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PART
A

DOMESTIC ECONOMY

CHAPTER 1

OUTPUT OF AN ECONOMY

1.1 CONCEPT OF OUTPUT

What would we understand if we were told that today the largest economy in the world is the US? Surely, we would wonder about the parameter of such a—land area, population or output!

In every economy, 'goods' are being produced, that is, raw materials are being converted into finished goods, agricultural crops, forestry, livestock, steel, cement, cars, cycles, bread etc. Similarly, services' are also being rendered like banking, insurance, shipping etc. All of these have a monetary value in the local currency like the USD in the US and the INR in India.

Thus, output per se implies aggregation of monetary value of all the goods and services produced in an economy in a given time period which may be a quarter (3 months), half-a-year (6 months) or a year (12 months).

In other words, output' includes all goods and services exchanged for money. For example, a fisherman catching fishes, may use some of it for self-consumption and the remaining may be used for selling in the market; thus, the monetary value of all the fishes would be considered under the concept of output.

It sounds simple so far, but delving a little deeper output may as well comprise of intermediate goods like steel and cement, which in turn are inputs for other goods referred to as 'final goods'. These final goods cannot be put to further use, except for use like cars, buildings etc.

If we were to include both the intermediate and final goods in our definition of output, then that would effectively mean counting the same thing twice and in the process inflate the output of an economy. For example, production of wheat and its milling as flour results in the making of bread; thus for output purposes, only the monetary value of bread would be considered and not that of wheat and flour. Therefore, we can conclusively derive that the output should have only final goods in order to avoid double counting.

But, what about a sale of second hand goods like say a second hand car? Should they be reflected in the output of an economy? The answer is no, as they have already been included once when manufactured and therefore does not amount to a fresh production. Thus, output of an economy is the monetary value of the final goods and services in a given time period.

The production of goods and rendering of services are referred to as economic activities; but who are the producers of goods and services in an economy? They could either be individuals, small and petty businesses, private companies like the Tatas, Birlas, Reliance Industries etc., or even government like the public sector companies ONGC, SAIL etc., or even foreign companies like Nokia, Sony, Samsung etc.

If we were to take the monetary value of all the final goods and services produced within the geographic boundary of a country, irrespective of who the producer of the goods and services are, then it is called 'domestic output' of the economy.

Thus, in the Indian context, domestic output consists of the monetary value of all final goods and services produced/rendered by individuals, private sector, public sector and foreign companies.

Having looked into who are the producers in an economy, let us look now at how the goods are produced. In order to produce goods, at first we need some place/infrastructure where the goods can be produced. Thus we would need to have a some land (or building); money as seed capital, in order to buy machines and raw material, invest in marketing, arrange for transportation etc.; labour for production and then a person whom we call the entrepreneur as the producer of goods. These are known as 'factors of production' in an economy.

Thus, in a 'production life cycle', each factor of production will have an associated cost—be it the seed capital for investment, rent for the place/infrastructure, or for that matter the labour wages and salaries; as an entrepreneur, the profit that an entrepreneur gains at the end of the day, is principally for the risk that he/she takes for production.

It is important to note that profit is a cost for any economic activity; but then what is cost is also income for factors of production. For example, rent is an income for land, interest is the income for capital, wages and salaries are the income for workers and supervisors and profit per se is the income for the risks taken by the entrepreneur. Let us illustrate this example further with numbers. Following are the details of a manufacturing company:

Land (rent)	₹ 10,000
Labour (Wages & Salaries)	₹ 1,000
Capital (Interest)	₹ 750
Entrepreneur (Profit)	₹ 500
Total	**₹ 12,250**

In this example , the total cost (all costs included) to an entrepreneur is ₹12,250; what is the output! It is the same amount as ₹12,250; and what is the income of all the factors of production! It is again the same as ₹12,250. This basically means that output/cost is income for factors of production. Thus, output and the income are two sides of the same coin. Whether we say output or income, it implies the same thing.

At times, output is also referred as the product of an economy, (quantity multiplied by factor cost) thus domestic product and domestic income of an economy are the same.

So far, we has discussed about the domestic output/product/income, but what about the income of Indians staying abroad? For a more comprehensive analysis of the output, it .$ necessary to look beyond the geographic boundaries that would include the income of all the Indian nationals irrespective of the country they currently reside.

But if we include the income of Indian nationals outside the country, it will also be logical to deduct the income of foreign nationals residing in our country. This is also referred to as Net Factor Income From Abroad (NFIAD). Thus,

Domestic Product + Income of Indians Abroad - Income of Foreigners in India = National Product

or

Domestic Product (+/-) NFIAD = National Product

Net factor income from abroad can be positive or negative depending up on which is more— income of Indian nationals abroad or income of foreign nationals in India, that is, national product is less than the domestic product, if the income of Indian nationals abroad is less than the income of foreigners in India and vice versa.

An increased foreign currency denominated debt of a country or selling domestic assets to foreign entities would tend to reduce the national product leaving domestic product unchanged.

1.2 CONCEPT OF DEPRECIATION

The output of an economy also consists of production of machines/machineries which are consumed every year, referred to as 'depreciation and much of the output of such machines could be replacement in nature and not signifying additions to machine or capital stock in the economy.

Let us assume that cars are being produced in an economy and there is also depreciation of cars , that is, the cars would eventually have to be replaced after their shell-life. For example, a car is priced at ₹ 3,00,000 and has a life of, say 10 years. Then, depreciation or consumption) of car is ₹ 30,000 a year . Thus , if the output of an economy ignores consumption (or depreciation) of its machine stocks, it is referred as a 'gross' concept and if it is accounted for it is known as 'net' concept.

Accordingly, there is Gross National Product (GNP) and Gross Domestic Product (GDP).

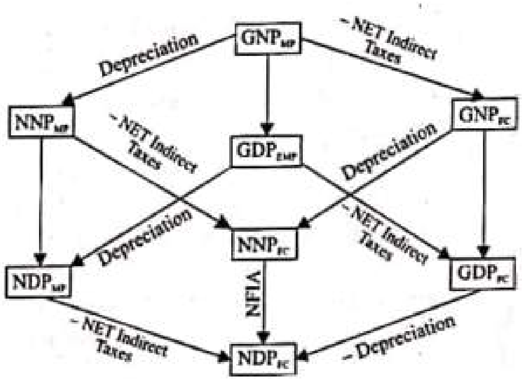
Hence,

GNP - Depreciation = Net National Product (NNP)

GDP — Depreciation = Net Domestic Product (NDP)

Thus, there are four concepts in the output of an economy—GNP, GDP, NNP and NDP. Let us now try to understand which method is technically the best measure of growth. Clearly, it is the NNP as it first covers all the nationals of a country and is also a net increase after depreciation. It is also called as “National Income” of an economy.

But NNP/GNP are gradually losing significance since countries have high external debts that are serviced through internal resources which tends to increase outflows and reduce GNP of a country, leaving GDP unaffected. Similarly, the sale of assets to foreign entities will also have similar impact. Further remittances have become significant in economies like India affecting GNP not seen as a correct way to judge output of an economy.



1.3 GDP—AS A MEASURE OF GROWTH

India, US and most other economies have switched over to GDP for measuring growth of their respective economies. Let us recall the concept of ‘monetary value of goods and services’ as output which has been discussed in the beginning of the chapter.

But this monetary value can be viewed from two perspectives— factor cost (It is also the income for the factors of production) and market price for example the price of a car as illustrated earlier. To further elucidate, the market price is the price paid for a goods or services in the market. Let us discuss the differences between the factor cost and market prices?

We all know that the government levies taxes (and also gives subsidies) on different goods and services before they reach the market. In India, excise duty is payable on manufacturing of goods and similarly, service tax is payable on services provided (we will discuss these later in the Chapter on government finances).

Now,

Factor Cost + Indirect Taxes - Subsidies = Market Price

or

Factor Cost + Net Taxes (as subsidies can never be equal or more than taxes in an economy) = Market Price.

Now the question, that in the monetary value whether factor cost or market price should be taken?

The output measured at market prices can be increased by increasing taxes in an economy. This does not necessarily imply that more goods and services have been produced in the economy. Output of an economy is worked out both at market prices as well as factor cost, but for growth purposes, output at factor cost is considered. This means that increased value in production of goods and services in an economy is captured at factor cost and not at market prices.

The difference between the output at market price and at factor cost is tax burden on an economy, which is useful for cross-country comparisons.

Can output at market price and factor cost be the same? The answer is yes, in cases of exceptional circumstances where the taxes are equal to subsidies or in utopian circumstances where taxes and subsidies both are zero. This concept is more of an academic relevance rather than of practical utility.

The moment we start talking about the monetary value either at market prices or factor cost, the concept of inflation becomes important. In simpler terms, inflation is increasing prices and during inflationary times it tends to inflate the value in nominal terms. Suppose inflation is at 10 per cent, it implies that the price is going up by 10 per cent, that is to say that the factor cost is also increasing, which would increase the output, even though there is no physical increase in the production of goods and services. It is because of this reason that the output measured at factor cost would have to be adjusted to actually reflect the increased production of goods and services in an economy. The adjustment is a statistical exercise which is done by using the GDP deflator that gives the output at factor cost in terms of constant prices'.

The output at constant prices refers to the output obtained after being adjusted for inflation. To further explain, suppose we do not adjust for inflation and the output growth for an year is 9 per cent so is inflation. It means that the output has not increased, but their prices have increased. Without adjusting for inflation, the increase in output has little or no significance and actually could be misleading.

This adjustment for inflation is also known as 'real' or otherwise it is 'nominal' and is generic in nature. Real growth is adjusted for inflation while nominal growth ignores adjustment for inflation. Growth by definition has to be 'real'.

Similarly, there is 'nominal' and 'real' interest rate, income, wages, but there is no concept of nominal and real growth as growth by definition has to be adjusted for inflation. This is implied in the meaning of the word growth itself.

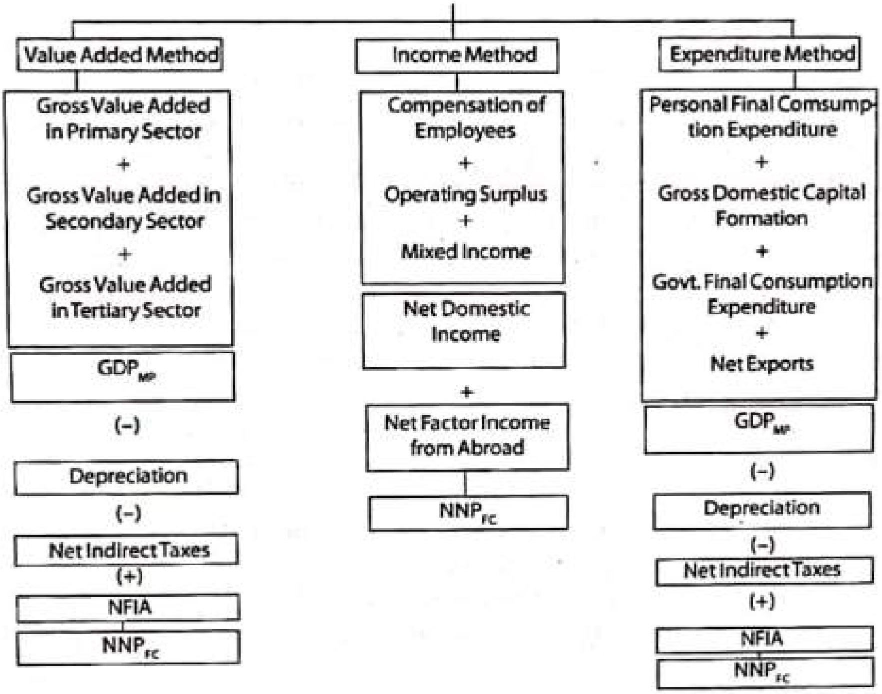
The use of the word 'growth' in the Indian context implies increase in GDP at factor cost at constant prices.

In India, the entire computation is the responsibility of the Central Statistical Organisation (CSO), Government of India. The estimates of growth are provided by the organisation on quarterly basis at the end March, June, September and December every year and the annual growth estimates are provided during April-March, every year which is also referred to as the financial year (calendar year is January-December). All the government and corporate accounting in India is with reference to the financial year.

What we have covered so far is a simple exposure to 'National Income Aggregates', also referred as 'National Income Accounting' for students who do not have exposure to economics.

There are three methods of computation of National Income, namely output method, income method and expenditure method relevant for the students who want to pursue a career in economics. The bird eye view of three methods of national income accounting is highlighted in following diagram.

Method of Measurement of NI: At a Glance



1.4 GDP/NATIONAL ACCOUNTS REVISED SERIES WITH 2017-18 AS BASE YEAR

The structure of economic activities changes over time due to changes in structure of production and demand in the economy. On production side, the production pattern changes along with changes in technology and innovations in the system leading to change in the consumption pattern over time. The changes in relative prices stimulate changes in the consumption and production choices. Therefore, to account for these structural changes and to update the prices, the rebasing exercise is needed after a certain period. The exercise of rebasing national accounts brings up a fresh lot of information about the changes in economic structure of the economy, along with switching over to new base prices. This also helps in judging the size of the economy, correction of biases and looking afresh at the relative importance of sectors in the economy.

The recent introduction of new series of National Accounts by Central Statistics Office (CSO) revised the base year for National Accounts Statistics to 2017-18 form 2011-12

The new series of national accounts is an improvement upon old base in terms of its comprehensive coverage of corporate sector and government activities and incorporation of recent data generated through National Sample Surveys. It also brings up some changes in methods of evaluation, approaches to account economic activities, introduced new concepts and incorporation of new classifications.

Earlier "GDP at factor cost" was known as simply the "GDP" in India. It is nothing but sum of the factor costs incurred during the process of turning out economy's output for the concerned year. Thus, it is a compilation of wages, interests, salaries, profits etc. This concept - GDP at factor cost - used to be expressed both in constant prices (with 2004-05 prices as the base year prices) and current prices. For most purposes, including academic works, GDP at factor cost in constant prices was used as "GDP". Further by adding net indirect taxes (ie. product taxes - product subsidies), GDP at market prices was also reported in the National Account Statistics.

In the revised series, as is the practice internationally, industry-wise estimates are presented as Gross Value Added (GVA) at basic prices, while "GDP at market prices" will be referred to as "GDP". GVA at basic prices can be referred to as GVA at producer price and GDP at market price as well as GDP at buyer price. Estimates of GVA at factor cost (earlier called GDP at factor cost) can be compiled by using the estimates of GVA at basic prices and production taxes less subsidies. It would result in an effect on the size of GVA compared to GDP at factor cost, which may be different for different sectors. For example, net production tax being positive in manufacturing would result in higher GVA than GDP in the sector. New growth figures for GVA at basic prices would also carry an impression of tax and subsidies which was not the case in GDP at factor cost. The production tax has been distinguished from product tax. For example: production taxes like land revenues, stamps and registration fees and tax on profession etc. and excise tax, sales tax, service tax and import and export duties etc. are included in product tax. A similar distinction is also made between production and product subsidies, for instance, former includes subsidies to railways, input subsidies to farmers, subsidies to village and small industries, administrative subsidies to corporations or cooperatives etc. and latter includes food, petroleum and fertilizer subsidies, interest subsidies given to farmers, households etc. through banks and subsidies for providing insurance to households at lower rates etc.

GDP at market prices, henceforth, be referred as GDP, can be computed by adding net of product tax and product subsidies in GVA at basic prices.

- Gross Value Added (GVA) at basic prices = Compensation of Employees + Operating Surplus + Mixed Income + Consumption of Fixed Capital (CFC) + Production taxes - Production subsidies
- GVA at factor cost (earlier referred to as GDP at factor cost) = GVA at basic prices - (Production taxes - Production subsidies)
- Gross Domestic Product (GDP) = GVA at basic prices + Product taxes - Product subsidies

In manufacturing, many argue that the output was falling but the new series showed that the manufacturing sector's performance was not that bad. It was because although the output was stagnant or less but the value addition was better off. GDP is a measure of value added, it's not about output. It's the case of output being stagnant but value-addition going up.

Earlier the sectoral manufacturing data value addition was sourced from the RBI Industrial Outlook Survey conducted on a quarterly basis; but now the Ministry or Corporate Affairs making it obligatory on the part of the companies registered under the Companies Act for online reporting, the MCA 21 database has been used for the manufacturing sector value added. The MCA database as on date covers 5 lakh companies and is fairly representative of the universe. The RBI surveys are small in size and not completely reliable for the sectoral analysis. Further, the manufacturing value added was calculated from ASI Annual data and extrapolated using IIP for the intervening period. The limitation with this data was that the ASI and IIP are establishment-based data while the MCA database goes beyond establishment based value addition and also incorporates data on brand pricing, marketing etc i.e. it includes allied activities which were earlier outside the purview of manufacturing value added. Further, the corporate segment manufacturing coverage accounts for almost 66-70 percent of the manufacturing sector. Then the new series data collected from local bodies is also used and the coverage is 60 percent.

The valuables' segment, which basically comprises of gold and jewellery, an important component of capital formation, was treated as consumption. In new series, valuables are combined into household savings and, therefore, consumption has come down and savings have gone up accordingly. The new GDP numbers will be liable to changes in future based on change in base year of IIP WPI and CPI series. These are important indices which play a pivotal role when computing GDP at constant and current prices. Based on revisions of base year of these indices, GDP growth rates may change.

The reasons for the rise in growth for manufacturing sector at new base are structural as well as change in compilation methodology. These are highlighted below:

1. **The shift from establishment approach to enterprise approach:** The establishment approach used in Annual Survey of Industries did not capture the activities of a unit other than manufacturing. Whereas, an enterprise along with its manufacturing activities is also engaged in activities other than manufacturing such as ancillary activities. Now, in the new approach, the activities of a manufacturing company other than manufacturing are accounted in manufacturing sector. The enterprise approach is facilitated by MCA 21 data with Ministry of Corporate Affairs. These changes possibly have increased the coverage of registered sector of manufacturing.
2. **Incorporation of findings of NSSO surveys:** The details of new NSS Surveys viz. Unincorporated Enterprises Surveys (2010-11) and Employment & Unemployed Survey, 2011-12, are now available therefore, incorporated in the new series. The updates are an improvement in the representation of activities in the unorganized manufacturing sector.
3. **The change in labour input method:** The new series has switched over to "Effective Labour Input Method" for Unincorporated Manufacturing & Services Enterprises.

Earlier method was assigning equal weights to all types of workers, while the new method assigns different weights for workers as per their productivity.

4. **The inclusion of production tax less subsidies:** The net of production tax and production subsidies is positive in manufacturing, while it is inter-alia negative in agriculture and allied' and 'Electricity, gas etc'. Therefore, the positive net production tax would increase the size of GVA in the sector in absolute and relative to other sectors. Moreover, any change, including a change in policy, if alters the lump sum production tax and subsidies then this may also likely to reflect in the growth rates in the sector.

   So we can say, the vast difference in the figures of the new series is not just because of an updation of the database or change in methodology but more so because of the change in data source. The new GDP numbers will be liable to changes in the future based on change in base year of IIP WPI and CPI series. These are important indices which play a pivotal role when computing GDP at constant and current prices. Based on revisions of base year of these indices, GDP growth rates may change.

1.5 GROSS HAPPINESS INDEX (GHI)

Economic Development has always been considered and measured on materialistic enhancements and economic parameters. The term 'Gross National Happiness' was first coined by the 4th King of Bhutan, King Jigme Singye Wangchuck, in 1972. The concept implies that sustainable development should take a holistic approach towards notions of progress and give equal importance to non-economic aspects of wellbeing.

The GNH Index includes areas of socio-economic concern such as living standards, health, education and less traditional aspects of culture and psychological wellbeing. It is a comprehensive reflection of the general wellbeing of the population.

CHAPTER 2

TOWARDS INCLUSIVE GROWTH
(Growth and Development)

2.1 GROWTH RATE OF INDIAN ECONOMY

Now, let us go back to the statement made in the beginning of growth rates slowing down. The phrase basically means that the output of an economy is increasing but at a decreasing rate over the previous quarter/half-year/year, whichever is the reference period. If during the same reference period, output has declined, then it is referred to as contraction' of output. Continuous periods of contraction over two quarters are known as 'recession' and still longer periods of continuous recession are known as 'depression'.

Until now, the world economy has witnessed The Great Depression during 1929-1933. (We shall discuss more about this aspect in the Chapter on Global Outlook.)

As we have discussed earlier, growth plays an important role in an economy. As we know by now that 'increased growth' means 'increased output' and 'increased income' of an economy with increased income for factors of production which sets off a circular motion of further increase in income.

Increased Income —> Increased purchasing power —> Increased demand for goods and services —> Increased production —> Increased output —> Increased income

Increased income Increased savings —> Increased investment —> Increased output —> Increased income

Thus, increasing growth of an economy signifies well-being of that economy. Jobs get created, income levels increase and overall wealth of an economy increases. For this very reason, every economy would like to increase its overall growth. India was believed till the reforms were initiated, caught in a 'low-growth cycle' with low levels of incomes, thereby resulting in low savings and thus low investments, ultimately again leading to low income and again to low savings, which is known as the low-growth cycle.

It was also said during those days that India is unable to break through the 'Hindu rate of growth' with its inability to grow beyond 3.5 per cent (the term was coined by the noted Indian economist, late Prof. Raj Krishna), with low income and increasing population leading to increased poverty and unemployment in the country, regional/intra-regional imbalances and also widening of income inequalities.

Inability of an economy to increase growth rates of economies is not only due to low savings and investment but also due to lack of resources, technology and infrastructure constraints. These factors were a handicap earlier for India but things have changed in the 21st century.

The 21st century has been good for India, as growth rates had started moving upwards and on were on the verge of achieving a double-digit growth, probably for the first time, except may be for a year briefly in the 1980s. Though growth rates have increased but it has not made any perceptible impact on the poverty, unemployment, inter-/intra-regional and income imbalances. Despite the high growth rates achieved, we have not got the desired results. There has been a distinct deceleration in growth since 2010 sliding down to the lowest in last decade of 4.4 per cent. But the larger question remains of high growth achieved had not yielded tangible benefits to the Indian economy.

This would lead us to another concept of 'development'. How are growth and development different from each other?

2.2 DEVELOPMENT—INCLUSIVE GROWTH

The concept of development is qualitative, whereas that of growth is quantitative. While growth is an arithmetic number signifying an increase in the output of an economy, development includes distribution of output or the ability of the increased output and income to reach the bottom-most stratum of society. Development also implies equitable distribution in the economy.

Earlier it was widely believed that initially increased growth is required and then development would happen, through what is referred as the 'trickle-down theory'. This means that the increased growth would percolate down to the bottom-most stratum of society and provide equitable distribution. This is the significance of the word 'growth and development'.

In the earlier years, the problem was our inability to push up rates of growth and the emphasis was on increasing growth for the trickle-down theory to work which would have allowed for development and equitable distribution. But the story for India is quite different since the economic reforms initiated in 1991 and since 2005. India has not only broken through the low-growth cycle but also become one of the fastest-growing economies after China.

The high growth rate achieved since 2005 questions the trickle-down theory in India, as it has not benefited the Indian masses in terms of lowering absolute poverty levels significantly, creating employment opportunities, reducing inter-/intra-regional imbalances (rather it has only accentuated). There are reasons to understand why 'trickle-down theory' has not worked for India. Firstly, the Indian economy has a structural problem of excessive economic dependence on the agricultural sector. Over 65 per cent of the population is either directly/indirectly dependent on this sector.

The contribution of the agricultural sector to the overall gross domestic product (GDP) is only 18 per cent. The largest contribution of over 55 per cent comes from the services sector and the remaining 27 per cent is contributed by the secondary sector of which only 14 per cent is by the manufacturing sector. The sector contributing the least to GDP has the maximum dependence (agriculture) and the sector contributing the most, has the least dependence (services).

