

# **CURRENT AFFAIRS 2020**

**Economy**

**ForumIAS**

## → **FDI**

### 1) Context

Govt eased FDI norms across some sectors viz Single Brand Retail trade, contract manufacturing, coal mining and digital media.

### 2) New FDI norms

#### 1) SBRT

(i) Domestic sourcing norms for Single Brand Retail Trade (SBRT) diluted.

#### 2) Contract Manufacturing

(i) 100% FDI under automatic route has been allowed in contract manufacturing.

#### 3) Coal sector

(i) 100% FDI under automatic route for sale of coal, coal mining activities including associated processing infrastructure.

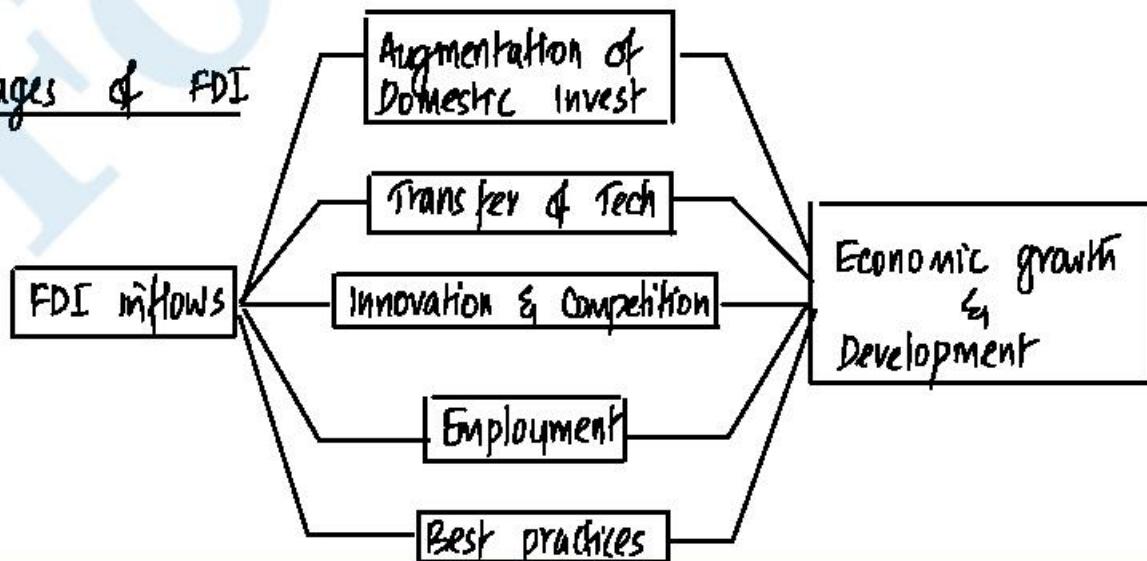
#### 4) Digital Media

(i) Govt permitted 26% FDI under govt route for uploading/streaming of news through digital medium.

### 3) FDI

Foreign Direct Investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.

### 4) Advantages of FDI



## 5) FDI inflows to India

- (i) India's FDI inflow in 2018-19 remained strong at 64.375 billion making a 6% growth over 2017-18
- (ii) The top source of FDI are from Singapore and Mauritius

## 6) Challenges for FDI inflow

- (i) Policy uncertainty - Eg e-commerce sector
- (2) Complex laws
- (3) rigid labour laws
- (4) Ease of doing business
- (5) contract enforcement
- (6) Policy paralysis
- (7) Land acquisition
- (8) Corruption and red tapism

## 7) Issues related to FDI

- (i) No technology transfer
- (ii) low FDI in labour intensive sector
- (iii) low FDI inflow in some sectors
- (iv) regional disparity
- (v) Platform business models - winner takes all

## 8) Committee

Govt setup a committee to examine FDI issues in e-commerce

## 9) Way forward

- (i) Opening up of FDI is timely as in this era of trade war
- (ii) Sustained investor-friendly policy is vital to attract foreign funds

## → PRIVATISATION

### 1) CONTEXT

- 1) Union govt has decided to go for strategic disinvestment of the govt shareholding in 3 PSUs.
- 2) The Cabinet Committee on Economic Affairs (CCEA) has also given in principle approval of bringing down govt share holding to below 51% while retaining management control in select PSUs.

### 2) AIM

Govt stated the aim as, the resources unlocked by the disinvestment of these CPSEs would be used to finance the social sector / developmental programmes of the govt.

### 3) IMPLICATIONS

#### POSITIVES

##### 1) for firms

- 1) Improve efficiency, performance
- 2) Expansion
- 3) Flexible regulations
- 4) New technology
- 5) Bringing best practices

Eg Hindustan Zinc, Balco, etc

##### 2) for Govt/Economy

- 1) Development of social sector
- 2) Better Management
- 3) Disinvestment target
- 4) Reduce fiscal deficit

#### NEGATIVES

##### 1) Firms

- 1) Emergence of Pvt monopolies
- 2) Retrenchment of workers
- 3) Mere change of ownership from public to pvt may not ensure performance or efficiency

##### 2) for Govt

- 1) Some are already well performing PSUs
- 2) PSUs are not only about making profit
- 3) against socialist objectives
- 4) for tax payers
- 5) Under valuation of PSUs

Name the PSUs ?  
\_\_\_\_\_

What is disinvestment?  
\_\_\_\_\_

What is IPO?  
\_\_\_\_\_

What is NIF?  
\_\_\_\_\_

#### 4) SUGGESTIONS

- 1) Niti Aayog has provided a list of PSUs which the govt can look at for disinvestment
- 2) PSUs which are doing well and are not important for either strategic reasons or for maintaining fair play in the market can be considered for strategic disinvestment in future
- 3) PSUs like Air India or Scooters India are often called "bleeding entities" since they are a liability on govt resources. govt should go for monetisation of their assets

→ **POVERTY**

**1) QUOTE**

"Poverty is the worst form of violence" - Ghandiji

**2) CONTEXT**

- 1) India has been ranked 103/119 countries in Global Hunger Index
- 2) India lifted 271 million people out of poverty between 2006 and 2016, recording the fastest reductions in the Multidimensional Poverty Index (MPI) values - UN
- 3) Abhijit Banerjee, Esther Duflo and Michael Kremer won 2019 Nobel Prize for economics "for their fundamental approach to alleviating global poverty".

What are the parameters of GHI?

HDI and India?

What is MPI

What is SDG 1 and SDG 2

**3) POVERTY**

It is capability deprivation that leaves an individual unable to earn sufficient income through work or entrepreneurship

Poverty is of two types absolute and relative poverty

**4) CAUSES**

Colonialism, socio-economic, political, demographic and geographic reasons

**5) ISSUES**

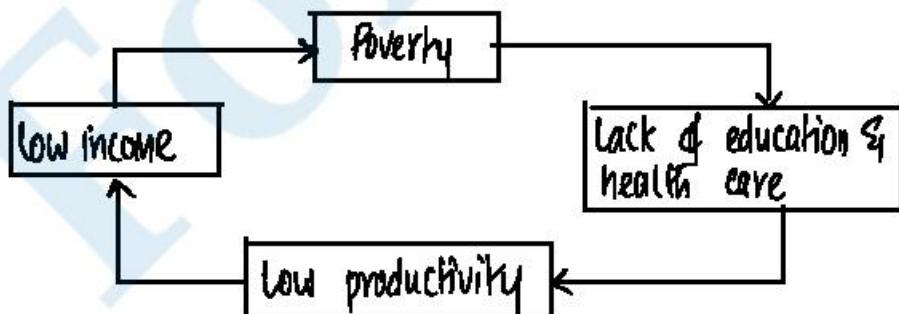


Diagram: vicious cycle of poverty

- 1) Vicious cycle of poverty
- 2) Feminisation of poverty
- 3) Lack of choices & freedom

What is Human Capital? & Human Capital Index

What is capability approach of Amartya Sen?

- 1) Food budget squeeze
- 2) Regional disparities
- 3) Low human capital
- 4) Food insecurity
- 5) Failure of govt schemes
- 6) Lack of political will
- 7) No proper targeting of beneficiaries
- 8) Social structures
- 9) Human rights violations
- 10) Growing economic inequalities
- 11) Lack of adequate social security
- 12) Refugee crisis
- 13) Jobless growth
- 14) WASH
- 15) Low minimum wage
- 16) Tax evasion
- 17) Migration

## 6) GOVT SCHEMES

- 1) Food security
- 2) Education
- 3) Health
- 4) Employment
- 5) Social security
- 6) Miscellaneous

PDS, MDM, NFSR, Poshan Abhiyaan, AAY  
 SSA  
 Ayushman Bharat  
 MNREGA, PM  
 APY  
 PM Ujjwala Yojana  
 Saubhagya  
 Doubling Farmers Income etc

## 7) WAY FORWARD

- 1) Universal Basic Income

what is oxfam report?

what is UBI?

