriculture directly or indirectly: Employment generation.
- Food processing: employment generation, capital formation and increase in national income.
- Exports: increasing productivity of cotton, horticulture, milk, meat, fish, vegetables etc → increase of forex reserves
- Food security: Able to feed 1.3 billion people and still with a buffer stock of more than twice of what's required.

	Way forward: – Targeted schemes like Rashtriya Krishi Vikas Yojana (RKVY), National Mission for Sustainable Agriculture, Pradhan Mantri Krishi Sinchai Yojana for irrigation, Paramparagat Krishi Vikas Yojana for Organic farming, Pradhan Mantri Fasal Bima Yojana for crop insurance, eNAM, Soil Health Card scheme etc – Making farmer-centric policies through democratic norms and processes like open public debate, dialogue with stakeholders and detailed parliamentary scrutiny → avoids issues like farmer protests. – Farmer Producer Organisations (FPOs): Encouraging formation and protection to FPOs in the changing dynamics of farm business. – Encouraging cooperative and collective farming. – Overcoming the challenges through the use of technology. – Shift from rice and wheat centric policies → solves MSP issues and hidden hunger. – Improvement of allied sectors like Food Processing.	
6.	**Services**	
	Problems – **Lack of skilled labour**: Most of the labourers even in service sector are unskilled and may fall under informal sector. – **High Contact Intensive**: depends on human contact and is also people-centric. Disruptions like a pandemic could severely affect businesses. – **Taxation**: the sector suffers several heavy direct and indirect taxes. – **Lack of infrastructure**: poor connectivity like road, rail, communication and lack of facilities like water, sewage, waste disposal could lead to higher cost of doing business. Digital Infra plays a role in services cost today. – **Market barriers**: India's trade in this sector with its WTO partner countries has been hampered by several market entry barriers. For ex, US, one of India's most important trade partners exert several restrictions on licensing of skilled service providers etc. – **Poor governance:** Demonetization, barriers to FDI, uncoordinated government bodies, red-tapism, poor labour laws etc – **External shocks**: Crises like financial crisis, war, pandemic etc have a more influence on the service sector than any other.	

Prospects:

- GDP: Nearly 54% contribution to GDP with just 32% of total employment.
- Employment generation: Service sector was able to absorb the employment shift from agriculture with the advent of ITeS(IT enabled services) with a decently skilled human resource and allied sectors.

Sub-Sector wise potential

- Tourism: growing at 14%, close to $30 billion per year.12th in terms of tourism forex earnings.
- Space: grown exponentially in the past six decades. Opened up for private sector since 2020.
- IT-BPM/FinTech: been the flag-bearer of India's exports over the last 20 years. Last decade, the industry grew by 102 per cent reaching US$ 200 billion in revenues in 2022.
- Media & Entertainment: Bollywood, IPL, Rise of EduTech companies, etc can add to the contribution of the sector.

Way forward

- **Structural reforms**: The space sector was opened up, telecom related regulations were removed from the IT-BPO sector, and consumer protection regulations were introduced for e-commerce.
- **Health sector**: new medical colleges to boost the accessibility of affordable health treatments among citizens; Ayushman Bharat Health Infrastructure Mission
- Production Linked Incentive (PLI) Scheme for services also needed
- PMKVY 3.0: Skill Development, more decentralised structure with greater responsibilities and support from States/UTs and Districts by incorporating the learnings from PMKVY 1.0 and PMKVY 2.0. And Skill India Initiative.
- Infrastructure projects like BharatNet, National Broadband Mission, etc
- Closely monitor the development of the service industry, given the potential and need for sustained large scale investment → linkages to the rest of the economy providing significant multiplier effects.
- Reforms in Domestic regulations are important both for domestic production and export of services without being used as restrictive trade barriers.
- The market access restrictions need to be negotiated in the WTO and bilateral meetings.

7.	Manufacturing	
	Problems – India leapfrogged from Primary to Tertiary sector when the economy transformed and the development of manufacturing sector has ever been lacking. – **Scale of production**: Lack of funding to improve scale of production which is a key factor for ease of doing business – Cost of land and power: India's industrial land is one of the most expensive in the world. This is overburdened by cross-subsidy. – Cost of capital: Normally 20-30% higher than business friendly countries. – Labour productivity and skill: Most workers are unskilled. Only 45% of graduates are employable. – Weak MSME: Lack of funding, technology and scale production. – Excessive logistic cost, high import duty on raw materials and machines: India's average logistics cost is 13% of revenue while the world average is just 8%. – Lack of certified factories: In China, a huge majority of factories are ISO or BSI certified, but finding similar operations in India can prove to be an uphill task. Majority of them do not even meet any basic inspection standards. – Lack of allied infrastructure: connectivity like transport, communication and other key facilities are missing. India uses only 3% of GDP on infra in comparison to 20% by China every year. – Complicated labour laws. – Biased trade regime: India's trade regime is biased towards capital intensive manufacturing. – Governance issues: Too many schemes - bulk of the manufacturing related schemes relied too much on foreign capital for investments and global markets for produce. **Prospects** – 3 Ds (Democracy, demography and demand) for the growth of the manufacturing sector. – 65% of India's population is below the age of 35 – an advantage when compared to other counties. – Every job created in the manufacturing sector has a multiplier effect in creating 2 to 3 jobs in the service sector. – High domestic demand, increasing middle class and young population and high returns make India attractive for the manufacturers. – The manpower cost is low when compared to other nations.	

	Way forward – Govt initiatives like Make in India, Skill India, National Manufacturing Policy, PM Mudra Yojna, Start Up India, Stand Up India etc – Promoting the growth of labour intensive industries like textile. – Promotion of MSME: they account for 8% of the GDP, 45% of manufacturing output and 40% of exports. – Labour reforms. – Improving education quality and labour productivity: Skill development. – Improving power infrastructure and logistics: According to the World Bank, access to electricity is the second-most important obstacle for manufacturing firms. The logistics cost is estimated to be around 14 to 15% of the GDP in India, almost double of the 7-8% of the GDP in the developed countries. **Lessons:** – From China: comprehensive economic planning, high investments in infrastructure growth, incentives and subsidies, progressive decentralisation and market-oriented reforms led to its manufacturing revolution. – From South Korea: become a high-tech manufacturing country by giving higher emphasis on the purchase of technology and subsidies on R&D investments made by the public and private players. Tax incentives for R&D are provided at every stage.	
8.	**MSME- Driver of growth/ constraints**	
	Data – Share in India's GDP – 8 – Share in Exports – 45 % of all exports – 110 million workers employed in MSMEs – Consistently maintained a growth rate of 10% – Women own 20% MSMEs – 60 % MSME belong to rural India **Significance** **Economic** – Greater export potential – Atmanirbhar Bharat -reduces import bill – Promotes rural development, inclusive growth – Boosts domestic capability – Key drivers of India's transition from agrarian to industrialized economy – employment generation, industrial production – Building Brand India-connected to global network – Reduces regional disparities	

- Skill development
- Augment IT, space and defence sector
- Boosts digitisation and automation via technology transfer

Constraints

- High cost of finance, power and logistics
- Supply chain bottlenecks
- Poor local value addition
- Poor infrastructure, credit access,
- High import dependence, inverted duty structure
- Unskilled labour force, poor labour laws
- Regionalism, e- waste, environmental degradation

Government Initiatives

- Increased budgetary allocation
- Incentivising foreign players, attracting FDI
- UAM, ASPIRE, credit linked subsidy scheme, Mudra scheme, SFURTI, ZED scheme, skill development programme etc.,

Way forward

- Boost investment, reducing duty structure, providing tax benefits, proper utilization of SEZ, increase R & D, huge potential for medical electronic manufacturing, leveraging industry 4.0

9. Industry 4.0

Industrial Revolution 4.0 - driven by breakthroughs in digital technologies, such as artificial intelligence, robotics, 3D printing, the IoT, Big Data etc.

- Pandemic induced automation- corporates adopted ; MSME suffered

Significance

- Promotes gig-economy
- Technology →Women friendly jobs, WFH, gender parity
- Increases efficiency and productivity.
- automation and AI-enabled tools
- Promote innovation and revolutionize the production processes
- Promotes competitiveness; consumers- quality products

Challenges

- Low Job Creation
- Income inequality & Gender inequality
- Lack of awareness among msme's
- Lack of financial investments
- Digital divide
- Negative impact on unskilled/ semiskilled labor force
    - E-commerce → lowers human intervention→highly robotized

- Challenge in adopting new technology
- no easy access to capital

Way forward

- The industry, academia → collaborate →Industry 4.0-compatible workforce.
- Skilling initiatives can be fast-tracked via subsidies, tax incentives, and other supportive measures for MSMEs to acquire the requisite Industry 4.0 talent.

10. Innovation Ecosystem in India

- Innovation in India – planned around collaboration, facilitation and responsible regulation

Present status

- India has emerged as a hub of innovation.
- Exponential rise of investment in innovation sector – attracts huge FDI
- 40th position out of 132 in the Global Innovation Index (GII) 2022 rankings
- India surpasses UK as the third most popular country for unicorns.

Challenges

- Lack of capital
- Risk aversion attitude of Indians
- Organizational and structural problems
- Diversity in India – different language- communication gap
- Digital divide
- complex regulatory environment
- Lack of spending on R&D. World Average 1.8%, India is 0.8%
- problem of market penetration- huge competition from large enterprises.

Potential of India's Innovation ecosystem

- India is the fastest growing country in terms of Internet usage, with over 700 million users and the number projected to rise to 974 million by 2025.
- The JAM (Jan Dhan, Aadhaar, Mobile) trinity has 404 million Jan Dhan bank accounts with 1.2 billion Aadhaar and 1.2 billion mobile subscribers.
- There is a potential to add over $957 billion to India's GDP by 2035 with artificial intelligence (AI).

Govt initiatives

- Change in the Intellectual Property Rights (IPR) regime
- **Summit** - Vaishvik Bharatiya Vaigyanik (VAIBHAV) summit, Responsible AI for Social Empowerment (RAISE) 2020 summit
- **Scholarships** - INSPIRE scholarships, Ramanujan Fellowship

- triad of Scheme -STARS, SPARC & IMPRESS
- Future Skills PRIME, Smart India Hackathons (SIH), Atal Innovation Mission (AIM), ASPIRE, Biotechnology Ignition Grant (BIG) scheme, KIRAN scheme etc.,

Way forward
- Partnership to promote innovation – PPP, global partnerships etc.,
- Indians Ideas should be brought to market
- Increased R&D spending
- The innovation sector in India has a lot to contribute to the Indian economy in terms of increasing employment, providing economic stability, and encouraging further innovation.

11. Production-Linked Incentive(PLI) Scheme: Objective and Challenges

Intro
- Launched as a part of the National Policy on Electronics 2019 → to give incentives of 4-6% to electronic companies.
- Conceived to scale up domestic manufacturing capability → accompanied by higher import substitution and employment generation.
- Implemented by the concerned ministries/departments.

Body

Objective
- Target specific product areas
- Introduce non-tariff measures in order to compete more effectively with cheap imports
- Blend domestic and export sales to make manufacturing competitive and sustainable
- Promote manufacturing at home while encouraging investment from within and outside India.
- **Announced Sectors**
- 14 sectors including automobile and auto components, electronics and IT hardware, telecom, pharmaceuticals, solar modules, metals and mining, textiles and apparel, white goods, drones, and advanced chemistry cell batteries.
- **Incentives**
- On **the basis of incremental sales** - as low as 1% for the electronics & technology products → as high as 20% for the manufacturing of critical key starting drugs & certain drug intermediaries.
- In some sectors such as advanced chemistry cell batteries, textile products and the drone industry, the incentive to be

given will be calculated on **the basis of sales**, **performance and local value addition** done over the period of five years.

Challenges

- **Financial cap on incentives** → makes an over-performing company not to reap the benefits of its over achievements.
- **The effective cost of manufacturing is higher than the competitors** → e.g Ernst & Young study shows that if the cost of production of one mobile is Rs.100 → effective cost of manufacturing the mobile is 79.55 in China, 89.05 in Vietnam, and 92.51 in India(including PLI) → the investors will prefer other countries despite the PLI scheme.
- The scheme **did not address the core challenges faced by** the Sunrise industry manufacturers. Such as,
- ***Less presence of domestic firms:*** Will benefit the international player more than the Domestic firms → e.g About 99% of Xiaomi phones sold in India were made in India
- ***The problem of Cheap imported material:*** Domestic firms may also face competition from cheap imports → especially from Chinese in Solar PV Modules, White Goods etc.
- ***Lack of cutting edge technology and Foundries****:* India → not focussed on adequate R&D development and Raw machinery → poor talent retention → 'brain drain'.
- ***The Challenge of WTO:*** In September 2019, Chinese Taipei contested the raise in tariffs under the Phased Manufacturing Programme(PMP) → if the PMP is found to be the WTO non-compliant → the growth of domestic industries is limited.

Way Forward

- Encourage the Foreign firms under the PLI policy to co-locate (placement of several entities in a single location)
- bring the assemblers and component manufacturers together → reduces the effective cost of manufacturing.
- Should focus on the service industry
- Focus on other key challenges of the manufacturing sector through initiatives such as,
    - costs of power and logistics.
- Encouraging states to be competitive
- Discourage trade-restrictive practices like Job reservation for locals etc
- Implementing structural reforms such as Land reforms
- Needs to improve human capital to meet the demands of the sunrise industries.

12.	SEZ- Need for changes in the act	
	Recent development – Inorder to revamp SEZ's, Government of India proposed a DESH Bill to rebrand India's 268 Special Economic Zones (SEZs) as 'development hubs' under the DESH bill. **Need for changes in the act** – Indian SEZs - much smaller in size and performance compared to Chinese SEZs → SEZ attracted more units for **the tax concession** than for any other competitive consideration. – Many large-export oriented units (EOUs) were converted into SEZs → when tax exemptions ended → investments dried up → less than half the land approved for SEZ purposes is used → leading to **gross underutilization of resources.** – Under the SEZ Act, sale of goods manufactured in SEZs in **domestic market attracts custom duties.** However, the custom duties are levied on the entire finished good and not just on the imported raw materials (imported duty free). This acts as a big deterrent for current SEZ units. – In 2019, the World Trade Organization (WTO) held that **subsidies provided to SEZ units in India violated the rules** of fair trade. – There are multiple models for economic zones apart from SEZ like NIMZ, Coastal Economic Zones etc., which creates problems in integration of various models. – The tax provisions related to the SEZs was changed multiple times e.g., **Minimum Alternate Tax (MAT)** was introduced and exemption on Dividend Distribution Tax was withdrawn. – Another issue was **introduction of sunset date for direct tax** benefits. These frequent tax changes negatively impacted investor sentiment leading to gradual drying up of investments. – In 2020, the **capacity utilization of SEZs** had fallen to 50%. East Asian economies like Philippines, Vietnam, Thailand etc. tweaked their policies that attracted investments e.g., SEZs in Indonesia and Thailand enjoy Tax exemptions for 12 and 13 years respectively. **Recommendations of Baba Kalyani committee report** – Extension of sunset clause beyond 2020 & retaining taxation benefits withdrawn earlier – To develop integrated industrial and urban development – Formulation of separate rules and procedures for manufacturing and service SEZs	

- Infrastructure status to SEZs to improve access to finance and to enable longterm borrowing
- Enhance competitiveness by enabling ecosystem development by funding highspeed multi-modal connectivity, business services, and utility infrastructure.
- Procedural relaxations for developers and tenants to improve operational and exit issues.
- Broad-banding definition of services/allowing multiple services to come together
- Utilizing Multi Services SEZ and IFSC for all inbound and outbound investments

13. CAPITAL ACCOUNT CONVERTIBILITY

- Capital account convertibility refers to the ease and freedom with which a country's currency can be converted into any other foreign currency .
- India - long way in liberating the capital account transactions - last three decades and currently has partial capital account convertibility.

Body :

Advantages of capital account convertibility:

- Improved access to international financial markets makes substantial money more accessible.
- Lowering the cost of capital.
- The financial incentive for Indians to buy and hold foreign equities and assets.
- Greater financial competitiveness.
- Will assist Indian corporations- obtaining external commercial borrowing without the approval of the RBI or the government.
- Foreign currency-denominated deposits can be held and transacted by Indian residents with Indian banks.
- A certain number of financial institutions and, later, non-bank financial companies (NBFCs) have access to the global financial market.
- Gold may be traded globally and loans can be issued by banks and financial entities.

Disadvantages of Capital account Convertibility

- When market currency rates > government fixed exchange rates, import prices rise and Cost-push inflation occurs.
- High Volatility
- Currency depreciation
- CAC→short term benefits
- Might result -capital flight -South Asian Countries 1997-98.

14. DOING BUSINESS DIFFICUILT?

Though World banks EODB (stopped publishing)-ranked India progressively -There are many bottlenecks faced by corporate sector in India.