Secondly, In India's growth process, there has been a missing link of the relative earlier maturity of the services sector before achieving manufacturing sector maturity. Ideally, it should be first manufacturing sector before the services sector or at best together. This is an important feature as there is a linkage between manufacturing sector and agricultural sector either through raw materials or as a market for the industrial produce, and also for employment opportunities. This provides for greater sustainable growth of economies.

Thus, the benefit of increased growth in recent years has largely been confined to die services sector and little to the manufacturing sector and has not percolated to the agricultural sector where the majority of our population resides.

The peaking or maturity of the service sector in India could be due to the surge in BPOs and KPOs and also due to the need for value-added services by the bigger economies establishing bases in India given the low cost of hiring, easier to impart skills and a large young workforce. Still, a larger question of why this excessive dependence on agricultural sector, remains still to be resolved. It is said that India's population mostly resides in villages. Lack of employment opportunities in the manufacturing sector, lack of formal education/skills, lesser growth of agro-based industries, traditional thinking and abject poverty could be some of the many reasons.

But it also has to do with the governmental efforts by providing basic, effective and efficient infrastructure around villages including the road/rail links. The aim should be to have pan-India rail-road connectivity. This would provide for easy accessibility and faster mode of travel the making labour mobile.

History has been testimony to the fact that roads are the gateways to development in countries like Germany, the United States and more recently China. India has only recently woken up to this reality and due emphasis is now being given to the road building, primarily through various projects, namely, Golden Quadrilateral (connecting the 4 metropolitan cities Delhi-Kolkatta-Chennai-Mumbai), the North-South corridor (Srinagar-Kanyakumari) and the East-West corridor (Silchar-Porbandar).

Besides, efforts are also on for building of roads for Tier II and III cities and also for villages under the Pradhan Mantri Gramin Sadak Yojana (PMGSY) scheme.

Recently, the government has cleared Bharatmala Project, which is the second largest highways construction project in the country since NHDP, under which almost 50,000 km or highway roads were targeted across the country. Bharatmala will look to improve connectivity particularly on economic corridors, border areas and far flung areas with an aim of quicker movement of cargo and boosting exports.

The project is expected to create nearly 100 million man days of jobs during the road construction and subsequently 22 million jobs as a result of the increased economic activity across the country. The construction will be billed via several routes including debt funds, budgetary allocation, private investment, toll operator transfer model etc.

The government, having realized that benefits of increased growth has not been reaching the people and hence now discontinued using nomenclature of 'development' and has replaced it by the term 'inclusive growth'.

Recommendations for Inclusive Growth in India

Improving Business Environment

- Adopt revised Company Bills
- Implement Foreign Bribery Law
- Adopt National Competition Policy
- Improve Role of Competition Commission of India
- Introduce Cross Government Training Programme

Improving Fiscal Situation

- Strengthen fiscal framework
- Improve targeting & delivery mechanism of subsidies
- Implement revised Direct Tax Code
- Push international taxation reforms to boost investor sentiments

Improving Public Governance & Regulation

- Reduce administrative regulations and burdens
- Implement a transparent evidence based regulation-making system
- Mitigate risks of corruption in contract management
- Increase public transparency to reinforce public trust

Strengthening Innovation

- Improve conditions & incentives for business and innovation
- Reform to enhance international openness
- Increase in investment & innovation as a share in GDP
- Improve transparency of trade, export & investment regimes

Lower Poverty & Inequality

- Adopt a comprehensive reform to lower poverty & inequality
- Enhance the cost effectiveness properties of NREGA
- Retarget subsidies to support poor households & increase equity

Improving Transport Infrastructure

- Monitor highway Public Private Participation contracts
- Streamline land record management
- Initiate reform of railway accounting & finance
- Include guidelines for safety in projected infrastructure projects.

Financial Sector Reforms

- Liberalise allocation of bank credit
- Modernise financial sector legal infrastructure
- Streamline regulatory arrangements
- Modernise regulation of rural & cooperative banks
- Improve database on household creditworthiness

Improving Health Care Quality

- Regulate supply chain for pharmaceuticals
- Additional funding to states for expanding coverage of health care to the poor
- Regulate private health insurance

It is not a new concept but only how development is now being viewed by the government. The earlier belief was that for development to take place, growth was a necessary condition. The changed notion of inclusive growth is that any growth should benefit the people by and large which means that the benefits of growth should be more broad-based, should have an orientation towards ‘masses’ and not only classes’. Thus, inclusive growth has both growth and development as components, not to be seen as separate, but viewed as together, today and also in the future.

Inclusivity would imply more equitable distribution of the gains achieved through higher growth. But, equitable distribution is not about equal distribution in an economy, arithmetically. This is possible only in theory. Equitable distribution is all about ‘fair and just share’ for the masses, especially the poor. It is not about the rich getting richer, as long as the poor are also moving up the ladder in terms of income and welfare, even though less proportionately than the privileged sections of the economy.

As long as both the subsets in an economy are moving up in the same direction, have means of livelihood, are economically better off and their basic needs are met, the objective of equitable distribution is being achieved. Hence, inequitable distribution would mean the rich getting richer and the poor remaining poor, or the worse, still becoming poorer.

As we have been discussing that inclusive growth is oriented towards masses, what should inclusive growth give? or when can we say that growth has become inclusive and begun to deliver?

Inclusive growth should lead to:

1) Employment opportunities for the masses at the entry level, providing livelihood, means of income, increasing their purchasing power and improving their ‘well-beingness’. This should result in reducing absolute poverty levels.
2) Reduction of inter-/intra-regional imbalances.
3) Create opportunities for skill development/formation.
4) Better dispersal of industries.
5) Increased agro-based industries.
(6) A gradual shift away from the excessive economic dependence on the agricultural sector through employment-driven and positive migration.
(7) Increased vocational employment (carpentry, repairs to cars/scooters/TV/mobiles, gardening, etc.).

Inclusive growth would also require a changed perception of both the central government and also the state governments, working in tandem, by creating an ‘enabling environment’ for the above deliverables.

Such an environment would require the following:

(1) Pan-India road/rail links which would link the entire country and provide accessibility and affordable faster mode of transport for people and goods.
(2) Providing accessibility and affordability to public services (primary health care and education), public utilities (electricity, drinking water and sanitation) and public goods (social assets like community centres, etc.).
(3 Re-energizing the Industrial Training Institutes (ITIs) for skill development.

(4) Policy framework conducive for investment by private sector (something like Tata Motors for their NANO car project in Gujarat).

(5) Focus on directly creating employment opportunities. The government has already launched Mahatma Gandhi National Rural Employment Guarantee Scheme, which provides employment for 100 days to one member from every poor family/household in every district of the country.

The creation of the enabling environment by the government is a key prerequisite, which would largely determine India's ability to achieve inclusive growth in future. Growth and development or inclusive growth has always been an avowed objective of the government since independence. The difference today is not in the objective but the manner in which it is being sought to be achieved.

Earlier, the government had taken up, both the responsibilities of increasing growth and equitable distribution, and spread scarce resources across both resulting in the dilution of efforts and achieving neither growth nor equitable distribution.

The reforms of 1991 mark a change in the strategy of letting the private sector play a major responsibility in the investment and growth while on the other hand the government would concentrate on the welfare measures and create the enabling environment for desired inclusive growth of the economy in future. This is also based on the fact that more and better growth by the private sector would mean larger tax revenue base for the government which would enable the government in expanding the social sector interventions as a way of redistribution to the people.

Inclusive growth is not a new concept and is said to be a combination of both, what was earlier known as growth, development and equitable distribution, all rolled into a new terminology known as inclusive growth, specific and unique to India.

In future, the challenge would lie not in achieving a higher growth but to provide greater inclusivity, more broad-based, which benefits the masses. Inclusive growth was a challenge as identified by the eleventh five-year plan only to become a larger challenge in the twelfth five-year plan.

2.3. GROWTH WITH EQUITY

Both growth and equity are the two important objectives of any type of economic planning. While growth refers to the increase in the overall national income, equity refers to an equitable distribution of this income so that the benefits of higher economic growth can be passed on to all sections of population to bring about social justice. Growth is assessed by the market value of goods and services produced in the economy (GDP) and it does not guarantee an equitable distribution of the income from this production. Hence, Growth with equity is a rational objective of economic growth as it ensures the benefits of high growth are shared by all people equally.

CHAPTER

SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE

3

3.1 SUSTAINABLE DEVELOPMENT

Ar present, a few new terminologies are also being used for economies such as 'sustainable development' and 'green GDP'. 'Sustainable development' is a global terminology which is being used to address the global issues of global warming, environmental aspects increased global pollution and ecological imbalances, which are critical for survival of planet earth and is thus a broader concept not relating to any one country but for the world as a whole.

It is neither the problem of one country nor can it be solved by one country. It is more macro in nature, which requires to be addressed by countries collectively through a dialogue and a consensus building at a global platform. This is about the present generation's ability to meet 'its' own needs but without compromising on the ability of the future generation to meet 'its' needs. It is about a better environment for the future generation rather thar. what the present generation has inherited, to say the least not a worse than that inherited

Even though there has been a consciousness on the issue of sustainable development, the real thrust was provided with the Earth Summit during 1992 and then through various international conventions.

All the conventions mentioned so far have flagged the underlying issues especially that of reduction in greenhouse gases emission, which is critical for sustainable development. It also addresses areas of cleaner energy, reduction in biodiversity losses, tree plantation, solar/wind energy and other such global issues in sustainable development.

It is not about flagging of issues, which is important in as much as the need for collective consensus. But the reduction level so arrived through consensus, for different countries, should be adhered within the prescribed time lines. This is the problem area of a sharp divide between the rich countries and the countries such as India and China of achieving a broad-based, self-imposed reduction levels where each and every conventions have beer, failed. All the rich countries have failed to meet the deadlines repeatedly on all the major issues but most importantly on GHS emission reduction levels.

India, on the other hand, has been more forthright in its approach of already having low levels of such emissions and the projected level of emissions even by 2031 lower than the global average of 2005. Its progress in cleaner energy, solar and wind energy and the tree plantation is commendable.

However, there are larger issues for India. The worrying fact of the increased growth, expanding size of output still has millions of poor people living below US $1 per day and India being home to the largest number of poor people in the world is very disturbing. Poverty and sustainable development cannot be divorced from each other. The increasing number of slums, widespread absence of hygienic sanitation, pitiable living conditions, continued use of plastics and polluted rivers are all an integral part of sustainable development so far as India is concerned.

3.2 SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE

The adoption of a new climate change agreement at the 21st Conference of Parties (COP 21) by 195 nations in Paris in December 2015 represents another milestone in the climate change front. The Paris Agreement sets a roadmap for all nations in the world to take action against climate change in the post-2020 period. The Millennium Development Goals (MDG) that were in place from 2000 to 2015 were replaced by the Sustainable Development Goals (SDG) with the aim of guiding the international community and national governments on a pathway towards sustainable development for the next fifteen years. A new set of 17 SDGs and 169 targets were adopted by the world governments in 2015.

The 22nd Conference of the Parties (COP-22) to the UN Framework Convention on Climate Change has concluded its meeting in Marrakech, Morocco, with a range of decisions around implementing the Paris Agreement. Following the new global agreement last December, the threshold of signatories for it to enter into force was passed less than 12 months after being agreed and far earlier than expected. This has added pressure to quickly develop the necessary rules and procedures to support the Agreement.

Morocco saw meetings under the Convention, as well as the Kyoto Protocol, and for the first time, the Paris Agreement. The headline outcomes and announcements were:

- Countries gave themselves two years to 2018 to agree rules and procedures for the Paris Agreement.
- Technical work produced guidance and questions for work-plans, focusing on: Nationally Determined Contributions (NDCs); a transparency framework; global stocktake; technology development and transfer; adaptation, and market and non-market approaches.
- Countries agreed a five-year workplan on Loss and Damage.
- Developed countries launched a roadmap to 2020 on reaching the agreed goal of $100bn per annum in climate finance for developing countries.
- A statement of the need for action and countries' will to act was agreed - *the Marrakech Action Proclamation for Our Climate and Sustainable Development.*
- The Climate Vulnerable Forum, which is an international partnership of countries highly vulnerable to a warming planet, committed to update their NDCs before 2020, prepare long-term low-emissions development strategies, and generate 100% of their energy from renewable sources as soon as possible.

Countries are now already looking to 2020 which is the next milestone in the process There will be a facilitative dialogue that year, with inputs including an Intergovernmental Panel on Climate Change special report on the practicalities of a 1.5C temperature objective, as well as assessments of Parties collective progress pledges and views from Parties and stakeholders . That will lead to pressure for Parties to raise their level of Nationally Determined Contributions . The next two years are for Parties to agree the details of the dialogue and its inputs and the rules, such as on accounting that will allow a shared view and comparability between countries actions.

On the domestic front, India continued to take ambitious targets in its action against climate change. As a part of its contribution to the global climate change mitigation efforts, India announced its Intended Nationally Determined Contribution (INDC which set ambitious targets for domestic efforts against climate change. Our country has itself set an ambitious target of reducing its emissions intensity of its Gross Domestic Product (GDP) by 33-35 per cent by 2030, compared to 2005 levels.

India has also taken the initiative of setting up an International Solar Alliance (ISA), an alliance of 121 solar-resource rich countries, lying fully or partially between the Tropic of Cancer and Tropic of Capricorn. This alliance was jointly launched by the Prime Minister of India and President of France on 30th November 2015 at Paris, on the sidelines or the 21st Conference of Parties to the UNFCCC . The Paris declaration on the ISA states that the countries share the collective ambition to undertake innovative and concerted efforts for reducing the cost of finance and technology' for immediate deployment ot competitive solar generation and to pave the way for future solar generation, storage and good technologies for countries' individual needs.

India has announced its Intended Nationally Determined Contribution (INDC) ir. respect of climate change inclusive of following aspects:

- To put forth and further propagate a healthy and sustainable way of living, based on traditions and values of conservation and moderation.
- To adopt a climate-friendly and cleaner path than the one hitherto followed by others at a corresponding level of economic development.
- To achieve about 40 per cent cumulative electric power installed capacity from non-fossil fuel based energy resources by 2030 with the help of transfer of technology and low cost international finance including from the Green Climate Fund (GCF).
- To create an additional carbon sink of 2.5 to 3 billion tonnes of CO, equivalent (CO. eq.) through additional forest and tree cover by 2030.
- To better adapt to climate change by enhancing investments in development programmes in sectors vulnerable to climate change, particularly agriculture, water resources, the Himalayan region, coastal regions, health and disaster management.
- To mobilize domestic , new and additional funds from developed countries for implementing these mitigation and adaptation actions in view of the resources required and the resource gap.

- To build capacities, create domestic framework and an international architecture for the quick diffusion of cutting-edge climate technology in India and joint collaborative R&D for such future technologies

3.3. SUSTAINABLE DEVELOPMENT GOALS (SDGs)

Goal 1: No poverty: - Eradication of poverty in all its forms everywhere.

Goal 2: Zero hunger: - End hunger by achieving food security and improved nutrition.

Goal 3: Good health and well/being for people: - Ensure healthy lives for all.

Goal 4: Quality education: - Ensure inclusive and equitable quality education for all.

Goal 5: Gender equality: - Achieve gender equality and women empowerment.

Goal 6: Clean water and sanitation: - Ensure sustainable water management and sanitation for all.

Goal 7: Affordable and clean energy: - Ensure access to sustainable and modem energy for all.

Goal 8: Decent work and economic growth: - Promote sustainable economic growth and decent work for all.

Goal 9: Industry, Innovation, and Infrastructure: - Build resilient infrastructure, sustainable industrialization and foster innovation.

Goal 10: Reducing inequalities: Reduce income inequality from all segments.

Goal 11: Sustainable cities and communities: - Make cities and human settlements more safe and sustainable.

Goal 12: Responsible consumption and production: - Ensure sustainable consumption and production patterns.

Goal 13: Climate action: - Take urgent action to combat climate change and developments in renewable energy.

Goal 14: Life below water: - Conserve and sustainably use the oceans, seas and marine resources.

Goal 15: Life on land: - Protect terrestrial ecosystems, manage forests, combat desertification, reverse land degradation and halt biodiversity loss.

Goal 16: Peace justice and strong institutions: - Promote peaceful societies, provide access to justice and build effective institutions.

Goal 17: Partnerships for the goals: - Strengthen the global partnership for sustainable development.

3.4 GREEN GDP

Green GDP refers to a national accounting system of the utilization of the non-renewable natural resources of any country and is now being envisioned as a part of sustainable development. The objective is to utilize the resources optimally, efficiently and effectively in furthering the growth of economies and at the same time a realization of their scarcity value. It is also believed that such an accounting will also pave the way for greater R&D

for developing viable alternatives to the fast depleting non-renewable natural resources of the country.

Clearly, the biggest issue is that of absolute poverty which has to be addressed in prior, before one can talk about broader aspects of sustainable development. This not to say that India should not address the issue of sustainable development, but addressing the needs of the poor is unquestionably the priority, of giving them the means of living and a hygienic, decent living standards.

Thus, inclusive growth, sustainable development and green GDP are all different terminologies, totally distinct from each other in their meaning but cannot be said to be independent but inter-related in terms of their implications.

3.5. CLIMATE FINANCING.

Climate finance means local, national or international financing through public, private and alternative sources of financing. It is critical to addressing climate change as large-scale investments are required to reduce climate change induced adversities.

Climate finance is equally important for adaptation strategies as there are requirements for significant financial resources to allow countries to adapt to the adverse effects and reduce the impacts of climate change.

CHAPTER

4

POVERTY AND SOCIAL SECTOR

4.1 WHAT IS MEANT BY POVERTY IN INDIA?

Poverty is defined as the minimum basic consumption level, essential for survival. It has been defined by the Planning Commission of India in terms of calorie intake. Absolute poverty is a condition, where the calorie intake is less than 2400 kcalories per person per day in rural areas and 2100 kcalories per person per day in urban areas.

The World Bank has coined its own universal definition of poverty levels as per person consumption of less than US $1 per day.

Relative poverty, is across difference in income levels of the rich and the relative poor. Even by this crude definition of Planning Commission of absolute poverty, it is estimated that over 230 million people are living below poverty line (BPL). According to the definition of World Bank, the numbers would increase significantly. India is said to have the largest number of people living BPL. The number of people BPL is even more higher than the entire population of the US. Poverty is largely concentrated in states such as UP, Bihar, Orissa, MP, West Bengal and they account for over 50 per cent of the total poverty in India.

Despite over six decades of independence, why poverty continues to exist? It can be attributed to the large economic dependence on the agricultural sector, subsistence, traditional and stagnating, which are not able to provide enough for the dependent population in terms of employment opportunities, high levels of adult illiteracy, large number of landless, small and marginal farmers with no income support. There is absence of employment opportunities in the manufacturing sector.

It is not about how poverty is measured crude or refined? It is the biggest curse of post-independence India of not being able to address the large-scale poverty in the country despite the well-intended schemes as can be seen in the following sections.

4.2 SOCIAL SECTOR

Social sector and poverty are interrelated as it largely comprises of those BPL and also that segment of the population which is outside the mainstream of development, which consists of the under-privileged, always at the receiving end, poor, backward classes and scheduled castes/tribes. It will also have landless, small and marginal farmers who are engaged in casual work in the informal sector, living virtually on a daily basis. They are the most vulnerable section prone to exploitation, domination and do not have any voice or can also be known as 'silent sufferers' or a 'mere spectator' to their pitiable and pathetic condition oblivious of the fact that India is today one of the fastest growing economies.

One has already seen earlier, why this has happened. But what has the Government done about this? It has adopted a three-pronged strategy to address the social sectors which are as follows:

1.Broad Targeting;
2.Narrow Targeting;
3.Social Security.

Broad Targeting

Under broad targeting strategies the government undertakes ambitious programs with sub-programes for overall and comprehensive development of the country. Example of the broad targeting programmes are:

1. Indira Awas Yojana
2.Sarva Siksha Abhiyan
3.Mid-day Meal scheme
4.Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA).
5.Total Sanitation Campaign.
6.Jawaharlal Nehru National Urban Renewal Mission (JNNURM
7.Integrated Child Development and Services (ICDS).
8.National Rural Health Mission (NRHM
9.Rajiv Gandhi Drinking Water Scheme.

Of all the above, the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) is the most ambitious project of the government which is being implemented at the national level and of magnitude not seen anywhere in the world. It is the brain child of Jean Dreze, a Belgian economist. This scheme has now been enacted and guarantees unskilled wage employment of 100 days to one person in every rural household at a minimum wage. The 100 days employment under this scheme is visualized in the lean season of agricultural activities. This scheme is being implemented in all the districts of the country and is seen as a major step in creating the employment opportunities and also for poverty alleviation in the country. Women are given preference for employment under this scheme, which has no middlemen or contractor and directly being implemented by the Gram Panchayats and the wages are paid in the bank account of those who are provided with the employment. The state governments are required to give unemployment allowance of one-third of the wages if not able to provide employment within 15 days of their registration. This scheme has been globally lauded as one of the most well intended schemes for the social sector anywhere in the world.

Critics of the scheme, however, feel that such a scheme could be damaging in the long run by pushing up the minimum wages and increase cost in the agricultural as well as urban areas, adversely affect productivity and also prevent migration of labour, besides fuelling inflation.

Narrow Targeting

The government is attempting narrow targeting which are as follows:

1. Wage Employment Scheme—primarily through Mahatma Gandhi NREGA.
2. Self-Employment Schemes—primarily through Swaran Jayanti Grameen Sah-rozgar Yogana (SGSY) in the rural areas and through Swaran Jayanti Shahri Rozgar Yogana (SJSRY) in the urban areas.
3. Food security—primarily through TPDS, AAY, Annapurna Scheme for senior citizens.

Social Security

The government is providing social security under its various programmes such as:

Ayushman Bharat

The government's health strategy has broadly focused on three things: Ensuring free drugs and diagnostics, creating health and wellness centres (HWCs) to reinvigorate the failing rural health infrastructure evident from Rural Health Statistics 2018 and addressing the shifting of disease burden to non-communicable diseases and finally, covering 107 million poor families with an insurance cover of Rs 5 lakh for inpatient care under the Ayushman Bharat scheme.

National Nutrition Mission(NNM)

PoshanAbhiyaan (National Nutrition Mission) is a flagship programme of the Ministry of Women and Child Development (MWCD), Government of India, which ensures convergence with various programmes i.e., Anganwadi Services, Pradhan Mantri Matru Vandana Yojana (PMMVY), Scheme for Adolescent Girls (SAG) of MWCD Janani Suraksha Yojana (JSY), National Health Mission (NHM), Swachh-Bharat Mission, Public Distribution System (PDS), Department Food & Public Distribution, Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and Ministry of Drinking Water & Sanitation.

The goals of NNM are to achieve improvement in nutritional status of Children from 0-6 years, Adolescent Girls, Pregnant Women and Lactating Mothers in a time bound manner during the next three years beginning 2017-18.

The National Nutrition Mission (NNM) has been set up with a three year budget of ₹ 9046.17 crore commencing from 2017-18. The NNM is a comprehensive approach towards raising nutrition level in the country on a war footing.

Pradhan Mantri Jan Dhan Yojana

The National Mission of Financial Inclusion named as the Pradhan Mantri Jan Dhan Yojana seeks to integrate the poorest of the poor with bank accounts.

- All households across the country - both rural and urban are to be covered under the scheme. Bank accounts will be opened for 15 crore poor persons.

- All bank accounts opened under the scheme are to have an overdraft facility of ₹ 5,000 for Aadhar-linked accounts after satisfactory operation in the account for 6 months.

- Issuance of RuPay Debit Card with inbuilt Rs 1 lakh personal accident insurance cover provided by HDFC Ergo and a life cover of ₹ 30,000 provided by LIC
- A minimum monthly remuneration of ₹ 5,000 to business correspondents who will provide the last link between the account holders and the bank.

Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM)

- The Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM) announced in the interim budget 2019 has been notified by the Ministry of Labour and Employment. Features of the PM-SYM PM-SYM is a voluntary and contributory pension scheme on a 50:50 basis where prescribed age-specific contribution shall be made by the beneficiary and the matching contribution by the Central Government. The salient features of the PM-SYM are:
- Each subscriber under the PM-SYM, shall receive minimum assured pension of ₹ 3000/- per month after attaining the age of 60 years.
- If the subscriber dies during the period of receipt of the pension, the spouse of the beneficiary shall be entitled to receive 50% of the pension received by the beneficiary as a family pension.
- If the beneficiary had died due to any cause (before age of 60 years), his/her spouse will be entitled to join and continue the scheme subsequently by payment of regular contribution or exit the scheme as per provisions of exit and withdrawal.
- The subscriber must not be a taxpayer.
- The scheme is expected to benefit as many as 42 crore workers are estimated to be engaged in the unorganized sector of the country whose monthly income is ₹ 15,000/ per month or less and belong to the entry age group of 18-40 years who are not be covered under New Pension Scheme (NPS), Employees ' State Insurance Corporation (ESIC) scheme or Employees' Provident Fund Organisation (EPFO).

RashtriyaYuvaSashaktikaranKaryakram Scheme

- The RashtriyaYuvaSashaktikaranKaryakram Scheme is a Central Sector Scheme of the Ministry of Youth Affairs *&C* Sports and has been continuing since 12th Five Year Plan. The Scheme aims to develop the personality and leadership qualities of the youth and to engage them in nation building activities.
- The Department of Youth Affairs has been operating a number of Schemes for development and empowerment of youth. Restructuring of the schemes were done in 2014 in order to improve their effectiveness. In the process 8 ongoing schemes were merged to form the umbrella Scheme called RashtriyaYuvaSashaktikaranKaryakram (RYSK) with effect from 01.04.2016.
- The Scheme is to be continued during 2017-18 to 2019-2020 with budget outlay of ₹ 1160 crore.
- The Scheme beneficiaries are youth in the age-group of 15-29 years, in line with the definition of 'youth ' in the National Youth Policy , 2014 . In case of programme components specifically meant for the adolescents, the age group is 10-19 years.

- The following existing Schemes/ Programmes were subsumed in the Rashtriya Yuva Sashaktikaran Karyakram (RYSK):
  * Nehru Yuva Kendra Sangathan (NYKS).
  * National Youth Corps (NYC).
  * National Programme for Youth and Adolescent Development (NPYAD).
  * International Cooperation (IC).
  * Youth Hostels (YH).
  * Assistance to Scouting and Guiding Organisations
  * National Discipline Scheme (NDS)
  * National Young Leaders Programme (NYLP).

National Rural Swaraj Campaign

- The campaign is undertaken under the name of "SabkaSath, Sabka Gaon, SabkaVikas".
- The objective of the campaign is to promote social harmony, spread awareness about pro-poor initiatives of government, reach out to poor households to enroll them as also to obtain their feedback on various welfare programmes.
- The campaign is being held through a partnership of beneficiaries, 33 lakh elected PRIs members, 5 crore women SHG members, MLAs and MPs to achieve goals. The Central/State and Local Governments are also partners in progress.
- It is in line with rural development schemes like "Antyodaya" — based on the principle of "convergence and saturation".
- The seven schemes are - Pradhan Mantri Ujjwala Yojana, Saubhagya, Ujala scheme, Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana and Mission Indradhanush.

SHREYAS Scheme 2019

- The objective of scheme is to provide industry apprenticeship opportunities to the general graduates exiting in April 2019 through the National Apprenticeship Promotion Scheme (NAPS)
- It aims to enhance the employability of Indian youth by providing on the job work exposure' and earning of stipend.
- The scheme is for students in degree courses, primarily non-technical, to introduce employable skills into their learning, promote apprenticeship as integral to education.

YuvaSahakar-Cooperative Enterprise Support and Innovation Scheme

- To cater to the needs and aspirations of the youth, the National Cooperative Development Corporation (NCDC) has come up with a youth-friendly this scheme for attracting them to cooperative business ventures.
- The newly launched scheme would encourage cooperatives to venture into new and innovative areas.
- The scheme will be linked to ₹ 1000 crore 'Cooperative Start-up and Innovation Fund (CSIF)' created by the NCDC.

Pradhan Mantri KisanSamman Nidhi (PM-KISAN)

- To allay some misgivings of the distress, one of the announcements in the Budget speech was that vulnerable landholding farmer families, having cultivable land up to

2 hectares, will be provided direct income support at the rate of ₹ 6,000 per year , in three equal installments of₹ 2,000 each.

- Around 12 crore small and marginal farmer families are expected to benefit from this.
- The programme would be made effective from 1st December 2018 and the first installment for the period upto 31st March 2019 would be paid during this year itself.
- It will entail an annual expenditure of₹ 75, 000 crore.

Pradhan Mantri Matru Vandana Yojana (PMMVY)

- The maternity benefits under PMMVY are available to all Pregnant Women & Lactating Mothers (PW&LM) except those in regular employment with the Central Government or State Government or Public Sector Undertaking or those who are in receipt of similar benefits under any law.
- The scheme is being implemented on a 60:40 cost-sharing basis with the State governments.
- It is for first living child of the family as normally the first pregnancy of a woman exposes her to new kind of challenges and stress factors.
- The Government of India has approved Pan-India implementation of PMMVY in all districts of the country under which the eligible beneficiaries get ₹5,000 /- under PMMVY
- The remaining cash incentive as per approved norms towards Maternity Benefit under Janani Suraksha Yojana (JSY) after institutional delivery so that on an average, a woman gets ₹6000/-

Pradhan Mantri Vaya Vandana Yojana (PMWY)

- The government has launched the PMWY to provide social security during old age and to protect elderly persons aged 60 and above against a future fall in their interest income due to uncertain market conditions
- The PMWY is being implemented through Life Insurance Corporation of India (LIC)
- The scheme provides an assured pension based on a guaranteed rate of return of 8 percent per annum for ten years, with an option to opt for the pension on a monthly, quarterly, half-yearly or annual basis
- The difference between the return generated by LIC and the assured return of 8 percent annually will be borne by the government of as a yearly subsidy.

Integrated Scheme on School Education

- The Cabinet Committee on Economic Affairs on Wednesday approved the proposal of the Department of School Education and Literacy to formulate an Integrated Scheme on School Education
- It will be implemented by subsuming the **Sarva Shiksha Abhiyan (SSA), Rashtriya Madhyamik Shiksha Abhiyan (RMSA) and Teacher Education (TE)** from April 1, 2018, to March 31, 2020

Jan ShikshanSansthan (JSS)

- The scheme of JSS was initially launched in 1967 as Shramik Vidyapeeth, a polyvalent or multi-faceted adult education institution.

- Formerly under the Ministry of Human Resources Development, JSS was transferred to the Ministry of Skill Development and Entrepreneurship in 2018.
- It was aimed at improving the vocational skills and quality of life of the industrial workers and their family members as well as those persons who had been migrating from rural to urban settings.
- Now it has challenging mandate of providing vocational skills to non-literate, neo-literates as well as school drop-outs by identifying skills that have a market in the region of their establishment.

Sakhi One Stop Centre

- Ministry of WCD has formulated a Centrally Sponsored Scheme for setting up One Stop Centre, a sub - scheme of Umbrella Scheme for National Mission for Empowerment of women including Indira Gandhi MattritavSahyaog Yojana.
- It is a scheme sponsored under the Nirbhaya fund set up for safety of women after the gang rape of a paramedical student in December 2012 in New Delhi.
- It being established across the country to provide integrated support and assistance under one roof to women affected by violence, both in private and public spaces in phased manner.
- The scheme envisages an OSC for medical, legal, psychological and police help for victims of gender-based abuse such as sexual assault or domestic violence.

Pradhan Man tri Ujjwala Yojana

PMUY is a welfare scheme being implemented by the Ministry of Petroleum and Natural Gas to provide LPG connections to families below the poverty line, guided by the strong commitment to bring about changes in the life of poor women and also protect their health

- Socio-Economic Caste Census (SECC) is used to identify the beneficiaries (adult woman of a BPL family) and is given a deposit free LPG connection with a financial assistance of ₹1600 per connection by the centre
- This scheme will help prevent pollution and facilitate the healthy atmosphere in the families of poor people.

Atal BimitVyakti Kalyan Yojna (ABVKY)

- The change in employment pattern and the current scenario in India which has transformed from a long term to fixed short term engagement in the form of contract is considerable.
- Taking this into account ESI has approved ABVKY for Insured Persons (IP) covered under the Employees' State Insurance Act, 1948.
- Uris scheme is a relief payable in cash directly to their Bank Account in case of unemployment and while they search for new engagement.
- ESI has approved the proposal for reimbursement of ₹10/- per person to the employers to encourage the seeding of Aadhar (UID) in ESIC database of their workers and their family members.
- It will curtail the multiple registrations of same Insured Persons and thus enable them to avail the benefits requiring longer contributory conditions.

Pradhan Mantri AnnadataAaySanrakshan Abhiyan (PM-AASHA)

- The Scheme is aimed at ensuring remunerative prices to the farmers for their produce as announced in the Union Budget for 2018.
- Government has already increased the MSP of kharif crops by following the principle of 1.5 times the cost of production.
- It is expected that the increase in MSP will be translated to farmer's income by way of robust procurement mechanism in coordination with the State Governments.
- The new Umbrella Scheme includes the mechanism of ensuring remunerative prices to the farmers and is comprised of-
    - Price Support Scheme (PSS),
    - Price Deficiency Payment Scheme (PDPS)
    - Pilot of Private Procurement & Stockist Scheme (PPPS).

Atal Pension Yojana(APY) 2019

- It is a social security scheme launched by the government in 2015 to provide a defined pension between ₹ 1,000 to 5,000.
- Now the scheme will expand its focus to target individuals, instead of households.
- According to government data, over 1 crore people have benefited from the governments flagship scheme.
- The scheme, which was earlier for four years, lapsed in August 2018.
- But seeing the mass participation in this runaway-success scheme, the cabinet has decided to extend it and keep it open-ended.

Pradhan Mantri Jan-Dhan Yojana (PMJDY)

- PM Jan Dhan Yojana is the biggest financial inclusion scheme in the entire World. Now the govt, wants to make scheme more open ended with more incentives keeping in view of its "runaway success".
- Jandhan-Aadhaar-iMobile (JAM) linking will continue to provide the essential backbone to cover various activities. This includes Banking / Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner.
- Central Govt, has decided to make Pradhan Mantri Jan Dhan Yojana an Open Ended Scheme. Under this PMJDY Scheme, govt, has now added more number of incentives in order to encourage poor people to open zero balance bank accounts.
- Accidental Insurance Now ₹2 Lakh — All the people who opens new Jan Dhan Bank Accounts after 28 August 2018 will now get Free Accident Insurance Cover of double amount of ₹2 lakh.
- Over-draft Limit Now ₹10,000 - Now there would be no conditions attached for overdraft of upto ₹ 2,000. Now the maximum limit for over-draft is set at Rs. 10,000 (previously 5,000). IN PMJDY, this facility is available after 6 months of opening bank accounts.

Unnat Bharat Abhiyan 2.0

- Unnat Bharat Abhiyan is a flagship programme of the Ministry of HRD, which aims to link the Higher Education Institutions with a set of at least 5 villages so that these institutions can contribute to the economic and social betterment of these village communities using their knowledge base.

- It is a significant initiative where all Higher Learning Institutes have been involved for participation in development activities, particularly in rural areas.
- It also aims to create a virtuous cycle between the society and an inclusive university system, with the latter providing knowledge base; practices for emerging livelihoods and to upgrade the capabilities of both the public and private sectors.

BetiBachao, BetiPadhao (BBBP)

- It is a campaign of the Government of India that aims to generate awareness and improve the efficiency of welfare services intended for girls. The scheme was launched with an initial funding of ₹100 crore.
- It mainly targets the clusters in Uttar Pradesh, Haryana, Uttarakhand, Punjab, Bihar and Delhi.
- It aims to address the issue of declining Child Sex Ratio (CSR) through a mass campaign across the country targeted at changing societal mindsets & creating awareness about the criticality of the issue.
- The Scheme will have focused intervention & multi-sectoral action in 100 districts with low Child Sex Ratio.

Why has the plethora of schemes not yielded the desired results? A few reasons for their failure are as follows:

- The Government has well-designed schemes. The question is not about intention but that of implementation of these schemes. There was not a proper identification of the targeted beneficiaries.
- There is also a lack of awareness of these schemes amongst the masses, given their illiteracy and ignorance.
- 'There is also an absence of any monitoring mechanism for the efficacy of such schemes or to know the end result. The focus is on increased outlays and new schemes but there is no mechanism of tracking down the outcome.
- It may be better to implement these programmes through NGOs after a strict screening process and also with proper checks and balances in place.
- There is a need to bring in an independent ‘social audit’ of these schemes not for fixing accountability but for plugging leakages, improving delivery so as to make the schemes effective and true to their intention for the overall benefit of the social sector.
- Today, there is an availability of modern technology which can be deployed for capturing information and creating a database which will enable a tracking mechanism for the target group and their reach and will be useful in refining the schemes in future.
- Finally, the focus of the government has been on schemes, so many that they overlap with diffused focus and accountability at different levels.

The aspect of changing the orientation from schemes to the people in the villages could be a better strategy and it also leads to convergence of all the schemes. This could be done following the cluster approach’ which is implementing all the schemes starting from the most backward villages, bunched together as a cluster, for the schemes to be implemented and ensuring their sustainability by transferring the onus of further development to the villages and then moving to another cluster.

It would be the responsibility of the state government to monitor the functioning of the cluster of villages that are assisted through the schemes. This would provide for better delivery of schemes, proper monitoring and also for sustainability of the efforts and will lead to fundamental changes as the needs of the villages would get assessed first and not the other way around. It will also enable the government to acquire an understanding of the resources required and then the government could look at various alternatives of implementing them.

Right since Independence, these problems have persisted. It has also engaged the attention of successive governments but it has always been through increased outlays and new schemes which have been launched for them, year after year, but without tangible benefits. What is now required is to tackle them differently. A few suggestions have been provided earlier, not that they are bound to succeed, but will display the attitude of the government of willing to experiment to find long-lasting solutions to the vexed problems. The government has to keep in mind that it is not the resources which matter bur in their efficient spending, technology-enabled monitoring mechanism and being on the learning curve each year, reorienting and successfully addressing the needs of the social sector.

Let us also admit that the task is daunting but it has to be accomplished one way or the other, a major challenge for the governments both the centre and state collectively.

4.3 MICRO FINANCE

Given that social sector do not have access to organize sources of finance say through banks and also given their extensive paper work, cumbersome procedures, documentation requirement, the micro credit institutions are today seen as offering a solution both for the social sector as well as addressing the issues of poverty. These institutions, as a concept have their genesis in Bangladesh, pioneered by Mohammed Yunus, for which he was awarded the Nobel Prize, as successful institutions for reaching out to the last unit of any economy not possible through banks and directly contributing to the uplift of the poor especially rural women.

In India, the SHG movement started in 1992 under NABARD and with involvement of banks. Under the SHG scheme credit is linked to savings by focusing on capacity building, with low interest rates usually 8-10 per cent with monthly repayment but responsibility of the group and not individuals. SHGs in India cover 90 million poor households and have extended credit of over ₹ 25,000 crore.

Micro Finance Institutions (MFIs) are institutions which provide credit to the poor but at a high interest rate but lower than that charged by the money lenders. MFIs in India have engaged the attention of the government only since 2003 and in the last 7 years, have seen an exponential expansion to reach 30 million and credit of over ₹ 30,000 crore. These have been seen as partnering SHGs in micro finance in India and also a major way through which the country could provide 'financial inclusion', that is, to provide accessibility to organized sources of finance to the poor people and reduce their dependence on the money lenders for their income generating activities enabling them to have source of income , employment and also get out of poverty.

However, in recent times, MFIs especially in Andhra Pradesh, have given a new dimension and raised the following fundamental issues:

1) Their prime motive is to earn profits through high profit margins by charging high interest rates but slightly lower than that charged by the money lenders.
(2) MFIs have reached out to those ignored by the banks and also the fact they are not complementing the efforts of the banks. There is sizeable concentration of MFIs in areas where there is banking penetration.
(3) MFIs are finding softer options of lending like SHGs, which leads to multiple financing, debt burden on the borrowers.
(4) MFI are aggressive and are more consumer-oriented loans, less productive-oriented, similar like a private bank selling consumer loans or the US banks' lending to sub-prime borrowers.

These developments have forced the government to rethink on this model of financial inclusion and adding in place regulations for the MFI.

However, at a broader level and to provide greater inclusivity the nationalized banks are better placed than the MFIs through innovative means such as the correspondent banking route, which will keep costs low of reaching out without the need for more branches. Micro finance through MFIs would thus require a redesign but their greater complementary and compatibility role with the banks would have to be explored to make them as effective institutions of micro finance in India.

Social sector is one of the key sectors of the economy and reaching out to them and drawing them into mainstream of development is the biggest responsibility of the government, as only then the biggest transformation of the economy would happen by bringing all round prosperity.

4.4. PRADHAN MANTRI MUDRA YOJANA (PMMY)

Pradhan Mantri Mudra Yojana (PMMY) is a scheme launched by the Government in 2015 for providing loans upto 10 lakh to the non-corporate, non-farm small/micro enterprises. These loans are classified as MUDRA loans under this Yojana. These loans are given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs. MUDRA has created three products namely ***'Shishu, 'Kishore*** and ***'Taruri*** to signify the stages of growth and funding needs of the beneficiary.

4.5 SPREADING JAM ACROSS INDIAN ECONOMY

Large-scale, technology-enabled, real-time Direct Benefit Transfers can improve the economic lives of India's poor, and the JAM Trinity (Jan Dhan, Aadhaar, Mobile) can help the government implement them. Over the past year, JAM has deepened its coverage at an astonishing rate creating around 4 million accounts per week and several mobile money operators were licensed. Cash transfers can directly improve the economic lives of India's poor, and raise economic efficiency by reducing leakages and market distortions. Implementing Direct Benefit Transfers (DBT) at large-scale and in real-time remains one of the government s key objectives, and significant progress has been made in the past year.

The **JAM Trinity: Jan Dhan, Aadhaar, Mobile** helped government to implement direct benefit transfers effectively.

The requirements if government wanted to transfer ₹ 1000 to every Indian tomorrow are :

1. Government must be able to identify the beneficiaries;
2. Government must be able to transfer money to these beneficiaries;
3. Beneficiaries must be able to easily access their money.

Failure in the first aspect leads to inclusion errors and leakage as benefits intended for the poor flow to rich and "ghost" households, resulting in a fiscal loss. Failure on other two aspects leads to exclusion errors as genuine beneficiaries are unable to avail benefits. The government must be especially sensitive to exclusion errors, which typically hurt the poorest.

Ingredients of JAM

The essential components for JAM are listed below:

1. **Government —» Beneficiary: the challenge of identification:** To identify the beneficiaries, the government needs databases of eligible individuals. Beneficiary databases have existed for long before Aadhaar, but their accuracy and legitimacy have been hampered by the administrative and political discretion involved in granting identity proofs like BPL cards, driving licenses and voter IDs. Ghost and duplicate names crept into beneficiary lists, leading to leakage. Aadhaar s virtue lies in using technology to replace human discretion, while keeping the system simple enough, fingerprints and iris scans for citizens to understand. 210 million Aadhaar cards were created in 2015, at an astonishing rate of over 4 million cards per week.
2. **Government —> Bank: the challenge of payment:**

   After identifying beneficiaries, the government must transfer money to them, for which the government needs their account numbers. This constraint has been eased by the Pradhan Mantri Jan Dhan Yojana, under which 120 million accounts were created in the last year alone at a blistering, record-setting pace of over 3 lakh accounts per day. Despite Jan Dhan's record-breaking feats, basic savings account penetration in most states is still relatively. Policy makers thus need to be cognizant about exclusion errors due to DBT not reaching unbanked beneficiaries.Comparing the reach of Jan Dhan with that of Aadhaar suggests that the unbanked are more likely to obstruct the spread of JAM than the unidentified.
3. **Bank —> Beneficiary: the last-mile challenge of getting money into people's hands:**

   In rural India, however, there is a serious "last-mile" problem of getting money from the banks into household's hands: only 27 per cent of villages have a bank within 5 km. To help address this problem, the RBI in 2015 licensed 23 new banks, viz, 2 universal banks, 11 payment banks and 10 small finance banks. Spreading JAM across India's economy shows that mobile penetration across India is strong. Moreover, there are approximately 1.4 million agents or service posts to serve approximately 1010 million mobile customers in India, a ratio of about 1:720.

India should take advantage of its deep mobile penetration and agent networks by making greater use of mobile payments technology to improve the quality and convenience of service delivery. For example, they can inform beneficiaries that food supplies have arrived at the ration shop or fertiliser at the local retail outlet. While some important changes have occurred this year to improve last-mile financial connectivity, still the Bank-Beneficiary connection still appears the weakest link in the JAM chain.

4.6 UNIVERSAL BASIC INCOME

"Wiping every tear from every eye" based on the principles of universality, unconditionality, and agency is the hallmarks of a Universal Basic Income (UBI). A number of implementation challenges lie ahead, especially the risk that UBI would become an add-on to, rather than a replacement of, current anti-poverty and social programs, which would make it fiscally unaffordable. But given their multiplicity, costs, and questionable effectiveness, and the real opportunities afforded by the rapidly improving "JAM" infrastructure, UBI holds the prospects of improving upon the status quo.

Introduction

Despite making remarkable progress in bringing down poverty from about 70 percent at independence to about 22 percent in 2011-12 (Tendulkar Committee), it can safely be said that "wiping every tear from every eye" is about a lot more than being able to imbibe a few calories. And the Mahatma understood that better, deeper, and earlier than all the Marxists, market messiahs, materialists and behaviouralists. He intuited that it is also about dignity, invulnerability, self-control and freedom, and mental and psychological unburdening. From that perspective, Nehrus exhortation that "so long as there are tears and suffering, so long our work will not be over" is very much true nearly 70 years after independence.

Today, an option to realise Gandhiji's objective presents itself and has entered the policy consciousness in India and around the world: Universal Basic Income, UBI for short. UBI has three components: Universality, Unconditionality, and Agency (by providing support in the form of cash transfers to respect, not dictate, recipients' choices).

The Conceptual/Philosophical Case for UBI

Universal Basic Income is a radical and compelling paradigm shift in thinking about both social justice and a productive economy. A universal basic income 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. The time has come to think of UBI for a number of reasons:

Social Justice: UBI is, first and foremost, a test of a just and non-exploitative society. A Universal Basic Income promotes many of the basic values of a society which respects all individuals as free and equal. It promotes liberty because it is anti-paternalistic, opens up the possibility of flexibility in labour markets. It promotes equality by reducing poverty. It promotes efficiency by reducing waste in government transfers. And it could, under some circumstances, even promote greater productivity. It is not an accident that Universal Basic Income has been embraced both by thinkers of the Left and of the Right.

Poverty Reduction: Conditional on the presence of a well-functioning financial system, a Universal Basic Income may simply be the fastest way of reducing poverty. UBI is also, paradoxically, more feasible in a country like India, where it can be pegged at relatively low levels of income but still yield immense welfare gains.

Employment: UBI is an acknowledgement that society's obligation to guarantee a minimum living standard is even more urgent in an era of uncertain employment generation. Moreover, UBI could also open up new possibilities for labour markets. It creates flexibility by allowing for individuals to have partial or calibrated engagements with the labour market without fear of losing benefits. They allow for more non-exploitative bargaining since individuals will no longer be forced to accept any working conditions, just so that they can subsist.