→ **UNIVERSAL BASIC INCOME**

- 1) 'A UBI is like many rights, unconditional and universal: it requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens'

Economic Survey 2016-17

2) UBI

- It is a regular periodic cash payment delivered unconditionally to all citizens without requirement of work or willingness to work
- The primary objective of UBI is to ensure that every citizen has a certain minimum income

3) NEED FOR UBI

- Poverty and people dying due to starvation
- Vast majority of the people do not have money for emergencies
- People forced to do some jobs for basic survival
- Increasing economic inequality
- Technology replacing man power
- Ineffectiveness of existing poverty alleviation and social security schemes
- Poor targeting, inclusion and exclusion errors
- Corruption and leakages in implementing govt schemes
- Inefficient welfare commitments of govt cannot be pulled back, without providing an appealing alternatives like UBI

4)

MERITS	DEMERITS
<ol style="list-style-type: none"> <li>Targetted delivery</li> <li>freedom to spend on choice of goods and services</li> <li>People would not be forced to work for basic survival needs</li> <li>step for poverty alleviation</li> <li>Increased health and nutrition</li> <li>Reduce child labour</li> <li>Empowerment</li> <li>Administrative simplicity</li> </ol>	<ol style="list-style-type: none"> <li>People might spend it on alcohol or drugs</li> <li>Reduce the incentive to work</li> <li>Inflation</li> <li>It may replace existing schemes</li> <li>Expose vulnerable section to the market risks</li> <li>Lack of financial resources with govt to implement</li> <li>It would not address economic inequality</li> <li>It would be difficult to decide an adequate amount</li> </ol>

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### 5) SUGGESTIONS

- (1) Can be brought in gradually
- (2) People should be given choice between cash transfers or govt services
- (3) Remove tax concessions for the rich and use it to fund UBI

## → FERTILIZER SUBSIDY

### 1) Context

According to a survey conducted for NITI Aayog has found that nearly 64% of the farmers are against Direct Cash Transfer of fertilizer subsidy.

### 2) India's fertilizer subsidy

Present fertilizer subsidy is around Rs 70,000 crore.

### 3) Challenges

- 1) Fertilizer price control and overuse
- 2) Black market and smuggling
- 3) Increasing subsidy burden
- 4) Targeting issue
- 5) Increasing imbalance in fertilizer use
- 6) Impact on soil health
- 7) Import dependence
- 8) Crop diversification

### 4) Reforms - Direct cash Transfer (DCT)

Under the DCT scheme, the farmers need to pay the market price to buy the fertilizer and then receive cash in their bank accounts.

### 5) Concerns

- 1) Identification of poor farmers
- 2) How to prevent resale?
- 3) How to restrict the quantity?
- 4) Tenant farmers
- 5) Poor farmers may not have the money to pay upfront the full fertilizer price

### 6) Way forward

The issues that need greater attention are fertilizer use efficiency, improve soil health, efficiency in subsidy transfer and sustainable agricultural practices.

What is the optimal N:P:K ratio in India?

What is govt's subsidy burden on food, fuel and fertilizer?

What is nutrient based subsidy scheme?

What is urea subsidy scheme?

What is soil health card scheme?

What is TAP trinity?

What are the benefits of mean coating of urea?

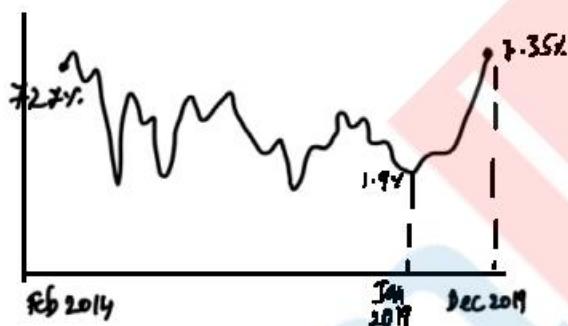
→ **INFLATION**

**1) CONTEXT**

The consumer price inflation rose by 7.35% in Dec 2019, and was highest since July 2014.

There are fears that Indian economy is headed for 'stagflation'

**2) TRENDS**



**3) CAUSES**

- 1) Driven largely by higher vegetable prices
- 2) It is also driven by rise in phone tariffs
- 3) Base effect due to low inflation in the previous year

**4) CONCERNs**

- 1) Low economic growth and high unemployment
- 2) Fear of 'stagflation'
- 3) Low demand
- 4) MPC's inflation targeting threshold
- 5) Supply side factors
- 6) Fears of rise in oil prices

**5) WAY FORWARD**

- 1) Focus on increasing economic growth
- 2) Boost supply of essential vegetables
- 3) Prevent hoarding
- 4) Promote investment
- 5) Structural reforms of economy



## MAKE IN INDIA

### 1) CONTEXT

Analysis of 'Make in India' started in 2013

### 2) MII

The goal was to make India a global manufacturing hub

#### Three major objectives

- 1) To increase the manufacturing sector's growth rate to 12-14% per annum
- 2) To create 100 million additional manufacturing jobs by 2022
- 3) To increase the manufacturing sector's contribution to GDP to 25% by 2025

#### Policy approach

- 1) Conducive environment for investments
- 2) Develop infrastructure
- 3) Open new sectors for FDI

### 3) EXAMINATION

- 1) Slow growth of investment in the last 5 years, especially capital investment
- 2) Decline in savings rate
- 3) Index of Industrial Production (IIP) registered a slow growth or even negative growth in few months implying contraction of the sector
- 4) Unemployment rate at 6.1% was the highest in 45 years
- 5) The scheme relied too much on foreign capital for investments and global market for produce
- 6) Implementation issues of the policies
- 7) Ambitious objectives
- 8) No focus on comparative advantage of the economy
- 9) Global uncertainties and protectionism
- 10) Not part of 'global value chain'

### 4) WAY FORWARD

- 1) Ease of doing business

- 2) focus on MSME
- 3) FDI Liberalisation
- 4) Start up India
- 5) Skill India etc



**MSME**

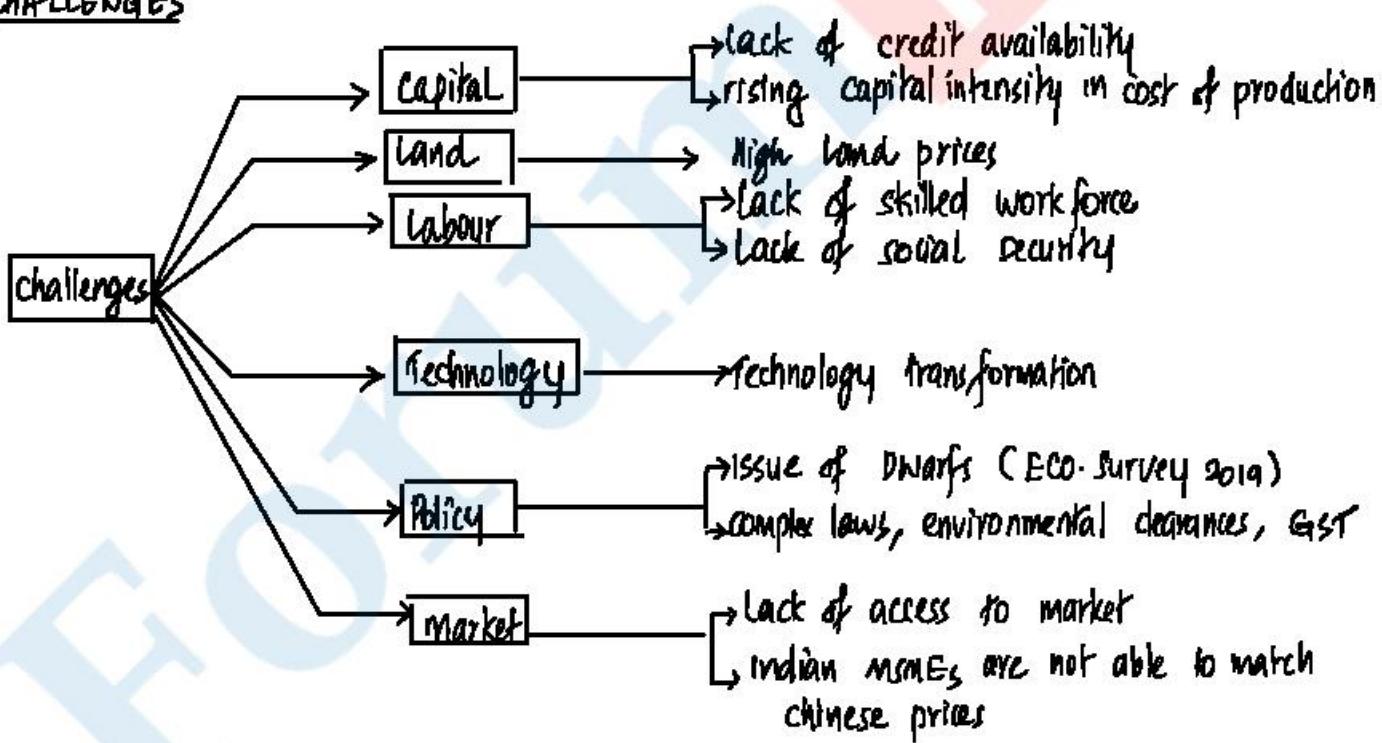
**1) CONTEXT**

Govt proposal to make changes to the definition of MSME

**2) SIGNIFICANCE**

- 1) MSME contributes around 29% to the GDP
- 2) MSME contributes around 40% of the total exports
- 3) It provides opportunities for self employment
- 4) Labour-Capital ratio is higher for MSMEs
- 5) relatively low capital requirement makes setting up MSMEs easy
- 6) major contributor to manufacturing output