- **Problems Faced by corporate sector in India:**
- **Regulatory Procedure and Related Delays:** lengthy procedure and delays - decision making system is poor delays completion -large investment project.
- **Unnecessary Control:** Price controls,.dual pricing etc. has resulted in black marketing and hoarding
- **Inadequate Diversification:** The private sector has been suffering from inadequate diversification - Government did not allow them to participate in basic, heavy and infrastructural sectors like defence and railways .
- **Lack of Finance and Credit:** competition between large scale industrial corporate units small scale units -raising fund for their expansion.Increase in NPA - led to decreased credit for private sector.
- **Starting a business in India:** all the required procedures, with fees and add-on costs –big barrier –for starting business.
- **Poor implementation of law:** Introduction of the Companies Act 2013, - the stringent provisions led a setback to implementation. The increase in the compliance burden has, -curbed the incorporation of companies in India.
- **Land acquisition issue:** Land acquisition remains complex, -There are many litigations due to inheritance, fragmented holdings, and demands by sellers to be paid in cash.
- **Electricity:** The demand is currently more than supply. As the economy booms, and there is a potential for power outages.
- **Infrastructure:** An infrastructure strain poses a challenge to distribution and logistics.
- **Exports and imports challenges:** . Exporters and investors face non-transparent and often unpredictable regulatory and tariff regimes.
- **Skill gap in India:** Accessing the right skills is a challenge.

EODB DISCONTINUED -REASONS

- **The theory underlying the EDB index was inaccurate, the measurement and data might be faulty, or both.**
- Vulnerable to a tweaking of the underlying method.-**For instance**, **Chile's rank** on the EDB index sharply rose when the conservative government was in power and went down when the socialists were ruling despite no changes in policies and procedures.

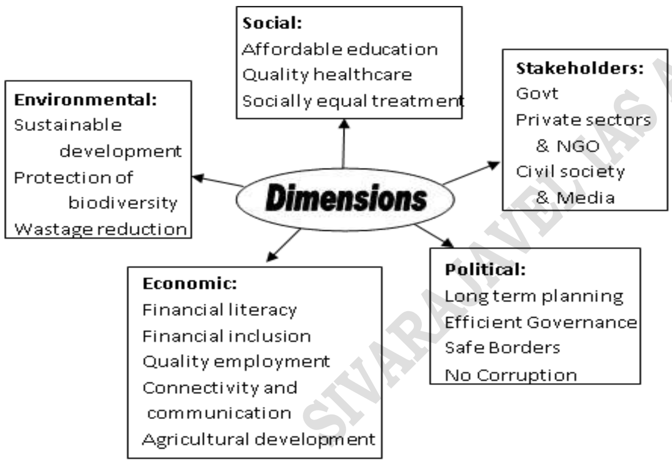
	– **Manipulation** -There were multiple cases where national governments attempted to manipulate the Doing Business scores by exerting pressure on individual contributors. – **Pressure to implement reforms-for the sake of improving rankings –not well thought out reform measures.** – **The index was incredibly limited in scope:- it covers only government regulation**-leaves out some regulations that affect businesses, such as financial, environmental, and intellectual property rules.	

INCLUSIVE GROWTH AND ISSUES

15. Inclusive growth – Meaning

– Inclusive growth is an economic growth that is distributed fairly across societies and creates opportunities for all- OECD
– SDG- 1,2,3,4,8,9 aims to ensure it.

Dimensions of inclusive growth:



Need:

– **Poverty:** Global MPI 2022, India's ranks **66 out of 109 countries.** Malnutrition & education still lagging
– **Unemployment:** PLFS survey unemployment rate fell to 4.2% in 2020-21, compared with 4.8% in 2019-20.
The rural areas recorded an unemployment rate of 3.3% and urban areas rate of 6.7%.
– **Inequality:** Oxfam India, “Inequality Kills” report. In the report, India was described as a 'very unequal,' country,top 10 people in India holds 57% of wealth.

	Towards Inclusive growth: – **Service sector** Major employer→accounts for 68% – **Manufacturing Sector:** enhanced skill development framework.accessible, driven by demand,linked to employment opp. & quickly up-skill & re-skill. – **MSMEs:** improving the business viability of microenterprises **Digital Economy:** Increased digitization→new kinds of jobs→ contract work and self-employment. – **Formal Labour:** social protection systems,. – **Non-farm jobs**: over-dependence on agriculture be reduced and alternative avenues must be created. – **Reforming export strategy:** Exporting simple consumer goods, thereby creating employment. – **International agreements**: Push for inclusion of Free Trade in Services as part of ongoing trade negotiations – **Competitiveness**: lowering corporate tax rates, better public infrastructure, access to quality affordable power supply, better access to finance – **Increasing Public sector investment:** to crowd in private sector investment and kick-start growth. **Start up:** Youth should be encouraged to explore the entrepreneurship option.	
16.	**Inclusive growth- Challenges and ways to ensure**	
	Various govts have tried to deal with the issues of poverty, inequality and unemployment. But structural, economic and social challenges have hindered **Challenges to IG:** – **Slow economic growth:** Since the financial crisis of 2008-09, the global economy has not fully recovered from the recession→reflected in growing jobs deficits qualitatively and quantitatively. – **Wealth concentration:** Recent Oxfam report – **Changing labour market:** The new 'disruptive' technology changed the face of 'work'. Many existing jobs are vanishing and new ones are emerging. – **Automation:** Robotics and automation will make worker's skill obsolete at much faster rate. (Estimated 400 million to 800 million individuals need to find new jobs by 2030 around the world) – **Corruption:** Corruption, red tape, lack of transparency. Keeping national interest above petty politics-focussed – **Smaller Incomes**:lower share of skilled workforce and lack of old-age security.	

	– **Education:** Quality education lacking(MPI report) – **Informalization of labour:** More than 90% of the jobs are in the informal sectors→ excluded from accessing many of the resources – **Unequal Women Participation**: Global gender gap report 2021→The gender gap has widened to 62.5%, → Poor representation in Politics, technical and leadership roles, decrease in women's labour force participation rate, poor healthcare, lagging female to male literacy ratio, income inequality. – **Dependency on Agriculture-** The agri sector employs half the labour force in the country but generates the **lowest percapita income .** Smaller the landholding of a farmer is, slower is the income growth. **Strategies to achieve IG:** – **Universal Basic Income**: equally paid to all irrespective of their contribution to economy. Or **Targeted transfer** – **Universal Basic Services** alternative case to UBI. Provision of free public services beyond health or education to cover other basic necessities (e.g., housing, care, transport, information, nutrition – **Skill development** according to the needs of changing economy – **Transformation of aspirational districts** and continuing it other poorly developed areas—Island & Hill area development. – **Resource efficiency-** Responsible production and consumption – **Social Stock Exchange- electronic fundraising platform→** allows investors to buy shares in social enterprises(revenue generating but social objective) vetted by the exchange – **Corporate social responsibility:** corporations operating within society to contribute towards economic, social and environmental development that creates positive impact on society at large. – **Reforming MGNREGA**	
17.	**Green Finance**	
	Green Finance is a term which refers to financial investments for those projects that support sustainable development Green finance is responsible for the financing of both public and private green investments along with the preparatory and capital costs. Some of the major roles of Green Finance are as follows:	

1. To provide financing for environmental goods and services such as water management or protection of biodiversity and landscapes.
2. To prevent, minimize and compensate the damages to the environment and to the climate.
3. To provide financing of public policies which will encourage the implementation of environmental and environmental-damage mitigation or adaptation projects and initiatives.

Challenges:

1. **No assessment of climate finance risk:** Research report indicates that banks in India, like in many parts of the world, are not prepared to adapt to climate change

- **Lack of enthusiasm among bankers:** The report is also critical that none of the 34 banks have tested the resilience of their portfolios in the face of climate change. **Green financing through domestic market:** As for domestic financial sources, according to an RBI Bulletin from January 2021, green finance in India is still at the nascent stage. Green bonds constituted only 0.7% of all the bonds issued in India since 2018, and bank lending to the non-conventional energy constituted about 7.9% of outstanding bank credit to the power sector as of March 2020.

2. **No standard definition of green financing**
3. **Lack of green data governance:** There is an inherent problem with "green data governance" that entails tracking the entire data-chain of a green financing initiative.
4. **Provision of Green loans: I**nclude false compliance claims, misuse of green loans, and, most importantly, maturity mismatches between long-term green investments and relatively short-term interests of investors.

In 2021, India put forth enhanced ambitions on climate action and announced the Panchamrit targets, which include adding 500 GW of non-fossil fuel-based energy capacity and meeting 50% of its energy requirements through non-renewable sources. Such enhanced ambition requires mobilization of green finance at a much faster pace.

18. Financial inclusion

- Financial inclusion→ delivery of banking services at an affordable cost, especially to disadvantaged and low-income group(timely and adequate credit)→ achieve inclusive growth

Benefits:

- Availability of adequate and transparent credit from formal banking channels→foster the entrepreneurial spirit of the masses to increase output and prosperity
- Direct cash transfers to beneficiary bank accounts, instead of physical cash payments against subsidies
- Ensures that funds actually reach the intended recipients instead of being siphoned off.
- Inculcates the habit to save,→increasing capital formation in the country→economic boost
- Reduction in cash economy as more money is brought into the banking ecosystem
- rural masses will get access to banking like cash receipts, cash payments, balance enquiry and statement of account
- last-mile connectivity of financial services to its people to marginalized sections
- **Integration of Financial Services**

Initiatives:

- JAM Trinity,- 45 crore Jan Dhan Accounts
- PM Mudra yojana ,
- Stand up india,
- PM Jeevan jyoti bhima
- PM Suraksha bhima
- Atal pension yojana,
- Kisan credit cards
- linking SHGs with banks,
- AEPS, UPI,
- Project financial literacy
- Financial Inclusion Index

Challenges:

- Non-Universal Access to Bank Accounts
- Digital Divide: Rural- Urban, Vulnerables, hilly areas, age
- Non-availability of suitable financial products
- Lack of skills
- Infrastructural issues
- Low-income consumers
- **Implement Deficit**→dormant accounts which never saw actual banking transactions. huge operative costs only proved to be detrimental to the actual objective.
- **Informal and Cash-Dominated Economy**.
- **Gender Gap in Financial Inclusion**
- **Lack of Credit Penetration,** lack of information available

19. Sustainable development

- Development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

Evolution as a concept:

- Sustainable Development was given by the Brundtland Commission **in its report** Our Common Future. Later on it was explored in Rio summit 1992, conference to reconcile worldwide economic development with protection of the environment.
- Rio Declaration, consisted of 27 principles intended to guide countries in future sustainable development.
- "Johannesburg Declaration",(Rio+10) agreed by world leaders, reaffirming their commitment to work towards sustainable development.
- 2015 – Paris goals. 17 goals SDG's
- **Three** core elements of sustainable development
- **economic growth, social inclusion environmental protection.** It is crucial to harmonize them

Issues:

- Overexploitation of natural resources
- Destruction of biodiversity
- Scarcity of sources
- Climate change

Issues with SDG:

- SDG financing gap has widened by an estimated $400 billion in developing countries, Heightened geopolitical tensions around trade and technology, growing external debt,
- Unmet expectations of public private collaboration and lack of business models supporting SDGs are some key issues facing the financing of SDGs.
- Maintaining peace-essential for development. A threat to international peace and stability by nonstate actors
- Measuring progress: A number of targets in the SDGs are not quantified. The indicators for measuring progress have not yet been identified.
- Accountability: There was a lack of accountability for inputs into MDGs at all levels.
- Postponement of targets at each COP on UNFCCC, UNEP

Strategy and Initiatives taken:

- In the federal governance structure, the States play a pivotal role in designing, executing, and monitoring development policies and interventions. Thus States and UTs are the key drivers of the SDGs
- Awareness development on SDGs
- States are increasingly building partnerships with various stakeholders, such as multi-lateral organisations, academia, civil society organisations, and private sector
- Aligning the State budgets with the SDGs:
- comics for children, written IEC materials on SDGs, manuals, training modules, e-learning modules, information booklets ,tools/toolkits, targeting different audience.
- 'Leave No One Behind'
- State-specific indicators for monitoring of the SDGs
- Aligning local development plans with SDGs, 23 states have prepared their Vision documents that are based on the SDGs.

NITI Aayog's SDG Index: Know some key facts.

20. Rising Income Inequality in India

- Rising inequality ruptures the fragile fabric of our society.
- B.R. Ambedkar: "If we continue to deny social and economic inequality for long, we could blow up the structure of political democracy."

- World Bank data, 2020 => India's share of the world's poorest is higher than its share of the world population.
- World Inequality Report (WIR) 2022 => In India, top 10% people earns 57% of the national income (of which, 22% is held by top 1%).
- Female labour income share is 18% -> significantly lower than Asian average.
- Recent Multi-dimensional Poverty Index (by NITI Aayog) => 1 in every 4 people in India was multi-dimensionally poor.
- Abhijit Banerjee & Esther Duflo (Nobel laureate economists) => "India is now among the most unequal countries in the world."

Reasons for Income Inequality

- **Rise of rentier class that seeks to maximise its leverage** in fixed assets (lands & property) to extract more income.
- Housing affordability has significantly deteriorated over past 4 years -> due to preference for rental houses over high EMIs.
- According to Oxfam erosion of workers' rights => Excessive influence of big business over government policymaking & relentless corporate drive to minimise costs to maximise returns -> majorly causes income inequality.
- Inequality, poverty & unemployment are closely related. Unemployment -> low productivity of labour -> poverty.
- **During inflation,** wage earners bear the losses. During profit, the wages remained same. Also, while money income rises, real income falls -> results overall decrease in standard of living.
- **High tax rates** -> large-scale tax evasion -> concentration of incomes.
- Prioritising members of one religion/language by government -> severely impacts the economy & widens the income inequality.
- Covid-19 further added fuel to it (esp. on vulnerable sections) -> loss of accumulated wealth/savings, learning gaps etc.

Consequences of Income Inequality

- Against constitutional ideas of equality of status & opportunity and equitable distribution of wealth.
- Regional imbalances -> serious threat to cooperative federalism.
- Research by Professor Pickett & Wilkinson => "Inequality causes a wide range of health & social problems -> reduced life expectancy, higher infant mortality, poor educational attainment, lower social mobility, increased levels of violence

	& mental illness => leads to societal breakdown in trust, solidarity & social cohesion, reducing acts of common good." – High income inequality results economic instability/crises (Ex: Latin America & Africa); More equal societies -> sustained growth (Ex: Scandinavian countries). – Rapid environmental degradation -> because of low investment in physical capital & education. – Digital inequality -> deprives basic services (health, education, social welfare measures). ***Way Forward*** – Promote inclusive growth & ensure free and fair market -> by land reform, social security pensions, scholarships & skill training for vulnerable communities. – Explore introducing inheritance tax for the super-rich. – Improve private sector investment -> by improving the business environment, discouraging tax-terrorism & promoting pro-enterprise policies. – Quality of public services (like health, education) are great levellers -> need focus. Thomas Piketty: "Over a long period of time, the main force in favour of greater equality has been the diffusion of knowledge and skills." Policies to correct inequalities between states & bring out cooperative federalism in its true form.	
21.	**Oxford Inequality Report - Facets of Economic Inequality**	
	– Oxfam released the Survival of the Richest report at the start of the World Economic Forum in the Swiss resort town of Davos. The document has brought to light the ever-increasing economic inequalities between the different sections of society in various countries of the world. **India-specific findings in the report** – There are now 166 billionaires, up from 106 in 2020. – The top (30%) earners hold the majority (90%) of the wealth. This contrasts with the global figure, where it is believed that the richest 1% have amassed about two-thirds of all new wealth. – Of the total goods and services tax collected in India, only 4 per cent came from the top 10 per cent, while 64 per cent came from the bottom 50 per cent. – In India, 5% own more than 60% of country's wealth. **Ramifications of the above findings** – This can stir the debate for an equalising wealth tax (a progressive wealth tax where the tax rate increases as the wealth of an individual	

increase. The goal is to redistribute wealth and reduce inequality among citizens.)

- Oxfam argues that indirect taxes are regressive and suggests – A **wealth tax** – *a tax on unrealised capital gains and higher taxes on corporates.*
- Tax on incomes, capital gains and wealth are interrelated and the changes cannot be recommended in isolation.
- Tax collection depends upon The mix of taxes that a country raises as a function of its institutional capacity, the structure of the tax base and the desire for simplification.

Case of India – The report raises two important points:

- The lower corporate tax rate in lieu of incentives and the introduction of GST – a costly experiment of tax policy in India.
- The corporate tax cuts brought the statutory tax rate down from 30 to 25.17%, leading to a revenue loss of Rs 1.03 lakh crore.
- The GST and its disproportionate impact on the lowest earners.
- Oxfam uses NSS 2011-12 to establish that the bottom 50% pays six times more indirect tax as compared to the top 10%.
- The current income tax system exempts incomes up to Rs 5 lakh from tax and the GST rate structure places a higher burden on luxuries.
- The Ministry of Statistics and Programme Implementation reported that the all-India inflation rates based on both CPI (Consumer Price Index) (General) and CFPI (Consumer Food Price Index) were consistently higher in rural India (7.56 per cent than urban India (7.27 per cent) in September 2022.
- Though overall inflation declined in October, the gap between rural and urban inflation only widened, reaching nearly 2.5 times the gap in September 2022. Moreover, the weightage for "food products" in the inflation calculation is nearly double in rural India compared to urban India reflecting how food inflation in rural India has primarily driven the average increase in prices of commodities.

Way Forward as per the Report

- Change the rules and the balance of power in society and the economy: This involves repealing sexist regulations, such as those that forbid over 3 billion women from having access to the same range of employment opportunities as males.
- Universal, high-quality healthcare that is publicly funded and delivered must be the pandemic's lasting legacy.
- To combat inequality, bring extreme wealth back into the real economy: The profits obtained by the super-rich during this pandemic time should be immediately taxed by all countries.
- E.g. The Covid-19 wealth gains of the top 10 men richest would yield $812 billion in revenue if a 99% one-time windfall tax were applied.