Administrative Efficiency: In India in particular, the case for UBI has been enhanced because of the weakness of existing welfare schemes which are riddled with misallocation, leakages and exclusion of the poor. When the trinity of Jan-Dhan, Aadhaar and Mobile (popularly referred to as JAM) is fully adopted the time would be ripe for a mode of delivery that is administratively more efficient. The administrative argument however has to be made with some care. While Aadhar is designed to solve the identification problem, it cannot, on its own, solve the targeting problem. It is important to recognise that universal basic income will not diminish the need to build state capacity: the state will still have to enhance its capacities to provide a whole range of public goods. UBI is not a substitute for state capacity: it is a way of ensuring that state welfare transfers are more efficient so that the state can concentrate on other public goods.

The Conceptual Case against UBI

From an economic point of view there are three principal and related objections to a universal basic income. The first is whether UBI reduces the incentive to work. This argument is vastly exaggerated. For one thing, the levels at which universal basic income are likely to be pegged are going to be minimal guarantees at best; they are unlikely to crowd incentives to work. One school of thought would argue that it truly is a diminution of human dignity to suppose that the only motivation for which people work is necessity; take away the yoke of necessity and they will be lazy. The same kinds of arguments used to be made against high wages: that if wages rise beyond a certain level workers will choose leisure over work. There is very little evidence to sustain that proposition.

The second concern is this: Should income be detached from employment? The honest economic answer to this concern is that society already does this, but largely for the rich and privileged. Any society where any form of inheritance or accepting non-work related income is allowed, already detaches income from employment. So, receiving a small unearned income as it were, from the state should be economically and morally less problematic than the panoply of "unearned" income our societies allow.

The third is a concern out of reciprocity. If society is indeed a "scheme of social cooperation", should income be unconditional, with no regard to peoples contribution to society? The short answer is that individuals as a matter of fact will in most cases contribute to society, as stated above. In fact, UBI can also be a way of acknowledging non-wage work related contributions to society.

In the current social structure, for example, homemaking contributions of women are largely unacknowledged economically, since they do not take the form of wage or contract employment. It is important that UBI is not framed as a transfer payment from the rich to the poor. Its basis is rather different. UBI gives concrete expression to the idea that we have a right to a minimum income, merely by virtue of being citizens. It is the acknowledgment of the economy as a common project. This right requires that the basic economic structure be configured in a way that every individual gets basic income.

Arguments in Favour and Against UBI

Favor	Against
Poverty and vulnerability reduction: Poverty and vulnerability will be reduced in one fell swoop.	**Conspicuous spending:** Households, especially male members, may spend this additional income on wasteful activities.
Choice: A UBI treats beneficiaries as agents and entrusts citizens with the responsibility of using welfare spending as they see best; this may not be the case with in-kind transfers.	**Moral hazard (reduction in labour supply): A** minimum guaranteed income might make people lazy and opt out of the labour market.
Better targeting of poor: As all individuals are targeted, exclusion error (poor being left out) is zero though inclusion error (rich gaining access to the scheme) is 60 percent.	**Gender disparity induced by cash:** Gender norms may regulate the sharing of UBI within a household - men are likely to exercise control over spending of the UBI. ''This may not always be the case w'ith other in-kind transfers.
Insurance against shocks: This income floor will provide a safety net against health, income and other shocks.	**Implementation:** Given the current status of financial access among the poor, a UBI may put too much stress on the banking system.
Improvement in financial inclusion: Payment - transfers will encourage greater usage of bank accounts, leading to higher profits for banking correspondents (BC) and an endogenous improvement in financial inclusion. Credit - increased income will release the constraints on access to credit for chose with low income levels.	**Fiscal cost given political economy of exit:** Once introduced, it may become difficult for the government to wind up a UBI in case of failure.

Arguments in Favour and Against UBI

Favor	Against
Psychological benefits: A guaranteed income will reduce the pressures of finding a basic living on a daily basis.	**Political economy of universality - ideas for self-exclusion:** Opposition may arise from the provision of the transfer to rich individuals as it might seem to trump the idea of equity and state welfare for the poor.
Administrative efficiency: A UBI in place of a plethora of separate government schemes will reduce the administrative burden on the stare.	**Exposure to market risks (cash vs. food):** Unlike food subsidies that are not subject to fluctuating market prices, a cash transfers purchasing power may severely be curtailed by market fluctuations.

CHAPTER 5

FOOD SECURITY

5.1 FOOD SECURITY

The first aspect of food security is the domestic availability of food grains. No country would ever be willing to depend on other countries for their requirement of food grains or agricultural commodities, unless it does not have any other option. Since Independence, India has travelled a long way towards the food security, from an importer of food grains, which has now achieved 'self-sufficiency' in food grains, through the increased domestic production.

Buffer Stock of Food Grains

India is one among the few countries in the world having government-held stock of food grains, for the following reasons:

(1) Buffer for meeting natural calamities;
(2) Price stabilization in case of crop failures;
(3) Providing food grains under public distribution system.

The government has buffer stock norms for different months in a year. At present, the maximum stock of the food grains of wheat and rice are to be held by the government, as buffer stock is *T7* million tonnes to meet the aforesaid objectives.

Food Corporation of India (FCI) has the prime responsibility of procuring the food grains and the procurement is done at minimum support price (MSP) and stored in its warehouses at different locations and from there it is supplied to the state governments in terms of requirement. FCI also sells in the open market to stabilize, if their prices turn volatile especially in periods of crop failures.

Certain issues which are around buffer stock operations are briefed as follows:

First, the government is currently holding many multiples more than that required under the norms of around over 50-60 million tonnes, even when higher stocks have been held in the past. Why does the government hold higher stocks than required? It is because of the MSP of food grains and also the procurement price; and at that price government is mandatorily required to procure whatever arrives to FCI. If there is a bumper crop, FCI will have to procure the entire stock. Even if the market price of the food grain is higher, farmers prefer to sell to FCI because it procures in bulk. This leads in a buildup of stocks.

Second, FCI does not have enough storage capacity to hold the high levels of food grain stocks. At present, the entire capacity of FCI is around 60 million tonnes, while actual available storage, will not be more than 50 million tonnes. Even this storage is not appropriate . There is a tremendous wastage of around ₹ 50,000 crore annually by both on account improper and on inadequate storage facilities.

The other aspect under food security is around the public distribution system (PDS). Food grains are distributed to the state governments at an ‘issue price’ for their distribution to the poor through the PDS at prices, much below their economic cost (MSP with transportation and storage cost). As a result, the government has to bear the differential cost between the economic cost and the price charged in the PDS, as ‘food subsidy’ of over ₹ 75,000 crore.

PDS was a general entitlement for all the consumers or citizens, where a fixed amount of food grains, sugar and edible oil were distributed through the dedicated government-owned shops or outlets at a rate or price lower than the prevailing market rate. In a bid, to ensure focus of PDS towards the poor or for the economically backward families and in an attempt to stop pilferage and diversion of food grains to the open market, a ‘Revamped Public Distribution System (RPDS)’ was launched in June 1992 in 1775 blocks (mostly backward and remote areas) throughout the country.

Subsequently, the Targeted Public Distribution System (TPDS) was introduced effective from June 1997, which envisaged subsidized distribution of food grains to poor families (classified in India as below poverty line (BPL), above poverty line (APL) and poorest of the poor families identified as Antyodaya Anna Yojana (AAY). TPDS was amended with an intention to benefit around 6 crore (60 million) poor families for whom a quantity of about 7.2 million tonnes of food grains was earmarked annually.

The identification of the poor under the scheme is performed by the states as per poverty estimates of Planning Commission of India. In 2000, in view of the consensus on increasing the allocation of food grains to BPL families, and also to better target the program, the Indian government has increased the allocation to BPL families from 10 to 20 kg of food grains per family per month at 50 per cent of the economic cost and allocation to the APL families.

The number of BPL families has been increased by shifting the base to the population projections of the Registrar General as on 1 March 2000 instead of the earlier population projections of 1995. This has increased the total number of BPL families who are at present eligible for subsidized food grains. The allocation of food grains for the BPL families was further increased from 20 to 25 kg per family per month with effective from July 2001. Initially, the AAY families were provided 25 kg of food grains per family per month at the time of launching of the scheme in December 2000. The scale of issue of food grains under APL, BPL and AAY has been revised to 35 kg per family per month with effective as on 1 April 2002 with a view to enhance the food security at the household level.

Under the TPDS, all ration card holders have been segregated into APL and BPL families. The BPL families acquire food grains, sugar and kerosene at one-half of the price than that to the APL families.

Further, the central government has another scheme known as AAY launched during the year 2000, under which the bottom most 2.5 crore below poverty families get 35 kg of rice at ₹3 per kg and wheat at ₹2 per kg through the same fair price shops.

Senior citizens of 65 years of age and above if not covered under National Old Age Pension Scheme acquires 10 kg of food grains at free of cost.

Issues in Targeted Public Distribution System (TPDS)—Reasons

The main flaw in the system that a large chunk of those who are eligible for subsidized food grains under BPL category have been left out leading to critically question comprehensiveness of TPDS.

The criteria for inclusion in the BPL list are solely economical which is often understated or under reported because lack of availability of national income data. There are allegations that persons having political patronage have found a place in the BPL list. Not all BPL families are actually' BPL, but are included. A large number of the very poor families are in the APL category and are thus denied their right for acquiring the subsidized food grains from TPDS.

Further, the BPL families graduating in terms of income criteria should technically be excluded as beneficiaries under BPL, however, they continue to do so. There is thus incentive to be classified as a BPL family; as a result no family would like this tag to go. In the existing system, there is 'no exit but entry' only, thus becoming an ever increasing liability of the government, in terms of increase subsidy bill and the benefits 'not exactly' those for whom it is intended.

Clearly, it is not the schemes but the delivery channel which has failed us. Starting from the identification of beneficiaries, bogus cards (in terms of a recent government survey over ₹1.75 crore are bogus cards). There is no attempt to review the ration cards which are issued.

The other is the large-scale black marketing, hoardings and their diversion to open market. Government resources, say that as much as 20 per cent of the food grains meant to be supplied under TPDS, find their own way in the open market. Even the quality of food grains being supplied under TPDS is of suspect, given the conditions of storage in the warehouses of FCI.

The TPDS in its current form is not only inefficient, but more importantly, it does not reach out to the poor people, besides wastage and diversion is rampant. It is ironical that a country like India has more than enough required buffer stock, excessive subsidization by the government, yet there is hunger and about 270 million poor people in the country. Can this be known as 'food security' in India?

National Food Security Act

Distinctly, inclusion of the people has been a major issue in Targeted Public Distribution System (TPDS) and the government has tried to address by attempting a revamp of the TPDS, by moving away from 'inclusion' to that of'exclusion', or including a larger percent of both rural and urban population as part of the 'National Food Security' bill.

The National Food Security Bill, 2013 passed by the parliament on July 03,2013 gives right to subsidised food grain to 67 percent of India's 1.2 billion people and provides for penalty for non-compliance by public servants. UPA II Government has taken a historic decision in its cabinet on July 03, 2013 to implement the National Food Security through Ordinance to start a 1.3 trillion rupee ($22 billion) welfare program that would bring cheap food to hundreds of millions of poor people throughout the country.

The National Food Security Act was passed on 10th September, 2013 with the objective to provide food and nutritional security in human life cycle approach , by ensuring access to an adequate quantity of quality food at affordable prices to people to live a life with dignity. The Act provides for coverage of upto 75% of the rural population and upto 50%

of the urban population for receiving subsidized foodgrains under TPDS thus, covering about two-thirds of the population.

The special features of the National Food Security Act are:

1. Up to three-quarters of people in the rural areas and up to half of the urban population would get five kilograms of grains per month at subsidized prices (3 rupees per kilo for rice, 2 rupees per kilo for wheat and 1 rupee per kilo for coarse grains).
2. The poorest households would continue to receive 35 kilograms of grains per month under the "Antyodaya Anna Yojana" at subsidized prices.
3. Pregnant women and lactating mothers would receive a maternity benefit of at least 6,000 rupees.
4. Children aged 6 months to 14 years would get take-home ration or hot cooked food. The central government also would provide money to states and union territories, if it has shortage / low stock of grain.
5. The central government would also provide "assistance" towards the cost of intra-state transportation and handling of grains.
6. In a bid to give women more authority in running their households, the oldest adult woman in each house would be considered the head of that household for issue of ration card.

What are the Issues around the Food Security Act?

Food security should be envisioned around a 'basic nutrition basket of goods' aimed at getting rid of malnutrition and ensuring nutrition security' of its population. Mere inclusion of coarse cereals will not allow building nutrition security for its population. Various international reports have clearly mentioned that addressing, both hunger and malnutrition, should be accorded as the top most priority in India.

Both in terms of'hunger' and 'malnutrition', India ranks poorly. In terms of a study by the International Food Policy Research Institute, India is ranked 67 out of 84 countries in the Global Hunger Index.

Implementing such a scheme at a massive level, without addressing the inefficiencies in the delivery system, relative ability of the state governments, can well defeat the very purpose of the scheme, of reaching out to the poor.

Procurement of food grains of such magnitude would require not only augmenting but also scaling-up storage capacity and improving the facilities in storing them. India may well need to import food grains which would impact global food prices and also impacting their prices in India.

It is not about the magnitude of the subsidy bill and their provision made in the present budget. It is the continuous and the increasing liability of any government in perpetuity. How long can it be sustained in the future? Will such a scheme not provide complacency to its population, of shying away from work with the 'assured food available' without working to earn to buy the food?

What Needs to be Done as a Part of Food Security?

Initially, there is a need to have a mechanism to identify the beneficiaries or the poor people. BPL cards are of conclusive proof of them being beneficiaries, but 'not a conclusive proof of being below poverty line'. This is the biggest challenge in addressing food security in India.

The government has set up the Unique Identification Authority of India, the first of its Kind in the world with the ambitious objective of allotting biometric twelve digit unique ID number to each and every person in the country under 'Aadhaar project'. However, the talks about the project will provide only a unique 'identity' to the people but not enable ascertaining 'income or consumption expenditure' of the people, which is required for identification of beneficiaries.

The best way, which the government is proposing, is by following the 'exclusion method', of excluding certain categories as beneficiaries, rather than identifying the targeted beneficiaries. However, even this will require broad consensus on the categories to be excluded and cannot be left to the state governments for uniformity purposes. One category may be excluded by one state but the same category may be included by some other state. Broad parameters of exclusion should be spelt out by the central government through a process of consensus and leave the fine tuning to the respective state governments.

As mentioned earlier, food security should be seen as 'nutrition security' providing food grains to the people with 'mal nutrition' is a bigger damage. Objective of the government should be not only to 'feed' but also have a 'fit' population.

The entire TPDS operations of procurement, storage, movement and its ultimate distribution to the poor should be computerized with a technology leveraged tracking mechanism throughout the country. Even though it is a difficult task, it can be created by the government with the help of creating a data base of the entire population, through the Aadhaar scheme'. It is also feasible to have an efficient food management system.

Storage capacity has to be increased at least by about 15—20 million tonnes in the immediate short run. There is a need to adopt the public private sector partnership (PPP) for streamlining storage, storage facilities transportation and establishing an efficient delivery chain.

Any subsidy mechanism is always inefficient as there is bound to be leakages, no matter what efforts are made, to plug them. The only better way to reach out to the poor people is providing direct income support, to the extent subsidy is to be given. For example, if the government desires to give to the poor people rice at ₹3 per kg as against a market price of say ₹ 15 per kg in the market.

The poor people can be a provided an income support of ₹12 per kg. This is possible if the government has both their identity and access to their account where the amount can be credited. Alternatively, smart cards with embedded monetary values can be given to the poor people for purchasing food grains at marker prices.

Finally, at a more fundamental level, food security should be, as well said, 'Never give a poor person a fish to eat but rather teach him how to fish'.

The central problem in India is creating employment opportunities for the people. India has to work around it, as larger part of sustainable food security for the people, of their relative ability to earn a livelihood with which, they can purchase what they wish to consume. Focusing on improved agricultural productivity, work around the supply chain so that 'availability of the minimum nutrition basket at reasonable prices is always ensured'.

Government should provide subsidized food basket, to those physically handicapped, those incapable of entering employment stream, senior citizens and other such classes as the government may deem fit, 'but as matter of exception rather than a rule'.

Food security has to be seen in broader context covering hunger, malnutrition, absolute poverty, addressing inefficiencies in the delivery channel, stream lining identification of beneficiaries, all aimed at improving living conditions of the people and getting rid of absolute poverty from the country.

5.2. CHALLENGES BEFORE INDIA IN ACHIEVING FOOD SECURITY.

India is still housing a large number of poor people and is still ranking below in human development report. Country needs to address the following challenges on an urgent footing to achieve the objectives of accessibility, affordability and availability of food for all.

- Faulty food distribution system
- Unmonitored nutritional programmes
- Absence of intersectoral coordination
- Improvement in Agricultural productivity
- Mechanism for effective and sustainable food storage
- Ensuring food availability and accessibility to BPL families
- Improvement in purchasing power through employment generation
- Diversification of crops and establishment of food grain banks
- Improvement of community awareness through social auditing
- Ensuring timely evaluation of nutritional programmes
- Promotion of community participation with better coordination

CHAPTER 6

AGRICULTURE SECTOR

6.1 'WHY' IS AGRICULTURE SECTOR IMPORTANT FOR INDIA?

In the previous section, we had dealt about agriculture sector which has about 60 per cent plus population-dependence, an aspect which has been there since Independence. This sector provides us with food security and raw material for manufacturing sector.

Each and every country would like to be self-sufficient for its requirements of food grains, pulses, sugar, edible oils, milk, fruits and vegetables.

India has the largest number of villages of over 6,00,000. Majority of our population resides in villages. No other country has so many villages.

India's agricultural sector is characterized by traditional, subsistence and livelihood, rain fed farming, food grain oriented, lacking in diversification and commercialization. Over 80 per cent of the farmers are landless, small and marginal farmers with cultivation for consumption and little diversification. Agricultural finance is informal with reliance on the money lenders. It is said about India that majority of our economic issues are primarily of poverty and unemployment and both the problems and their resolution lie in the agricultural sector.

There is enough literature available on agriculture in standard text books on Indian Economy. It would be suffice to say here that the key issues in agriculture are to increase production through distinct improved productivity.

'Why' is Productivity Important?

In the earlier years, production could be increased by bringing in more and more land under cultivation without addressing productivity. However, today all available arable land is already under cultivation which means production can be increased only through increased productivity.

With the increasing population, increased incomes especially of the poor in the future would increase the demand for agricultural products manifold . What would happen if productivity does not increase ? It would mean 'supply ' not sufficient for 'demand ' which would result in increased prices of food items, as it happened in 2009-2010 with food inflation climbing over 15 per cent in a short period . As everyone will be aware that food inflation will hurt all but the poor will be hit much harder.

Agriculture sector is considered as very vulnerable because it is one sector where demand will only keep on increasing and supply will always be volatile with so many structural factors and others like monsoon dependence as only 40 per cent land is irrigated.

Realizing the importance of food grains way back in the sixties, the government ushered in the 'Green Revolution ' pioneered by Dr M. S. Swaminathan , to improve the productivity of wheat and other cereals, through researched improved seeds known as high yielding varieties HYV) seeds. This was the first time where a scientific approach was adopted and with measured applications of fertilizers, insecticides/pesticides, productivity of wheat quadrupled. The success story was made possible only by creating the right model of optimal land size, assured/adequate water supply , soil conduciveness in the areas such as Punjab , Haryana and Western Uttar Pradesh.

However, it was more of an experiment to see how to improve productivity especially of wheat. Much of the self-sufficiency in wheat can be attributed to the Green Revolution. Our attempts with other revolutions in the agriculture sector were centred around products and their relative importance such as:

- White Revolution (milk and milk products).
- Yellow Revolution (oil seeds).
- Blue Revolution (marine products).
- Golden Revolution (Honey).
- Golden Fibre Revolution (Jute).
- Silver Fibre Revolution (Cotton).
- Brown Revolution (Cocoa).

Primary Sector Revolutions

The numerous revolutions affecting the productivity of agriculture and allied activities in India are highlighted below:

1. Agriculture Revolution: Green Revolution Also known as Seed-Water-Fertilizers-Pesticides Technology In 1965, under the aegis of Late Mrs. Indira Gandhi the then PM, resolute to mark historic revamp in Agriculture sector named as "Green Revolution" that was implemented during 1967-1978 in phases in the state of Punjab and Haryana, w.r.t. Wheat and Rice.
2. White Revolution: Operation flood a program initiated under supervisory of National Dairy Development Board (NDDB) in year of 1970 put India on world map by making India the largest producer of milk. The father of White Revolution in 1949 Mr. V. Kurien joined Amul (Anand Milk Union Limited) formerly known as Kaira District Co-operative Milk Producers' Union (KDCMPUL). Later the movement in 1965, under the leadership of Late Shri Lal Bahadur Shastri, the then PM, established National Dairy Development Board (NDDB). Operation Flood was completed in following three phases:
   - Phase I (1970-79)
   - Phase II (1981-1985)
   - Phase III (1985-1996)

3. Yellow Revolution: Oil Seeds Revolution Also known as the People Power Revolution. Was a result of series of demonstrations that took place from 1983-1986 in the Philippines.
4. Blue Revolution: Development of Fisheries in the country
5. Brown Revolution: is known for Leather/non-conventional (India)/Cocoa Production & Tomato production. A 'BROWN revolution' happening in the tribal areas of Visakhapatnam district w.r.t. cocoa, where the tribal people are being not only taught but at the same time encouraged, to grow "socially responsible and environment friendly" coffee to cater to the demand from developed countries.
6. Black Revolution: known for Petroleum Production
7. Grey Revolution: known for Fertilizer Development
8. Golden revolution: 'Golden Revolution' is the period between 1991-2003.
9. Golden Fiber Revolution: known for Jute Production
10. Pink Revolution: is for Onion production/Pharmaceutical/Prawn production
11. Red Revolution: is for Meat production
12. Round Revolution: for Potato production
13. Silver Revolution: for Egg/Poultry production
14. Silver Fiber Revolution: for Cotton production
15. Almond Revolution: for Spice production
16. Evergreen Revolution: relates to Overall development of Agriculture
17. Ambrosia Revolution: For Connecting Rivers

Revolution	**Product**	**Father (India)**
Black	Petroleum	
Blue	Fish	Dr. Hiralal Chaudhary (induced breeding)/Dr. Arun Krishnan
Brown	Leather, cocoa, non - conventional energy	
Golden fiber	Jute	
Golden	Overall horticulture, honey, Fruit	Nirpakh Tutej
Green	Food grains	World: Dr. Norman Borlaug India: MS Swaminathan
Grey	Fertilizer	
Pink	Onion, Prawn, Pharmaceuticals, modernizing of meat and poultry processing	Durgesh Patel
Red	Meat, tomato	Vishal Tewari
Round	Potato	
Silver fiber	Cotton	
Silver	Egg	Indira Gandhi

Revolution	Product	Father (India)
White	Dairy/milk	Dr. Verghese Kurien
Yellow (Also known as people power)	Oil Seeds, Edible Oil, Especially Mustard and Sunflower.	Sam Pitroda
Saffron Revolution	Solar Energy	

6.2.PINK REVOLUTION

Pink revolution primarily referred as for onion, prawns and pharma industry, but the 2nd generation pink revolution focusing on modernisation of meat and poultry has attained the number 1 position in the world in exports of buffalo meat in 2012, exporting approximately 1.5 million metric tons of beef, according to the United States Department of Agriculture (USDA) Foreign Agricultural Service. The major importers are from Middle East and South East Asia countries. Further, it was also found that the broiler meat (i.e. chicken) sector has witnessed a 30 percent growth rate since the year 2009, at the same time it is placed amongst the fastest growing sectors in the Indian economy at a rate of 8 percent. This increase has been largely attributable to growing domestic demand. The Food and Agriculture Organization of the UN (FAO) has acknowledged India’s potential and effective measures towards ‘pink revolution’ by fostering modernization of its meat and poultry processing units. Accordingly, in a report titled the ‘Indian Meat Industry Perspective’, the Food and Agriculture Organization of the UN (FAO) has recommended an outlined four steps framework that India must adopt and adhere to it for the success of pink revolution are as follows:

1. Setting up state of the art meat processing plants;
2. Developing technologies to raise male buffalo calves for meat production;
3. Increasing the number of farmers rearing buffalo under contractual farming;
4. Establishing disease-free zones for rearing animals.