**3) CHALLENGES**



**4) ECONOMIC SURVEY 2019**

- 1) Govt policies foster 'dwarfs', i.e. small firms that never grow instead of 'infant firms' that have the potential to grow



## 5) Amendment to MSME Act 2006

- 1) Amendment brought change in the basis of classifying MSME from 'investment' to annual turnover basis. Thus the new definition is
- Micro - annual turnover does not exceed Rs 5 crore
  - Small - annual turnover between Rs 5 crore to Rs 75 crore
  - Medium - annual turnover between Rs 75 crore to Rs 250 crore
- 2) Govt Initiatives
- 1) PM Modi announced support and outreach programme for MSME which will help growth, expansion and facilitation of MSMEs. This will address 5 key aspects of MSMEs
- Access to credit - in-principle loan approval within 59 minutes  
- 2% interest subvention for MSMEs
  - Access to market - public sector companies asked to procure 25% of their total purchases from MSMEs
  - Technology upgradation - Rs 6000 crore package  
- hub and spoke to provide tech centres and training
  - Ease of doing business - easy compliance
  - Social security schemes - compulsorily enrol under social sector schemes of centre related to insurance, pension etc

2) TReDS - Trade Receivables e-Discouking system

3) CrisEx - first sentiment index for MSME

4) Credit guarantee scheme

5) Scheme of funds for Regeneration of Traditional Industries (SFURTI)

6) MUDRA scheme

7) Start up India

8) PMKVY

## 7) Economic Survey Suggestions

- 1) Sunset clause for size based incentives
- 2) De regulation of labour laws
- 3) Access to credit to young firms
- 4) Focus on sectors like tourism which has high spill over effects

## Economic slowdown

### 1) Context

The GDP growth rate has fallen to six year low of 5% in the first quarter of FY 2020.

### 2) Terms

#### 1) Economic slowdown

It means the pace of the GDP growth has decreased.

#### 2) Cyclical slowdown

A period of slow economic activity that occurs at regular intervals

#### 3) Structural slowdown

It is a more deep-rooted phenomenon that occurs due to inherent disruption or shift from an existing way things were happening.

### 3) Manifestation

- 1) Fall in investment
- 2) Rising unemployment
- 3) Shrinking agriculture and allied sectors
- 4) Stalled housing projects in many cities
- 5) Slowdown in automobile sector
- 6) Slowdown in allied manufacturing and service sector
- 7) Decline in wage growth

### 4) Issues

#### 1) Decline in

- 1) Household consumption expenditure
- 2) Savings and investment rates
- 3) Net-exports

#### 2) GST related

- 1) High GST rates is believed to be one reason for the moderation of private consumption and decline in the growth of sectors like manufacturing, hotel, automobiles etc

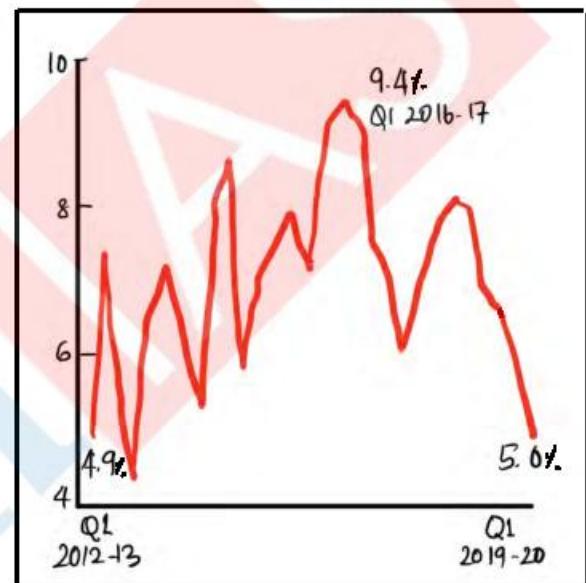
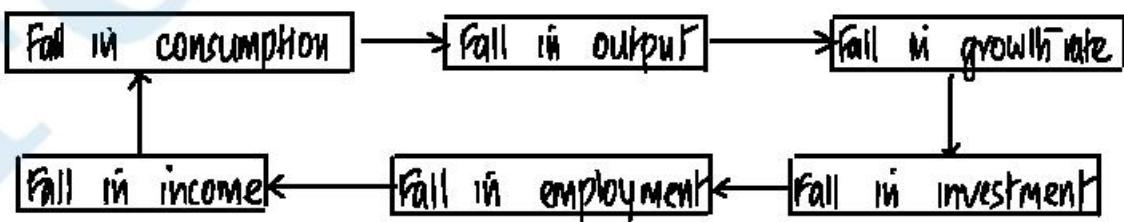


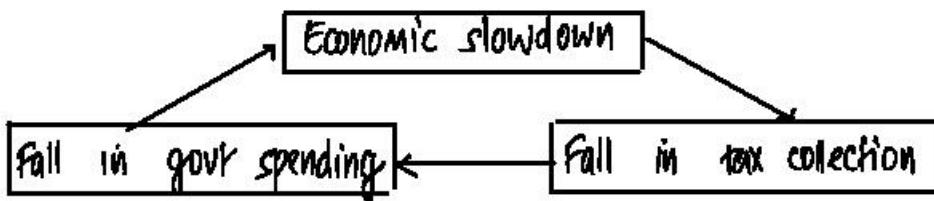
Diagram 1: Graph showing GDP growth rate

- 2) Issues related to the structural transformation due to GST. For eg compliance issues and criminal penalties
- 3) Low employment generation
- 1) Spending come down as employment generation has been limited and incomes are not rising
- 4) Informal economy related
- 1) demonetisation affected the informal sector
  - 2) regulatory burden has constrained this sector
- 5) Put investment declined
- 1) twin balance sheet problem
  - 2) high cost of credit
  - 3) NBFC crisis
- 6) Policy related
- 1) Policy paralysis in the past
  - 2) Faulty policies
  - 3) lack of monetary policy transmission
- 5) Consequences

1) Vicious cycle



2) Reduced tax revenue



**3) Lowers infrastructure development**

Decline in investment → Decline in infrastructure development

**4) Affects technological development**

Low investment in R&D → Stagnation in technological advancement

⇒ Affects govt spending on social sector

⑥ Increased govt borrowing and crowding-out of pvt investment

⑦ Demand for tax cuts and fiscal stimulus

⑧ Widening inequality

⑨ Social conflicts

**6) challenges**

① Uncertain global environment

② de globalisation and trade war

③ policy uncertainties

④ Limited impact of the monetary policy

**7) steps taken**

① Reduction in corporate tax

② set up Cabinet committees to attract investment and create jobs

③ FDI norms relaxed for coal mining, contract manufacturing

④ Reforms in Banking sector

⑤ Reforms in GST

⑥ Initiatives in Agriculture sector

⑦ Labour Market reforms

⑧ Export Sector- schemes to boost exports

⑨ steps to boost logistics sector

⑩ Boost to MSME sector

**ATMA-NIRBHAR BHARAT ABHIYAN****QUOTE**

To bring India on the path of rapid development, five things are very important to build a self-reliant India; Intent, Inclusion, Investment, Infrastructure and Innovation"

PM. Modi

**CONTEXT**

Centre announced an economic package worth Rs 20 lakh crore under Atma-nirbhar Bharat Abhiyan

**ANBA**

Based on 5 pillars ; Economy, Infrastructure, System, Demography and Demand  
4Ls ; Land, Labour, Liquidity, Laws

**NEED**

- 1) Importance of local production, local supply chains
- 2) India has the capacity, manpower and potential
- 3) reduce global dependence
- 4) address pre-mature de-industrialisation
- 5) focus on innovation