- Redirecting taxed money from the rich, on future investments and lifesaving initiatives: In order to save lives and invest in our future, all governments must make investments in powerful, evidence-based policies.
- E.g. These funds may be used to produce enough vaccinations to protect everyone on the planet, cover funding shortages in climate change initiatives, provide universal health and social protection, and combat gender-based violence in over 80 nations.

22. Unemployment in India

- Unemployment -> circumstance in which a person who is actively looking for a job is unable to find work => significant indicator of the economy's health.

Recent Trends of Unemployment in India

- 10 million (approx.) salaried jobs had lost, across urban & rural India during pandemic.
- India's Labor Participation Rate (LPR) decreased to 40% in 2021 (46% in 2016) => means, 60% of working population -> inactive/not looking for a job & dropping out of the labour market.
- Labour markets in most advanced economies are tighter than they were prior to COVID-19, which is partly reflected in reduced labour force participation.
- The LFPR in high-income countries remained lower in 2022 at 59.8 per cent compared to 60.2 per cent in 2019.
- On the other hand**, in FY22, India's LFPR was 55.2 per cent**, higher than 54.9 per cent in FY21 and 53.5 per cent in FY20.

Causes of Unemployment

- India's 7-8% GDP growth -> not translate into creation of more employment opportunities.
- Preference for large-scale industry after independence & new industrial policy of 1990's -> resulted decline of small-scale industries.
- Joint family system of rural areas -> encourages disguised unemployment, avoiding migrating to far-off areas for work.
- Theory-oriented education curriculum & skill deficit mismatches with current economic/employment environment.
- Increase in population, Jobless growth -> increasing unemployment.
- Industrial sector in India -> not achieved the desired level of growth. (Agriculture -> still remains the biggest employer)
- Decreasing capital investment & subsequent decrease in industrial growth -> results, unemployment.

Government Initiatives

- Integrated Rural Development Programme (IRDP), 1980 => to create full employment opportunities in rural areas.
- Training of Rural Youth for Self-Employment (TRYSEM), 1979 => to help unemployed rural youth to acquire skills for self-employment (priority to SC/ST, Youth & Women).
- National Rural Employment programme (NREP) & Rural Landless Employment Guarantee Programme (RLEGP) -> merged to Jawahar Rozgar Yojana (JRY) in 1989.
- Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), 2005 => minimum 100 days of paid work/year -> unskilled labour-intensive work -> provides 'Right to Work' to people.
- Pradhan Mantri Kaushal Vikas Yojana (PMKVY), 2015 => industry-relevant skill training to youth.
- Start Up India Scheme, 2016 => to develop an ecosystem to promote/nurture entrepreneurship.

Way Forward

- Promoting Labour Intensive Industries. Ex: food processing, leather/footwear, furniture, textiles.
- More foreign collaboration & capital investment in every sector.
- Decentralisation of Industrial activities & Development of rural areas -> to make people of every region get employment, mitigation of rural-urban migration & decrease the pressure on urban job market.
- Drafting National Employment Policy (NEP) encompassing multidimensional interventions covering social & economic issues.
- Greater investment in small enterprises -> to achieve employment & output objectives.
- Government's directive & incentive to the industries -> to train rural & tribal youth in their establishments.
- Self-employment should be encouraged -> with liability-free loans & government assistance for funding.
- Promote incubation centres -> to cultivate new business ideas.
- Public investment in human development.
- Otherwise, unemployment can turn the demographic dividend of a nation into a demographic disaster.

23.	Jobless Growth in India	
	– Jobless growth economy -> where unemployment remains stubbornly high even as the economy grows -> happens when large number of people have lost their jobs & recovery is insufficient to absorb the unemployed, under-employed & those first entering the workforce. ***Present Status of Jobless growth in India*** – According to the Centre for Monitoring Indian Economy => Unemployment rate in India -> hovering around 7%-8% (from 5% five years ago). – At the same time, the workforce shrank as millions of people dejected over weak job prospects -> exacerbated by Covid-19 lockdowns. – According to CMIE => Labour Force Participation Rate dropped to just 40% of the 900 million Indians of legal age (from 46% six years ago). – Reality of jobless growth -> not reflected in official statistics on unemployment. ***Challenges /Impacts of Jobless growth*** – India's serious challenge of joblessness -> reflected in the violent protests over Agnipath scheme. – According to World Bank => Between 2010 – 2020, working women in India dropped to 19% (from 26%). – CMIE => female labour force participation plummeted to 9% by 2022. – Growing reserve of frustrated, unemployed youth threatens to turn India's demographic dividend of having a young population into a curse. – Agricultural employment was falling for decades -> but this process is reversed by Covid crisis. – India presents a paradox of skill shortages while being labour surplus. – Steel industry needs more metallurgists; healthcare sector is short of nurses & technicians; construction sector needs civil engineers, hi-tech welders, bricklayers & so on. ***Government Interventions*** – Ramp up local manufacturing through various schemes. – Efforts to get data directly from businesses & surveys aimed at informal sector. – Make in India initiative -> has morphed into production-linked incentive schemes for manufacturers. – Pradhan Mantri Mudra Yojana (PMMY) -> banks provide collateral-free loans up to Rs 10 lakh -> to non-farm small/micro enterprises for income generating activities.	

	– Pradhan Mantri Kaushal Vikas Yojana (PMKVY) by MoSDE -> training & assessment fees are paid by Government. ***Way Forward*** – Generate sustainable growth, labour reforms & incentivising to invest more to generate employment. – Ensure a trained workforce for industry for sustainable growth. – For an emerging economy, the path to higher incomes, productivity & growth must lead workers towards jobs in secondary & tertiary sectors. – Joblessness cannot be addressed without imparting skills that industry/government requires.	
24.	**New Labour codes**	
	– Central government introduced 4 labour codes in 2020 (Code of Wage Act in 2019), replacing 29 sets of labour laws. – They are: – Code of Wages Act 2019, – Industrial Relations Code Bill, 2020, – Social Security Code Bill, 2020, – Occupational Safety, Health and Working Conditions Code Bill, 2020 **i. Code of Wages Act 2019:** – To change the old & obsolete labour laws into more accountable & transparent -> pave the way for legislative protection of introduction of minimum wages, timely payment & labour reforms in the country -> ensures "Right to Sustenance" for every worker. – The bill subsumes the following four labour laws: – The Payment of Wages Act, 1936 – The Minimum Wages Act, 1948 – The Payment of Bonus Act, 1965 – The Equal Remuneration Act, 1976 **ii. Industrial Relations Code Bill, 2020:** – Industrial Employment (Standing Orders) Act, 1946 -> mandates industries with 100 or more workers to clearly define the conditions of employment & rules of conduct for workmen -> by standing orders/services rules -> and to make them known to the workmen employed. (New provision makes it for industries with 300 or more workers employed preceding 12 months). – Introduces new conditions for carrying out a legal strike.	

iii. **Social Security Code Bill, 2020:**

- It proposes a National Social Security Board -> which recommends central government for formulating suitable schemes for unorganized workers, gig & platform workers.

iv. **Occupational Safety, Health & Working Conditions Code Bill, 2020:**

- Defines 'inter-state migrant workers' => as, the worker who has come on their own from one state & obtained employment in another state, earning up to Rs. 18,000 a month (distinct from the present definition of only contractual employment).
- Dropped the earlier provision of temporary accommodation for workers near the worksites & proposed a journey allowance.

Benefits of Labour Codes

- Code of Wages -> expected to reduce litigation as it streamlines the definition of wages.
- Ensures every worker gets a minimum wage & increase in purchasing power thereby increases economic growth.
- Consolidation and simplification of the Complex laws.
- Big boost to industry & employment and will reduce multiplicity of definition & authority for businesses.
- Single Licensing Mechanism will give fillip to industries.
- Simplifies archaic laws dealing with industrial disputes & revamp the adjudication process -> paves the way for early resolution of disputes.
- Boosts investment & improve ease of doing business.
- Modernizes regulations on safety/working conditions.
- Promotes fixed-term employment, reduces the influence of trade unions & expand the social security net for informal sector workers.
- Women have to be permitted to work in every sector at night -> with the provision to ensure their security by the employer & consent of her.
- Maternity leave -> increased from 12 to 26 weeks.
- Pay parity to women workers as compared to their male counterparts.

Challenges

- Labour being a concurrent subject, both Centre & states have to frame laws & rules.
- Dilute the labour rights for workers in small establishments (less than 300 workers) & enable companies to introduce arbitrary service conditions for workers.
- Mandatory registration of all workers (with Aadhaar cards) on Shram Suvidha Portal to receive social security benefits ->

leads to Aadhaar-driven exclusion & unable to register due to lack of information.

– Codes fail to extend any form of social protection to the vast majority of informal sector workers which is predominant in rural areas.
– No-Right Based Framework -> as these codes do not emphasize social security as a right, nor does it make reference to its provision as stipulated by Constitution.

Way Forward

– Draft rules should clearly state their applicability with respect to the migrant informal workforce.
– Government's scheme of "One India One ration card' -> right step.
– Corporates should take the responsibility of skilling people in the unorganized sectors under CSR expenditure.
– National policy for domestic workers needs to be brought in at the earliest to recognize their rights & promote better working conditions.
– Robust, reliable & fairly decent social security package needs to be created for workers of unorganised sectors as well.

25. Sen vs Bhagawati Growth Model

Bhagwati Model	Amartya Sen Model
• Jagdish N. Bhagwati a University Professor of Economics, in his book named "Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries," tells that growth is the panacea for all of India's ills.	• To counter this argument, Amartya Sen, a Nobel prize winner in his book named "An Uncertain Glory: India and its Contradictions," prescribes state-led redistributive efforts as the solution to India's problems.
• It is often referred to as the 'Gujarat model of development'.	• It is often referred to as the 'Kerala Model of development'.
• He argues that only focusing on growth can yield enough resources for investing in social sector schemes.	• Sen believes that India should invest more in its social infrastructure to boost the productivity of its people and thereby raise growth.

• Bhagwati argues that growth may raise inequality initially but sustained growth will eventually raise enough resources for the state to redistribute and mitigate the effects of the initial inequality.	• Investing in health and education to improve human capabilities is central to Sen's scheme of things. Without such investments, inequality will widen and the growth process itself will falter.
• Bhagwati argues that by providing the intellectual foundations for populist excesses and fiscal profligacy that stoke inflation, Sen is actually hurting the life chances of the poor. By arguing for redistribution to precede growth, Sen is putting the cart before the horse, Bhagwati says.	• Sen said that both growth and welfare programs are needed, and not at the cost of each other. Subsidies that don't aid the poor must go, says Sen.
• Bhagwati argued that it is the reforms of 1991 that have made even the lowest social classes greatly more prosperous today. Hence, those reforms must be strengthened.	• Sen also questions Bhagwati's argument that growth must precede redistributive efforts to improve human capabilities.
• Critiquing the critics of India's growth experience, Bhagwati argued that a low rank on the human development index (HDI) did not mean much.	• According to Sen, "There is no example of unhealthy, uneducated labour producing memorable growth rates". • Sen attacked Bhagwati's arguments by saying that in an under-nourished country such as India, it was very stupid to focus obsessively on growth.

Criticism of Bhagvati & Sen

– Both Bhagwati and Sen haven't paid enough attention to key flaws in India's record in implementing government programmes.

- India is a country where public delivery mechanisms have not worked well and to compare this system with countries in Asia — such as Korea, Taiwan and Thailand — is a flawed approach.
- Besides, Sen hasn't delved deep into issues related to labour reforms or financing of political parties, issues that are crucial in determining the way our democracy functions.

26. Skill Status, schemes, and way forward

Skill Status

- By 2041, this demographic will change, but with 59% (88.97 crore) of its population between 20 and 59, India could be the world's largest pool of human resources.
- Over the next two decades, the labour force in the industrialised world is expected to decline by 4%, while in India it will increase by nearly 20%.
- India could become the supplier of talent and skills if its workforce across age groups is equipped with employable skills that keep pace with the exponentially changing technological ecosystem.

Pradhan Mantri Kaushal Vikas Yojana

- Flagship scheme of the Ministry of Skill Development & Entrepreneurship (MSDE) - implemented by National Skill Development Corporation(NSDC).
- Objective - to enable a large number of Indian youths to take up industry-relevant skill training that will help them secure a better livelihood.
- Recognition of Prior Learning (RPL)→ grade according to the National Skills Qualification Framework (NSQF).
- Training and Assessment fees are completely paid by the Government→Pradhan Mantri Kaushal Vikas Yojana (PMKVY 3.0).

Pradhan Mantri Kaushal Kendra:

- These are the state-of-the-art Model Training Centres envisaged to create benchmark institutions.
- These institutions will demonstrate aspirational value for competency-based skill development training.

Deen Dayal Upadhyaya – Grameen Kaushal Yojana

- skills and productive capacity of the rural youth from poor families.
- Enable Poor and Marginalized to Access Benefits: Demand-led skill training at no cost to the rural poor
- Mandatory coverage of socially disadvantaged groups (SC/ST 50%; Minority 15%; Women 33%)

- Shifting Emphasis from Training to Career Progression: Providing incentives for job retention, career progression and placements

SANKALP:

- The scheme focuses on the district-level training ecosystem through convergence and coordination.
- It is a Centrally Sponsored Scheme collaborated with the World Bank.
- It aims to implement the mandate of the National Skill Development Mission (NSDM).

STRIVE:

- The main focus of the scheme is to improve the performance of ITIs.
- Skills Strengthening for Industrial Value Enhancement (STRIVE) scheme is a World Bank assisted-Government of India project
- The objective is to improve the relevance and efficiency of skills training provided through Industrial Training Institutes (ITIs) and apprenticeships.
- **TEJAS Initiative for Skilling:**
- TEJAS (Training for Emirates Jobs And Skills), a Skill India International Project to train overseas Indians
- Aims at skilling, certification and overseas employment of Indians and creating pathways to enable the Indian workforce to get equipped for skill and market requirements in the UAE.

✓ **Other schemes**

Apart from that, the government also launched few specific schemes. Such as

- "Samarth Scheme" for Capacity Building in Textile Sector
- USTTAD (Upgrading the Skills & Training in Traditional Arts/Crafts for Development) scheme
- ShramSaathi module for Tribal Migrants

Way Forward

- Leveraging skill training to ensure socio-economic development
- The increased role of states
- Recognising the backward and forward linkages
- Interact with industry representatives
- Capacity building of District Skill Committee which under the guidance of State Skill Development Missions is essential

BUDGETING

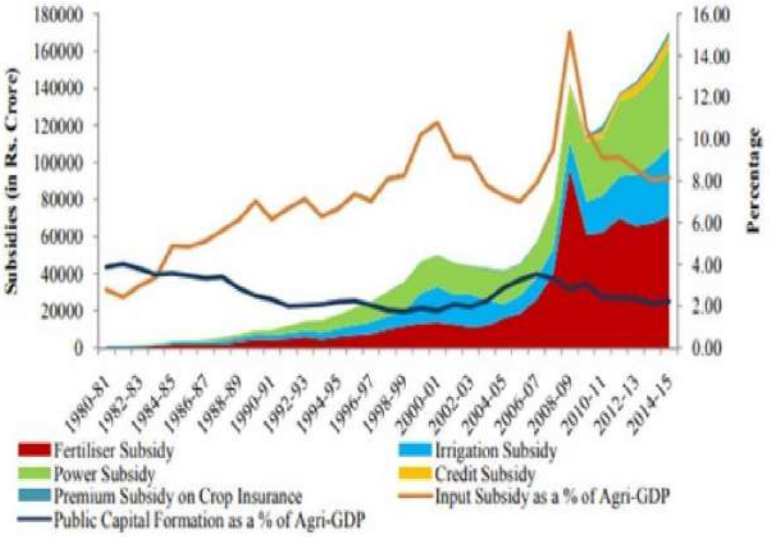
27.	**Union 2022-23 Budget Objectives/ Important Highlights**	
	– TAX- GDP ratio 10.3% in 2021-22 and has gone up to **11.7%**, the highest since at least 1999. – Direct taxes are 6.1% of GDP, and indirect taxes are 5.6% – The multiplier is less than 1 for revenue expenditure and over 2.5 for capital expenditure. – The total receipts other than borrowings is estimated at Rs 27.2 lakh crore and the total expenditure is estimated at Rs 45 lakh crore. – The net tax receipts are estimated at Rs 23.3 lakh crore. – The fiscal deficit is estimated to be 5.9 per cent of GDP. **Body:** – **Focus**: Saptarishi: 7 Priorities **Seven priorities of the budget 'Saptarishi'** are inclusive development, reaching the last mile, infrastructure and investment, unleashing the potential, green growth, youth power and financial sector. – Rs. 10 lakh crore capital investment, a steep increase of 33% for third year in a row – *Urban Infrastructure Development Fund (UIDF), Entity DigiLocker, Pradhan Mantri Kaushal Vikas Yojana 4.0, Sickle Cell Anaemia elimination mission, Aspirational Blocks Programme, Bharat Shared Repository of Inscriptions' National Data Governance Policy, (PM-PRANAM), MISTHI, National Financial Information Registry, Concessions to IFSC Units, Tax Changes.*	
28.	**SUBSIDIES - Burden- Facts, How to Rationalise.**	

	Types of Subsidies
	1. Agriculture subsidy
	    a. Power
	    b. fertiliser
	2. Food Subsidy
	3. Fuel Subsidy
	4. Export Subsidy
	5. Interest Subsidy
	Facts:
	Overall budget- SUBSIDIES AND SUBSIDY RELATED SCHEMES
	Government's Burgeoning Subsidy Bill
	● **2023-2024 Budget Estimates - 403083.63 crores**
	● **2022-2023 Revised Estimates - 562079.50 crore**
	● According to the fiscal statement subsidies form a significant portion of the Revenue expenditures which includes food,	

fertiliser, and petroleum subsidies. Major subsidies at **Rs.3.75 lakh crore (**1.2 percent of GDP) is 10.7 % of Revenue Expenditure in BE 2023- 24.