Environmental and Health Hazards

Although, the robust performance of the sector is too lucrative but at the same time there are some environmental riders to be borne in mind. As per an article being published in Environmental Science and Technology Journal, titled ‘Food-miles and the relative climate impacts of food choices in the US’, the data shows United States red meat production accounts for 30 percent of total greenhouse gas emissions so created while poultry and dairy contribute 28 percent of emissions. Thus, now we can cannot be ignorant with the fact that India is now largest exporter of meat in the world which will in turn pointing at the level of green house gas emission. Another vital area of concern is the managing risk w.r.t. meat borne pathogens like E.coli, Salmonella, Campylobacter, Listeria and Yesinia, also at the same time other diseases of concern to public health, and the control of pesticide residues.

Potential and challenges of Pink Revolution in India

Growth Potentials

- To increase present meat consumption per capita of 6 grams approx, per day to 50 grams a day in the next decade or so.
- India accounts only 2 percent approx of global market in light of large live stock count
- Growing rate is varying between range of between 8-15 per cent annually, and is now worth more than 700 billion dollars.

Challenges

- Drafting of standard policies for the sector w.r.t. meat production and export, standardizing the quality and safety aspects of meat and poultry, and creating infrastructure facilities for modern slaughter houses, meat testing facilities and cold storages for the growth of the meat and poultry processing sector.
- Implementation of 4 areas highlighted by FAO of UN
- Better hygienic methods required in meat and poultry processing
- Channelizing of increased and high volume of investment s in the sector.

Government Policies

- No income tax or central excise.
- No restrictions imposed upon the export of poultry and poultry products, and the government provides some transport subsidiaries.
- 100 per cent FDI is being permitted to tap into available opportunities across the sector.
- Comprehensive scheme being launched for the modernization of abattoirs across the country in order to address quality standards, contamination and deterioration of produce, and the amount of meat wasted.

More recently, Rainbow Revolution (includes horticulture comprising of fruits, vegetables, floriculture, plantation crops, spices, etc.).

India is one among the largest producers of various agricultural goods in terms of area under cultivation and production; however, it clearly lags behind in the productivity in all major crops which is not sufficient for the domestic market as is evident in their increasing prices. It is not sufficient enough to be satisfied as the largest producer of pulses, coconut, ginger, turmeric, pepper, milk or even the fact that India is the second largest producer of rice, wheat, ground nut, fruits and vegetables. It has to be seen in relation to the relative domestic demand and productivity rather than only production.

India is blessed with large land area whereas, China has lesser arable land than us but its agricultural production is double than that of India. Clearly, productivity is the chief differentiator between India and China.

Another concern is that the average annual growth of agricultural production right since Independence has been only 2.5 per cent. This is very low keeping in view the domestic needs. Food grains output has been trapped between 175 and 200 million tonnes of which wheat has stagnated around 70 million tonnes in the last few years. There is an urgent requirement to increase the production which can happen only with the increased productivity.

Growth in agricultural production is seen as a multiplier for the rest of the economy as it helps in augmenting supply of food products thereby cooling prices. It also increases income of the farmers and thus greater demand for non-agricultural goods giving incentive to the industrial sector to produce more and provide an upward spiral in growth.

6.3 NEW AGRICULTURAL POLICY 2000

The government realizing the importance of the agriculture sector formulated the New Agricultural Policy during 2000, which has tried to give a new direction to the agriculture sector which has the following salient features:

- Agriculture sector has to grow at an average annual growth of a minimum 4 per cent over the next few decades.
- Greater focus has to be given on horticulture, animal husbandry, poultry, dairy, aquaculture given their potential and their twin ability to raise the plank of growth and increase purchasing power.
- Need to provide food and nutrition security.
- There is a requirement for greater biotechnology use, newer plant varieties and their protection through suitable legislation, greater thrust on scientific farming, dissemination of technology advancements.
- Focus on agro and social forestry for maintaining ecological imbalances.
- Regular supply of price protection to farmers through the minimum support price system.
- Dismantling restrictions on movements of agricultural commodities.
- Increase public investment in agriculture sector especially rural electrification, irrigation projects, watershed development, etc.
- Create off-farm employment opportunities through promotion of agro-processing units.
- Land reforms to be provided a decisive thrust for better land distribution, consolidation and re-distribution of surplus land to landless farmers.
- National Agriculture Insurance Corporation should provide insurance cover in case of crop failure, droughts, etc.
- Allowing private sector participation through contract farming.

The new agricultural policy of the central government is only indicative in nature as agriculture being in the state list falls within the domain of respective state governments which would have the responsibility to implement the policy. Many experts including Prime Minister Manmohan Singh feel that India's agriculture sector requires a 'Green Revolution II.

6.4. AGRICULTURE EXPORT POLICY, 2018

In order to provide an impetus to agricultural exports, the Government has come out with a comprehensive 'Agriculture Export Policy" with an aim at doubling the agricultural exports and integrating Indian farmers and Indian products with the global value chains.

The Agriculture Export Policy envisions in harnessing the export potential of Indian agriculture to transform India as a global power in agriculture and raise farmers income.

Policy Objectives

- Doubling agricultural exports from present -USS 30+ Billion to -USS 60+ Billion by 2022 and reach US$ 100 Billion in the next few years thereafter, with a sustained trade policy regime.
- Diversify India's export basket and destinations by boosting value added agricultural exports.
- Promote indigenous, organic, traditional and non-traditional Agricultural products exports.
- Provide institutional mechanisms for pursuing market access, addressing trade barriers and deal with sanitary and phyto-sanitary issues.
- Strive to double India's share in world agri exports by integrating with global value chain.
- Enable farmers to get benefit of export opportunities from global market.

6.5 RAINBOW REVOLUTION

The earlier Green Revolution was centred on wheat and now what is required is a comprehensive revolution, which covers the entire agriculture sector known as Rainbow Revolution and it essentially means the following:

- Agricultural activities to change from subsistence and livelihood activities to as a commercial venture with focus on productivity and profitability.
- Crop diversification, commercialization, moving up the value addition chain.
- Intensification of research and should ensure their effective dissemination amongst farmers.
- Agricultural extension service, which is transmission of appropriate technology from lab to land, has virtually collapsed in India. Less than 1 per cent of farmers make use of the extension services (Krishi Vigyan Kendra). Block level extension services are not equipped with the latest advancements in technology. There is an urgent requirement of their integration in the agriculture sector to close the knowledge gap.
- Allowing modern science, biotechnology, organic farming to be blended within the agriculture sector.
- Farmers to move away from two-crop cycle to shorter duration crops allowing for multiple cropping.
- Stress on completion of irrigation projects to get more and more land under irrigation.
- Increase both on and off farm employment.
- Focusing on rural transportation.
- The farmer should become the fulcrum and efforts made to improve his standards of living and in his prosperity, lies the prosperity of the agriculture sector and the Indian Economy.

Dr M. S. Swaminathan, an agricultural economist, however, feels that India needs 'Ever Green Revolution' for long-term sustainability. It cannot be achieved in one shot but continuous shots at improving production and productivity, suitable blend of the traditional with modern, focused on locally renewable sources of energy, organic farming and making inputs and credit available to the farmers, as fundamentally more important today.

Agriculture sector right since Independence has been a thrust area, with increased investments in each successive five-year plans, but problems have not only remained unresolved but only accentuated over a period of time with large-scale rural poverty.

6.6 MINIMUM SUPPORT PRICE (MSP)

The government announces the minimum support price (MSP) for twenty-four crops including rice, wheat, pulses, sugarcane prior to harvest which is to say that the minimum price of crops in the market would not be less than the MSP announced for the crop. Of the MSP announced for various crops, the government through Food Corporation of India, as discussed in an earlier chapter, directly procures wheat and rice for meeting buffer stock requirements and also to channelize the food grains to the poor through various government sponsored schemes. For the remaining crops, the government would ensure a price which is higher than the MSP in the market.

Fruits and vegetables are sold to the agriculture produce marketing cooperatives (APMC) of the respective state governments, which also fix the price keeping in view their relative cost and also ensure the farmer obtains a fair price.

The delivery channel has a number of middle men, who serve as bottlenecks and also responsible for increased prices, large-scale hoardings and also prevents the farmer from getting benefits of increased prices.

The MSP allows a farmer knowing the price which he would get for the produce in the market especially for the food grains, but it is also believed that the benefits largely go to the bigger farmers, besides the MSP has prevented diversification of the agriculture sector. Many critics have favored discontinuation of the MSP, but the large scale small and marginal farmers do benefit, even though a larger chunk of the benefit is reaped by the affluent farmers. Further it may be too pre mature for India, presently to move towards a market pricing for food grains.

6.7 INDIAN AGRICULTURE—TEN NEW THOUGHTS

Agriculture sector in India requires an out-of-box thinking keeping in mind the criticality of this sector.

At first, the scientific/modem genetic engineered farming today is crucial for India's future.

Secondly, the markets for the farmers are distorted, not enabling them to get the best prices and there is a need to connect the farmer directly with the markets what is referred as F(Farmer) • F(firm) • F(fork).

At present, selling of agricultural commodities is under the APMCs of the respective state government. Today, technology/internet provides not only for domestic access but also for global access.

Farmers would need to be sensitized towards accessing those markets which get them a better pricing. This would also do away with the inefficient middle men syndrome, which are intermediaries with no contribution and on the contrary are largely responsible for distorting, hoardings and other such malpractices.

Third, is contract farming which also allows for direct contact of the farmer with the market. Under this, the land is with the farmer except that production of a crop is under a 'contract' with a buyer directly who also has the responsibility of providing necessary inputs and also picking up the produce whenever ready.

This will however require two critical supports from the government:

- Amendments to the respective APMC of different state governments.
- Enacting legislations to ensure that interest of the farmers is adequately protected.

Fourthly, a serious thought would have to be afforded to corporate farming which allows private sector players to enter into agricultural activities. It is not true that this step would lead to greater marginalization and exploitation of the small and marginal farmers.

There is a larger take away in the form of increased productivity, commercialization, diversification, greater value-addition, greater and efficient use of land, building an efficient supply chain, increased investment and readily absorbed modern technologies. Almost 40 per cent of food products are wasted and destroyed in the absence of supply chain which can easily be plugged by the large corporates resulting in increased supply of food products and this would lead to lower prices in the markets.

Fifthly, what is required today is complete mapping of soils across the length and breadth of the country, superimposed with historical data of the climate, rainfall, crop suitability and then decide on the cropping pattern. Today, technology information is available to allow for soil, climate-based cropping pattern and not on traditional and historical-based cropping pattern.

Sixthly, need of growth will start to encroach upon land for setting up the special economic zones, setting up power plants, building roads, etc., which means in future the land available for agriculture would gradually be reduced.

In terms of The National Bureau of Soil Survey and Land, Government of India, land under non-agriculture has increased from 3 per cent in 1950—51 to over 11 per cent presently. This makes increasing productivity not only important but an absolute 'Must'.

Seventhly, there is an increasing trend amongst farmers in the belief of agriculture as non-viable and unprofitable provided, the increasing cost of production and they exiting by selling the land for industrial activities. In recent times, the government is also declaring large land area as non-agriculture to support industrial growth.

Herein, lies the challenges of balancing both but larger challenge would be to reestablish agricultural activities as not only viable but also as a profitable commercial proposition.

Eighth, is the land reforms which have been an avowed objective since Independence but little has been done and still lesser achieved. There is a need for this to be prioritized by the state governments. Further efforts should be made to computerize land records such as the 'Bhoomi Project in Karnataka' and web-based land records under the 'Dharitree Project in Assam'. India also has large waste land area which could be given to rural landless people on ownership basis at free of cost for integrated farming -cum -forestry operations. This would serve the objective of utilization of waste land besides giving the landless farmers a source of livelihood.

Ninthly, current agriculture sector is starved of investment and it receives as little as 0.3 per cent of GDP. There is an urgent need to step up public investment in irrigation, roads, power and public health.

Finally, today strategy for agriculture sector would have to be broken down to the last unit which is the village or at best district level. Issues at each district level would need to be prioritized and then efforts should be made for their resolution.

What the agriculture sector needs is not another green or rainbow or evergreen revolution but a renaissance which is rebuilding the agriculture sector.

6.8. SECOND GREEN REVOLUTION

The present status of agriculture in India is the result of green revolution of late 1960s. The first green revolution has delivered India food security which was critical during those times. This progress and security had its own costs in terms of environment and economic viability as it rampantly used fertilizers and other chemicals. Since the current state of agriculture is not sustainable, new agriculture policy of India aims at sustainable agriculture, which is popularly called ‘second green revolution’ or ‘Evergreen Revolution’.

6.9. NATIONAL MISSION FOR SUSTAINABLE AGRICULTURE

As an important component under National Action Plan on Climate Change, the national mission for Sustainable Agriculture aims to address issues regarding the Agriculture in the context of risks associated with climate change. The mission includes strategies for food security, equitable access to food resources, enhancement of livelihood opportunities and contribution to economic stability at the national level.

This mission seeks to transform Indian agriculture into a climate resilient production system in the domain of crops and animal husbandry. The mission tries to absorb improved technology, best practices, creation of physical and financial infrastructure, access to information and promotion of capacity building towards sustainable agriculture.

6.10 FOOD PROCESSING INDUSTRY—AN OVERVIEW, OPPORTUNITIES AND CHALLENGES

India's Agrarian Strength

India produces 200 million tonnes of food grains of which it is one among the largest producers of wheat and rice. It is the second largest producer of groundnuts, fruits and vegetables, which accounts for 10 per cent of the world’s fruits production and the country is leading in the production of mangoes and bananas. India is the world’s largest producer of milk owing to the strong business models which are formed through cooperative movements in the country. Meat and poultry has also gained popularity due to the emergence of producers that have integrated breeding, feed milling, contract growing and marketing facilities which results in improved productivity. Meat, fish and poultry are in rural areas as they are easily affordable and provide necessary nutrients.

In recent years, there has been a shift from conventional farming of food grains to horticulture which includes fruits, vegetables, ornamental crops, medicinal and aromatic plants, spices and plantation crops including coconut, cashew nuts and cocoa and allied activities.

Nascent Food Processing

Despite the agrarian strength of production in India, food processing industry is still in a nascent stage but holds tremendous potential to grow, considering the wide-ranging and large raw material base that the country offers, along with a consumer base of over one billion people. This industry holds tremendous opportunities for large investments and an untapped market. Even though India's agricultural production base is reasonably strong, it has low productivity and is largely a livelihood activity. It is also characterized by high levels of wastage of over 35 per cent especially in fruits and vegetables.

Processing of fruits and vegetables is low 2 per cent, around 35 per cent in milk, 21 per cent in meat and 6 per cent in poultry products. By international comparison, these levels are significantly low—processing of agricultural produce is around 40 per cent in China, 30 per cent in Thailand, 70 per cent in Brazil, 78 per cent in the Philippines and 80 per cent in Malaysia. Value addition in agriculture produce in India is hardly 20 per cent.

The other important aspect is organized sector which has very little presence and largely dominated by the unorganized sector. For example, in fruits and vegetables segment over 90 per cent is by the unorganized sector.

The food processing industry in India has a very small share of 1.5 per cent in the total GDP of the country and as a part of total manufacturing accounts for around 9 per cent. India's share in world trade in respect of processed food is only about 1.6 per cent.

Potential of the Food Processing Industry

The Indian food industry is poised for a huge growth, increasing its contribution to world food trade every year. In India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry.

The food industry, which is currently valued at USS 39.71 billion, is expected to grow at a Compounded Annual Growth Rate (CAGR) of 11 per cent to US$65.4 billion by 2018. Food and grocery account for around 31 per cent of India's consumption basket.

Accounting for about 32 per cent of the country's total food market, The Government of India has been instrumental in the growth and development of the food processing industry . The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the business . It has approved proposals for joint ventures (JV), foreign collaborations, industrial licenses and 100 per cent export oriented units.

The Indian food and grocery market is the worlds sixth largest, with retail contributing to 70 per cent of the sales. Food has also been one of the largest segments in India's retail sector, which was valued at USS 490 billion in 2013. The Indian food retail market is expected to reach Rs 61 lakh crore (USS 894.98 billion) by 2020.

According to the Confederation of Indian Industry (CII), the food processing sector has the potential to attract US $33 billion of investment in 10 years and can generate employment of 9 million person-days.

Ministry for Food Processing Industries

Realizing the importance of food processing and its potential in India, the government has set up a separate Ministry for Food Processing Industries during 1998, with the following under its purview:

- Fruit and vegetable processing (including freezing and dehydration)
- Grain processing
- Processing of fish (including canning and freezing)
- Processing and refrigeration of certain agricultural products, dairy products, poultry and eggs, meat and meat products
- Industries that are related to bread , oil seeds , meals (edible), breakfast foods , biscuits , confectionery, malt extract, protein isolate, high protein food, weaning food and extruded food products (including other ready-to-eat foods)
- Beer, including non-alcoholic beer
- Alcoholic drinks from non-molasses base
- Aerated water and soft drinks

The vision 2015 for the food processing sector aims at the following:

- Enhancing and stabilizing the income level of the farmers
- Providing choice to consumers in terms of wide variety and taste including traditional ethnic food
- Providing greater assurance in terms of safety and quality of food to consumers
- On promoting a dynamic food processing industry
- Enhancing the competitiveness of food processing industry in both domestic as well as international markets
- To establish the food processing sector attractive for both domestic and foreign investors
- Achieving integration of the food processing infrastructure from farm to market
- Having a transparent and industry friendly regulatory regime
- Arranging in place a transparent system of standards based on science

The following specific targets have been set out for the year 2015:

- Increase in the level of processing of perishables from 6 to 20 per cent
- Increase in value addition from 20 to 35 per cent
- Share in global food trade to increase from 1.5 to 3 per cent

Government Initiative

Some of the major initiatives taken by the Government of India to improve the food processing sector in India are as follows:

- The Government of India allocated Rs 1,500 crore (US$ 225.7 million) and announced various measures under the Merchandise Exports from India Scheme (MEIS), including setting up of agencies for aquaculture and fisheries in coastal states and export incentives for marine products.
- Union Budget 2016-17 has proposed 100 per cent FDI through FIPB (Foreign Investment Promotion Board) route in marketing of food products produced and manufactured in India.
- All of the ration cards in India have been digitised and 42 per cent of the digitised ration cards are now linked to Unique Identification (UID) or Aadhaar cards.
- Government of India plans to allow two Indian dairy companies, Parag Milk Foods and Schreiber Dynamix Dairies, to export milk products to Russia for six months, after these companies got approval for their products by Russian inspection authorities.
- Ms Harsimrat Kaur Badal, Union Minister for Food Processing Industries. Government of India inaugurated the first of its kind Rs 136 crore (USS 20 million) mega international food park at Dabwala Kalan, Punjab. She has also expressed confidence that the decision to allow 100 per cent Foreign Direct Investment (FDI) in multi-brand retail with 100 per cent local sourcing condition, will act as a catalyst for the food processing sector, thereby controlling inflation, uplifting the condition of farmers, and creating more jobs in the country.
- The Food Safety and Standards Authority of India (FSSAI) has issued new rules for importing products, to address concerns over the entry of sub-standard items and simplify the process by setting shelf-life norms and relaxing labelling guidelines.
- The Ministry of Food Processing Industries announced a scheme for Human Resource Development (HRD) in the food processing sector. The HRD scheme is being implemented through State Governments under the National Mission on Food Processing. The scheme has the following four components:
    - ♦ Creation of infrastructure facilities for degree/diploma courses in food processing sector
    - ♦ Entrepreneurship Development Programme (EDP)
    - ♦ Food Processing Training Centres (FPTC)
    - ♦ Training at recognised institutions at State/National level
- The Food Safety and Standards Authority of India (FSSAI) under the Ministry of Health and Family Welfare has issued the Food Safety and Standards (Food Product Standards and Food Additives) Regulations, 2011 and the Food Safety and Standards (Contaminants, Toxins and Residues) Regulations, 2011 which prescribe the quality and safety standards, respectively for food products.
- The Ministry of Food Processing Industries has taken some new initiatives to develop the food processing sector which will also help to enhance the incomes of farmers and export of agro and processed foods among others.
- Spices Board, set up by the Ministry of Commerce to develop and promote Indian spices worldwide, aims spice exports of USS 3 billion by 2017.

- The Government of India has approved the setting up of five numbers of Mega Food Parks in the states of Bihar, Maharashtra, Himachal Pradesh and Chhattisgarh. The Government plans to set up 42 such mega food parks across the country in next three to four years.
- In the Budget 2015-16, a corpus of Rs. 2,000 crore (USS 293.44 million) was created under National Bank for Agriculture and Rural Development (NABARD) to provide cheaper credit to food processing industry. Excise duty on plant and machinery for packaging and processing has been brought down to six per cent from 10 per cent.
- To ensure better returns to farmers, the budget of 2018-19 doubled budget allocation to the food processing ministry to ₹ 1,400 crore and set up institutions to finance agro-processing projects.

Government Incentives to Food Processing Industries

An estimated investment of ₹100,000 crores is required to achieve the vision, of which ₹45,000 crores is expected to come from the private sector, ₹ 45,000 crores from financial institutions and ₹ 10,000 crores from government.

The government seeks to create an appropriate environment for entrepreneurs to set up food processing industries through the following:

- Fiscal initiatives and interventions such as rationalization of tax structure on fresh foods as well as processed foods and machinery used for the production of processed foods.
- A concerted promotion campaign to create market for processed foods by providing financial assistance to industry associations , NGOs /cooperatives , private sector units , state government organization for undertaking generic market promotion.
- Harmonization and simplification of food laws by an appropriate enactment to cover all provisions relating to food products so that the existing system of multiple laws is replaced and also covering issues concerning standards such as nutrition , merit goods , futures marketing, equalization fund, etc.
- Efforts to expand the availability of the right kind and the quality of raw material round the year by increasing production and improving productivity.
- Strengthening of database and market intelligence system through studies and surveys are to be conducted in various states to enable planned investment in the appropriate sector matching with the availability of raw material and marketability of processed products.
- Strengthening extension services and to the farmers and co-operatives in the areas of post harvest management of agro-produce to encourage the creation of pre-processing facilities near the farms such as washing, fumigation, packaging, etc.
- Efforts to encourage setting up of agro-processing facilities as close to the area of production as possible to avoid wastage and reduce transportation cost.
- Promotion of investments, both foreign as well as domestic.
- Simplification of documentation and procedures under taxation laws to avoid unnecessary harassment arising out of mere technicalities.

- Establishment of cold chain, low cost pre-cooling facilities near farms, cold stores and grading, sorting, packing facilities to reduce wastage, improve quality and shelf life of products.
- Application of biotechnology, remote sensing technology, energy saving technologies and technologies for environmental protection.
- Building up a strong infrastructural base for production of value added products with special emphasis on food safety and quality matching international standards.
- Development of packaging technologies for individual products, especially cut-fruits and vegetables, so as to increase their shelf life and improve consumer acceptance both in the domestic and international markets.
- Development of new technologies in food processing and packaging and also to provide for the mechanism to facilitate quick transfer of technologies to field through a network of R&D institutions having a central institute at the national level with satellite institutions located strategically in various regions to cover up the whole country and to make available the required testing facilities. This could be done by establishing a new institution or by strengthening an existing one.
- Development of area-specific agro food parks dedicated to processing of predominant produce of the area e.g., apple in J&K, pineapple in North East, lichi in Bihar, mango in Maharashtra and Andhra Pradesh, etc.
- Development of anchor industrial centre and/or linkage with anchor industrial units having network of small processing units.
- Development of agro-industrial multi-products units capable of processing a cluster of trans-seasonal produces.
- Establishment of a sustained and lasting linkage between the farmers and the processors based on mutual trust, understanding and benefits by utilizing the existing infrastructure of cooperative, village panchayats and such other institutions.
- Mechanism to reduce the gap between the farm gate price of agro-produce and the final price paid by the consumer.
- Development of futures market in the best interest of both the farmers and the processors ensuring minimum price stability to the farmer and a sustained supply of raw material to the processor.
- Setting up of an equalization fund to ensure sustained supply of raw material at a particular price level and at the same time to plough back the savings occurring in the eventuality of lower price to make the fund self-regenerative.
- Establishment of a strong linkage between the processor and the market to effect cost economies by elimination of avoidable intermediaries.
- Establishment of marketing network with an apex body to ensure proper marketing of processed products.
- Development of marketing capabilities both with regard to infrastructure and quality in order to promote competitive capabilities to face not only the WTO challenge but also to undertake exports in a great way.