**REFORMS**

- 1) MSME
- 2) Infrastructure
- 3) Financial and Real estate sectors
- 4) Migrants and Farmer support
- 5) Agriculture reforms
- 6) Focus on core industries, coal, defence, aviation, atomic energy
- 7) Focus on health and education

**ISSUES**

- 1) Not an exclusive package
- 2) Privatisation
- 3) Import substitution
- 4) De-globalisation
- 5) Fiscal federalism
- 6) Resource mobilisation

**WAY FORWARD**

Same as the topic 'covid & economy'

## COVID &amp; INDIAN ECONOMY

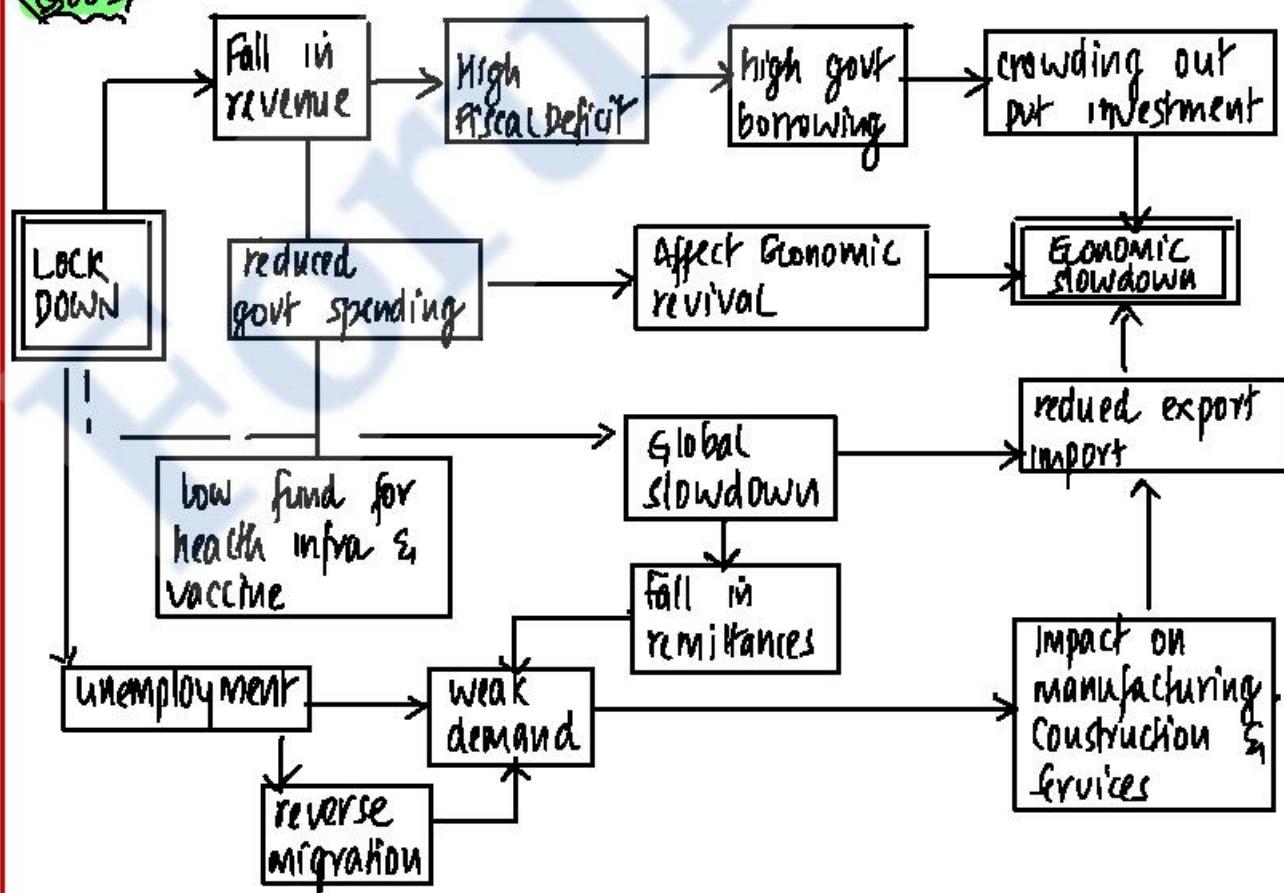
## DATA

- 1) India's GDP collapsed by 23.9% in the first quarter of 2020-21, year on year basis
- 2) Inflation increased to 7.6% in October 2020 from 7.3% in September
- 3) Gross Fixed Capital Investment reduced by 47.1%
- 4) Private consumer spending also dropped by 26.7% quarter
- 5) Reduction in export (19.8%) & imports (40.4%)
- 6) Manufacturing fell by 39.3%, Construction 50%, Service Sector 20.6%
- 7) Agriculture sector grew by 3.4%
- 8) Unemployment went up to 24% on May 2020

## REASON

Pandemic induced nation wide lockdown  
Local level restrictions are still in place

## ISSUES



STEPS

- 1) Stimulus package - Atma-nirbhar Bharat Abhiyaan
- 2) PM GKY - PM Garib Kalyan Yojana
- 3) LTC cash voucher scheme
- 4) For capital expenditure - Rs 12000 Cr.

WAY FORWARD

- 1) Identify priority sectors
- 2) Ease of doing business
- 3) Attract anchor firms
- 4) Startups and innovation
- 5) Investments of NRIs & OCIs
- 6) Focus on agriculture sector
- 7) Industrial cities
- 8) Improvements in infrastructure
- 9) Basic income

{ A step framework given by Ajay Srivastava .IFS

## FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT

**CONTEXT** In the backdrop of the impact of covid-19 on the economy, strict adherence to the FRBM law may not be feasible.

**FISCAL DEFICIT**: TE - TR

**FRBM ACT (2003)**

- 1) It establishes financial discipline to reduce fiscal deficit
- 2) It proposed that FD, RD, Tax revenue and total outstanding liabilities be projected as a percentage of GDP in the medium-term fiscal policy statement
- 3) 'Escape clause', the act provides for exceeding the set targets of FD, RD on 'exceptional circumstances'

**EFFECTIVENESS**

- 1) The set targets were exceeded many times in the past
- 2) The act has been amended many times
- 3) NK Singh Committee was setup in 2016 to suggest changes to the act

**POSITIONING**



**CONCERN**

- 1) less scope for fiscal stimulus
- 2) urgent priority is economic revival
- 3) low tax to GDP ratio
- 4) poor performance of PSUs
- 5) fiscal populism

**NK SINGH COMMITTEE**

- 1) Total Debt to GDP ratio of 60% by 2022-23
- 2) FD of 2.5% of GDP by 2022-23 and RD of 0.8% by 2022-23
- 3) Public debt as the new anchor
- 4) Escape clause which allows govt to skip the FD targets for a particular year in case of any uncertainties, however the deviations should not be more than 0.5%.
- 5) creation of a fiscal council to enforce fiscal rules and monitor fiscal consolidation

## GIG ECONOMY

### WHAT IS GIG ECO?

The gig economy gets its name from each piece of work is like an individual 'gig'; so the gig economy roles are normally paid per piece.

### FEATURES

- 1) freelance work
- 2) on demand -task based economy
- 3) platform economy

### DATA

Global Gig Economy Index ranked India among the top 10 countries. It says the freelancers increased from 11% in 2018 to 52% 2019.

### POSITIVES

- 1) job creation
- 2) flexibility
- 3) cashless economy
- 4) benefits for consumer

### CHALLENGES

- 1) Digital divide
- 2) lack of social protection
- 3) labour rights
- 4) informalisation
- 5) lack of proper regulation

### STEPS

- 1) New Labour code acknowledged platform and gig workers as new occupational categories
- 2) Karnataka Govt draft bill for labour employed in gig eco.

### NEED OF THE HOUR

- 1) Skill development
- 2) Social security
- 3) Legal protection
- 4) Data base

## FARMER PRODUCER ORGANISATIONS

**CONTEXT** Centre announced 'Formation of FPO' scheme

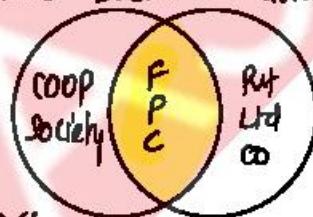
### FPO

FPO is a legal entity where farmers are the primary shareholders.

The objective is to organise farmers into a collective to improve their bargaining power in the market.

Eg FPC which is a hybrid between cooperative societies and private limited cos.

They are owned and governed by share holder farmers and administered by professional managers. An FPC can be formed by 10 or more primary producers or 20 or more producer institutions or by both.