- **Fertiliser subsidy : Urea >> NBS**
- These three major categories account for a significant portion of the government's subsidy expenditure = **Food subsidy > fertiliser Subsidy > petroleum subsidy.**
- Public investments in agriculture as a percentage of agricultural GDP has declined from 3.9 per cent in 1980-81 to 2.2 per cent in 2014-15, while input subsidies as a percentage of agricultural GDP have increased from 2.8 per cent to around 8 per cent over the same period.

Figure 1: Structure and Trend of Input Subsidies in Indian Agriculture vis-à-vis Trend in Public Investment



Issues with subsidy

1. Subsidies are a significant fiscal burden on the government, when not managed effectively, they can lead to budget deficits, inflation, and increased public debt(**Fiscal deficit for 2023-2024 - 8.9 %, overall Public debt -85.7 %)**
2. Opportunity cost : high subsidy → impacts the government's ability to focus on other critical sectors such as healthcare, education, and infrastructure development.
3. **Inefficient Targeting and leakages** - Risk of subsidies being misdirected or captured by ineligible individuals or entities. Lack of Proper identification and targeting mechanisms

4. **Inefficiency and corruption**: Bureaucratic red tape and middlemen can hinder the effective delivery of subsidies, resulting in delays and reduced effectiveness.
5. **Market Distortions**
    - Subsidies distort market dynamics and create inefficiencies.
    - may lead to overproduction or overconsumption of certain commodities, leading to market imbalances and price distortions.
    - distortions can affect the **competitiveness of the sector** and hinder the development of a sustainable and market-oriented agricultural, fishery, or energy sector.
6. **Issues with WTO over subsidies** - finding a balance between supporting its farmers and adhering to WTO rules has been a challenge for India.
7. **Dalwai Committee on doubling farmers' income**
    - The agriculture sector in India seems to be more **dependent on input subsidies, but <u>subsidy-driven agriculture systems are not sustainable.</u>**
    - support through subsidies which favoured limited crops → less diversity → more risk
8. **Environmental Implications:**
    - E.g., Subsidies on fossil fuels
        i. perpetuate the reliance on fossil fuels, contributing to environmental degradation, air pollution, and climate change.
        ii. can discourage the transition to cleaner and more sustainable energy sources.
    - Subsidised electricity - Irrational use of Groundwater led to Groundwater depletion in Punjab

<u>Rationalising subsidies in India</u>

1. Need to focus on commodities which are considered "essential" and "merit" goods such as wheat and Rice Via PDS → Plays a significant role in Hunger and poverty reduction.
2. Dalwai Committee -- suggests that money saved by rationalising subsidies may be reserved exclusively for the agriculture sector. This could then be added to the yearly normal budgetary allocations for enhancing capital investments for basic infrastructure like irrigation, power, roads, communication, post-harvest agri-logistics, markets and the like.

	3. Implement robust and efficient targeting mechanisms to ensure that subsidies reach the intended beneficiaries. Utilise technology and databases like Aadhaar (Unique Identification) and the Jan Dhan Yojana to better identify and reach the deserving beneficiaries. 4. Direct Benefit Transfer (DBT): Shift towards the direct transfer of subsidies to the bank accounts of beneficiaries (DBT) will reduce leakages, corruption, and bureaucratic inefficiencies, ensuring that the subsidy benefits reach the intended individuals directly. 5. Gradual Phasing Out: Gradually phase out subsidies that are economically inefficient, environmentally harmful, or not reaching the intended beneficiaries. A phased approach helps minimise the disruption and allows for an adjustment period for affected stakeholders. 6. Price Rationalisation and allowing the allowing market forces to determine prices more effectively 7. Improve the efficiency of subsidy delivery systems through digitization with Regular review and evaluate the impact of subsidy programs to ensure that they are achieving their intended objectives. 8. Fiscal Discipline: Maintain fiscal discipline to prevent the accumulation of excessive public debt. Prioritise spending on crucial developmental projects and social welfare programs	
29.	**Fiscal Federalism.**	
	Intro: – Financial relations between Union Government and the state governments. **Body:** – Asymmetric→ Centre Taxation Powers(Income, Corporate) vs State Powers(Alcoholic Excise, Vehicle , Stamp duty etc) – GST→ fiscal autonomy of states **What has had an impact on Fiscal Federalism?** – Planning commission, Finance Comm, Art 293, Ar 296, GST council – **Horizontal Imbalances:** Conditional transfer, grants, TOR of FC Ex: Population – **Vertical Imbalance:** 279A GST council 1/3rd for Centre, Higher Domain of Centre, Tax Base, 44% of the states' own tax revenue was subsumed under the GST as compared to 28% for the centre.	

	– **Recent issues**: – Conditional borrowings→ MPLAD suspension→Centrally sponsored schemes→ GST compensation→ Cess and Surcharge offsetting taxes→ GST collections subdued	
30.	**FRBM—Time to revisit**	
	Objectives: – Inter-generational Equity, Fiscal Discipline, Macro Stability – It means Expenditure management not just compression. Shift from Revenue to capital Expenditure **Covid-19:** – Fiscal Rules were relaxed. Centre (F.Deficit reached 9.2%) – Higher Burden on states. **Escape Clause:** – Grounds: national security, act of war, national calamity, collapse of agriculture structural reforms in the economy with unanticipated fiscal implications, or decline in real output growth 3% lower than previous 4 qtrs. – Deviation of 0.5% allowed – Reasons to be placed before parliament **NK Singh Review Committee:** – Debt to GDP Ratio (60%-- 40: 20) to be attained by 2023 – At present it is 79%-- so not possible – Called for a Fiscal Council – Rules for Borrowings from RBI – FRBM era is redundant after covid-19 **Conclusion:** – Problem is when Revenue Deficit along with Fiscal Deficit is breached. – Time for a comprehensive review until that we need **Public Finance Management Systems** → focus on budgetary, accounting processes, and financial reporting.	
31.	**GST-5 Years Achievements and Issues**	
	– **101st Amendment, Article 246A, Article 279A** **Achievements:** – *Wider tax base: From 63 lakh Indirect tax ayers to 1.4 crores* – *Generation of e-way bill: logistic supply chain* – Collections have become better – GST Network Automation→ Refund etc better – *Removal of tax arbitration* – *Formalisation of Businesses*	

	– *Tax Buoyancy Increased- 0.7 TO 1.2 for states revenues and 0.9 to 1.1 for cenral taxes susbsumed under GST* **Issues:** – Multiple Tax Rates→ Too much exemptions→ Fuel→ Glitches in Filing GST→Cess and Compensation→*Imposing a high GST→ Legal disputes due to clarity issues(Freight GST)→ Employment generation in Automobiles and other sectors due to high taxes→Distrust between centre and states* – Design flaws and policy ad-hocism. – From revenue neutral to Expansion of exemption list weighted average GST rate (11.8% now) **GST Council** – *Political influence in the decision of GST Council* – Lack of trust **Way forward:** – Coordination between FC and GST Council is needed	
32.	**GST Reforms?**	
	Intro: – 1.08 crore in April 2018 to 1.51 crore in 2023 – Tax/GDP ratio of 20 per cent in the medium term which would be a great achievemen – **Why higher GST collections?** – Input credit mechanism→E-Invoicing→E-way bills – Coordination between CBEC and CBDT – Fiscal Equity – **Reforms:** – Creation of other federal institutions. – Procedural Complexities especially for MSME's need to be removed – Rates rationalization – Bringing ATF under GST – GST Council- Scope for Judicial Review – Possibility of a single tax bracket	
33.	**GST compensation-> Extension.**	
	Basics: – During GST Transition Period→ Revenue Neutrality→ 14% Projection of state Tax revenues→ Shortfall will be compensated for 5 years till GST system Matures→ A separate GST fund→ GST cess(on demerit goods)	

Why States demand for extension?

- Only 5 states had more than 14% growth in Revenue
- Covid-19 and Debt burden of states
- Delays in GST compensation payments

GST Compensation if Extended?

Pros:

- Fill resource gap and build economy
- Development of state→ Many states have economic targets

Cons:

- Create lethargy among tax administration
- Burden on customers to pay extra cess
- Conflict between centre and states
- 15th FC also recommended the extension or other mechanism to protect states fiscal interests

34. Crowding out vs Crowding In? How Crowding in?

Intro:

- The tremendous role for government spending in every economy.

Body:

	Crowding-out effect	Crowding-in effect
1.	increased borrowing by the government → decrease the quantity of funds to meet the investment needs of the private sector.	higher government spending → increase in economic growth → encourages firms to invest due to the presence of more profitable investment opportunities.
2.	economic downswing → reducing government revenues collected through taxes → vicious cycle of borrowing and crowding out.	Recession → government tax cut increases → surplus to spend → rise in demand → more employment opportunities → crowding in businesses.
3.	Public sector expenditures for social welfare → governments raise taxes of individuals and businesses → less discretionary income → reduce charitable contributions →	public spending reduces deflation → help to reduce real interest rates and therefore increase private sector investment.

	crowding out effect (indirectly)	
4.	government-funded infrastructural development deters companies from building toll roads or from engaging in other similar projects.	High multiplier effect → ↑marginal propensity to consume → spending rises → resulting in crowding in.

Way forward:

- The solution lies in optimising project management processes including implementation agencies, state governments, vendors → result in capital assets providing benefits over a longer term following the multiplier effect.
- The government must cut down inefficient revenue expenditure and focus on creating a balanced and stable virtuous cycle → help set the foundation for stimulating growth and future investments.

35.	**Direct Tax reforms?**	

Intro:

- Direct tax → Progressive → proportion of tax liability rises as an individual or entity's income increases.
- Earlier tax reforms suffered from increased Red-Tapism and other bureaucratic hurdles → complex tax system.
- Arvind Modi Committee on Income Tax Reforms + Akhilesh Ranjan Panel → aims to revise, consolidate and simplify the structure of direct tax laws.

Body:

Need for DTR:

- Rationalization of income tax structure.
- Widen the tax base and prevent potential revenue loss.
- Maintain the balance between direct and indirect taxes.
- Direct Tax Code (DTC) → bring horizontal equity among different classes of taxpayers → phase out the multiplicity of tax exemptions and deductions → will increase compliance.

Measures taken by Government:

- E- Sahyog portal to facilitate online filing of the returns;

	– extension of Indian Customs Single Window Interface for Facilitating Trade (SWIFT). – Simplification of tax laws → specific class of persons exempted from Section 50CA and Section 56 of the Income Tax Act. – Relief for startups with Capital gains exemptions. – anti-tax avoidance measures → Advanced Pricing Agreements (APAs), GAAR (General Anti-Avoidance Rules). – Vivad Se Vishwas Scheme → reduce pending income tax litigation → generating timely revenue for the government and benefiting taxpayers. – Faceless Tax Assessment Scheme. **Conclusion:** – complexity and presence of multiple layers of taxation encouraged leakage, corruption thereby decreasing the tax base. – Tax reforms resulted in simplification of tax structure and better compliance.	
36.	**Counter Cyclical fiscal Policy.**	
	Intro: – strategy by the government to counter boom or recession through fiscal measures. – In a recession or slowdown, the government increases expenditure and reduces taxes to create a demand that can drive an economic boom. **Body:** **Need for Active Counter-cyclical Fiscal Policy:** – COVID-19 pandemic → significant negative shock to demand. – Economic Survey → desirability of using counter-cyclical fiscal policy to enable growth → critical during economic downturns. – given India's growth potential → debt sustainability is unlikely to be a problem even in the worst-case scenarios. – India with a large workforce in the informal sector. – well-designed expansionary fiscal policy stance can contribute to better economic outcomes → raise productivity; mitigate the risk of a low wage-growth trap. – Relevance to India now? – private consumption that contributes to 59 per cent of GDP → contracting, and – Investment, which contributes to around 32 percent is uncertain→ counter-cyclical fiscal policy is paramount.	

- **Motives:**
- cushions the contraction in output by offsetting the decline in consumption and investment.
- governments are able to show their commitment to sound fiscal management → builds confidence in tough times.
- helps businessmen overcome risk aversion and brings animal spirits in the economy.

Conclusion:

- With the National Infrastructure Pipeline (NIP) already laying out the agenda for ambitious public spending, fiscal policy catering to its funding can boost growth, productivity, generate higher-paying jobs and thereby be self-financing.

37. Social Stock Exchange

"Social Stock Exchange"→ for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund.

SSE will act as a medium between Social Enterprises and fund providers and that can help them to select those entities that are creating measurable social impact and reporting such impact.

Need for social capital:

India will need a significant amount of patient capital to repair and rebuild those livelihoods, which are the bedrock of her economy. Conventional capital that prioritises financial returns will not be able to carry such a burden all by itself.

Social capital, on the other hand, is more suited for this role. It is not only patient but its goal is precisely to support and fortify social structures that are in danger of collapsing because of COVID-19.

Objectives of the Social Stock Exchange:

- Regulated platform that brings together social enterprises and donors
- Facilitate funding and growth of social enterprises
- Enabling mechanism to ensure robust standards of social impact and financial reporting

Key benefits of Social Stock Exchange

Improved market access - SSE will facilitate a common and a structured meeting ground between Social Enterprises and investors/donors with inbuilt regulation for providing sanctity and accountability of finances.

Synergy between investors and investee in social aims - When investors and investees share similar social aims, the flexibility of investments and capital available on SSE (presumably a financial platform) creates a broader range of choices..

Performance based philanthropy - Performance of the enterprises listed on SSE would be monitored thus it will instill a culture of performance (Social return) driven philanthropy.

Minimal Registration Cost - SSE saves cost for both issuer and investor/donor by charging minimal fees for registration and listing.

Additional avenue for Social Enterprises - Central and State governments till date have the biggest onus of achieving sustainable development goals. SSE will provide ***an alternate avenue for raising funds*** thereby encouraging new and existing social enterprises.

Challenges of Social Stock Exchange

- There is absence of a legal criteria to differentiate between a social enterprise and a normal enterprise.
- No framework for social impact assessment.
- Lack of resources with NGOs so as to maintain their financial records.
- Could lead to the emergence of a new set of intermediaries.
- Misuse or diversion of funds.

Fundraising

Product that can issued for fundraising by enterprises- These entities will be allowed to raise funds from investors through social stock exchange will have to register with the same. Some products they can offer are:

- Equity,
- Zero Coupon Zero Principal bonds,
- Mutual funds,
- Social impact funds and Development impact bonds.

DIBs is one form of the structured finance product available on SSE: i. Development Impact Bonds-These are structured finance products where upon completion of a project that meets pre-agreed social metrics at pre agreed rates, the service provider of the project receives grants from the donor, who is called as the “outcome funders”.

MISCELLANOUS

38.	**Monetary Policy→ Effectiveness/Innovation**	

- Monetary Policy is the exercise of the central bank's control over the money supply as an instrument for achieving the objectives of economic policy

M.P Need:

Inflation Targeting, Price Stability, Macro Economic Stability

Challenges:

Cost Push Inflation→ Effective only in Demand Pull→ Cash Based Economy→ Non – monetary factors like Governance→ Economic uncertainties→ Interest Rates are imperfect tools→ Transmission Issues-→ Conflicting Targets

Recent RBI Policies:

- state-contingent accommodative stance through the year.
- GSAP
- TLTRO
- External Benchmarking
- Assymetric Policy corridor
- Rest through SDF(Standing Deposit Facility)
- RBI Unconventional / New Schemes: 65% of Liquidity support after Covid
- Recent Tightening of Policy(Off Cycle Announcements)

Conclusion:

- Monetary policy is not an end in itself, but a means to an end.

39.	**Recent Economic Collapses**	

The world is looking at another economic recession in 2023 according to WEF, the economic outlook for 2023

WHY DO ECONOMIC RECESSIONS HAPPEN?

- Sharp changes in the prices of the inputs used in producing goods and services.
- A recession can also be triggered by a country's decision to reduce inflation by employing contractionary monetary or fiscal policies.
- Some recessions are rooted in financial market problems. Sharp increases in asset prices and a speedy expansion of credit often coincide with the rapid accumulation of debt.
- It can be the result of a decline in external demand, especially in countries with strong export sectors.