Given the trends in the Indian food and beverage sector including key industry consideration, it is imperative for the Indian industry to leverage the emerging opportunities through the following:

- Exploitation of the huge untapped potential in processed foods.
- Opportunities demonstrated by contract farming, captive supplies of raw materials, disintermediation and direct access to farmers, availability of new and improved seeds and farm technology.
- Value addition to unprocessed categories of food such as dairy, fruits and vegetable, staples and edible oils.
- Exploitation of increasing health and safety awareness of the Indian consumer—this would pave the way for value added products on a health platform.
- Investment in supply chain in order to improve costs, tighten supplies and minimize wastage.
- Investment in better packaging and cold chain infrastructure will aid the processed food and beverage sector as these would aid in processing of fruits and vegetables.
- Exploration of appropriate regional branding strategies in order to appeal to the deep rooted traditions, values and customs of the consumer.
- Taking advantage of the inherent ethnic tastes and food habits of the Indian consumer—this provides the local food players a distinct advantage over foreign entrants into the sector and poses an entry barrier for the latter.
- Exploitation of the increasing consumerism fuelled by new job opportunities, larger disposable incomes and the emerging boom in modern retail trade.
- Opportunities for growth through the inorganic route, both domestically and outbound this would provide access to new product categories, brands, markets and new technologies.
- The SEZ/AEZ opportunity would also provide players an added incentive to develop green field projects within these zones and enjoy additional fiscal benefits.
- The Indian foods and beverage industry is poised for a significant leap forward—these are interesting times and continued success will depend on a proper understanding of the landscape and challenges therein, quickly exploiting emerging opportunities, skillful execution of strategic mergers and acquisitions and effecting a seamless organization to evolve into truly global players.

Mega Food Park Scheme

Highest priority has been accorded by the government for the development of infrastructure. The government has already taken several initiatives on this front which include developing of food parks, packaging centres, modernized abattoirs, integrated cold chain facilities, irradiation facilities and value added centres.

The initiative to develop food parks was taken primarily in order to assist the small and medium enterprises which are unable to invest in capital intensive activities. So far, twenty-two food parks have come into operation which provide common facilities such as cold storage, food testing and analysis labs.

The primary objective of the MFPS is to provide adequate/excellent infrastructure facilities for food processing along the value chain from the farm to market. It will include creation of infrastructure near the farm, transportation, logistics and centralized processing centres.

The main feature of the scheme is a cluster-based approach. The scheme will be demand-driven; pre-marketed and would facilitate food processing units to meet environmental, safety and social standards. The expected outcome results in increased realization for farmers, creation of high quality rural processing infrastructure, reduction in wastage, capacity building of the producers and processors and creation of an efficient supply chain along with significant direct and indirect employment generation.

The scheme aims to facilitate the establishment of a strong food processing industry backed by an efficient supply chain, which would include collection centres, primary processing centres and cold chain infrastructure. The food processing units, under the scheme, would be located at a central processing centre (CPC) with requirements based on common infrastructure which are required for processing, packaging, environmental protection systems, quality control labs, trade facilitation centres, etc.

Urgency of Such Initiatives—Reasons

As mentioned earlier, it is because of the growing market largely because of increased income of people, rapid urbanization, changing demographics, movement away from joint families to nuclear families and increasing number of working women. The changing pace of life has marked a preference for processed food.

These have resulted in shift in consumption driven by the processed food market, which is increasing and presently accounts for 32 per cent of the total food market and is likely to grow further only. The food processing industry is growing and has become one of the largest industries in India—it is ranked fifth in terms of production, consumption, export and expected growth.

Consumption patterns in India have been undergoing a visible shift. Earlier, the share of cereal products was the highest, followed by milk and milk products, vegetables, edible oil and meat products. However, in recent years, the growth rates for fruits, vegetables, meat and dairy products have been higher than cereals and pulses. This shift in turn implies that there is also a need to diversify the food production base to match the changing consumption preferences.

This shift in consumption follows the pattern observed in developed countries in the evolution of the global food demand. There is a shift from carbohydrate staples to animal sources and sugar. On following this pattern, in future, there will be increasing demand for prepared meals, snack foods and convenience foods and further on the demand would shift towards functional, organic and diet foods. These are post-liberalization trends that have given an impetus to the sector.

Some Structural Issues

Farmers have a limited market for their agricultural produce, which are confined to the local 'Mandis', and are governed by APMC under the respective state government; and the farmers can only sell to them. They cannot sell directly to the private parties for further processing. As a result, they are denied better prices and also prevent food processing. They also have limited information about the market(s), prevailing prices and operate within their limited knowledge, based on their own wisdom.

The supply chain of agricultural produce from the farmer to the ultimate consumer lacks transparency and passes through a number of middlemen raising cost through commission charges, resulting in higher prices without any value addition. Further, the absence of storage/warehousing facilities and an inefficient transport system results in wastage, which only add up to higher prices.

There is virtual no use made of even the available technology let alone leveraging technology in the entire supply chain. There is no quality control and testing mechanism for agricultural produce which reaches the consumer. The extent of use of fertilizers, hygiene aspects and whether they are safe for human consumption is not seen as anyone's responsibility.

Remedial Measures

The government has taken the first step, by allowing the FDI in multi-brand retailing. Despite the opposition by various vested groups, it is a step in the right direction (which are dealt at length in the section on foreign investment). This will address most of the structural issues, especially back end activities. This will lead to an organized development of the supply chain bring in transparency and the investment in development of cold chains and warehousing facilities. It will also lead to a technology infusion and a boost to the food processing industry. This will also ensure a larger participation of the private sector in the entire chain.

However, this step will require a critical enabler, that of, amending to the respective APMC act of the respective state governments. This amendment will allow farmers to sell directly to those interested in food processing, which allow private sector to set up back yards for picking up produce from the farmers. It will also open up the supply chain.

It is for this reason the central government has permitted the FDI subject to consent of state governments.

In recent times, there has been a biotechnology revolution and now is the time for 'food revolution' around food processing industry and this is the reason why this industry is known as a 'sunrise industry in view of its potentiality. India besides meeting its own food needs in terms of quality, diversified and value added products is also capable of expanding to global markets. The food market can never have a down turn like other markets as it is driven as a basic necessity and the demand will always be there for the same. The real challenge will be from the supply side or the ability to feed this growing market.

The food processing industry in India has only become to evolve and has the capability of becoming the fastest growing sector in the future, with tremendous opportunity and potential, but also at the same time a challenge in overcoming the structural issues, improvements in supply chain and transforming from an informal to a formal sector business activity.

6.11. AGRICULTURE POLICY: VISION 2020

Impressive strides attained by India in the agricultural front during the last three decades could be attributed to the several million small farming families that form the backbone of Indian agriculture and economy. Policy support, production strategies, public investment in infrastructure, research and extension for crop, livestock and fisheries have significantly helped to increase food production and its availability.

Despite the impressive growth and development, India is still home to the largest number of poor people of the world. India has high population pressure on land and other resources to meet its food and development needs. Due to this, natural resource, water and bio-diversity are under severe pressure.

Due to the increase in population and income growth, demand for extra food grains also increases. Besides this, significant increase in demand is happening in the supply of livestock, fish and horticultural products as well.

So, future increases in the production of cereals and non-cereal agricultural commodities will have to be essentially achieved through increases in productivity, as the possibilities of expansion of area and livestock population are minimal. To meet the projected demand in the year 2020, country must double per hectare yield of various crops.

Emerging Trends

The agriculture sector recorded satisfactory growth recently due to improved technology, irrigation, inputs and pricing policies. Livestock, poultry, fisheries and horticulture are surging ahead in production growth in recent years. Industrial and service sectors have expanded faster than agriculture sector resulting in declining share of agriculture in national accounts.

Despite all these structural changes, agriculture still remains a key sector by providing both employment and livelihood opportunities to more than 70 percent of the country's population. The contribution of small farmers to the national and household food security has been steadily increasing. The water availability for agricultural uses has reached a critical level and deserves urgent policy attention.

India is having high population pressure on land and other resources to meet its food and developmental needs. The natural resource base of land, water and bio-diversity is under severe and continuous pressure. Food demand challenges ahead are formidable and there are serious gaps in yield potential and technology transfer. Due to this the national average yields of most of the commodities are low.

Concentration was on enhanced production of a few commodities like rice and wheat, which could quickly contribute to increased total food and agricultural production. This resulted in considerable depletion of natural resources and the rainfed dry areas having maximum concentration of resource poor farmers remained ignored, aggravating problems of inequity and regional imbalances. This also led to a high concentration of malnourished people in these rainfed, low productive areas. This era also witnessed rapid loss of soil nutrients, agro-biodiversity including indigenous land races and breeds.

So, the agriculture policy must accelerate all-round development and economic viability of agriculture in comprehensive terms. Farmers must be provided the necessary support, encouragement and incentives. It must focus both on income and greater on-farm and off-farm job and livelihood opportunities.

Major Issues Concerning Agriculture

The following issues for sustainable agricultural development and poverty alleviation must be considered through appropriate policy intervention

- Pressure of population and demographic transition
- Degradation of resource base and water scarcity
- Investment in agriculture and impact on the poor
- Implication of globalization on the poor
- Science and technology and support to research
- Rapid urbanization
- Urbanization of poverty
- Deceleration in rural poverty reduction

In addressing the above issues, a policy statement on agriculture must take note of the following opportunities:

- Conservation of natural resources and protection of environment
- Untapped potential of soil and water resources, and farming systems
- Technology revolution especially in the areas of molecular biology, biotechnology; space technology, ecology and management
- Revolution in informatics and communication and the opportunity of linking farmers, extension workers and scientists with the national and international databases

Vision

The policy initiative towards the Agricultural sector must articulate a clear . vision on following few basic parameters

- Organization of agriculture
- Sustainability and natural resource management
- Institutional change
- Investment priorities
- Incentives
- Risk management

Challenges before the Agricultural sector

- Enhancing Yield of Major Crops
- Integrated nutrient management
- Preventing deceleration in total factor productivity
- Bridging Yield Gaps
- Water for Sustainable Food Security
- Emphasis on Rain fed Ecosystem
- Diversification of Agriculture and Value Addition
- Post-Harvest Management, Value Addition and Cost-Effectiveness
- Increased Investment in Agriculture and Infrastructures
- Fighting Poverty and Hunger
- Empowerment of Small Farmers
- Disaster Management
- Challenges posed by Globalization
- Harnessing potential of Information Technology.

CHAPTER

7

LAND REFORMS—ANOTHER PERSPECTIVE

7.1. LAND REFORMS—ASPECTS

Contemporary land reforms in India addressed aspects such as abolition of the 'Zamindari' system, land ceiling act, reforms in tenancy, rights of tenants, redistribution of surplus land and land consolidation. These have been a focus area right since Independence, largely within the state government domain. They continue to be a priority area with prevalence of a large number of small and marginal farmers and also a large number of landless farmers.

The objective of this chapter is to bring out a new perspective, which has become extremely relevant and also would require to be addressed on an equal important priority, in tandem with the requirements of the economy.

The total area covered under agriculture is around 60 per cent of the land area of India. Various articles mention a declining trend of area under agriculture, as a disturbing trend. The forest cover of India is around 20 per cent, unreported around 5 per cent and the remaining 13 per cent as mountains, rivers and also for non-agricultural purposes including industries. Thus, a total land area for industrial/service sector/infrastructure activities is only 11 per cent.

How much of GDP is accounted by various sectors of the economy in relation to the land use? Agriculture consumes up to 60 per cent of the land area whereas, contributes only 17 per cent of GDP, while industrial/service sector contribute over 80 per cent of GDP but has only 11 per cent of the land area. Growth in future will require large land area under non-agriculture for industries, service sector activities and also for building infrastructure.

This is not to undermine the importance of agricultural sector in India.The improving the agricultural productivity, rather than the area under agriculture. This sector is important for food security and also for meeting the requirements of a growing population , however , at the same time it cannot become a driver of growth. This has to be driven around a widened and diversified manufacturing and industrial base, which will require freeing up of land under agriculture . At least there should be political acceptability of this fact.

7.2 LAND ACQUISITION ACT

The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (also Land Acquisition Act, 2013) is an Act of Indian Parliament that regulates land acquisition and lays down the procedure and rules for granting compensation, rehabilitation and resettlement to the affected persons in India. The Act has provisions to provide fair compensation to those whose land is taken away, brings transparency to the process of acquisition of land co set up factories or buildings, infrastructural projects and assures rehabilitation of those affected. The Act establishes regulations for land acquisition as a part of India's massive industrialisation drive driven by public-private partnership. The Act replaced the Land Acquisition Act, 1894, a nearly 120-year-old law enacted during British rule.

The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 was introduced in Lok Sabha on 7 September 2011. The bill was then passed by it on 29 August 2013 and by Rajya Sabha on 4 September 2013. The bill then received the assent of the President of India, Pranab Mukherjee on 27 September 2013. The Act came into force from 1 January 2014.

The aims and objectives of the Act include:

- To ensure, in consultation with institutions of local self-government and Gram Sabhas established under the Constitution of India, a humane, participative, informed and transparent process for land acquisition for industrialisation, development of essential infrastructural facilities and urbanisation with the least disturbance to the owners of the land and other affected families
- Provide just and fair compensation to the affected families whose land has been acquired or proposed to be acquired or are affected by such acquisition
- Make adequate provisions for such affected persons for their rehabilitation and resettlement
- Ensure that the cumulative outcome of compulsory acquisition should be that affected persons become partners in development leading to an improvement in their post acquisition social and economic status and for matters connected therewith or incidental thereto.

7.3 NATIONAL LAND USE POLICY—EFFICIENCY IN THE USE OF LAND

Land is a scarce resource for the country and every effort should be made to have 'land efficiency' either in agriculture or in any other activity. It should be appropriate to have at central government level a 'National Land Use Policy, and within the broad umbrella, state government could have their respective land use policies. This would result in better utilization of land, depending on the priorities of government and a balance between compering usages of land based on efficiency and productivity. Their importance also lies in the fact that this policy should then become the base of land acquisition policy and nor on the other way around, of first acquiring the land and then talk about land use policy.

7.4 LEASING OF AGRICULTURAL LAND

At present, leasing out of land is only for non-agricukural land and agricultural land can only be used for self-cultivation or could be sold but present laws do not allow leasing of land and giving out agricultural land on rent. Farmers who cannot undertake farming on their entire land area, or those who are not interested can rent out their land to those who are interested or those who do not have land. Ihis could help increasing both production as well as productivity and also lead a way to make agriculture, a commercial venture which presently is by and large a livelihood activity.

Widespread prohibition of land leasing, prevents healthy rural-urban migration, as villagers are unable to lease their land, and often have to leave land untilled or leave a family member behind to work on land. Lifting these restrictions can help landless, acquire land from those who migrate, even while it will allow, landowners with education and skills to move to industry or services.

Compulsory registration of leaseholds and of the owners title would provide tenants and landowners a protection. Of course, for such a leasing market to take off, owners should be confident that long-term tenancy would not lead to their losing ownership. With a vibrant leasing marker, and a clear title, there should be a little reason for not strengthening their ownership rights.

This lease hold mechanism can also be considered for large projects and also infrastructure, which would obviate the need for 'land acquisition', and by pass many issues such as cost, compensation to be paid, resettlement and other such issues. It will also keep capital costs down of large projects and make land available quickly for projects.

7.5 MOVING FROM PRESUMPTIVE TO CONCLUSIVE TITLE

Economic Survey 2012-2013, mentions 'The National Land Records Modernization Pro- gram' (NLRMP) which started during 2008 aimed at updating and digitizing land records by the end of the Twelfth Plan. Eventually, the intent is to move from 'presumptive title', where registration of a title does not imply the owners title is legally valid, to 'conclusive title', where it does. Digitization will help in lowering the costs of land transactions, while conclusive title will eliminate legal uncertainty and the requirement to use the government as an intermediary for acquiring land so as to 'cleanse' the title.

This is a time-consuming activity requiring active engagement of the state governments and leveraging technology and would need to be completed in a time-bound manner. Once completed, it would bring in transparency in land dealings, allow for fair pricing and development of an organized market.

7.6 COMPUTERIZATION OF LAND RECORDS

Majority of the issues encountered by the people in exercising control over land, is because of, complex land record system and its overwhelming control by 'lower' level bureaucracy. There is a need to make land records accessible and understood by the common man living in the villages.

It is unfortunate that the system of land administration and management, despite its long history in India, has remained neglected in most parts of the country particularly after development agenda became the major focus of the government and administration in the recent few decades. The regular survey and the settlement operations started after the independence were abandoned, under a mistaken notion, that this whole exercise aimed at periodical revision of the land revenue, which had no place in a democratic polity, particularly because there were other major sources of revenue.

It was little realized, that proper and scientifically updated land records, are not only critical for agricultural development, but also are the backbone of developmental effort. Manual updating and physical verification of land records before their computerization is a must. There should be a National Authority for Computerization of Land Records (NACLR) at the Government of India level. In most states, the work is being handled by the Directorate of Land Records and Surveys who are not able to cope up with the task on account of their multiple responsibilities and this acquires low priority. There is thus a need that at the state level, there should be a dedicated institution in the form of the State Authority for Computerization of Land Records (SACLR) similar to the NACLR to exclusively deal with the computerization of land records. Both should work in tandem and complete the process in a time-bound period.

Such digital land records would be useful in creating a national portal of land records and furthering land reforms being attempted since Independence.

7.7 BEYOND LAND AND LAND RIGHTS

There are few more contentious and complex issues in India today than those dealing with land and land rights. Rather than focusing on land as an issue in isolation, a continuum of rights has to be established regarding land, especially in the areas of access and reform, law and enforcement, use planning and management, administration and information and other cross-cutting issues.

The new and existing initiatives on land should be guided by the core values of pro-poor, conflict resolution, democratic governance, equity, justice, as well as gender sensitivity. Although land policy development is taking place, it generally lacks a human rights framework. Land is not simply a resource for one human right. While some rights have been recently established in the legal framework (such as work, education, food), they can all be adversely affected by access—or lack of access—to land, and the legal implications of it for a broad range of human rights is obvious.

Resolving land issues and land reforms largely fall in domain of the state governments, as a result, progress and priority accorded to this sensitive issue has not been uniform across different states. It has not got the desired attention because of'vested' interest group, nexus between 'land mafias' and political parties. There is a need to rise above them, impart a decisive thrust and a resolve, of implementing land reforms, in the national interests and also for the benefit of a large cross section of people, the land less and the poor.

7.8 HURDLES IN LAND REFORMS IN INDIA.

The efforts towards land reform are tardy and slow in India. Following reasons can be attributed for poor progress of land reforms.

1. **Absence of Reliable Records:** The absence of reliable and updated land records is the biggest hurdle for the slow progress of land reforms. The reporting system is weak and irregular and there has been no systematic programme review. Therefore, it is not possible to identify obstacles in the way of implementation of land reform.
2. **Inadequate Financial Support:** Lack of financial support is yet another obstacle in the way of land reforms. There is a lack of adequate budget allocation for the purpose of land reforms. This is largely responsible for the poor results of land reform measures.
3. **Absence of Integrated Approach:** Land reform programmes has been viewed in isolation from the mainstream of economic development of the country. The lack of integrated approach towards the abolition of intermediary tenures, tenancy reforms and ceiling of holdings etc. lack proper coordination. This contributes for the failure of land reforms efforts.
4. **Improper Implementation:** The responsibilities for the implementation of land reforms are vested with the revenue administration in the states. Since high priority is allotted for the maintenance of public order, collection of land revenue and other regulatory functions, land reforms get least attention.
5. **Legal Challenges:** Legal problems also pose a hurdle in the way of implementation of land reforms in the country. Loopholes in the laws and prolonged litigation derail the process of land reforms. The laws related to land reforms are defective in many ways.
6. **Lack of awareness and pressure from Below:** A Task Force of Planning Commission had once observed that, "except in few scattered and localized pockets, practically all over the country the poor peasants and agricultural workers are passive, un-organized and non co-operative." The beneficiaries of land reforms do not constitute an identifiable social or economic group. As a result, there has been no pressure from below for its effective implementation.
7. **Lack of Political Will:** There is a lack of political will in the enactment of progressive measures and their efficient implementation. Such strong measures require strong political decisions and effective political support, direction and control. But, political will is not forthcoming due to the existence of democratic political power structure of the country.
8. **Indifferent Attitude of the Administration:** The whole responsibility of the implementation of land reforms rests with the revenue department of the states. But, the attitude of the administrative staff is quite indifferent and their behavior is cold. Along with this, the village functionaries are largely under the influence of landlords.

CHAPTER

8

SALIENT FEATURES— 'NEW INDIA'

8.1 NEW INDIA

In the recent past, there has been a rapid transformation in the Indian Economy and certain new features have emerged, old perceptions and outlook of the Indian Economy has changed yielding a different perspective of India known as New India and are characterized by the following features:

- India for a long period was believed to be a third world developing country and the first feature is the change in the status from developing, third world country to that of an emerging economy', which is an economy with a great potential for accelerating growth that offers investment opportunities. Its huge population is not seen as a liability, but is seen as source of demand and establishes India as the second largest potential market in the world after China.
- Various international reports talk of the future decades belonging to the BRICS economies comprising of Brazil, Russia, India China and South Africa. More recently, Indonesia, South Korea, Vietnam and Taiwan have also been provided the same status and could witness a gradual shift in the global economy.
- Secondly, change in the status from a third world economy to a potential economy' and is significant as it questions the supremacy today of the first world countries. It also implies larger say in global matters, sharing at global platforms and global recognition of the New India.
- India is widely believed to become a 'knowledge economy' as it already has millions of knowledge hubs and with the government having set up the Knowledge Commission of India for developing strategies for global knowledge to reside in the country.
- India is being projected as a 'young economy' with over 50 per cent of its population under 25 years of age or 70 per cent of the population under 35 years, a feature which makes India unique or the only country in the world . This is in contrast to the global phenomenon of ageing work force, increased longevity leading to large proportion of non-working to working population globally and increased investment in social security for the ageing population . India can also reap the benefits of favourable demographic dividends through extensive and intensive education and stress on skill development.

- India is being now referred to as a 'market economy' where economic decisions of production and pricing are largely through market forces of demand and supply, rather than the government.

  At present, pricing of food grains (minimum support price), retail petro goods such as LPG, kerosene and diesel (administered price mechanism), fertilizers (group retention price scheme) and utilities are regulated by government and pricing of the remaining products are market determined. Prices determined through the market are said to be efficient'.

The aforementioned are some of the emerging features of lndia known as the 'New India'. Two aspects need to be remembered in mind. First, the global perceptions having changed about India gives a new perspective. Secondly, they reflect the 'advantages' for India but still need harnessing through education and skill formation to be converted as opportunities, otherwise, India from a position of strength in these advantages can be taken over by other emerging economies.

However, then in our zeal and enthusiasm we should not forget that there is also a Real India which one has referred to in the earlier sections, too which can gloss New India.