They undertake activities related to production, harvesting, procurement, grading, marketing, processing etc of agricultural produce

### ISSUES

- 1) restrictions on non-producers to invest in FPC
- 2) Small and marginal farmers do not have the capacity to contribute large amount to the share capital
- 3) Difficult to start in backward areas due to the requirement of a minimum capital of Rs 1 Lakh
- 4) Lack of qualified professional managers

### RECENT STEP

CC EA approved formation of 10,000 FPOs in five years under Formation of FPO scheme. It will benefit small and marginal farmers. It is a central sector scheme u/v Ministry of Agriculture. It will be promoted through cluster based organisations (CBO)

## LOAN WAIVER & LOAN MORATORIUM

### FARM LOAN WAIVER

**CONTEXT** Jharkhand govt announced farm loan waiver

### LOAN WAIVER

Waiving off any liability the person has towards the loan; i.e. they need not repay it

### MERITS

- 1) The political argument in favour of loan waiver is that, if corporate NPPs can be written-off, why not the farmer loans
- 2) Along with MSP hikes, it supports rural demand
- 3) Incidents of farmer suicides due to debt burden can be avoided
- 4) Farming is not remunerative now
- 5) Lack of infrastructure, storage and processing. So farmers are forced to sell the produce at a cheap rate
- 6) Input costs have multiplied and govt has not did much to control this

### DEMERITS

- 1) Farm loan waiver could lead to widening of fiscal deficit
- 2) Loan waivers do not resolve the agriculture crisis
- 3) The real concern is the put debt burden of farmers which make up most part of farmer debt
  - a) The honest farmer sees the benefit of turning into a defaulter
  - b) Waivers benefits rich farmers
  - c) This also makes formal system reluctant to extend credit to farmers

### NITI AAYOG

- 1) NITI Aayog said Loan waiver is not a lasting answer to the agrarian distress as this step only helps small number of farmers
- 2) NITI Aayog study highlighted the fact that in some states, about 3/4<sup>th</sup> of the farm loans were used for consumption instead of meeting agricultural demands

**LOAN MORATORIUM**

Due to economic distress RBI allowed loan moratorium on term loan instalments

Loan moratorium is not loan waiver, it does not provide any monetary relief or concession in interest cost



- 1) Borrowers and companies facing cash flow issues due to lockdown
- 2) Got extra time for repayment



- 1) Many sectors such as aviation, tourism, hospitality etc have seen salary cuts and layoffs
- 2) Complete economic revival may take time
- 3) Need and demand for extension of moratorium
- 4) Problem of NPAs and health of financial sector
- 5) Demand for interest waiver



SC said it would not pass any order that will risk economy going 'haywire' after union govt revealed that blanket waiver of interest on debts may affect the economy

**DIRECT TAX REFORMS****QUOTE**

Taxation is the economic glue that binds citizens to the state in a necessary two-way relationship as part of the social contract"

Economic Survey 2017-18

**CONTEXT:** Govt introduced Vivad se Vishwas, Transparent taxation-honouring the 'honest' platform

**NEED TO REFORM**

- 1) Taxation system should be reasonable, fair and non-discriminatory
- 2) It should be easy to administer
- 3) To rationalise the taxes
- 4) Increase tax compliance
- 5) widen the tax base
- 6) concerns of tax terrorism
- 7) low tax-to-GDP ratio

**TAX TO GDP RATIO**

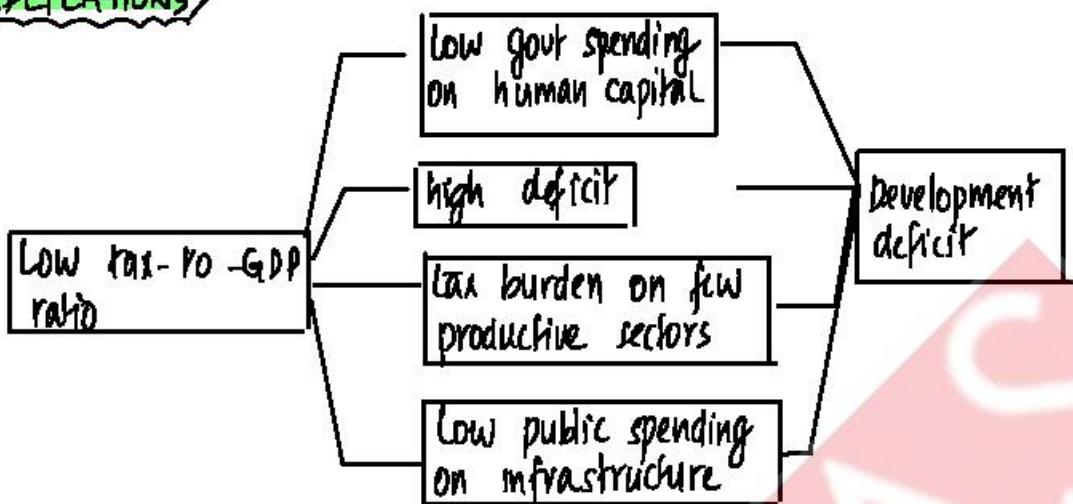
It means how much tax revenue is being collected by govt as compared to GDP. India's Tax to GDP ratio fell to 9.8% in FY 2020. Tax-to-GDP ratio of OECD average - 34%.

Tax to GDP ratio determines the extent to which govt is able to finance its expenditure and is also an indicator of tax compliance

**ISSUES**

- 1) Covid and lockdown
- 2) economic slowdown
- 3) Reduction in corporate tax
- 4) Tax evasions
- 5) low per capita income
- 6) large informal sector
- 7) small tax base
- 8) Complexity of tax system
- 9) Corruption
- 10) Tax exemptions / holidays
- 11) Loop holes in DTAAT treaties
- 12) No tax on agriculture

## IMPLICATIONS



## RECENT REFORMS

- 1) 'Vivad se Vishwas' - settle the legal disputes with respect to direct taxes without penalty
- 2) Transparent taxation - 'honouring the honest' - it is a platform for faceless tax assessment, faceless appeal and a tax payer charter
- 3) Bilateral netting - which enable two parties in a financial contract to offset their claims against each other
- 4) equalisation levy (BEPS) - on foreign firms who dont have base in India but makes money from India
- 5) Other reforms - GATT, PoEM, DPT etc

## TAXING AGRICULTURAL INCOME

### PRESENT STATUS

- 1) As per section 10 (1) of IT Act, agricultural income is exempt from tax
- 2) Few states levy tax on income from plantations

### ARGUMENTS

for	against
1) income from other sources shown as agricultural income to evade tax 2) to mitigate the generation of black money 3) key limitation of personal income tax regime is the small tax base 4) better tax revenue for govt 5) states are reluctant to tax because of the vote bank politics 6) exemption is benefiting large farmers	1) agrarian sector is in crisis 2) increasing input cost is making it non-remunerative 3) may affect the food security 4) implementation will be difficult 5) agricultural sector is hugely unequal in terms of land holdings and incomes

### SUGGESTIONS BY M.S. SWAMI NATHAN

- 1) tax only rich farmer
- 2) incentivise small and marginal farmers
- 3) govt may go for differential subsidies

### NITI AAYOG

NITI Aayog in the past, suggested that agricultural income should be brought under the IT Act

## INCLUSIVE GROWTH

## QUOTE

"inequality defines our time"  
- Antonio Guterres - UN Sec General

## REPORT

WEF's - Social Mobility Index India ranked 76/82  
- Inclusive Development Index (2018) India 62/74

OXFAM REPORT India's top 10% of the population holds 74.3% of the total national wealth. The wealth of the top 9 billionaires is equivalent to the wealth of the bottom 50% of the population

## REASONS

- 1) Jobless growth
- 2) Inadequate social protection
- 3) Poverty trap
- 4) Dependence on Agrarian economy
- 5) Regional disparities
- 6) Failure of govt schemes
- 7) Digital divide
- 8) Failure of 'trickle down'
- 9) Lack of social mobility
- 10) Income inequality
- 11) Lack of financial inclusion
- 12) Gender discrimination
- 13) Fiscal capacity of state
- 14) Social issues and discrimination
- 15) Covid Pandemic

## IMPLICATIONS

- 1) Social & Political discrimination
- 2) Social unrest
- 3) Demand for 'reservations'
- 4) regional disparities
- 5) demand for 'basic income'

## WAY FORWARD

- 1) Quality Education and health care
- 2) job creation
- 3) fighting corruption
- 4) 'basic income'
- 5) Tax reforms

**LABOUR LAW & GOVERNANCE REFORM****CONTEXT**

Centre codified the labour laws

**DATA**

ILO says nearly 81% of India's employed population is in informal sector

According to PLFS 44% of workers remain in agriculture and another 42% in small enterprises employing less than 20 workers each

**CONSTITUTION**

Labour laws are under concurrent list

**ISSUES**

1) Complex and outdated laws

- a) 'Dwarfism' by economic survey
- b) Missing middle

2) Militant unionism

3) Labour market imperfections

4) Lack of social security and minimum wage

5) No ease of doing business

b) gig economy

**LABOUR CODES****1) Code on Wages 2019**

1) Minimum wage higher than floor wage

2) Overtime wage

3) No gender discrimination for the same work

**2) Code on Industrial relations 2020**

1) Prior permission of the govt for closure, layoffs for firms with at least 300 workers