	– A recession is an economic downturn that is not caused solely by the economic activity itself. Technological developments are also a factor in the recession. – The imbalance between production and consumption can also trigger a recession. – Another indication is when the value of a country's imports is greater than its exports. This can affect the state budget deficit and a decrease in national income. **IMPACT OF THE ECONOMIC RECESSION 2023 ON THE WORLD:** The economic outlook for 2023 will feel different depending on where you are in the world, according to the World Economic Forum. – The majority of chief economists expect moderate or strong growth in the Middle East and North Africa and South Asia. – While most of them predict that the growth will be weak in the US and Europe. In the latest International Monetary Fund (IMF) predictions, the outlook for global growth was trimmed by 0.2 percentage points, while the forecast for the eurozone was revised down dramatically to 0.5% from 1.2%. – On the other side, the Middle East and North Africa, and South Asia were seen as the strongest performers. – Some economies in that region, including Bangladesh and India, were seen as benefiting from a global trend diversifying away from China. While the outlook is generally gloomy and uncertain, potential bright spots include the easing of inflationary pressures and the possibility for consumer sentiment to stabilize and improve. – Soaring food costs will disproportionately affect low-income countries, with many more people facing food insecurity. – Weak global demand was seen as the biggest challenge for businesses to overcome in 2023, followed by the high cost of borrowing, high input costs, and talent shortages. – The fall of the cryptocurrency sector is expected to have relatively little spillover into wider financial markets. – The majority of chief economists do not expect further economic disruption from COVID-19.	
40.	**Cryptocurrencies—Regulate or Ban**	
	(Note the Economic Implication of Crypto currencies) – John Maynard Keynes said, "There is no subtler, no surer means of overturning society than to debauch the currency". – Cryptocurrencies- Blockchain Based.	

Why Regulate?

- Underlying Tech→15 Mn Indian's Hold→It is a financial Asset→ Blockchain and NFT development.

Why Ban?

- Undermines Ruppee→ Tax Evasion→ Technocracy→Specualtion→ Security Threats→ Inequality can Widen

Crypto Tax: 30% Tax does not mean it legalizes.

- RBI's Position: More towards Prohibition→ But due to SC ruling a strict regulation is feasible

Conclusion:

- Need for a Comprehensive Act with wide consulation**.** Cryptocurrencies are by definition borderless and require international collaboration to prevent regulatory arbitrage.

41. CBDC- Pro's / cons

Intro:

- A central bank digital currency are digital tokens similar to crypto currency , issued by a central bank, They are pegged to the value of the country's fiat currency.

Pros of CBDC:

- **More efficient, cheaper , faster and secure payments**
- **easy to track , since CBDC translations** are recorded in a digital ledger
- allows users to use central Bank directly.
- **It helps in financial inclusion** and banking the unbanked.
- consumer can safely store their funds in the central bank which is stable **without fear of bank collapse**.
- help authorities track fraud and other illicit activities like terror funding or money laundering

Drawbacks of CBDC

- **central banks have complete control** , central bank can restrict transaction
- **less privacy** for users
- difficult in universal adoption in a society like India with **low digital literacy.**
- **due to cyber attacks** a, people have trust deficit in digital currencies and resort to Cash transactions.
- CBDC adoption will **hamper innovation in crypto currency and blockchain technology**

Some countries have started experimenting with CBDC to transition to digital currencies

Eg) Bahamian sand dollar of Bahamas , Digital yuan of china

	Conclusion: – The rise of crypto currency especially private crypto currency which is based on speculative value undermines the financial sovereignty of the nation and adoption of a CBDC can be the way forward to bring financial inclusion .	
42.	**Bad Bank**	
	– National Asset Reconstruction Company (NARCL) along with the Indian Debt Resolution Company (IDRCL). **Pros** – recapitalisation of banks in order to maintain CAR → Improves banks' capital buffer → help banks to start lending again. – Can consolidate all bad loans of banks under a single exclusive entity. – Maximising the recovery out of a bad loan, as this would be its primary task. – The presence of the overnment is seen as a means to speed up the clean-up process. **Cons** – Merely shifting the problem. – Losses for the banks: Haircuts in the form of discount on loans when the banks transfer them. – A bad bank backed by the government is likely to pay too much for stressed assets than one by private – Public sector banks may benefit but the taxpayers suffer in this case. **Way forward** – Improving the fundamentals like the examination process in the initial stages of the lending process. – Asset quality review: Recognizes the extent of the problem.	
43.	**Fintech companies**	
	Potential: – India is the 3rd largest Fintech ecosystem. Further, India has the highest Fintech adoption rate globally (87%). → Improving business ecosystem. – The Fintech sector has 1,860 start-ups →17 Fintech companies, which have gained 'Unicorn Status' with a valuation of over US$ 1 billion → Employment and growth. – 2025 Fintech sector 26 lakh jobs Rs 2.8 lakh – Playing a crucial role in Indian financial especially after demonetization and Covid-19 pandemic.	

- **Utility**: Help companies, business owners and consumers better manage their financial operations
- **Coverage:** Various sectors and industries such as education, retail banking etc.
- **Development and use of crypto-currencies.**
- Potential to reduce unethical practices like corruption, black money etc.
- **Constraints**:
- Threat of Data security: Automation of processes and digitization of data make Fintech systems vulnerable to attacks from hackers.
- Privacy Issue: The most important questions for consumers pertain to the misuse of personal information and important financial data.
- **Challenges in regulation**: The Fintech sector covers a wide diversity of offerings. Hence, it is difficult to formulate a single and comprehensive approach to regulate the entire Fintech sector → potential to become fertile ground for scams and frauds.
- **Other challenges:**
  - Despite immense scope for innovation, cross-border payments are still unchartered territory for FinTechs
  - Inequality of access to FinTech services

Steps taken

- Jan Dhan Yojana
- Aadhar Enabled Payment System: financial transactions on a Micro-ATM
- Aadhar Payment Bridge System
- Steps like Digital KYC, video-based customer identification process, and digital signature on documents
- Unified Payments Interface has been built as a scalable payments platform supporting digital payments in India
- License for payment banks
- Bharat Bill Payment System
- Payments Infrastructure Development Fund (PIDF) scheme to subsidise deployment of payment acceptance infrastructure in tier-3 to tier-6 centres
- World-class Fintech hub has been developed at the International Financial Services Centre (IFSC), GIFT City in Gandhinagar

44.	Digital Banking- Prospects & Challenges	
	Intro: – **Digital banking** →move to online banking, where banking services→over the internet→**High levels of Automation** **Benefits:** – Banking from the comforts of home→24*7 availability → Paperless banking→Facilitates online payments for online→ banking services to remote areas→Risk of counterfeit currency → Privacy and security for customers→ circulation of black money→ Lowers the minting demands of currency **Prospects:** – Financial institutions will remain competitive – Consumers' growing desire to access financial services – mobile capabilities →significant factor in bank selection – Digital-only banks(neo banks) →redefining the future of banking. – Using Application programming interface (API) to make data available to anyone having consumer's permission to access it – New techs like blockchain, AI (chatbots), IoT will impact banking→ streamlining processes and cutting costs. – Better Market predictions **Challenges:** – Security- and Data breaches and people with less knowledge about these threats and data – Still many people not convinced about digital banking – Most banking systems use COBOL programming language 60 years old→ doesn't suit the kind of technology that is available today. – Upgrading these banking systems and install suitable ones takes so much time. – Several non-financial, platforms like Facebook, allows users to send money directly to someone's bank account unrestricted by any rules as seen with financial institutions, it is hard for these financial institutions to cope. – Internet divide- Rural-Urban, Gender, Region – Unaffordable internet **Conclusion:** – People, banking system and employees will have to undergo a cultural shift. Also, employee training may be required.	

45.	Open Network for Digital Commerce (ONDC). Will it address the problems of Kirana shops?	
	– ONDC aims to democratize the country's fast growing digital e-commerce space, currently dominated by the two U.S firms -Amazon and Flipkart **(A/F)** – A Freely accessible govt-backed platform (Non-profit) that aims to move e-commerce from a platform-centric model (A/F app only) to an open network for buying and selling of goods and services. – Under **ONDC**, a buyer registered on one e-commerce site may purchase goods from a seller on another participating site – Extends beyond retail, to any digital commerce domains like mobility, food delivery, logistics etc – Existing e-commerce apps & platforms can voluntarily choose to adopt & be part of ONDC – **Called the UPI of e-Commerce** **Targets**: By the end of 2024 – Buyers and sellers in every pin code of India – 300 million shoppers ONDC network – 30 million sellers and seller catalogues – 300 million orders per month **Benefits to Kirana Shops:** – All kind of sellers (big or small) can list and sell their products on ONDC – Buyers would have a wider array of choices. – In A/F, the top sellers are listed based on algorithm and payment of commission. In ONDC, listing→ based on several parameters like, what the consumer wants, price, location of the seller or the delivery time. – With the unified payment system, the issue of payment gateways is also solved. – Apart from sellers and buyers, logistics players and payment gateways will be part of ONDC. **Issues:** – No clarity on where the liability lies. On A/F, liability of Timing of delivery, cancellation, return of products lies with platform and its guidelines and not the sellers. o In ONDC, no such mechanism worked out yet. – No clarity on whether uniform guidelines for cancellation & refund for all kirana shops. – Whether small kirana stores be able to match the discounts offered by bigger sellers. – Registration to ONDC is voluntary. Only if as many e-com platforms join, plan- be successful – Need more awareness and technical support to local vendors and small businessmen	

46.	NaBFID- Objectives, Role and challenges	
	It is a specialized **Development Finance Institution** in India. It was set up by the National Bank for Financing Infrastructure and Development Act, 2021. It shall be **regulated and supervised by RBI** **Objectives:** • Addressing the gaps in long-term non-recourse finance for infrastructure development • Strengthening the development of bonds and derivatives markets in India • Sustainably boosting the country's economy **Role in Infrastructure:** • Sanction loans amounting to ₹1 lakh crore during this fiscal year • These loans will be directed towards both Greenfield and brownfield assets in the vital infrastructure space. • No ministerial or government interference- function independently • It can't finance all the projects and thus can join hands with banks to provide loans for long term • It can support infrastructure projects in three ways: by **giving loans, subscribing to bonds** and picking up **equity stakes.** • The NaBFID has the backing of the government so it can easily mobilize capital at cheaper rates. –	

LAND REFORMS

47.	Land Reforms- History and Assessment	

	– **Land reform** usually refers to redistribution of land from the rich to the poor
	– It includes regulation of ownership, operation, leasing, sales, and inheritance of land
	– **Land reform in India, after Independence focused on the following features:**
	1. **Abolition of intermediaries—zamindars, jagirdars, etc.**
	  o Subject was included under the **state list** of Indian Constitution
	    ▪ 20 million erstwhile tenants now became landowners
	    ▪ distribution to landless farmers.
	2. **Tenancy reforms**
	  o These were introduced to regulate rent, provide security of tenure and confer ownership to tenants	

3. **Ceiling on Landholdings**
    - Land Ceiling Acts were passed, to legally stipulate the maximum size beyond which no individual farmer or farm household could hold
4. **Consolidation of Land Holdings**
    - land pooled into one compact block and divided into smaller blocks to eventually be allotted to individual farmers

Partial success

- only 4% of operated land → transferred to cultivators
- Foisted excessive **restrictions on the tenancy** of agricultural land
- reluctant to lease out their Land
- Due to legal restrictions on tenancy, many landowners who cannot cultivate themselves prefer to leave their **land fallow**
- Despite consolidation measures, the average **holding size** in 1970-71 was 2.28 hectares (Ha), which has come down to 1.08 Ha in 2015-16.
- **What reforms are needed in this perspective?**
- **Formalizing tenancy** and **cultivating fallow land**
- **Model Agricultural Land Leasing Act, 2016**,.
- **Group loans** can provide relief to informal tenants.
    - Eg: **Kerala**, where tenancy is illegal, about 250,000 informal tenants have organized themselves into joint liability groups. agreements..
    - **Odisha**'s **Balaram** scheme→agricultural credit to groups of landless labourers
- Creation of a **land record repository**
    - **digitisation** and integration of all records relating to titles and encumbrances
    - **formalising** cadastral maps of all plots of land
    - **Defining** a structured timeline for timely resolution of property disputes and making public land disputes data etc.
- **Digital India Land records implementation programme 2.0,**
    - **Mapping of land parcels** in rural inhabited areas using Drone technology
- **NITI Aayog** has also prepared a draft model **Land Title Act, 2019**.
    - Conclusive land titling will help farmers gain easy access to credit, considerably reduce land associated litigations, enable transparent land

	transactions and make the process of land acquisition for infrastructure development smooth and efficient – Thus, Land Reforms have **enormous potential** to revamp and develop Indian agriculture, especially during the ongoing economic turmoil.	
48.	**LAND RECORDS MODERNISATION - BENEFITS**	
	– **Benefits:** – **Real-time land ownership records** will be available to the citizen – Free access to their records – **Reducing rent seeking and harassment**. – **Public-private partnership (PPP) mode of service delivery**→convenience – Abolition of stamp papers and payment of stamp duty and registration fees through banks. – IT inter linkages; the time for obtaining RoRs, etc. will be drastically reduced – "Anytime-anywhere" access – Automated mutations →**reduce the scope of fraudulent property deals** – **Conclusive titling** will also significantly reduce litigation – **Records will be tamper-proof** (Blockchain) – This method will **permit e-linkages to credit facilities** – Market value information will be available on the website to the citizen – Certificates based on land data (e.g., domicile, caste, income, etc.) will be available to the citizen through computers – **Information on eligibility for Government programs** will be available, based on the data – **Issuance of land passbooks**	
49.	**DIGITAL SCHEMES FOR LAND RECORDS**	
	– **Digital India Land Records Modernisation Programme(DILRMP)** – It is a Central Sector Scheme. – **Integrated Land Information Management System (ILIMS)** across the country. – **Components:** o Computerization of land records→Survey/re-survey→Computerization of Registration	

- **Aim:**
  - To replace the present deeds registration and presumptive title system with that of conclusive titling with a title guarantee.
- **National Generic Document Registration System :**
  - It has been **developed by NIC** under the broad aegis of **DILRMP** to provide **"One Nation, One Software"** for the registration of documents and properties to empower citizens.
  - This software application is **scalable, flexible, configurable and compatible** with the state-specific needs in the country. .
- **Unique Land Parcel Identification Number (ULPIN):**
  - 2022 Budget
  - **It** will have **14 digits - Alpha-numeric unique ID** for each land parcel.
  - The Unique IDs based on Geo reference coordinate of vertices of the land parcel.
  - Compatibility so that all states can adopt it easily.
- **SVAMITVA scheme:**
  - It is a **Central Sector Schem**e of the Ministry of Panchayati Raj.
  - It was launched on the National Panchayati Raj Day in 2020.
  - **Aim**: To provide the 'record of rights' to village household owners in rural areas and issuance of Property cards.
- **National Land Management Award - 2021**:
- The Department of Land Resources has also initiated the National Land Management Award - 2021 and also the national level ranking of States to appreciate and encourage the good work done by the State Governments. **Bhoomi Project -Karnataka**

INFRASTRUCTURE AND INVESTMENT MODELS

50.	GATI SHAKTHI MASTER PLAN	

What is PM Gati Shakti?

- PM Gati Shakti aims to institutionalize holistic planning for major infrastructure projects..
- It will also **leverage technology extensively**, including spatial planning tools with ISRO's satellite imagery.

	What services will be provided by the PM Gati Shakti? – **Planning and obtaining clearances**: – The portal will offer **200 layers of geospatial data** – **Centralised tracking of projects**: o Prioritize projects o Project clearances **How PM Gati Shakti will help India's development?** – Bring the economy out of pandemic impacts – Solve issues in logistics – Help in increasing economic zones and industrial parks: – Reduce implementation overlaps – Save taxpayers money**:** – Help in reducing human intervention within ministry: **What are the challenges associated with the functioning of PM Gati Shakti?** – Investments from states→ Low Credit Off-take→ infrastructural challenges: Land acquisition → litigation issues, alienation of local communities→ violation of environmental norms, etc. **How can India improve the implementation of PM Gati Shakti?** – address **structural and macroeconomic stability concerns** of high public expenditure→ **Tackle land acquisition decisions**→ **Incorporate the digital features in all sphere** – **Improve the performance of roads**: **Conclusion:** – Thus, the PM Gati Shakti will help India to realise its dream of becoming the "business capital" of the world.	
51.	**IMPORTANCE OF INFRASTRUCTURE/ NIP PIPELINE**	
	Intro: – National Infrastructure Pipeline → 111 lk crore→ government's vision to make India a $5 trillion economy by 2024-25. – NIP includes economic and social infrastructure projects in sectors such as Energy (24%), Roads (19%), Urban (16%), and Railways (13%) **Need of National Infrastructure Pipeline (NIP):** – **$5 trillion goal→ Inclusive growth:** Availability of quality infrastructure is a prerequisite→**Poor infrastructure** – **Investment→** build investor confidence – Infra NPAs. **Significance of National Infrastructure Pipeline (NIP):** – **Economic growth**.	