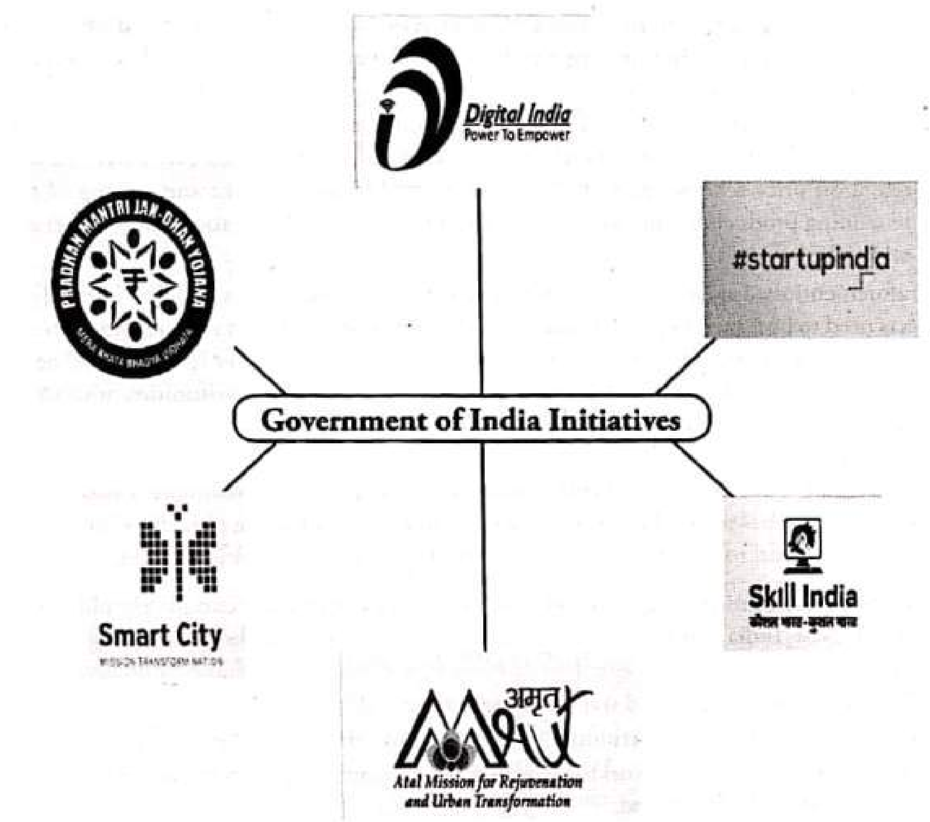
It may be useful to just revisit the Real India of having the following features:

- Large population residing in 6 lakh odd villages in the country completely oblivious of the New India, under abject absolute poverty, undernourished and living under pitiable conditions.
- Traditional, subsistence and stagnating agriculture sector.
- Lack of employment opportunities in the economy with large-scale unemployment.
- A large proportion of the workforce of over 90 per cent engaged in the informal sector in casual work for livelihood.
- While sectoral composition of GDP has altered towards service sector but economic dependence continues to be on the agriculture sector.
- The increased growth of recent times as well as benefits of reforms of not having touched them or an exclusive rather than inclusive growth.
- Completely oblivious of the fact that there is an international perspective of a New India.

The most notable aspect of the Real India is die large number of population which continues to live below absolute poverty levels and that India continues to be home to the largest number of poor people in the world. While we can draw comfort of the 'New India *we should not* forget the 'Real India' which is where the soul of the country resides. The biggest challenge for the government and the economy is to integrate Real with New India.

8.2 NEW PHILOSOPHIES

The transpose of Indian economy strengthened up with introduction of the following strategic reforms through policy framework since 2014 as government initiatives:



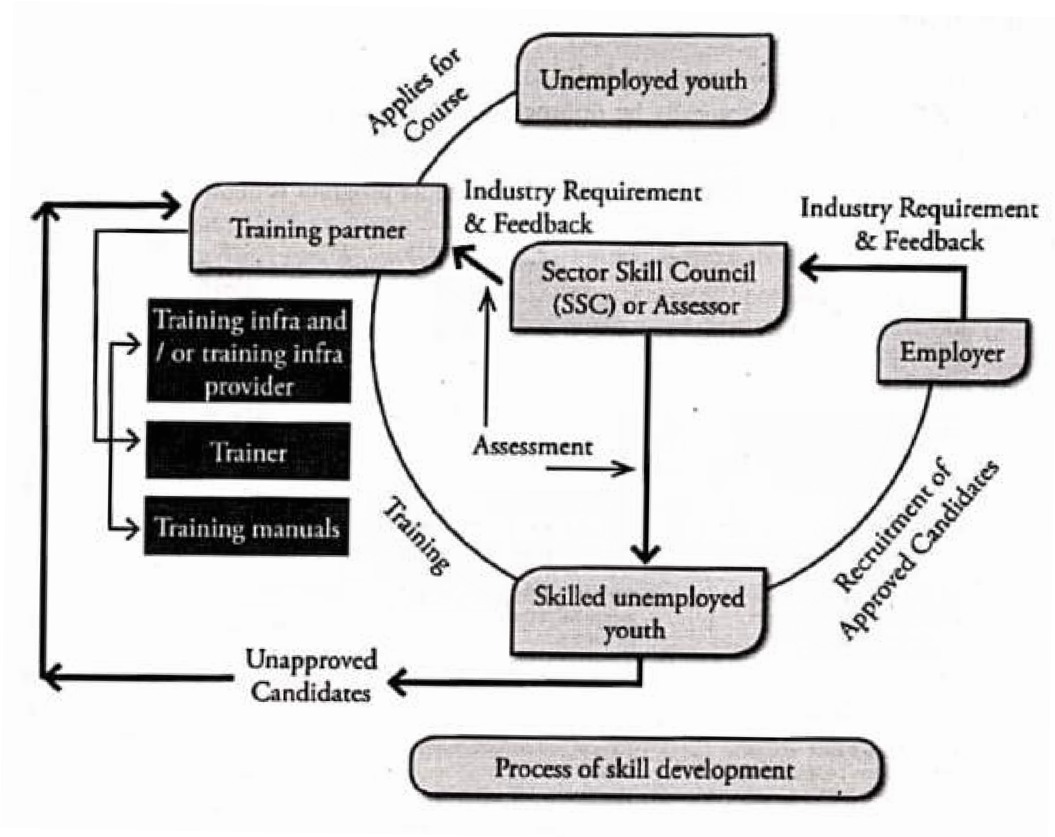
The various government initiatives contributing to creation of **New India through New Philosophies** leading to transparent governance and marching towards the pinnacle of economic growth has been highlighted as follows:

Skill India

Skill India is a campaign launched by hon'ble Prime Minister of India on 15th July 2015 with an objective of training over 40 crore people in the country under different skills by 2022. Thus, the PM looks forward to imbibe skill(s) as desired by a person. This is done by organising vocational training and / or courses which are vocational like ITI to uplift entrepreneurial spirit in the people by acquiring these skills.

The various initiatives undertaken:

- National Skill Development Mission
- National Policy for Skill Development and Entrepreneurship, 2015
- Pradhan Mantri Kaushal Viaks Yoina (PMKVY)
- Rural India Skill
- Skill Loan scheme



249 Training Partners, 3,222 Training Centers, 55,70,476 People Trained, 23,88,009 People Placed.

Startup India

An action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage start ups with jobs creation. The campaign was first announced by Prime Minister Narendra Modi in his 15 August, 2015 address from the Red Fort.

Stand up India

This scheme aims at promoting entrepreneurship among women and scheduled castes and tribes. The scheme is anchored by Ministry of Finance. The Stand-Up India Scheme facilitates bank loans between ₹10 lakh and ₹1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise.

Digital India

An initiative of the Government of India to ensure that government services are made available to citizens electronically by improving online infrastructure and by increasing internet connectivity. It was launched on 1 July 2015 by Prime Minister Narendra Modi.

The bird eye view of various aspects of Digital India program is highlighted with the aid of following pictorial presentation.

Digital Infrastructure as a Utility to Every Citizen

Availability of high speed internet as a core ut*ty for delivery of services to citizens

Cradte to grave digital identity that is unique life tong, online and authenticate to every citizen

Mobile phone & Dank account enabling citizen participation tn digital & financial space

Easy access to a Common Service Centre

» Shareable private space on a put»c cloud

» Safe and secure cyber-space

Governance & Services on Demand

Seamlessly integrated services across departments or jurisdictions

Availability of services in real time from online & mottle platforms

All citizen entitlements to De portable and available on the cloud

Digitally transformed services for improving ease of doing business

Making financial transactions electronic & cashless

Leveraging Geospatial information Systems (GiS) tor decision support systems & development

Digital Empowerment of Citizens

Universal digital literacy

universally accessible digital resources

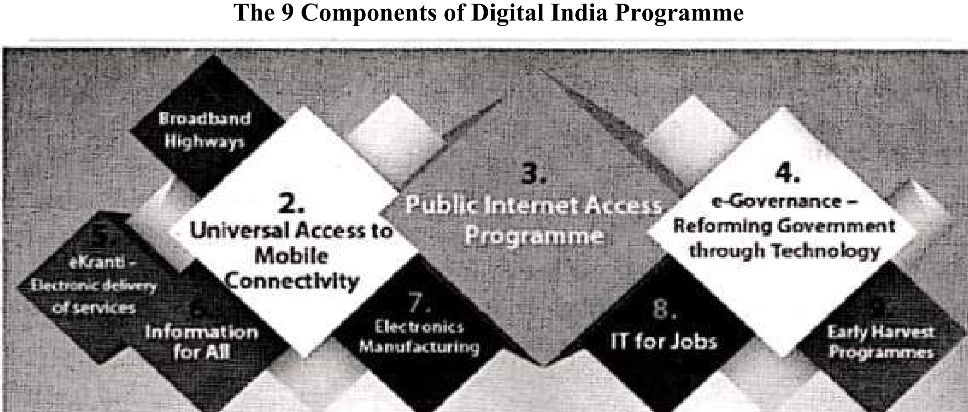
Availability of digital resources / services m Indian languages

Collaborative digital platforms tor participate governance

» Citizens not required to physically submit Govt documents / certificates

The diagram represents the key components that constitutes the core of Digital India Programme

The 9 Components of Digital India Programme



So it seems important to focus on the "mother and child," involving maternal health and early life interventions. With increased devolution of resources, states will need to expand their capacity and improve the efficiency of service delivery by shifting their focus from outlays to outcomes, and to learn by monitoring, innovating, and even erring.

Improving service delivery in the wake of the Fourteenth Finance Commission requires an evolution in the relative roles of the Centre and the states:

- ♦ Centre should focus on improving policies, strengthening regulatory institutions, and facilitating cooperative and competitive federalism.
- ♦ States should mobilize around implementing programs and schemes to ensure better service delivery.

3. The dynamic sectors such as services and manufacturing tend to grab public attention, India cannot afford to neglect its agriculture. After all, nearly 42 per cent of Indian households derive the bulk of their income from farming. Despite the many challenges, there remains considerable room for optimism.

States that perform well arc increasingly becoming "models and magnets." They are magnets because they attract resources, talent and technology away from the lagging states, forcing change via the channel of "exit", Optimism is reinforced by events of the last decade that have re-affirmed the dictum that good economics is good politics. Thus, for now but not indefinitely, the sweet spot for India is still beckoning.

8.4 EIGHT INTERESTING FACTS ABOUT INDIA

Against the backdrop of robust macro-economic stability, the Indian Economy was marked by two major domestic policy developments, the passage of the Constitutional amendment, paving the way for implementing the transformational Goods and Services Tax (GST), and the action to demonetise the two highest denomination notes.

The GST will create a common Indian market, improve tax compliance and governance, and boost investment and growth; it is also a bold new experiment in the governance of India's cooperative federalism. Demonetisation has had short-term costs but holds the potential for longterm benefits. Follow-up actions to minimize the costs and maximise the benefits include: fast, demand-driven, remonetisation; further tax reforms, including bringing land and real estate into the GST, reducing tax rates and stamp duties; and acting to allay anxieties about over-zealous tax administration.

Looking further ahead, societal shifts in ideas and narratives will be needed to overcome three long-standing meta-challengcs: inefficient redistribution, ambivalence about the private sector and property rights, and improving but still-challenged state capacity. In the aftermath of demonetisation, and at a time of gathering gloom about globalisation, articulating and embracing those ideational shifts will be critical to ensuring that India's sweet spot is enduring not evanescent.

In this challenging scenario, when India is poising to gain the momentum with GST, Demonetisation, and other financial reforms after the long year of policy paralysis, India, however, dealing with some interesting facts regarding its Economy. Here are the eight interesting facts about India that reflect on an economy in transition.

1. Indians on the Move

New estimates based on railway passenger traffic data reveal annual work-related migration of about 9 million people, almost double what the 2011 Census suggests.

2. Biases in Perception

China's credit rating was upgraded from A+ to AA- in December 2010 while India's has remained unchanged at BBB-. From 2009 to 2015, China's credit-to-GDP soared from about 142 percent to 205 percent and its growth decelerated.

In the same period, India's Credit-to-GDP soared from about 70 percent to 75 percent and its growth is well above China. This contrast with India's indicators is striking.

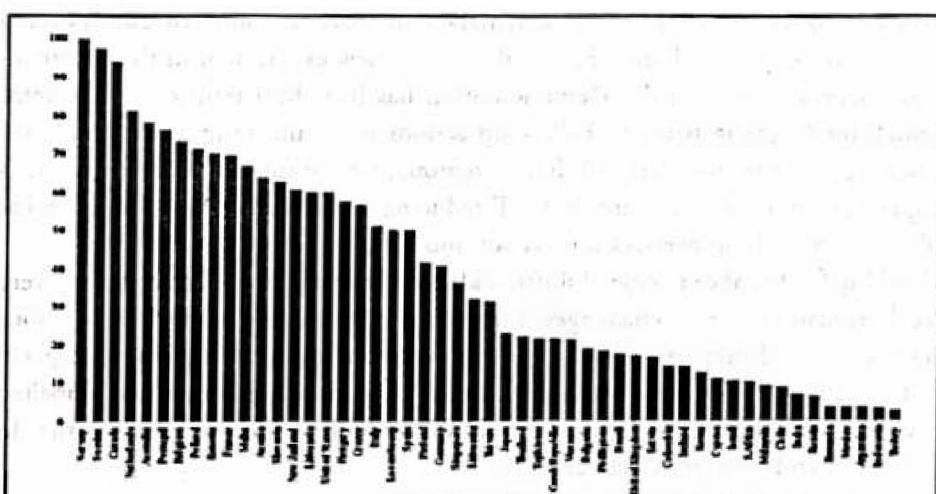
3. New Evidence on Weak Targeting of Social Programs

Welfare spending in India suffers from misallocation: the districts with the most poor are the ones that suffer from the greatest shortfall of funds in social programs. The districts accounting for the poorest 40% receive 29% of the total funding.

4. Political Democracy but Fiscal Democracy

India has 7 taxpayers for every 100 voters ranking us 13th amongst 18 of our democratic G-20 peers.

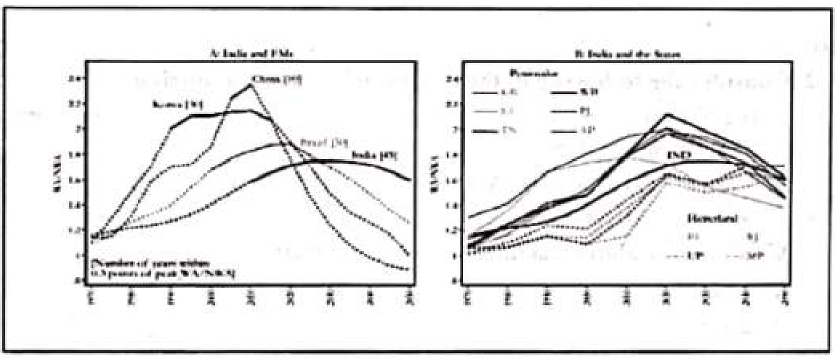
Taxpayers per 100 Voters



5 India's Distinctive Demographic Dividend

India's share of working age to non-working age population will peak later and at a lower level than that for other countries but last longer. The peak of the growth boost due to the demographic dividend is fast approaching, with peninsular states peaking soon and the hinterland states peaking much later.

Demographic Dividend in Indian States and Other Emerging Economies



6. India Trades More than China and a Lot Within Itself

.As of 2011, India's openness - measured as the ratio of trade in goods and services to GDP has far overtaken China's, a country famed for using trade as an engine of growth. India's internal trade to GDP is also comparable to that of other large countries and very different from the caricature of a barrier-riddled economy.

7. Divergence within India, Big Time

Spatial dispersion in income is still rising in India in the last decade (2004-14), unlike the rest of the world and even China. That is, despite more porous borders within India than between countries internationally, the forces of "convergence" have been elusive.

8. Property Tax Potential Unexploited

Evidence from satellite data indicates that Bengaluru and Jaipur collect only between 5% to 20% of their potential property taxes.

CHAPTER

9

INDUSTRIAL SECTOR AND LIBERALIZATION

9.1 ROLE OF INDUSTRY IN AN ECONOMY

Previously, we have addressed the agricultural sector and its importance to the economy. The industrial sector plays an equally important role as it accelerates growth of economies, provides self-reliance, employment, creates a demand for the agricultural produce and creates 'ripple effect' (similar to throwing a pebble in a pond and you can see the waves moving outwards).

Industries can create townships around them thereby creating indirect employment (Jamshedpur, Rourkela, Bhilai are a few to mention here). Industrialization is all about focusing on the industries allowing them to meet the requirements of the economy besides providing linkages to the agricultural sector and also employment opportunities in the economy. This can be achieved only through higher industrial growth which can provide momentum to overall growth and also make it sustainable in future.

There has been a missing link in India of the industrial/manufacturing sector, despite policies and governmental focus, not playing its role of creating linkages with agricultural sector and also creating desired employment opportunities. The services sector becoming a major contributor to output rather than the manufacturing or the industrial sector. Such sectoral composition in favour of services does happen but once industrial sector has achieved a level of maturity emerged globally competitive and the service sector supporting higher levels of growth of economies, which has not happened in India.

Let us understand industry a bit more closely. It implies conversion of any raw material into a finished good or a manufacturing activity producing wide range of goods which is required in the economy. Industries can also be categorized across the following features:

1. **Products—**basic industries (steel, cement), capital good industries (manufacturing of plant and machineries). Intermediate goods industries (manufacture of dyes, tools, etc.,) and consumer goods industries (manufacture of cars, scooters, fridges, TV, etc.,). The consumer goods industries are also known as 'White Goods Industry'.
2. **Ownership—**government (public sector), private and foreign (private sector), public and private sector (joint sector).
3. **Scale of investment in plant and machinery—**large industries (investment in plant and machinery of over ₹10 crores), medium industries (T 1-10 crores), small-scale industries (₹10 lakh to ₹1 crores), village and cottage industries (less than ₹10 lakh).

4. **Capital/Labour intensity—**capital intensive industries (larger capital intensive in relation to labour) and labour intensive industries (larger intensity of labour in relation to capital).

Economies desirous of pushing up rates of growth of their economy, would need industrial goods for development and shift focus on setting up basic and capital goods industries commonly known as initiation of the process of industrialization.

India started its journey of industrialization during the second five-year plan (1955/56-60/61). The pattern of industrialization in India is also known as the 'Mahalanobis Model' (an Indian scientist) with the setting up of basic and capital goods industries by the government directly, strongly influenced by the Russian model of state-run industries.

9.2 PUBLIC SECTOR IN INDIA

One may ask why' public sector was chosen for industrialization. Post-independence India was deeply influenced by the Soviet Union which had state-run industries and was an era of'socialism' with large role of the government in production of goods and services. 'Capitalism' was associated with exploitative tendencies and having vested interest.

Immediately after Independence, the private sector was virtually non-existent in India and whatever existed did not have the maturity, resources, technology, etc., to shoulder could get the responsibility of the industrialization. The government, at its own level technology and other such support from other countries which may not have been possible otherwise.

Even if it is presumed that the task was entrusted to the then private sector, industrialization would have required huge resources, technology support and well-trained manpower, which were not available within the then private sector. Basic/capital goods industries have long gestation period (time between investment and commercial production), high break-even point (long period before profits accrue). These could be seen as natural dis-incentives for the private sector at that time.

Setting up public sector in India for industrialization was a conscious, well thought out and deliberate decision given the magnitude of responsibility and the need for moving on a pre-determined path of industrialization. The role of public sector in India was clearly cut-out and set up with the following objectives:

1. Create significant 'capacities' (ability to produce) in basic and capital goods.
2. Achieve self-reliance in core areas and also facilitate import substitution.
3. Attain commanding heights of the economy and become a driver for the industrial growth and a catalyst' in accelerating overall growth of the economy.
4. Adopt pro-labour technology to create employment opportunities.
5. Setting up industries in backward/tribal areas for their integration with the rest of the economy and also for better regional development.
6. Provide for development of the private sector.
7. Set up self-contained townships covering residential, schools, hospitals, transport, etc.
8. Public sector to have regulated prices by the government given their importance to the economy and not creating an upward spiral in the prices of basic goods.

Six decades since setting up of public sector, can it be said they have delivered or achieved the objectives?

1. Broadly they have delivered in creating significant capacities ' in all core areas and having achieved self-reliance in all kinds of industrial goods required in the economy .
2. Today , India can safely claim that it is not dependent on any country for its requirement of industrial goods largely due to the public sector.
3. They have provided gainful employment.
4. It has also facilitated evolution of the private sector and also been responsible for the levels of industrialization and industrial maturity reached.
5. They can also be credited for making the industrial sector a driver of growth and lifting overall rates of growth.

They have had their own set of issues too, but many of them cannot be directly attributed to them, issues of capacity utilization, technology-related, time and cost overruns but most importantly, many public sector enterprises are loss making. Of the two hundred twenty odd PSU one third are loss making with high levels of accumulated losses.

However, can we really blame the public sector for being loss making? Public sector was set up with socio-welfare considerations provided the objectives of industrialization, self-reliance, employment generation, development of backward/tribal areas. More fundamentally, government ownership and profits do not go together. Profit is a function of pure businesses and public sector by virtue of government being the owner cannot function as a pure business.

Similarly, to comment on the efficiency levels of public sector is incorrect as efficiency levels can be envisioned amongst the comparables'. One can comment on who is more efficient amongst say, Pepsi and Coke. However, all public sectors are operating as monopolies in terms of their scale of operations.

Whom would you compare ONGC or BHEL or SAIL with? This is true for all public sectors. It is not to say that public sector is efficient. The expression conveyed here is that it is not possible to comment on efficiency levels of public sector based on efficiency levels of the private sector.

Further comparison of the public sector is technically incorrect as private sector operates as a commercial venture with an explicit profit motive unlike the public sector which also have social objectives to fulfill . Public sector has not to be envisioned from the perspective of profit-making or efficiency levels but in the larger context of the objectives which are assigned to them when they were set up.

We would revisit public sector a bit later after developing an understanding of the industrial policies which have defined the role of public sector and also path of industrialization.

9.3 INDUSTRIAL POLICIES

The role of public and private sector, overall direction to industrial growth and the industrialization has been guided by various industrial policies of the government that has been announced from time-to-time in view of changing priorities starting from 1948 onwards.

However, clearly there are some landmark policies such as the Industrial Policy of 1956 which has given the present character of public sector. The other is the Industrial

Policy of 1991 which is hailed as the usherer of economic reforms in India. It may not be required to go into each and every industrial policy since 1948, however, it would be suffice to see the salient key features of all policies pre-1991 which would facilitate a better understanding of the Industrial Policy of 1991 and the changes brought about in the right context.

Industrial Policies (pre-1991) are as follows:

(1) The industrial sector was highly regulated, bureaucratic controls and subject to strict licensing system by the government with the need for a licence for any industrial activity, besides the need for compulsory registration before commencing the business.