2) Tribunal for settlement of disputes

3) Provides reskilling fund

**3) Code on Social Security, 2020**

1) Social security funds for unorganised workers, gig economy and platform workers

2) National Social Security Board for the purpose of the welfare of workers

- 4) Code on occupational safety, health & working conditions, 2020
- 1) Empowers the state govt to exempt any new factory to create more economic activity and employment
  - 2) threshold for factory - 20 workers if the process is carried out through power and if not, 40 workers
  - 3) limits to 8 hours work per day
  - 4) It defines inter-state migrant worker and provides benefits like PDS

## ISSUES

- 1) 'Lockdown' as an opportunity to make changes
- 2) Against ILO conventions
- 3) Discretion to employers
- 4) Discretion to govt
- 5) Hire and fire
- 6) failure to universalise social security
- 7) Against women employees
- 8) Promote informalisation

## FEMALE LABOUR FORCE PARTICIPATION

### **DATA**

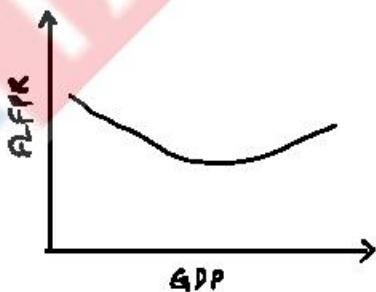
- 1) According to a recent report by Deloitte, the FLFP in India has fallen to 26% in 2018 from 36.7% in 2005
- 2) 95% of 195 million women are employed in the unorganised sector or are in unpaid work

### **REASONS**

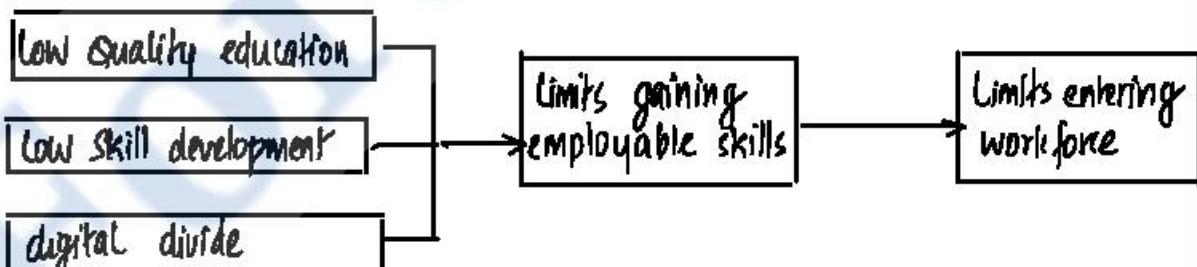
- 1) Better education opportunities
- 2) Rising income of households
- 3) Lack of quality jobs
- 4) Occupational segregation
- 5) Social norms
- 6) Policy issues

### **U HYPOTHESES**

As economies grow FLFP rate falls as women withdraws. As the countries continue to develop women gains higher education and enter the labour force again



### **CHALLENGES**



### **WAY FORWARD**

- 1) Digital and STEM Education
- 2) Local job creation
- 3) Social security
- 4) Safety and security at workplace
- 5) Quality jobs and access to jobs

**UNEMPLOYMENT****CONTEXT**

unemployment, layoffs increased due to lockdown

**DATA**

According to a report published by the ILO & ADB in August 2020 said that 41 lakh youth have lost their jobs due to the pandemic.

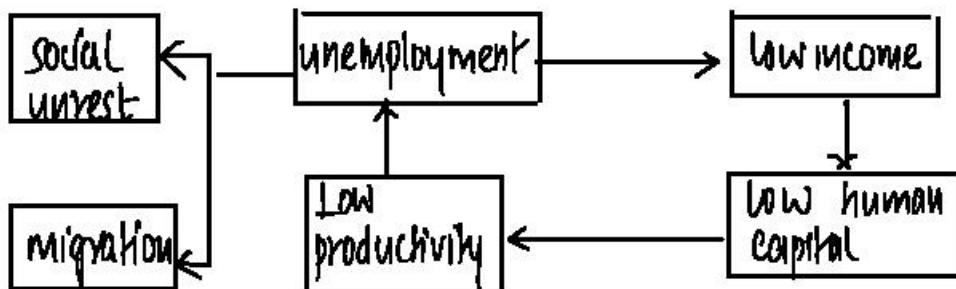
**CMIE**

data says unemployment rate in India averaged 8.80% from 2018-2020 reaching an alltime high of 23.50% in April 2020.

**SDGs**  
 SDG 5 Gender equality  
 SDG 8 Decent work and economic growth  
 SDG 10 Reduced inequalities

**ISSUES**

- 1) lockdown, lay offs
- 2) reverse migration
- 3) economic slowdown
- 4) issues with employment data
- 5) fourth industrial revolution
- 6) falling female labour force participation rate
- 7) voluntary unemployment
- 8) pre-mature de-industrialisation
- 9) demographic disaster
- 10) low social security
- 11) low skill sets
- 12) depressed wages
- 13) large informal economy
- 14) jobless growth
- 15) de-globalisation (17) 'Dwarfism' by economic survey

**IMPLICATIONS**

## GOVT INITIATIVES

- 1) Labour reforms
- 2) MNREGA
- 3) 'Vocal for local'
- 4) Atma nirbhar Bharat
- 5) Start up India
- 6) Stand up India
- 7) PMKVY

## NITI AAYOG • THE STRATEGY FOR NEW INDIA @ 75

- 1) Labour market information system should be functional
- 2) Codification of labour laws
- 3) Implementation of maternity Benefits (Amendment) Act 2017 & Prevention of sexual harassment at workplace Act
- 4) Improve data collection on employment
- 5) encourage formalisation
- 6) national level minimum wage

**BLUE ECONOMY****DEFINITION**

Sustainable use of ocean resources for economic growth, improved livelihoods and jobs while preserving the health of marine and coastal ecosystem

**BENEFITS**

- 1) Boost to economy and generating new job opportunities
- 2) Need more resources to meet the needs of growing population
- 3) Diversification of food sources
- 4) Sustainable utilisation of the vast Indian Ocean resources
- 5) Energy sources
- 6) Climate change mitigation
- 7) Economic and trade potential
- 8) address ocean pollution
- 9) Sea bed exploration
- 10) Sustainable tourism

**CHALLENGES**

- 1) Unsustainable development
- 2) Illegal exploitation of resources
- 3) Global warming and rising sea level
- 4) Piracy concerns
- 5) Disasters like tsunami
- 6) Inefficiency

**GOVT INITIATIVES**

- 1) Sagar Mitra - Budget 2020-21
- 2) PM Matsya Sampada Yojana
- 3) Sagarmala
- 4) SMART Scheme
- 5) Coastal Economic Zones
- 6) Bilateral and multilateral cooperation

**BUDGET 2020-21****IMP DATA**

- Avg growth rate 7.4% (2014-2019)
- Raised 271 million people out of poverty between 2006-2017

**Fiscal deficit**

- 3.8% in 2019-20, estimate 3.5% in 2020-21  
 ↳ used 'Escape clause' u/r section 4(c2) of FRBM Act ( $3.3 + 0.5\% = 3.8\%$ )  
 ↳ trigger mechanism for deviation under extra-ordinary circumstances