	– **Employment→** equitable access to infrastructure for all, making growth more inclusive. – **Fiscal space:** improving revenue base of the government→ensures quality of expenditure – **Better Projects→** project bidding, reduces aggressive bids/ failure in project delivery – **Agricultural benefits:** Irrigation and rural infrastructure projects would account for 7.7 lakh crore each. – **Connectivity:** It will further increase the connectivity in India, especially in rural areas. – **Credit:** There is a lack of private investment due to ongoing NPA crisis and lack of credit creation in the economy. **Challenges:** – Banks are recovering from NPA problem→further face NPA crisis – Scale of pipeline is massive→ Coordination among various levels of government is a must. – Land acquisition→Rehabilitation of millions of people will also be not easy. **Conclusion:** – It will also enable robust marketing of the pipeline of projects requiring private investment through the India Investment Grid (IIG), National Investment & Infrastructure Fund (NIIF), etc. Thus, it may help in realizing India's $5 trillion economy dream.	
52.	**Electricity Amendment Bill, 2022**	
	About: – Electricity Amendment Bill, 2022 -> to amend Electricity Act, 2003 => aims at giving multiple players -> facilitate the use of distribution networks by all licensees -> allowing consumers to choose any service provider. – To enable competition, enhance efficiency, improve services & ensure sustainability of the power sector. – Graded revision in tariff over a year, mandatory fixing of maximum ceiling & minimum tariff by the appropriate commission. **Arguments Against the Bill** – Constitution lists 'Electricity' as -> 'Concurrent' (Item 38 of List III of 7th Schedule) -> proposed amendments violate the federal structure ('basic structure') of Indian polity. – Free power for farmers & BPL population -> will go away eventually.	

- Only government distribution companies (DISCOMS) will have universal power supply obligations -> therefore, private licensees may prefer to supply the electricity in profit-making areas (industrial & commercial consumers).
- Profit-making areas will be snatched from government DISCOMS & will become loss-making companies -> establish monopoly of few private parties.
- Having different retailers/distribution licensees -> open a plethora of operational issues.
- Quality of service/price -> not going to change a lot.
- UK auditors report says => Due to adoption of such faulty models, consumers had to pay in excess of 2.6 billion pounds.

Government's Rationale for the Bill

- Bill does not reduce states' powers to regulate the power distribution sector.
- Multiple DISCOMS can already exist & bill only simplifies the process -> to ensure competition -> leads to better operations & service.
- Allows the use of additional cross-subsidy that is collected from industrial & commercial users in one area -> for subsidising the poor in other areas.
- With India aiming to achieve 50% of its installed capacity from renewables by 2030 -> push for Renewable Purchase Obligations (RPOs) will help to achieve green targets fixed as per Paris & Glasgow Agreements.

Way Forward

- Recommendations from states -> taken into consideration for effective implementation.
- Elaborative provisions related to subsidies -> to eliminate confusions/conflicts.
- Regulations for private players -> to avoid differential distribution.

53. Energy Basket: Status
Coal Crisis In India

- India's thermal power plants -> facing severe coal shortage -> worrisome, as nearly 75% of India's total power generation from coal-fired plants.
- India => 2nd largest importer/consumer/producer of coal in the world (after China) & has world's 5th largest reserves.
- Mainly imports from Indonesia, Australia & South Africa.
- Coal resources of India: Older Gondwana Formations of peninsular India & younger tertiary formations of north-eastern region.

- Jharkhand, Odisha & Chhattisgarh -> accounts, ~70% of total coal reserves in India.

Reasons for the current coal crunch

- Economic recovery from Covid-19 pandemic + supply issues => current coal shortage.
- Sharp surge in electricity demand, squeeze on domestic mine output & surging prices of seaborne coal.
- Share of electricity from coal-fired thermal power plants increased (from 61.9% to 66.4%) -> increased the demand for coal.
- China (biggest consumer & producer of coal) -> facing severe shortage -> restricts it's coal export & also competing for international coal => led to soaring coal prices & freight costs in international market (over 100% increase in 2021, moderated since then) -> Hence, India heavily depends on Indian coal.
- Atmanirbhar Bharat (self-reliant) move to lower imports -> adding further pressure to already stretched domestic supplies.
- Heavy rains & severe flooding in mines -> impacted domestic coal production (especially in central & eastern India) + key logistic routes also impacted.
- State-run DISCOMs absorbs higher input costs to keep tariffs steady -> led to heavy debt & strained balance sheets -> results, delayed payments to power producers -> which disincentivises further investments.

Impact of the shortage:

- Affects power supply -> which is the backbone of all economic activity.
- Industries downscale their production -> delay India's economic recovery.
- Importing expensive coal cost -> passed down to consumers -> excessive inflation (already high retail inflation).
- **Challenges ahead**:
  - Rising population, expanding economy & quest for improved quality of life -> energy usage in India is expected to rise -> will mean the Power Crisis could hit long & hard.
  - Considering the limited reserve of petroleum / natural gas, eco-conservation restriction on hydel projects, geo-political perception of nuclear power & underdeveloped energy infrastructure -> coal will continue to occupy centre-stage of India's energy scenario.

Recent Reforms

- Coal blocks to be offered to private companies on revenue-sharing basis in place of fixed cost.
- Coal gasification/liquefaction to be incentivised through rebate in revenue share.
- Coal bed methane (CBM) extraction rights to be auctioned from Coal India's coal mines.

Way Forward

- Amplify imports despite the financial cost => Ramp-up production & mining -> to reduce demand-supply gap.
- With the monsoon & winter -> demand for power usually falls -> breathing time to take measures.
- Centre allows 50% sale of coal from captive mines (applicable to both private & public) -> way for releasing more coal in the market, ease pressure on power plants & aid import-substitution of coal -> by greater utilisation of mining capacities of captive coal & lignite blocks.
- To avoid supply crisis due to payment defaults -> penalty for power generation companies/states which do not pay Coal India Ltd on time.
- Inter-ministerial Coal Project Monitoring Group (CPMG), set up in 2015 -> to fast-track clearances, needs to be revived.
- Turn towards cleaner alternatives like Natural Gas-Powered Generators.
- Current coal crisis => wake-up call for India -> time has come to reduce its over-dependence on coal & more aggressively pursue a renewable energy strategy.

b) Renewables: Status, Constrains and Prospects

- India's renewable power capacity -> currently 136 Giga Watts (36% of total capacity) -> targets 450GW by 2030 => 4th largest in the world & growing fastest among all major countries.
- Per capita consumption of energy in India -> quite low, as compared globally.
- Power sector is primarily dependent on fossil fuels -> prime source of air pollution.

Why Renewable Energy?

- Renewable sources -> produce cleaner, greener & more sustainable energy.
- Inclusion of newer technology means more employment opportunities.
- Provides market & revenue assurance which no other resources can provide.

- Providing 24x7 power supply to 100% households, sustainable form of transports etc. -> can only be achieved through sustainable power from renewables.

India's Key Focus for Next Five Years

- India -> twin challenge of providing more energy & cleaner energy to masses.
- Focus on manufacturing the solar panels & develop the entire supply chain of all components under Atma Nirbhar Bharat initiative -> create jobs & supply decentralised energy to all households in India.
- Looking for other alternatives -> methanol-based economy & biomass.
- Bio-CNG vehicles with 20% blending in petrol.
- Conversion of energy from Biomass -> will clean the cities & reduce our energy dependence.
- Fuels produced from biomass -> have high calorific value & cleaner than traditional biomass.
- Shifting towards Hydrogen Based Fuel Cells Vehicles (FCV) is another area of focus.
- Grid Integration -> to develop efficient ways to deliver variable renewable energy (RE) to the grid.

Initiatives Taken

- Recently, Indian PM -> announced huge renewable energy deployment plans for India for the next decade -> generate business prospects of around $20 billion/year.
- In "RE-Invest, 2020" => PM invited the investors, developers & businesses -> to join India's renewable energy journey.
- Production Linked Incentive Scheme (PLI) scheme to high-efficiency solar modules => financial incentive to boost domestic manufacturing & attract large investments in electronics value chain.
- Vehicle Scrappage Policy
- PM- KUSUM -> aims to provide financial & water security to farmers through harnessing solar energy capacities of 25,750 MW by 2022.
- Solarisation of water pumps -> step in distributed power providing at the doorstep of the consumer.
- MoNRE hosts Akshay Urja Portal & India Renewable Idea Exchange (IRIX) Portal (promotes exchange of ideas among energy-conscious Indians & Global community).

Challenges

- Integrating the renewables with main grid -> area to work upon.

- To accelerate the uptake of renewables -> storage & battery solutions is needed in large quantities.
- Renewable resources are slightly more expensive than conventional sources.
- Sustainable round-the-clock power supply & storage system -> big challenge ahead.

Way Forward

- Identification of specific locations for particular renewables, integrating with main grid & distribution -> will take India forward.
- More storage solutions need to be explored.
- Agricultural subsidy should be rectified -> to ensure the only required energy consumption.
- Diversified energy mix (Ex: Hydrogen fuel cell-based vehicles & EVs) -> most suitable options to shift towards renewable sources of energy.
- Well-planned road map is needed => NITI Aayog's "Energy Vision- 2035" -> to achieve India's clean energy goals.
- Renewable sources of energy -> expected to replace fossil fuels by 2050.
- India should work on -> investment in infrastructure, capacity building & better integration in near & immediate future.

54.	Railways & Roadways	

1) RAILWAYS

Some Facts

- Indian Railways (IR) has the 4th longest rail network in the world.
- Network of 70,000 km - runs about 21,000 trains, carrying 23 million passengers and 3 million tonnes of freight per day.

Developments in the railway sector in recent years

Bullet trains→'Vande Bharat' express trains→ Vista dome coaches→ National Rail Plan

Privatization of Railways

Acc. To Government, the "objective of the initiative

- ✓ to introduce modern technology
- ✓ rolling stock with reduced maintenance,
- ✓ boost job creation,
- ✓ provide enhanced safety,
- ✓ provide world-class travel experience to passengers,
- ✓ reduce the demand-supply deficit in the passenger transportation sector

Cons:

- ✓ Coverage Limited to Lucrative Sectors
- ✓ Fares
- ✓ Accountability
- ✓ Fixing responsibility in case of an accident

Concerns in the Railway sector

- ***Precarious financial health:***
  - ✓ Budget shows surplus → but actual financial status of the railways → continues to remain in deficit.
- ***Confusion regarding management architecture:***
  - ✓ IRMS brought outside civil services- later the decision was rescinded
- ***Issues in the unification of services***
  - ✓ Merging all 8,400 officers in the eight services — five technical and three non-technical — to prepare a common seniority list and a general pool of posts, especially in higher managerial ranks.
  - ✓ Those protesting the government's decision say that the merger is unscientific and against established norms because it proposes to merge two fundamentally dissimilar entities, with multiple disparities.
- Service Quality is not up to the mark
- Cross Subsidization issue → The discrepancy between freight charges and passenger fares seem to distort the Railways' performance.
- Overburdening of the Railway infrastructure due to heavy passenger load. There laying of new tracks is at slow speed. There is little capital expenditure on the railways.
- The number of stranded projects is also high in Railways.
- Charges –Railways were levying a surcharge for journey on "superfast" trains when these often ran late.

Way Forward

- Freight –New operational setups in logistics like private players will improve the business.
- Tariffs –The passenger services should be made affordable by raising Industrial freight rates.
- Food –To immediately address the issue of poor quality food, food can be made optional so passengers can bring their own food and get a discount.
- Amenities –On blankets, a pilot has been launched to raise minimum temperatures under air conditioning and stop supplying blankets.

- There are also reports that the National Institute of Fashion Technology will design light blankets which can be cleaned easily but the immediate reaction is to downgrade the product.

2) ROADWAYS

Some Facts

- India has the second-largest road network in the world, Total Road Length – 6.4 million km (comprises of national & state highways and urban & rural roads).
- Transportation of goods – 64.5% by road.
- Passenger traffic – 90% by road.
- National highways account for 2% of the total road network and carry over 40% of total traffic.
- Highway construction in India increased at 17.00% CAGR between FY16-FY21.
- Despite pandemic and lockdown, India has constructed 13,298 km of highways in FY21. In FY21, 13,298 kms of highway was constructed across India.

Government push towards Road Infrastructure

- National Infrastrcture pipeline – Rs. 111 lakh crore allocated for FY 2019-25
- India has a well-developed framework for Public-Private-Partnerships (PPP) in the highway sector. *Asian Development Bank ranked India at the first spot in PPP operational maturity and also designated India as a developed market for PPPs.*
- Bharatmala Pariyojana, – aims to build 66,100 km of economic corridors, border and coastal roads, and expressways to boost the highway network.
- The government has successfully rolled out over 60 projects worth over $10 bn based on the Hybrid Annuity Model (HAM). HAM has balanced risk appropriately between private and public partners and boosted PPP activity in the sector.
- Data Lake and Project Management Software – NHAI has become 'Fully Digital', with the launch of unique cloud based and Artificial Intelligence powered Big Data Analytics platform.
- 2021-22 Budget recognises this need with a significant budgetary outlay for the road transport and highways sector of Rs.1,18,101 crore

Challenges

Land acquisition that can cost at least 25 to 30 percent of every project; there can be projects where it is even higher than the cost of construction.

- In a study conducted by NHAI on 106 projects, worth over Rs. 1.5 billion, facing implementation delays, issues pertaining to land acquisition were identified as one of the important causes for the delay in almost 50 percent of the projects.

- The government's burden to acquire land has risen in compliance with the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, that mandates it to pay four times the market value of acquired land in rural areas and two times in urban areas
- Bharatmala Pariyojana – Phase I, which is crucial to coastal and port connectivity, and which was targeted to be completed in 2021-22 has been delayed to 2025-26.
- MoRTH's lack of any source of revenue other than budgetary support from the Central government and borrowings.
- Since most of the projects are to be constructed in remote areas, mobilization of equipment and raw materials would be challenging.

Way forward

- diversify sources of funds beyond budgetary allocation and borrowings by NHAI.
- The newly announced DFI.
- revisiting its PPP models (including its HAM model).
- Bharatmala would depend on fast tracking of land acquisitions, clearances from the Ministry of Environment, Forest and Climate Change and other clearances.
- Timely redressal of disputes by establishing a regulator is also crucial before undertaking such a large-scale project because of possible arbitration issues,

55. Airports & Port Ways

AIRPORTS

Some Facts

- India is the 7th largest civil aviation market in the world and is set to become the world's 3rd largest by 2024.
- Total Passenger traffic (International + Domestic) had been constantly increasing before the drastic fall in FY2020-21 due to COVID-19. However, the recovery has been strong with 64% increase in traffic in FY2021-22 (with respect to FY2020-21).
- There are 464 Airports and Airstrips in India, of which 125 are managed by the Airports Authority of India. India plans to open 100 additional airports by 2024.

Challenges

- *Capacity and infrastructure:* Due to the rapid expansion, airspace, parking bays and runway slots

will become increasingly scarce over the next few years,
  - *Skilled workers:* According to a study conducted by the Ministry of Civil Aviation, Indian aviation could directly support 1.0 to 1.2 million jobs by 2035.
- This implies that about 0.25 million persons will need to be skilled over the next 10 years.
- But there is shortage and gaps in availability of industry-recognised skill.

High cost to passengers and of air cargo:
- *Tariff determination:* The government has mandated that all airports move from a single to a hybrid till structure. It raises costs for airlines and passengers.
- *Taxes on aviation turbine fuel (ATF):* Due to high taxes and lack of competition among providers, ATF is relatively expensive in India. It is also outside the ambit of GST which creates high regional disparity in its price.
- *Incidence of GST on Aircraft Leases and Spare Parts:* It also raises cost for the sector.
- *Profitless Growth:* Rising aviation turbine fuel cost, slowdown in capacity addition, and decline in the value of rupees leading to a scenario of Profitless Growth.
- *Aviation safety:* Although, the number of aviation safety violations in 2017 (337) has declined in comparison to 2016 (442), the absolute number still remains high.
- *Security and Terrorism:* Rising global terrorism and airports have become preferred targets of terrorist groups.
- *Lack of Draft Passengers Charter:* In the absence of such a draft, adequate services to passengers cannot be ensured.

Way Forward
- *Enhance aviation infrastructure:* Complete the planned airports under the UDAN initiative in a time-bound manner. Include provisions for domestic hub development while auctioning traffic rights.
- *Increase investment in the sector through financial and infrastructure support:* Reduce taxes on MRO services and consider granting infrastructure status for MRO. Monetize vacant real estate near AAI airports in all major centres of traffic to increase non-aeronautical revenues.
- *Address shortage of skilled manpower:* Promote collaboration between original equipment manufacturers (OEMs), industry and educational institutes to teach the latest concepts in the aviation industry including management principles, IT in aviation, etc.

- *Promote air cargo growth:* Promote "Fly-from-India" through the creation of transhipment hubs. Develop an integrated digital supply chain or e-cargo gateway based on the National Air Cargo Community System (NACCS) platform.
- *Ease the regulatory environment for airports:* Adopt a consistent model for tariff determination so that it reduces passenger cost. And, align taxation and pricing structure to global benchmarks by bringing Aviation Turbine Fuel (ATF) under the rubric of GST.
- *Prioritize aviation safety:* Shift focus to pre-empting and preventing accidents/incidents. There should be zero tolerance of safety violations. DGCA should continue ensuring real time safety tracking and prompt incident reporting.

2) PORTWAYS and WATERWAYS Integration

Intro

- India is endowed with various Inland Water Transport (IWT) options that comprise rivers, canals, backwaters, creeks, and tidal inlets
- India has over 5,000 km of navigable inland waterways under development.
- There are 13 major and 200 medium and small ports in India
- These not only form a competitive alternative mode of transportation with lower operating cost (30% lower than the railways and 60% lower than road) but also a sustainable mode in freight logistics and passenger transport
- To harness the potential of IWT, Inland Waterways Authority of India (IWAI) was established in 1986, and since has been working towards development and regulation of inland waterways
- Currently, shipping plays a significant role in the transport sector of the country's economy
- Nearly 90% of India's trade Volume(77% in terms of value), is moved by sea making shipping the backbone of trade and economic growth
- Today, India has the largest merchant shipping fleet among the developing countries

Challenges

- The **channel draft of the national waterways** is not uniform at 2 meters throughout the year, as is required. Some of these rivers are seasonal and do not offer navigability through the year
- Further, all the identified **waterways require intensive capital and maintenance dredging,** which could be resisted by the local community on environmental grounds, including displacement fears, thereby posing implementation challenges

	– The **presence of waterfalls and sharp bends** in the course of river hinders the development of waterways – Silting of river beds reduces the depth of water and creates problems for navigation. And Desilting of river beds is a costly affair – Diversion of water for irrigation purposes reduced the quantity of water in river channel, and hence should be done carefully – Also, the demand for sufficient waterways needs to grow, to make it an economically viable mode of transportation – Shortage of MRO facilities **Measures taken by the government** – The Indo-Myanmar protocol envisages multimodal connectivity between Kolkata and Mizoram, through Myanmar. – This presents an easier and faster transit route than the existing 'chicken neck' corridor through Siliguri. – The Indo-Bangladesh protocol facilitates export and import trade to and from Bangladesh using both NW-1 and NW-2. – The riverine trade through Bangladesh facilitates trade through Assam, as domestic movements on NW-2 between Assam and Haldia/Kolkata areas pass through a significant stretch in Bangladesh and are subject to the bilateral protocol. **Way Forward** – India is located along key international trade routes in the Indian Ocean and has a long coastline of over 7,000 km. Yet, capacity constraints and lack of modern facilities at Indian ports tremendously elongates the time taken to ship goods in and out of the country and has held back India's share in world trade. – Transport costs are high in India – 18 per cent of GDP, compared to less than 10 per cent in China. Hence, the need of projects like Sagarmala, with proper implementation to capitalise on the strategic location in the Indian Ocean region	
56.	**TELECOM SECTOR REFORMS**	
	Evolution – **National Telecom Policy 1994** – – regulatory mechanism for the sector – policy objectives – telecom facilities be expanded —- – Establishment of Telecom Regulatory Authority of India - 1997 – statutory regulatory authority – functions, power and responsibilities to encourage competition, ensure a level playing field and promote & protect consumers interest	

- **New Telecom Policy 1999** — focused on an environment for attracting continuous investment in telecom sector and allowed creation of communication infrastructure by leveraging on technological development
- **National Telecom Policy 2012** – Vision, Strategic direction and the various medium term and long term issues related to telecom sector — One Nation – Free Roaming → One Nation – One License

The recent telecom sector reforms are focussed on short term liquidity needs and long term issues

- **STRUCTURAL REFORMS**
- Rationalization of AGR - non telecom revenue excluded
- Rationalization of bank guarantees - - no multiple bank guarantees - For different licenses Service area regions
- Interest Rates rationalization - compounded annually not monthly -
- Removed penalty and interest on penalty
- Spectrum tenure increased from 20 to 30 years
- No Spectrum usage charges on spectrum sharing
- Surrender its spectrum after completing a 10-year lock-in period
- 100% FDI through Automatic route

PROCEDURAL REFORMS

- Spectrum auctions will be normally held in the last quarter of every financial year (fixed calendar).
- KYC reforms –app based self KYC , fresh KYC requirements removed
- Standing Advisory Committee on Radio Frequency Allocation (SACFA). SACFA makes the recommendations on major frequency allocation issues, – SACFA clearance eased for telecom towers
- AGR - AGR is a fee-sharing mechanism between the government and the telcos who shifted to the 'revenue-sharing fee' model in 1999, from the 'fixed license fee' model. In this course, telcos are supposed to share a percentage of AGR with the government.
- 4 year moratorium on all spectrum and AGR dues

SIGNIFICANCE

- Promoting Ease of doing business - 100% FDI ,
- Imbibing competition in the sector
- Promoting Digital India
- Paves the way for further technological advancement

IMPACT

- Increase in tele density– Affordable tariffs to both telecom companies and consumers – consumer satisfaction –

CONCLUSION

- Attained phenomenal growth - continuing to reap benefits from emerging technologies

57. NATIONAL LOGISTICS POLICY 2022; PROSPECTS CHALLENGES AND STEPS TAKEN

About Logistics Sector:

Logistics encompasses planning, coordinating, storing, and moving resources —people, raw materials, inventory, equipment, etc., from one location to another, from the production points to consumption, distribution, or other production points.

Prospects

- **Aim:**
  - To ensure seamless movement of goods and services across the country
  - Cut elevated logistics costs
  - Logistical issues are minimized
  - Exports grow manifold
  - Small industries and the people working in them benefit significantly.
- **Policy targets:**
  - Reduce the cost of logistics from **14-18 percent of GDP** to **global best practices of 8 percent by 2030**.
  - Improve the country's **Logistics Performance Index (LPI)** ranking to be among top 25 countries by 2030.
  - Create **data-driven decision support systems (DSS)** to enable an efficient logistics ecosystem.
- **New Logistics Policy has four critical features:**
  - **Integration of Digital System (IDS):**
    30 different systems of seven departments are integrated; these include:
    - Data of the road transport,
    - Railways,
    - Customs,
    - Aviation and
    - Commerce departments.
- **Unified Logistics Interface Platform (ULIP):** It will bring all the digital services related to the transportation sector into a single portal, freeing the exporters from a host of very long and cumbersome processes.

- **Ease of Logistics (ELOG):** A new digital platform–Ease of logistics Services or E-Logs–has also been launched.
  - This will allow industry to directly take up operational issues with government agencies for speedy resolution.
- **System Improvement Group (SIG):** Monitor all logistics-related projects regularly and tackling all obstacles.

Challenges

- **Rail sector:**
  - **Speed:**
    - The average speed of a freight train has stagnated at 25 kmph for decades— it has to be urgently doubled to 50 kmph at least.
  - **Goods operation:**
    - The railways need to have a time-table based goods operation.
    - It has to become an aggregator at the source of freight, and disaggregator at the destination, to capture the high-value small-load business
- **Waterways:**
  - The average turn-around time of container vessels in ports has come down from 44 hours to 26 hours.
- **Roadways:**
  - Road logistics is a totally fragmented sector, where a large chunk of truck owners have a very small fleet.
- **State Logistics policies:**
  - Logistics policies of 13 states are still in the draft stage.

Steps taken by the government:

- Creation of Logistics division in the Commerce department
- Gati Shakti Scheme
- Bharatmala Program
- Sagarmala Project

58. InVIT and REIT's role in Infrastructure

- The current Indian economy has a sizeable dependence on infrastructure as a vehicle of growth. Infrastructure-based sectors such as roads, highways, and ports, along with the power and real estate sectors have witnessed growing demand for capital in recent times.
- As a result, Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) have attained importance in furthering the economy's infrastructure needs.
- REITs and InvITs are conceptually like mutual funds, where a sponsor raises capital and invests them in infrastructure or

real estate projects. However, unlike mutual funds, they also have characteristics of a business enterprise.

- While REITs and InvITs raise debt through a trustee and an investment manager, they are also actively involved in projects to maximize returns to shareholders.

About Real Estate Investment Trusts (REIT)

- A REIT is roughly like a mutual fund that invests in real estate although the similarity doesn't go much further.
- The basic deal on REITs is that you own a share of property, and so an appropriate share of the income from it will come to you, after deducting an appropriate share of expenses.
- Essentially, it's like a group of people pooling their money together and buying real estate except that it's on a large scale and is regulated.

About Infrastructure Investment Trusts (InvIT)

- It is like a mutual fund, which enables direct investment of small amounts of money from possible individual/institutional investors in infrastructure to earn a small portion of the income as a return.
- InvITs can be treated as the modified version of REITs designed to suit the specific circumstances of the infrastructure sector.
- They are similar to REIT but invest in infrastructure projects such as roads or highways which take some time to generate steady cash flows.

Opportunities for InvITs and REITs

- Infrastructure and real estate are the two most critical sectors in any developing economy. A well-developed infrastructural set-up propels the overall development of a country.
- The Government of India launched InvITs and REITs to bring in long-term yield capital into the country and to increase private participation in infrastructure and real estate.
- The Government's National Infrastructure Pipeline estimates funding requirement of over US$1.4 trillion by 2025. REITs and InvITs have raised capital of over US$4 billion in India and the combined market cap of the three listed REITs in India is over US$7 billion and over US$10 billion for InvITs. Thus, the early trends of performance of REITs and InvITs are encouraging.
- In order to allow for capital recycling and further investments under PPP modes, InvITs play a key role in the monetization of existing projects.
- Despite the near to medium-term headwinds from COVID-19, long-term drivers for real estate demand are strong and likely

	to withstand current adversities. The REIT/InvIT route could potentially mitigate several investment challenges in the infrastructure sector. • REITs have become an attractive investment opportunity overseas, delivering high yields through steady distributions and long-term capital appreciation, while offering liquidity and an alternate funding mechanism.	
59.	**Ethanol Economy**	

	Ethanol is a colorless volatile flammable liquid -- produced from sugarcane, maize, wheat, etc., In India - it is produced by the natural fermentation of sugars
	Govt Initiatives
	– E100 pilot project
	– Pradhan Mantri JI-VAN Yojana, 2019 - boost R&D
	– National Policy on Biofuels–2018 - Ethanol blending-- 20% ethanol in petrol by 2025.
	– Govt released Roadmap for Ethanol Blending in India by 2025.
	Significance
	– Energy security→ strengthen national security
	– reduce transportation energy costs
	– Reduces import bill for fuel
	  ○ India's oil import dependence was 85 per cent in 2019-20
	– Support for the agricultural sector, mitigate the problem of low sugar prices in market
	  ○ Benefit for mill owners→ timely payment of dues→benefit for farmers. Also, benefit for Indian oil companies
	– Entrepreneurial Opportunity -creates jobs in rural areas
	– Help to meet growing energy needs of growing Indian population
	– CO2 released by a vehicle when ethanol is burned is offset by the CO2 captured when the feedstock crops are grown to produce ethanol - ***Carbon-neutral fuel***
	– Low-level blends of E10 or less require no special fueling equipment→ any be used in conventional vehicles.
	– higher octane number than gasoline provides increased power and performance.
	Challenges
	– Ethanol produced using water intensive crops → water scarcity
	– Threat to food security	

- need to prioritize food production over crops for fuel → world's second populated country
- Poor rank in global hunger index 106 rank in 116 countries

– Competition between the distilleries and the public distribution system
– Aversion among developed nations too - focussing more on electric vehicles
– Non-uniform availability of Blending Infrastructure
– Lack of adequate quality feedstock & sporadic availability of ethanol

Conclusion

– Floor Price for Ethanol helps to promote entrepreneurship and investment, predictability is required.
– Making Vehicle manufacturers future-ready
– India has a real opportunity here to become a global leader in sustainable biofuels policy if it chooses to refocus on ethanol made from wastes.

60. PPP MODELS

Intro:

– Public and private counterparties to share risks and rewards in the delivery of public services and infrastructure
– **Public private partnership (PPP) Models**
– The major types of PPP model are:

Management Contract Model

– private entity is given the contract to manage,
– Ownership of the asset the public entity (government);
– The risk exposure for the private entity is low

Lease Contract Model

– The private entity is allowed to earn revenue from operations

Build-Lease-Transfer model

– The asset is owned by the private entity and is leased to public entity for medium term
– Here, public entity is responsible for making the capital investment

Build-Operate-Transfer (BOT) Model

– In BOT model, the public entity retains the ownership while the private entity bears the responsibility of construction(usually a greenfield project)

- In second type, known as Under this model, the asset is leased, either to the private entity or to the public entity, depending on the situation

BOT Annuity

- This model is adopted for the building highways, mainly for those projects where the potential for generating revenues is limited, by the NHAI
- The private entity is responsible for designing, building, managing, and maintaining the asset. However, the risk for the private entity is low as it receives a fixed sum as annuity from the public entity at regular intervals throughout the duration of the contract

Engineering-Procurement-Construction(EPC) Model

- In this model, the private entity is responsible for designing, financing and building the asset
- After building the asset, it is transferred to the public entity which remains the owner. The private entity does not have the responsibility of operations and management and receives a lump-sum money from the public entity for its role. This model is being used for the construction of highways by the NHAI

Hybrid Annuity Model(HAM)

- In this model, the public entity finances 40% of the project cost, and private entity has to finance the remaining 60%
- The ownership, as well as operations, remain the responsibility of the public entity while the private entity only has to provide the engineering expertise

Problems with PPP Projects:

- PPP projects have been stuck in issues such as disputes in existing contracts, **non-availability of capital and regulatory hurdles** related to the acquisition of land.
- poor record in regulating PPPs in practice.
- **crony capitalism and a means for accumulating land by private companies**.
- Non-performing asset of public sector banks majority is Ibfra in India.
- "Politically connected firms" which have used political connections to win contracts.
- Renegotiating contracts by citing reasons like lower revenue or rise in costs which becomes a norm in India.
- These firms create **a moral hazard by their opportunistic** behaviour.

	– It is also argued that PPP is mere a "language game" by governments who find it difficult to push privatization, or when politically it is difficult to contracting out	
61.	**Vijay Kelkar Committee Report on Revisiting and Revitalising PPP Model**	
	Key recommendations of the committee: – Contracts need to focus more on **service delivery instead of fiscal benefits**. – Better identification and **allocation of risks** between stakeholders – Prudent utilization of **viability gap funds** where user charges cannot guarantee a robust revenue stream. – **Improved fiscal reporting** practices and careful monitoring of performance. – Cost effectiveness of managing the risk needs to be evaluated. – An Infrastructure **PPP Adjudication Tribunal ("IPAT")** . – Projects that have not achieved a prescribed percentage of progress on the ground should be scrapped. Re-bid them – Sector specific institutional frameworks may be developed to address issues for PPP infrastructure projects. – **Umbrella guidelines may be developed for stressed projects** that provide an overall framework for development and functioning of the sector specific frameworks. – **Unsolicited Proposals ("Swiss Challenge")** to be discouraged to avoid information asymmetries and lack of transparency. – **Amend the Prevention of Corruption Act, 1988** to distinguish between genuine errors in decision-making and acts of corruption. – National PPP policy and developments in PPP. – An institutionalized mechanism like the **National Facilitation Committee (NFC)** to ensure time bound resolution of issues. – Ensure adoption of principles of good governance by the **Special Purpose Vehicle (SPV)**. – Discourage government participation in SPVs that implement PPP projects unless strategically essential. – Issue Zero Coupon Bonds – Encourage use of PPPs in sectors like Railways, Urban, etc. Railways to have an independent tariff regulator. – Set up an **institute of excellence in PPP**	

Conclusion:

- A mature PPP framework, along with a robust enabling ecosystem shall enable the Government to accomplish, to a considerable extent, what our Prime Minister, has said "The Government has no business to do business" and thereby promote private sector investments and participation towards the nation building.

EFFECTS OF LIBERALISATION

62. **Privatisation – Pros and Cons**

- Privatisation means the transfer of ownership, management, and control of the public sector enterprises to the private sector. India adopted a mixed economy model, where the Public Sector Enterprises (PSEs) were established on a socialistic pattern of development. However, due to the poor performance of several PSEs and the consequent huge fiscal deficits, privatization was pursued.

Objectives of Privatisation

- Improving the efficiency of public sector undertakings (PSUs) – Reduce the fiscal burden on the government

Merits

- Improves the efficiency of PSUs
- Attracts Foreign Investment
- Improve financial discipline of PSUs
- Facilitate modernization of PSUs
- Reduces fiscal burden on govt in maintaining PSU
- Signals to the market that govt is promoting free-market principle

Demerits

- No Job security - Push for massive privatization resulting in mass layoffs in a period of low job creation.
- Concentration of wealth
- Challenges in valuation
- Lesser demand for loss making units
- Profit driven - high cost output
- Privatizing strategic sectors may have security concerns

Way Forward

- Singapore model – where government created a body to corporatize PSUs – Consider social and strategic benefits of PSUs apart from the economic benefits.

63. FDI Vs FPI – Recent status

- Capital is a vital ingredient for economic growth.
- A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Foreign portfolio investment (FPI) instead refers to investments made in securities and other financial assets issued in another country.

Recent status:

- World's top greenfield FDI destination.
- Total FDI inflows in the country in the FY 22-23 is $ 70.97 Bn , . **FDI inflows in India** stood at $45.15 bn in 2014-15
- computer software and hardware received the most FDI equity inflows
- Mauritius (26%), Singapore (23%), USA (9%), Netherland (7%) and Japan (6%) emerge as top 5 countries for FDI equity inflows into India FY 2022-23.