**Ruppee****comes from (imp. ones)**

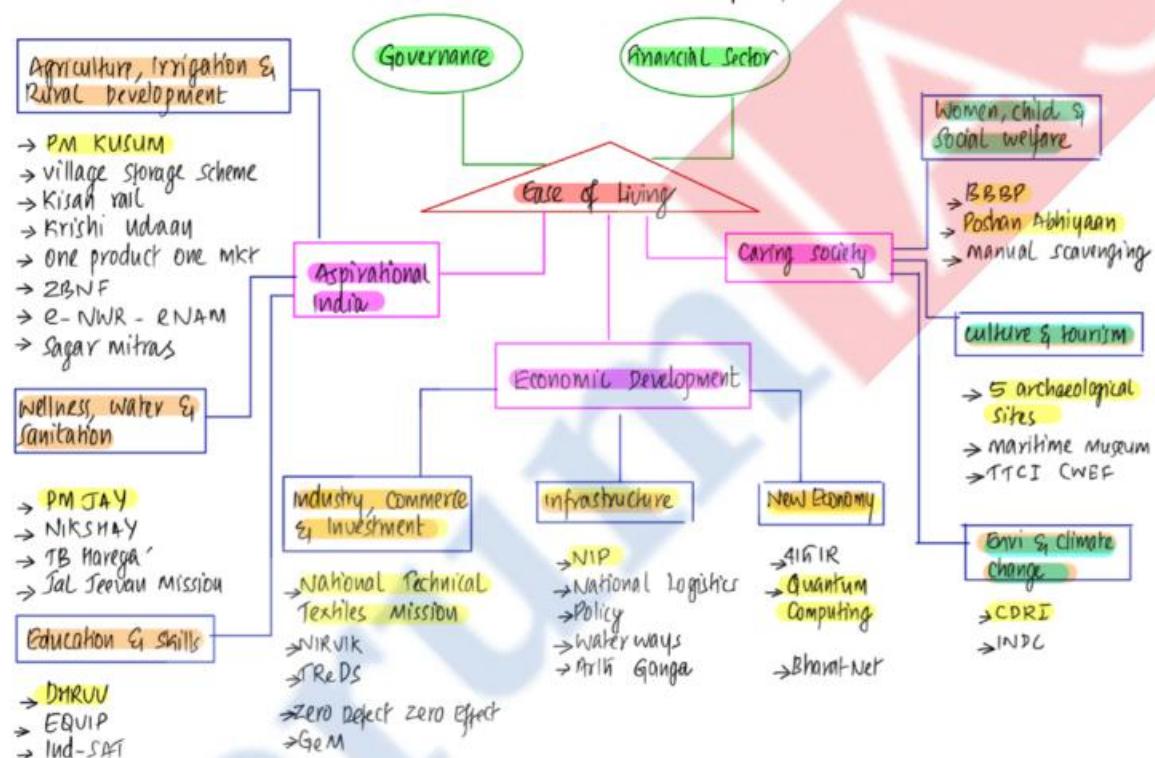
- 1) Borrowings & other liabilities
- 2) Corporate Tax
- 3) GST
- 4) Personal Income Tax

20%  
18%  
18%  
17%

**goes to**

- 1) States share of taxes & duties
- 2) Interest payments
- 3) Central sector schemes
- 4) Finance commn & other transfers
- 5) Centrally sponsored schemes

20%  
18%  
13%  
10%  
9%

**D) Agriculture****(a) PM KUSUM**

- from 'annadata' to 'urjadata'
- to boost generation & use of power
- 3 components

- ↳ (1) Grid connected solar plants
- ↳ (2) Stand alone solar pumps
- ↳ (3) Solarisation of grid connected pumps

(b) **village storage scheme** - chemical-free agriculture

by MNRE

- jeepamrutha - for soil fertility
- bijamrutha - treat seeds
- zehadana - mulching
- whapasa - for soil moisture

**(c) kisan rail & kisan udaan**

- ↓ Mo Railways      ↓ Mo Civil Aviation } national cold supply chain

**(d) e-NWR** - integration with e-NAM

- ↳ connect agencies electronically
- ↳ issued against commodities deposited for storage
- ↳ receipts of warehoused goods are negotiable and tradable

**(e) Sagarmitra** - To involve youth in fishery extension and fish farmer producer organisations

2) **Health**

- (a) **AB-PMJAY** → **Ayushman Bharat** → Health & wellness Centres - **preventive care - 1<sup>st</sup> care**  
 → **PM Jan Arogya Yojana** → National Health Protection scheme - **2<sup>nd</sup> & 3<sup>rd</sup> care**  
 → Subsumed RSBY & SCMS  
 → 5 Lakh insurance per family per year  
 → Beneficiaries - SECC data
- (b) **'TB Karega Dukh jeetega'** - **3 pillars**  
 ↳ clinical approach  
 ↳ public health  
 ↳ active community participation

(c) **JEET** - Joint Effort for Elimination of TB - Partnership with priv. sector to eliminate TB

(d) **NIKSHAY** - DBT scheme for nutritional support to TB patients  
 - Centrally sponsored scheme under NHM

(e) **Jal Jeevan Mission (JJM)** - Ministry of Jal Shakti  
 - To provide **Functional Household Tap Connection** to every rural household by 2024  
 - Govt plans to augment local water sources, recharge existing sources, water harvesting and de-salination  
 - Institutions for implementation **NJJM** (Central level), State Water & Sanitation Mission (SWSM), DRJWM & VWJM (Village level)  
 - Funding **50:50 90:10** (Himalayan & NE states) **100%** (UTs)

3) **Education**

- a) Expenditure on Education - **3% of GDP**  
 b) **New Education Policy** will be announced soon  
 c) Enable **EBC and PDI** in the education sector  
 d) **Ind-SAT** under 'study in India' program to make India a preferred destination for higher education  
 e) **National Police University** - first in the country @ **Noida**, UP

II(C) **Industry, Commerce and Investment**

- a) **Invest India** - partnership between Govt & industry to handle investment proposals  
 b) **e-Nivesh monitor** - portal for monitoring investment clearances  
 c) **GIFT city** - Gujarat International Finance Sec-City @ Gandhinagar  
 - first operational smart city & international financial services centre  
 d) **National Technical Textiles Mission** - (2020-24)  
 - technical textiles/ engineered textiles - products used for functional purposes. For Eg:

healthcare, aerospace, shipping, defence, agriculture, sports etc.  
 → implementation period **2020-2024**  
 → India shares **6%** of world market

- e) **Zero Defect - Zero Effect (ZED) manufacturing**  
 ↓ (Customer focus) ↓ (Societal/Env't focus) → **QCI** is the National Monitoring & Implementation unit of ZED  
 f) **NIRVIK scheme** - enhanced insurance cover } for small exporters  
 (Export credit insurance scheme) reduced premium }

II(C) **Infrastructure**

- a) **National Infrastructure Pipeline** (covered in Eco. Survey)  
 b) **National logistics Policy** - to promote seamless movement of goods across the country  
 - to reduce high transaction costs } **Eco-Survey**  
 } **{ ICEDASHI }**  
 c) **Adarsh Ganga** - for economic activity along the banks of Ganga  
 ↓ - Imp. pillar - inland waterways  
**ministry of shipping**

II (3) **New Economy**

- (a) Based on disruptive technologies viz. {AI, IoT, 3D printing, drones, big data, quantum computing}
  - ↳ 4th industrial revolution}
- (b) Data localisation through enabling private sector to setup data centres
- (c) Bharat net - high speed broad band services in over 2.5 lakh gram panchayats
  - ↳ ministry of communications
- (d) National Mission on Quantum Technologies - Quantum Tech is based on the principles of quantum theory, which explains the nature of energy & matter on the atomic & subatomic level
  - ↳ Ministry of S&T
  - Quantum principles will be used for engineering solutions to extremely complex problems in computing, communications, sensing, chemistry, cryptography, imaging and mechanics

III **Caring society**(1) Women & child, social welfare

- (a) Beti Bacho Beti Padhao - has yielded good results
  - GER of girls across all levels of education is now higher than boys
  - tri-ministerial effort - MoUoP + MoNFW + MoHRD
  - objectives - prevent gender biased sex selection
    - survival & protection of girl child
    - education & participation of girl child

(b) Prohibition of Employment of Manual Scavengers & their Rehabilitation Act 2013

- Offence to employ people as ms
    - ↳ construct insanitary latrines
  - provider for rehabilitation of ms
  - local authority is responsible for identify ms
- Rashtriya Garima Abhiyan - to eradicate ms

(2) Culture & tourism

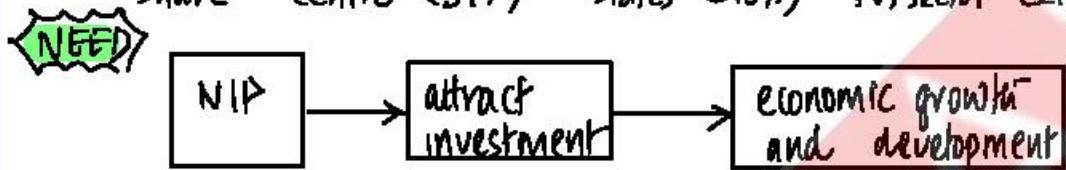
- (a) 5 archaeological sites - as iconic sites - Rakigarhi (HJ), Hastinapur (UP), Shivsagar (Assam), Dholavira (GJ) & Edichanallur (TN)
- (b) First national maritime museum - Lohitāl (GJ)
- (c) Travel & tourism competitive index by WEF - India - 34<sup>th</sup>

(3) Environment & climate change

- (a) CORE
- (b) INDC } covered in Eco Survey

## NATIONAL INFRASTRUCTURE PIPELINE

**NIP** It consists of the projects and programmes with an allocation of Rs 2.11 Lakh crore for infrastructure development in the next five years (by 2025). It includes economic and social infra projects. Energy (24%) Roads (18%) Urban (17%) Railways (12%) Share Centre (39%) states (40%) Pvt sector (21%)