Reasons

- Rising geo-political risk – Inflation – Tightening of monetary policy – Supply Chain Disruption – Impact on crude oil prices
- Globally, the rate hikes by US Federal Reserve, tightening of monetary policy by the global central banks and appreciation of the foreign currency dollar rate has triggered the offshore

Differences Between FDI and FPI

Parameters	FDI	FPI
Definition	FDI refers to the investment made by foreign investors to obtain a substantial interest in the enterprise located in a different country.	FPI refers to investing in the financial assets of a foreign country, such as stocks or bonds available on an exchange.
Role of investors	Active Investor	Passive Investor
Type	Direct Investment	Indirect Investment
Degree of control	High Control	Very low control
Term	Long term investment	Short term investment
Management of Projects	Efficient	Comparatively less efficient
Investment has done on	Physical assets of the foreign country	Financial assets of the foreign country
Entry and exit	Difficult	Relatively easy
Leads to	Transfer of funds, technology, and other resources to the foreign country	Capital inflows to the foreign country
Risks Involved	Stable	Volatile

investors to withdraw the equities from sensitive markets.

64.	WTO 12th MC outcomes	
	– Members reaffirmed the foundational principles of the WTO – a well-functioning dispute settlement system accessible to all members by 2024. – Agreement on curbing 'harmful' subsidies on illegal, unreported and unregulated fishing for the next four years – Binding decision to exempt food purchased by the UN's WFP for humanitarian purposes, from any export restrictions. – Members agreed to continue the long standing moratorium on custom duties on e-commerce transmissions until 2024 – Members agreed to temporarily waive intellectual property patent on Covid-19 vaccines without the consent of the patent holder for 5 years. **INDIA'S STAND:** – IPR waiver is narrow in scope, as it did not cover all medical tools like diagnostics and treatments. – India asked to reconsider the moratorium on e-commerce goods as it leads to custom revenue. – India got concessions for subsidies on traditional fishing, small-scale artisanal fishing. – WTO reforms discussions must focus on strengthening its fundamental principles. – India wants assurances that its public stock-holding program cannot be challenged at the WTO as illegal.	
65.	**TRADE WARS AND INDIA**	
	– India could increase its trade particularly on which the US has imposed heavy tariffs on Chinese goods and services. The United States and China are major trade partners of India in international business and can fulfill the huge gap of trade deficit via export. – Diversification of investment flows in automobile, agriculture, equipment, healthcare, electronics & garments manufacturers to seek India as one of the sound alternative manufacturing destinations. – India needs to fast-track innovative governance policies and infrastructural facilities to attract foreign investors. – India is the only country in the world that can match the scale of operations after China and can meet the market requirements on time.	

- India can seek more opportunities in the enhancement of information and communication technology, eCommerce, the chemical industry, outsourcing, and the automotive sector.
- China is more willing than ever before to provide market access to Indian exporters and Indian exporters have all the capabilities and potentials to fulfill international demands.

66. RECENT FTAS / INDIA'S ADVANTAGES OR DISADVANTAGES

- FTA - a pact between two or more nations **to reduce barriers to imports and exports** among them. - little or no government tariffs, quotas, subsidies, or prohibitions opposite of trade protectionism or economic isolationism.
- **General Advantages Points-**
- Increases indigenous production - building resilient global supply chains - diversifying supply chains with respect to availability of resources across borders - Free trade - Reducing protectionism - incentives to innovate and market globally - increases choice and affordability for consumers - peaceful growth among countries - Improves FDI inflows - increases employment generation - eliminates monopolies -

General Disadvantages points-

- Large diversions of trade from competitive states to FTA states
- Threat to IPR rights - Loss of revenue by foregoing of duties
- Self-reliance reduced - increases dependence on other countries - Losses to uncompetitive indigenous industries – Can affect CAD depending on terms of FTA – Cultural imperialism – Consumeristic attitudes among people
- India, to expands its international competition in trade and commerce had signed several FTAs recently with countries and regional blocs. The countries recently signed - UAE, UK, Australia, Canada etc., Several FTAs with Iran, Bangladesh, European union etc., under negotiation.

India – UAE FTA:

- **Tariff Reduction –** Upto 90% of Indian exports to UAE duty free over the next five years – India's import duties on UAE exports to be brought down to about 65% upto 90%.—Tariff quota of 200 tonnes of gold import duty at one point less in India.
- **Sectors** – Trade in goods, services, telecom, Pharmaceuticals
- **Exempted with 10% tariff** – Fruits and vegetables, Petroleum waxes, etc
- **Benefits to India** – in labour intensive sectors – gems, jewellery, textiles, leather, footwear, sport goods, furniture, agricultural products, medical devices and automobiles

	India – Australia CECA: (ECTA) – **Preferential market access** provided by Australia on 100% of its tariff lines. India will be offering preferential access to Australia on over 70% of its tariff lines. – Zero-duty access to 96% of India's exports to Australia and will give about 85% of Australia's exports zero-duty access to the Indian market. – Provides post study work visas to India STEM graduates thus attracting labour market – **Benefits** - Cheaper raw materials from Australia - steel, aluminium, power and engineering — Strong Indo Pacific Relations - Australia will not seek market access for dairy, beef and wheat which are sensitive sectors for India **India – Mauritius FTA:** – The CECPA between India and Mauritius covers 310 export items for India, (food stuff and beverages, agricultural products, textile and textile articles etc – Mauritius will benefit from preferential market access into India for its 615 products, including frozen fish, specialty sugar, biscuits, fresh fruits, juices, mineral water, beer, alcoholic drinks, soaps, bags etc., – As regards trade in services, Indian service providers will have access to around 115 subsectors from the 11 broad service sectors such as professional services, computer related services, research & development, other business services, telecommunication, construction, distribution, education, environmental, financial, tourism & travel related, recreational, yoga, audio-visual services, and transport services	
67.	**FOREIGN TRADE POLICY 2023**	
	Intro: – FTP 2015 FTP 2015-20 which was to end on 31.03.2020 was extended due to COVID pandemic and volatile geopolitical scenario till 31.03.2023. **New FTP Approach:** – From Incentives to Tax Remission – Greater Trade facilitation through technology, automation, and continuous process re-engineering – Export promotion through collaboration: Exporters, States, Districts – Focus on Emerging Areas – ECommerce Exports, Developing Districts as Export Hubs, Streamlining SCOMET policy et al	

Highlights of FTP:

- Online approvals without Physical Interface: Automatic approvals and reduction in processing time.
- Reduction in user charges for MSMEs under AA (Advance Authorization)and EPCG
- E-Certificate of Origin- to be self certified.
- **Merchanting Trade Reform**: Merchanting trade involving shipment of goods from one foreign country to another foreign country without touching Indian ports
- Rupee Payment to be accepted under FTP Scheme
- Towns of Export Excellence:
- This scheme gives thrust to cluster based economic development.
- Faridabad-Apparel,Moradabad- Handicrafts, Mirzapur-Handmade Carpet and Dari, Varanasi-Handloom & Handicraft.
- Districts as Export Hubs Initiative: decentralizing export promotion.
- Capacity Building at District level
- Infrastructure and Logistics Development Intervention
- Facilitation for E-Commerce Exports
- Dak Niryat Facilitation
- E-Commerce Export Hubs
- Special One-time Amnesty Scheme for Default in Export Obligations
- Emphasis on Streamlining in Special Chemicals, Organisms, Materials, Equipment and Technologies SCOMET Licensing Procedure
- Includes Steps to Boost Manufacturing: Eg: PM-MITRA to be eligible for EPCG, Reduced Export obligation for EV, Dairy etc
- Special One-time Amnesty Scheme for Default in Export Obligations

Way forward:

- Foreign Trade Policy to be dynamic and responsive to the emerging trade scenario.
- Wider engagement with States and Districts to promote exports from the grassroots.
- Streamline processes and make it easier for exports to grow in e-commerce space.
- Sector specific targets to achieve the goal of one trillion-dollar merchandise exports and one trillion-dollar services exports by 2030.
- Consultative mechanism to resolve issues of trade and Industry.

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– Work towards making Indian Rupees a global currency and facilitating International Trade settlement in INR.
– Restructuring of Department of Commerce to make it future ready
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<tr><td>68.</td><td>Cross border insolvency</td><td></td></tr>
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– When an insolvent debtor has creditors or assets in multiple countries, cross-border insolvency arises. This type of insolvency transcends the boundaries of a single legal system.
Issues
– While IBC allows foreign creditors to make claims against a domestic company, it does not allow for automatic recognition of any insolvency proceedings in other countries.
– Current provisions do not allow Indian courts to address the issue of foreign assets of a company being subjected to parallel insolvency proceedings in other jurisdictions.
– Difficulties in location of such a company's foreign assets and identification of creditors and their claims.
UNCITRAL acceptance:
– Many countries that adopt the UNCITRAL model law do make certain changes to suit their domestic requirements.
– India's framework excludes financial service providers from being subjected to cross border insolvency proceedings, noting that many countries "exempt businesses providing critical financial services, such as banks and insurance companies, from the provisions of cross- border insolvency frameworks": Report by MCA.
– The companies undergoing the Pre-packaged Insolvency Resolution Process (PRIP) also should be exempted because the provisions for PIRP have been introduced recently, and the "jurisprudence and practice under the pre-pack mechanism are at a nascent stage". Report by MCA
Way Forward:
– A common set of principles to govern international trade is necessary given that business interface now transcends national boundaries.
– The recent cases of Jet Airways and Videocon Group has underlined the need for an Indian legal framework that is in harmony with the international best practices.
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69.	**ECONOMIC IMPACT DUE TO LPG**	
	POSITIVE IMPACT – Increase in GDP Growth – Curb on Fiscal Deficit – Check on Inflation – Decline in Poverty – Start of privatisation and Start up boom – Entry to foreign investment and technology Per capita income increased – Rise in Exports and forex reserves. – Stimulant to Industrial Production **NEGATIVE IMPACTS** – Uneven economic growth and growing divide – Unequal distribution of wealth. – Focus only on formal sector of the economy. – the agricultural sector, the urban informal sector, and forest depending communities were untouched by the reform. – Social Sectors like Health, education were ignored – failed to generate adequate employment.	
70.	**Internationalisation of Rupee and De-Dollarisation**	
	Currency internationalization is the widespread use of a currency outside the borders of its original country of issue. The level of currency internationalization for a currency is determined by the demand that users in other countries have for that currency. This demand can be driven by the use of the currency to settle international trade, to be held as a reserve currency or a safe-haven currency, or in general use as a medium of indirect exchange in other countries' domestic economies via currency substitution. Internationalisation of the Indian rupee means the currency will be used mainly for international trade and cross-border payments. However, when the Indian currency is used to make payments and buy things in a foreign country, it does not signify "internationalisation". It involves promoting the rupee for import and export trade and then other current account transactions, followed by its use in capital account transactions. These are all transactions between residents in India and non-residents. The internationalisation of the currency, which is closely interlinked with the nation's economic progress, requires further opening up of the currency settlement and a strong swap and forex market.	

More importantly, it will require full convertibility of the currency on the capital account and cross-border transfer of funds without any restrictions. India has allowed only full convertibility on the current account as of now.

Currently, the US dollar, the Euro, the Japanese yen and the pound sterling are the leading reserve currencies in the world. China's efforts to make its currency renminbi has met with only limited success so far.

Status of India - Internationalisation of Rupee

As of July 2022, USD accounts for about 88% of global foreign exchange market turnover, followed by the Euro, Japanese Yen and Pound Sterling. The Indian rupee accounts for a mere 1.7%

Efforts-

Bilateral Trade Agreements
Currency Swap Arrangements
International Financial Centers (e.g., GIFT City)
Masala Bonds
Rupee Settlement Mechanism
Currency Futures and Options
International Payment Systems

Advantages of internationalisation of the rupee

The use of the rupee in cross-border transactions mitigates currency risk for Indian businesses. Protection from currency volatility not only reduces the cost of doing business, it also enables better growth of business, improving the chances for Indian businesses to grow globally.

While reserves help manage exchange rate volatility and project external stability, they impose a cost on the economy. Internationalisation of the rupee reduces the need for holding foreign exchange reserves. Reducing dependence on foreign currency will make India less vulnerable to external shocks.

As the use of the rupee becomes significant, the bargaining power of Indian businesses would improve, adding weight to the Indian economy and enhancing India's global stature and respect.

Challenges to internationalizing rupee

Process being complex - Rupee-trade arrangements have not been easy to implement.

Trade arrangement with Russia is not yet fully operational even after a year-long engagement between the two partner countries.

Large trade deficit - With Russia would saddle Russia since with large rupee balances, it would have to find a way to use or invest.

Small market - The Indian economy is not as large as some other economies, so there is less demand for the rupee in the global financial markets.

Too much regulation - The Indian government has a number of controls on the rupee and these controls make it difficult for the rupee to be used as a global currency.

Lack of liquidity - The Indian rupee is not as liquid as some other currencies, so it can be difficult to buy and sell large amounts of rupees.

Negative effects

Internationalization may result in potential increased volatility in the rupee's exchange rate in the initial stages.

This would further have monetary implications as the obligation of a country to supply its currency to meet the global demand may come in conflict with its domestic monetary policies, popularly known as the Triffin dilemma

Also, the internationalisation of a currency may accentuate an external shock, given the open channel of the flow of funds into and out of the country and from one currency to another

Dedollarisation and its effects to India

reducing the dollar's dominance of global markets. It is a process of substituting the US dollar as the currency used for Trading oil and/ or other commodities, Buying US dollars for the forex reserves, Bilateral trade agreements, Dollar-denominated assets.

May reduce dependence on US dollar - increase trade and commerce with countries without strong relations with US , gaining economic stability, reduced effects of US monetary policy effects on the domestic economy thereby shifting towards multipolar financial system

Effects -

Positive Effects:

Reduced Exchange Rate Risk- Control over Monetary Policy- Enhanced Financial Stability - Boost to Domestic Currency - Reduced External Debt Risk

Negative Effects:

Transition Costs - Trade and Investment Impact - Foreign Exchange Reserves Diversification - Currency Volatility - Liquidity Concerns - Potential Economic Disruptions

It also poses challenges, including increased exchange rate volatility that can impact trade, investment, and capital flows. Therefore, developing countries like India should adopt a cautious and gradual

	approach to de-dollarisation, considering the balance between potential benefits and risks. The benefits of internationalisation in terms of limited exchange rate risk, lower cost of capital due to better access to international financial markets, high seigniorage benefits and reduced requirement of foreign exchange reserves far outweigh the above concerns	
71.	**World Economic Situation And Prospects Report 2023**	
	Recently, the **United Nations** has released a new report World Economic Situation and Prospects 2023, which stated that the Global **Gross Domestic Product (GDP)** is likely to drop to **1.9 % in 2023 from 3 % in 2022.** Series of severe and mutually reinforcing shocks — the **Covid-19** pandemic, the **war in Ukraine** and resulting food and energy crises, surging inflation, debt tightening, as well as the climate emergency. **FINDINGS OF THE REPORT:** – **Inflation:** The world's average **inflation** rate was at 9% in 2022, which led to budgetary constraints in several developed as well as developing countries. – **Recession:** Current downturn has slowed the pace of economic recovery from the Covid-19 crisis, **threatening several countries with the prospects of recession** in 2023. o Most **developing countries have seen a slower job recovery** in 2022. o **Disproportionate losses in women's employment** during the initial phase of the pandemic have not been fully reversed. – **Slight Growth in Global Output:** The world's output growth can bounce back to 2.7 % in 2024, subject to a change in the war situation and the **disruption of supply chains.** – **Russian Export:** Russian exports increased in 2022 as trade with **China, India and Turkey surged.** – **Outlook of South Asia:** In South Asia, the economic outlook has significantly deteriorated due to high **food and energy prices,** monetary tightening and fiscal vulnerabilities. o Average GDP growth is projected to moderate from 5.6 % in 2022 to 4.8 % in 2023. o Challenging prospects for economies like Bangladesh, Pakistan and Sri Lanka, who have **sought financial assistance from the International Monetary Fund (IMF)** in 2022.	

WHAT ABOUT INDIAN PROSPECT?

- **Growth Rate:** Growth in India is expected to remain strong at 5.8 %, albeit slightly lower than the estimated 6.4 % in 2022, as **higher interest rates and a global slowdown weigh** on investment and exports.
  - India's food and energy subsidies prevented a major downfall.
  - India will grow at 6.7 % in 2024, the fastest-growing major economy in the world.
- **Inflation**: Annual inflation is estimated at 7.1% in 2022. India's inflation is expected to decelerate to 5.5 % in 2023 as global commodity prices moderate and **slower currency depreciation eases imported inflation.**
- **Unemployment:** Unemployment rate in **2022 declined to pre-pandemic levels through stepped-up urban and rural employment**, indicating strong domestic demand.
  - However, youth employment remained below pre-pandemic levels, particularly among young women.

RECOMMENDATIONS:

- **Calibration of Macroeconomic Policies:** Macroeconomic policies need to be carefully **calibrated to strike a balance between stimulating output and taming inflation.**
  - This will require more effective coordination among the major central banks, supported by **clear policy messages to manage and moderate inflationary expectations.**
- **De-anchoring of Inflation Expectations:** While reforming existing frameworks could yield considerable benefits, central banks will also need to pursue a deliberate and comprehensive process to avoid losses in credibility and the de-anchoring of inflation expectations.
- **Reprioritize Public Expenditures:** Governments will need to **reallocate and reprioritize public expenditures to support vulnerable groups** through direct policy interventions.
- **Scale up SDG Financing:** Stronger international commitment is urgently needed to expand access to emergency financial assistance and **scale up SDG financing for:**
  - Strengthening of social protection systems, ensuring continued support through targeted and temporary subsidies, cash transfers, and discounts on utility bills, which can be complemented with reductions in consumption taxes or custom duties.