- 1) To achieve the goal of \$ 5 trillion economy by 2025
- 2) Infrastructure spending to crowd in investment
- 3) Inclusive and sustainable growth
- 4) Attract global players to India
- 5) Employment generation
- 6) Improve connectivity and reduce logistics costs
- 7) Increasing urbanisation

- CHALLENGES**
- 1) Covid and economic slowdown
  - 2) Lack of fiscal space for govt
  - 3) Low investor confidence
  - 4) Sovereign credit rating and borrowing rates
  - 5) Twin balance sheet problem
  - 6) Environment v/s Development debate
  - 7) Implementation, and coordination challenges
  - 8) Regulatory issues

## REPORT OF THE TASK FORCE ON NIP

It recommended to setup 3 committees

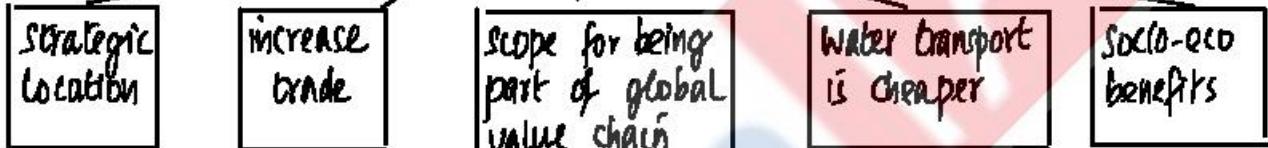
- 1) Committee to monitor NIP progress and eliminate delays
- 2) Steering Committee in each infrastructure ministry level for following up implementation
- 3) Steering Committee in Dpt of Eco Affairs for raising financial resources for NIP

## PORTS

### DATA

- 1) India has a vast coast line of more than 7500 km
- 2) There are 12 major ports and > 200 minor ports
- 3) Major ports are controlled by centre and minor by states
- 4) Ports handle 90% of trade volumes in India
- 5) Govt allowed 100% FDI in port construction and maintenance projects

### Significance



### CONSTRAINTS

- 1) Roads continue to be the dominant mode of transporting cargo, followed by rail, waterways account for only 6%.
- 2) Most of the container ports lack the capability to handle large vessels due to inadequate depth
- 3) Weak road and rail connectivity to ports
- 4) Absence of transhipment ports and goods transshipped through ports in Dubai, Colombo and Singapore
- 5) Charges by the shipping lines
- 6) High capital requirement
- 7) Regulatory issues.

### WAY FORWARD

- 1) Open up 'dredging' market and attract more players
- 2) Expedite the implementation of 'Sagarmala'
- 3) Enhance the use of technology
- 4) Transhipment ports projects should be completed within targeted timeline
- 5) Enhance connectivity and facilitate access to capital

**STEP TAKEN**

MAJOR PORTS AUTHORITIES BILL 2020 . It seeks to replace the Major Port Act 1963 . It sought to provide autonomy to India's 12 major ports and improve their efficiency and effectiveness . It suggest landlord port model where by the ownership remains at the Port authority but infrastructure is leased to the pvt sector.

**Sagarmala**

It is port led development. It is spread across 4 broad areas

- 1) modernise port infrastructure
- 2) improve port connectivity
- 3) create coastal economic zones
- 4) coastal community development

**CHALLENGE**

- 1) It is a series of projects and need huge funding
- 2) Large container transhipment ports coming up close to one another  
Ex. Vizhinjam, Vallarpadam (Kerala) & Ennore (TN)
- 3) large ports in the neighbourhood countries ; Ex Dubai, Colombo, Singapore
- 4) Environmental issues
- 5) poor ship-building industry and expertise

**GOUT STEP**

Govt setup Sagarmala Development company and a National level Sagarmala Apex Committee for overall policy guidance and coordination

## Inland waterways

### FACTS

- 1) As per the report of working Group of Ports and shipping, the proportionate share of cargo transportation through different modes are (a) Road - 60% (b) Railways - 25% (c) Coastal shipping - 6% (d) Inland water transport - 0.4%.
- 2) India has about 14500 km of navigable water ways.
- 3) IWAI was created for the development and regulation of IWS
- 4) NW-1 - Allahabad - Haldia

### BENEFITS

- 1) Lower cost of transportation ; road - cost per km is Rs 2.50, rail - Rs 1, and waterways it would be around 25-30 paise
- 2) Lower emissions compared to other modes
- 3) address traffic congestion and accidents
- 4) huge land is required for other projects
- 5) Cost of construction for other modes is comparatively high
- 6) no issue of displacement of people
- 7) development and industrial growth
- 8) cruise tourism
- 9) economic growth and job creation

### CONCERNs

- 1) Rights of states and local communities
- 2) ecological impact and threat to species
- 3) building infrastructure such as jetties, terminals, navigation channels
- 4) constant inflow of silt in the rivers
- 5) climate change effects and frequent floods

### STEPS TAKEN

- 1) Ministry of Shipping is implementing Jal Vikas maaq project with technical and financial assistance of World Bank.
- 2) Central Road Fund Act was amended to include water ways
- 3) Launched Ro-Ro projects - Eg Ghogha - Dahej project in Gujrat

**LOGISTICS****DATA**

- 1) India's rank in World Bank's LPI improved from 54 (2014) to 44 (2018)
- 2) Indian logistics industry employs > 22 million people (2016)
- 3) Logistics costs is around 14% of India's GDP (9% in USA, 11% Japan)

**CONSTRAINTS** (NITI Aayog - Strategy for New India @ 75)

- 1) Cost of logistics remains high due to poor infrastructure, connectivity
- 2) challenges in accessing finance
- 3) multiple agencies in logistics sector has reduced efficiency, coordination and competitiveness
- 4) poor warehousing capacity and unmechanised facilities
- 5) high cost of cargo movement
- 6) no level playing field between public and pvt sector
- 7) poor technology
- 8) more time for border compliance and document processing activities

**WAY FORWARD** (NITI Aayog)

- 1) enhance efficiency of warehouses and their operation
- 2) shift towards international standards for increasing efficiency and to ensure compatibility
- 3) allow pvt players

**GOVT STEPS**

- 1) Commerce ministry is considering replacing Multi-modal Transportation of Goods Act (MMTG) with a full fledged national logistics law

- 2) Govt came out with a draft national logistics Policy

- 1) Reduce logistics cost to 10% of GDP
- 2) Improve India's rank in LPI to < 30
- 3) Create additional 10-15 million jobs
- 4) Strengthen warehousing industry and cold chain efficiency to reduce agriculture losses

## MANUFACTURING SECTOR

**DATA** → The share of manufacturing in India's GDP has stagnated at 16-17%. (29% in China & South Korea)

### **CHALLENGES**

- 1) Economy —
  - structural changes - jobless growth
  - pre-mature de-industrialisation
  - large informal sector
- 2) Policy —
  - inverted duty structure
  - labour law reforms
  - ease of doing business
  - IPR regime
  - failure of SEZ
  - 'vocal for local'
  - land acquisition and envt clearances
- 3) Infrastructure —
  - capital
    - infrastructure bottlenecks
    - logistical constraints
    - lack of adequate capital
- 4) Human resource —
  - unskilled labour
  - young population
- 5) International —
  - FTA related issues
  - weaponisation of global supply chain
  - de-globalisation

### **GOVT INITIATIVES**

- 1) make in India, vocal for local
- 2) Incentives to MSME sector and change in definition
- 3) Start up India, Stand up India, PMKVY etc
- 4) Reduction in corporate tax
- 5) Public Procurement order amended to give preference to domestic suppliers
- 6) National electronics policy
- 7) Production linked Incentive scheme
- 8) National Technical Textiles Mission

### NATIONAL ELECTRONICS POLICY

**CONTEXT** Govt announced 3 incentive based scheme to promote manufacturing of electronics in the country

**NEP 2019** To promote "make in India" and to make India a global hub for Electronic System Design and Manufacturing (ESDM)

**SIGNIFICANCE** India is a large market for mobile phones  
Focus on domestic manufacturing  
Setting up cluster  
Job creation

### SCHEMES

- 1) Production Linked Incentive - Provide incentive to global and domestic mobile manufacturers
- 2) Scheme for Promotion of Manufacturing of electronic Components & Semiconductors (SPECs) - provide incentive for capex for goods that are part of the supply chain
- 3) Electronic Manufacturing clusters (EMC) - provide incentive for setting up EMCs

### CHALLENGES

- 1) No value addition in the country
- 2) No design and development
- 3) Import dependence on components
- 4) tough competition from China, South Korea, Vietnam
- 5) Products for global markets

### STEPS TAKEN

govt extended the PLI scheme to other sectors like Pharma, medical devices etc

### WAY FORWARD

Govt is planning to introduce a new industrial policy. It will replace the existing policy which is 27 year old. (New Industrial Policy 1991)