(2) The policy of 1956 brought the role of public sector sharply by reserving as many as eighteen areas exclusively for the public sector. In certain areas, private sector was allowed but subject to the requirement of licence and registration. However, public sector could also be set up in these areas if deemed necessary by the Government.

(3) Thus, most critical and important areas of oil, power, heavy equipments, telecom, etc., were exclusively in the domain of public sector.

(4) Bigger private companies were highly regulated through the monopolies and restrictive trade practices (MRTP) act and known as MRTP companies and similarly foreign companies were regulated through the Foreign Exchange Regulation Act (FERA) and known as FERA companies.

(5) It was believed by the government that as a company grows in size it can resort to monopolistic and exploitative tendencies. As a result even after a licence and commencing of business, the private sector had to seek approval from the government for capacity expansion, diversification and other such business decisions.

(6) The earlier policies with a view to give public sector commanding heights and control over key industries/services also paved the way for nationalization or take over from private sector. Thus, coal mining, banking, insurance, textile mills (sick industries were taken over to protect employment) earlier in the private sector, were nationalized.

(7) The pre-1991 policies had price regulation for industrial goods with prices of steel, cement and other basic goods controlled by the government.

(8) Each and every policy had stressed on the mixed economy character of the economy which is co-existence of the public and private sector but in reality it was heavily tilted towards the public sector.

To summarize, the pre-1991 policies were highly regulated and regimented oriented, near dominance of the public sector and a very limited space but with bureaucratic control over private sector companies.

9.4 NEW ECONOMIC POLICY 1991

As mentioned previously, this policy is known to be the beginning of economic reforms in India. Though reforms were there before this also but they were as changes being effected but not seen as reforms made as explicit in the policy of 1991. It is also known as the New Industrial Policy or the New Economic Policy, and also known as the policy of liberalization or end of licence/permit raj or even end of bureaucratic control over functioning of the industrial sector, particularly private sector.

The policy aimed at greater freedom for doing businesses outside the government control, reduced the role for public sector, de-reserving areas and larger role for the private sector, doing away with MRTP/FERA act and dispensing with MRTP and FERA companies. This lifted all bureaucratic control on their functioning. Price regulation paved a way to the market determined prices for most of the industrial goods. The policy emphasized on greater competition and level playing field for all players.

It advocated liberal foreign investment policies to attract foreign investment in the country (more about this in upcoming sections). Broadly, the New Economic Policy or the Industrial Policy 1991 has three broad areas which are as follows:

1) Liberalization.
2) Public sector.
3) Foreign investment.

Liberalization

Liberalization as a policy basically dispensed with the earlier licensing and the registration system providing the freedom to private sector to set up industries without either the need for a licence or a need for registration. De-licensing was the most important aspect of the policy of liberalization. Two areas, atomic energy and railways would not be open for private sector participation. Even while doing away with the licensing system certain critical areas still require a licence but opened up for private sector participation which are as follows:

1) Any kind of fire arms and ammunition, explosives.
2) Drugs and pharmaceuticals.
3) Coal mining.
4) Defence equipments.
5) All kinds of wines, cigarettes and spirits.
6) Hazardous chemicals.

Any environment degrading and polluting industries would not require a licence but an administrative clearance from the respective ministries of central/state government before investment. Further, as a part of liberalization there was now no restrictions on capacity expansion and diversification by the private companies. The policy thus allowed the private sector to operate as pure businesses with minimal bureaucratic control and be driven and expand operations largely by demands in the markets and opportunities available.

Why was this done? It is important to understand that even before reforms, despite the regulations, the private sector struggled, operated within the constraints of the government but survived and was not completely eclipsed by the public sector. The changing economic scenario required a different orientation focused on efficiency, productivity and profitability.

A time had come to acknowledge maturity of the private sector, their resilience, their fighting spirit and that they could now share and shoulder larger responsibilities. In fact, on the contrary, the regulations had given them the maturity of operating in a constrained environment.

It also distinguished a fundamental shift in the mindset of the government of the clear distinction between production and governance, and a separate role for both the private sector as well as the government. It also marked the shifting of responsibility of incremental investment and growth to the private sector, leaving the government freer to concentrate on addressing the larger social issues of the economy and better governance . It was also an acknowledgement of the objective of a mixed economy . It should not be seen as undermining the importance of the public sector but giving due credibility to the private sector in the economy.

Public Sector and Economic Reforms

It is widely perceived that the policy of 1991 has clipped the wings of the public sector by opening the areas which are reserved exclusively for public sector to private sector. This is not from a negative sense, but there would be a larger role for the private sector in the areas which were reserved earlier for the public sector.

The policy of 1991 reduced the areas reserved for public sector from 18 to 5 and subsequently in later years more sectors were thrown open for private sector participation, except for atomic energy, railways and those requiring a licence. Further, no new public sector would be set up and investment limited to existing companies and that to from the internal accruals or accumulated profits of public sector. No fresh budgetary allocations would be made in public sector except for loss-making and 'stressed' public sector companies.

There was a requirement for greater professional character by the public sector. Appointments to the Board of Directors of public sector would only be of professionals . The Chief Executives of public sector were made accountable for their performance . Performing public sectors were to be given greater autonomy in their day-to-day operations. First through the concept of execution of Memorandum of Understanding of commitments of performance and operational flexibility. Later giving status of Maharatna , Navrattan and Mininavrattan , of varying degree of taking investment decisions to well run PSUs.

The policy has taken a complete 'U' turn from the previous policies, in announcing that there would be no further nationalization of the private sector unless there are compelling exceptional circumstances.

On the contrary, the policy for the first time, talked of disinvestment and privatization of public sector. The third element of the New Economic Policy was the reforms in foreign investment which will be discussed in a later section.

Disinvestment and Privatization

Both disinvestment as well as privatization is the reverse of investment. For setting up public sector, the government had to invest by subscribing in shares of the new public sector from budgetary resources. Thus, disinvestment and privatization both imply 'selling of shares of public sector by the government'. We all know that shares are traded at the stock market and the traded value of each share is decided by the buyers and the sellers in the market.

If buyers of shares of a particular company are more than the sellers of the same, the traded value of the shares would be at a premium' or otherwise it would be at a 'discount'. Thus, in both the cases of disinvestment as well as privatization, selling of shares of public sector would be at a premium.

To distinguish between both, ownership of companies would need to be understood. Who is the owner of a company? He/She is a person who holds majority of the shares, that is, 51 per cent. Technically, ownership is with the person holding a minimum 51 per cent shares, or even a person enjoying support of 51 per cent shareholders. This can be explained as: If you are holding 10 per cent shares of a company and you are able to convince 41 per cent shareholders to support, then you will become the owner of the company (similar as governments are formed). Hence, disinvestment is defined as selling of shares of public sector at a premium, to the public, by the government without losing ownership of the public sector. The objective here is to raise resources for the government. These shares are sold to the public as the preferred and first option of making them partners in public sector.

We have talked about ownership earlier. At a still deeper level ownership of businesses being done, as companies having shares, is always with shareholders and management is with the person having support of 51% of the shareholders. Privatization is transferring management control to the private sector by selling 51 per cent shares of public sector to the private sector or even lesser but transferring management control to a group or to a company. The objective is not so much to raise resources in as much as transferring management control from the government to the private company. It is not a logical extension of disinvestment. That is, having disinvested in a public sector does not necessarily imply that it is going to be privatized.

Why did the policy of 1991 favored privatization? The policy took a mature decision in seeking privatization of the public sector for the following reasons:

(1) The public sector as mentioned earlier had broadly delivered in terms of creating significant capacities in key areas such as self-reliance, substituting for import of industrial goods, created the platform for further industrialization and industrial growth. There is a requirement now to moving into higher gears and look at issues such as developing greater capabilities, improving productivity and efficiency, sharp focus on profitability.
(2) The policy of liberalization has opened the gates for liberal private sector investment in key areas and competition would only intensify. This requires the public sector to now run as pure businesses, as a commercial venture which is possible solely in private sector. As a public sector, there will always be a limitation of not being to operate as a pure business in the same way as their counter pans in the private sector.
(3) The role of the government as a producer of industrial goods is always interim, short-term and never permanent. It can be permanent producer only of those where direct welfare of people is affected like railways or in the national interest like atomic energy.
(4) It is also about the mindset of the government of the maturity of the private sector and their ability to deliver the requirements better than the government.
(5) As a government, it has larger responsibilities of providing good and efficient governance, creating enabled environment, addressing the welfare of the masses, which are far more important than running public sector. Especially, when today there is a maturity and competence in the private sector.
(6) Why privatize a profit making public sector? Privatization is not about profit making but for a larger reason of whether it will continue to remain profitable in future with intense and fierce competition.

(7) Thus, privatization is not for today but for a brighter future of the public sector in a privatized environment equipped better to meet the challenges.
(8) Any business requires the ability to take prompt business decisions, it is not about whether the decision was right or wrong. Such decisions will always have business risks but what is required is the ability to take the decision quickly. The structure of public sector globally is such that it suffers from delays in decision-making.
(9) Privatization is also about handing public sector to a visionary' who understands business, understands priorities and knows how to make the public sector grow to greater heights and help it to emerge as a global company.

Keeping the above facts in view the government went for some big ticket privatization like that of BALCO (Vedanta Group), VSNL (Tatas), IPCL (Reliance Industries), Modern Foods (Unilever), and Maruti (Suzuki). Even Round 1 of privatization was performed amidst lot of controversy ranging from the need to issues of valuation.

Why the opposition to privatization? The reasons are detailed as follows:

(1) It was feared that government owned monopolies would be replaced by private sector monopolies and could result in exploitation by the private sector. The government has clarified that no public sector operating as a monopoly would be privatized. Only those which are operating in a competitive environment would be privatized. Until they are able to operate in a competitive environment there would only be disinvestment of such public sector.
(2) It is also feared that privatization would result in a large number of workers laid off or would lose their jobs thereby adding to the pool of unemployment. It needs to be understood that public sector being specialized in nature, the workers by virtue of experience have acquired a skill set which no owner would like to lose. Rather than retrench they would be redeployed.
(3) It is also widely believed that proceeds received from disinvestment and privatization would be used to meet the budgetary deficit and not used for the benefit of the masses or used to create social assets in the economy.
    (a) The government has already set up the National Investment Fund (NIF) for parking of funds received from disinvestment.
    (b) Further, the corpus would not be used but the returns from the corpus by their investment in profitable avenues, would be used 75 per cent for creating social assets and the remaining 25 per cent in revival of loss making public sector units and also meeting the expansion needs of the profitable public sector units.
    (c) The corpus of the NIF would be managed by UTI mutual fund, SBI and LIC.
(4) Given the high level of fiscal deficit it would be difficult for the government to desist from reducing the deficit through proceeds of disinvestment and privatization.

Despite the merit and the need for privatization the government rightfully is not considering any further privatization and would rather wait for consensus building amongst political parties, trade unions before privatization as it is a long protracted process spanning several decades.

Both liberalization as well as privatization are the major planks of the economic reforms. The government by pressing the 'pause button' on privatization is being criticized as slowing down of reforms or of having gone 'soft'.

Privatization should not be seen as the only aspect of reforms. Neither should one expect an end of all economic problems through privatization. A similar misplaced belief was there when public sector was set up. Privatization at its best provide only for an efficient and competitive domestic industrial base and cannot be said as the 'only' aspect of reforms. There are so many other softer reforms (relatively easy to implement through an executive order of the government), which could have been done. Despite the policy of liberalization there are still bureaucratic hurdles.

In terms of World Bank survey, on the relative ease of doing business outside government approval, regulatory clearances, India's rank is a low of one hundred and thirty-four out of one hundred and eighty-three countries. Singapore is ranked as number one among all other countries.

Similarly, 'Licence Raj' has paved way to 'Inspector Raj'. Today, as many as thirty different inspectors visit the factory premises under various Acts as against 2-3 in China. Getting an electricity connection or a no objection certificate from pollution control board is still difficult. Collection of excise duty is cumbersome.

There is still a lot of bureaucratic interface for performing business in India and that is where the government needs focusing. Thus, liberalization has helped but not to that level by global standards. It is rightly said that what India needs is 'thousands of smaller reforms' and 'big bang reforms' can wait till acceptable or till a need for them is felt.

9.5 ROLE OF PUBLIC SECTOR IN FUTURE

The NEP 1991 has given rise to certain wrong perceptions about the public sector, mentioned earlier, 'clipping of their wings', or 'diluting the status of public sector'. It needs to be clarified first that it is not the clipping of wings but only a larger role for private sector. Neither is the status being diluted given the huge investments and asset base of the public sector in the country. The policy should not be seen as undermining the importance of public sector, but role of public sector would undergo a change as mentioned below:

(1) From a welfare orientation they would shift to function as a commercial venture with profits as an objective to the extent feasible as a public sector.

2) From production-oriented they would become productivity-oriented.

3) They will operate with greater professionalism and well run public sector would operate with greater operational and functional autonomy to the extent feasible.

   (a) Many more public sector would acquire the status of 'Mini-navrattan, Navrattan and Maharatnas', yielding them a greater degree of freedom for taking investment decisions by the respective boards of public sector and not requiring government approval.

4) There would be consolidation and likelihood of mergers amongst public sector such as oil companies, nationalized banks to enable them to achieve greater economies of scale and help them to compete with global companies.

5) Many public sectors may opt for overseas acquisitions paving the way for public sector to become global players.

6) There is a likelihood of public sector getting into joint ventures with private sector and greater joint participation in key areas.

   The chief executive officer of public sector would be considered for appointment based on merit and competence both within as well as outside the government.

(8) There would be a level playing field with the private sector allowing for healthy competition.

(9) Gradually, their monopoly status would get diluted with entry of private and foreign companies and they would not be at commanding heights' of the economy but operate along with private and foreign companies.

(10) Efforts would be made to address the loss making public sector by exploring all avenues for their revival through capital infusion, waiving off accumulated losses so that they can start afresh on a clean slate. However, all such revivals of the loss making public sector may come with a 'rider', that this revival would be subject to privatization subsequently.

(11) However, the biggest challenge before the profitable public sector would be their ability to be competitive, productive and efficient and remain profitable in future.

9.6 NATIONAL MANUFACTURING POLICY, 2011

In order to create a paradigm shift in the manufacturing sector, it is essential to consider the objectives over a longer timeframe, such as 15 years. The National Manufacturing Policy, which was introduced in 2011, states following objectives:

1. Increase manufacturing sector growth to 12-14% over themedium term to make it an engine of growth for the economy. The 2 to 4 % differential over the medium term growth rate of the overall economy will enable manufacturing to contribute at least 25% of the National GDP by 2025.
2. Increase the rate of job creation in manufacturing to create 100 million additional jobs by 2025. Emphasis should be given to creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.
3. Increase depth' in manufacturing, with focus on the level of domestic value addition, to address the national strategic requirements.
4. Enhance global competitiveness of Indian manufacturing through appropriate policy support.
5. Ensure sustainability of growth, particularly with regard to the environment.

The Policy is based on a principle of industrial growth in partnership with the States. Central Government will create the enabling policy framework, provide incentives for infrastructure development on a PPP basis through appropriate financing instruments, while State Governments will identify the suitable land and be equity holders in the National Investment and Manufacturing Zones (NIMZs). The following are the key policy instruments for achieving the objectives:

1. Establishment of NIMZs - Greenfield Integrated Industrial Townships with state of-the-art infrastructure and land use on the basis of zoning; clean and energy efficient technology and requisite social infrastructure. NIMZ was proposed with land area of at least 5000 hectares.

2. Industrial Townships are proposed to be self-governing and autonomous bodies under Article 243(Q-c) of the Constitution.
3. The trunk infrastructure will be financed appropriately by the Central Government through viability gap funding while SPV will develop the zone infrastructure in PPP mode.
4. NIMZ will be managed by Special Purpose Vehicle, headed by Govt, officials and experts, including those of environment.

Aspects of National Manufacturing Policy

1. **Focus Sectors:**
   - Employment-intensive industries like textiles and garments, leather and footwear, gems and jewellery and food processing industries.
   - Capital goods industries like machine tools, heavy electrical equipment, heavy transport, earthmoving and mining equipment.
   - Industries with strategic significance like aerospace, shipping, IT hardware and electronics, telecommunication equipment, defence equipment and solar energy.
   - Industries where India enjoys a competitive advantage such as automobiles, pharmaceuticals and medical equipments.
   - Small and medium enterprises and public sector enterprises.
2. **National Investment and Manufacturing Zones (NIMZ):**
   - The National Investment and Manufacturing Zones are being conceived as giant industrial greenfield townships to promote world-class manufacturing activities.
   - The minimum size is 5000 hectares (50 square kilometres) wherein the processing area has to be at least 30%.
   - The central government will be responsible for bearing the cost of master planning, improving/providing external physical infrastructure linkages including rail, road, ports, airports and telecom, providing institutional infrastructure for productivity, skill development and the promotion of domestic and global investments.
   - 'Ihe identification of land will be undertaken by state governments. State governments will be responsible for water requirement, power connectivity, physical infrastructure, utility linkages, environmental impact studies and bearing the cost of resettlement and rehabilitation packages for the owners of acquired land.
   - The state government will also play a role in its acquisition, if necessary.
   - In government, purchase preferences will be given to units in the national investment and manufacturing zones.
   - For financial year 2016-17, USD 0.515 million has been earmarked under the scheme for implementation of National Manufacturing Policy for 'Master planning of NIMZs and Technology acquisition and development fond.

- National Investment and Manufacturing Zones identified under DMIC:
  - Ahmedabad-Dholera Investment region, Gujarat
  - Shendra-Bidkin Industrial Park City near Aurangabad, Maharashtra
  - Manesar-Bawal investment Region, Haryana
  - Khushkhera-Bhiwadi-Neemrana Investment Region, Rajasthan
  - Pithampur-Dhar-Mhow Investment Region, Madhya Pradesh
  - Dadri-Noida-Ghaziabad Investment Region, Uttar Pradesh
  - Dighi-Port Industrial Area, Maharashtra
  - Jodhpur-Pali-Marwar region, Rajasthan
- 14 NIMZ outside the DMIC region have also been given in-principal approval.
  - Kuhi and Umrcd Taluka of Nagpur district, Maharashtra
  - Tumkur, Karnataka
  - Chittoor, Andhra Pradesh
  - Medak, Telangana
  - Prakasam, Andhra Pradesh
  - Gulbarga, Karnataka
  - Kolar, Karnataka
  - Bidar, Karnataka
  - Kalinganagar, Jajpur District, Odisha
  - Hyderabad Pharma NIM, Rangareddy and Mehbubnagar district of Telangana
  - Ramanathapuran, Tamil Nadu
  - Ponneri, Tamil Nadu
  - Auraiya, Uttar Pradesh
  - Jhansi, Uttar Pradesh

3. Simplification of Regulatory Environments

- Timelines will be defined for all clearances.
- Central and State governments to provide exemptions from rules and regulations related to labour, environment etc. subject to the fulfilment of certain conditions.
- Mechanisms for the cooperation of public or private institutions with government inspection services under the overall control of statutory authorities to be developed.
- Process of clearances by centre and state authorities to be progressively web-enabled.
- A combined application form and a common register to be developed.
- The submission of multiple returns for different departments will be replaced by one simplified monthly/quarterly return.

- A single window clearance for units in NIMZ.

4. Acquisition of Technology & Development

- The policy intends to leverage the existing incentives/schemes of government and also introduce new mechanisms to introduce green technologies.
- A technology acquisition and development fund has been proposed for the acquisition of appropriate technologies, the creation of a patent pool and the development of domestic manufacturing of equipment used for controlling pollution and reducing energy consumption.
- The fund will also function as an autonomous patent pool and licensing agency. It will purchase intellectual property rights from patent holders. Any company that wants to use intellectual property to produce or develop products can seek a license from the pool against payment of royalties.

Incentives under National Manufacturing Policy

1. Transfer of Assets:

- In case a unit is declared sick, the transfer of assets will be facilitated by the company managing the affairs of NIMZ.
- Relief from capital gains tax on the sale of plant and machinery of a unit located in NIMZ will be granted in case of the re-investment of sale consideration within a period of 3 years for purchase of new plant and machinery in any other unit located in the same or another NIMZ.

Green Technology & Practices:

- 5% interest in reimbursement and 10% capital subsidy for the production of equipment/machines/devices for controlling pollution, reducing energy consumption and water conservation.
- A grant of 25% to SMEs for expenditure incurred on audit subject to a maximum of USD 1538.46.
- A 10% one-time capital subsidy for units practising zero water discharge.
- A rebate on water cess for setting up wastewater recycling facilities.
- Incentives for renewable energy under the existing schemes.
- An incentive of USD 3076.92 for all buildings which obtain a green rating under the Indian Green Building Council (IGBC) / Leadership in Energy & Environmental Design (LEED) or Green Rating for Integrated Habitat Assessment (GRIHA) systems.

3. Technology Development:

- Incentives for the production of equipment/machines/devices for controlling pollution, reducing energy consumption and water conservation.
- SMEs will be given access to the patent pool and/or part of reimbursement of technology acquisition costs up to a maximum of USD 30,769.23 for the purpose of acquiring appropriate technologies up to a maximum of 5 years.

Special Benefits to SMEs:

- Rollover relief from long term capital gains tax to individuals on sale of residential property in case of re-investment of sale consideration.
- A tax pass-through status for venture capital funds with a focus on SMEs in the manufacturing sector.
- Liberalization of RBI norms for banks investing in venture capital funds with a focus on SMEs, in consultation with RBI.
- The liberalization of IRDA guidelines to provide for investments by insurance companies.
- The inclusion of lending to SMEs in manufacturing as part of priority sector lending.
- Easier access to bank finance through appropriate bank lending norms.
- The setting up of a stock exchange for SMEs.
- Service entity for the collection and payment of statutory dues of SMEs.

Government Procurement:

- The policy will also consider use of public procurement with stipulation of local value addition in specified sectors. These include areas of critical technologies such as solar energy equipment, electronic hardware, fuel efficient transport equipment, IT based security systems, power, roads and highways, railways, aviation and ports.

6. **Industrial Training & Skill Upgradation Measures:**

- Skill-building among large numbers of a minimally educated workforce.
- Relevant vocational and skill training through establishment of Industrial Training Institute (ITI) in Public Private Partnerships (PPP) mode.
- Specialized skill development through the establishment of polytechnics.
- Establishment of instructors' training centre in each NIMZ.

7. **Exit Mechanism:**

- It envisages an alternate exit mechanism through a job loss policy and a sinking fund or a combination of both.

Thus, the incentives offered under new manufacturing policy are quite beneficial to the large scale manufacturers and had made a positive contribution to the economic growth of our country.

9.7 EMERGING ROLE OF PRIVATE SECTOR

The most notable feature of the Industrial Policy of 1991 is the acceptance of the maturity and the ability of the private sector and their capabilities to shoulder higher responsibilities. It can be said that the emerging role of the private sector has been crystallized by the Industrial Policy 1991.

Already, since the last two decades of reforms there have been an increased number of companies, expansion and diversification by existing companies, entering into key areas. They hsve been responsible for raising industrial growth and also lifting India's growth in recent times. The future will thus witness the following:

(1) A larger responsibility on the shoulders of the private sector for increasing investment, diversification, taking industrialization forward and furthering industrial growth.

(2) They will have presence in all core/critical areas which were previously reserved for the public sector such as oil, power, etc., and now provide competition to them thereby eroding their monopoly status besides putting pressure on them for being competitive.

(3) They will command greater respect from the government and have say in policy matters concerning the industrial sector. Already, they are known as the corporate sector.

4) Traditional family run businesses would pave way to greater professionalism.

5) Segregation of ownership from management and gradually to holding companies like Tata Sons as a holding company and other Tata companies operating independently such as Tata Motors, Tata Finance, T1SCO, TELCO, etc., under a professional and not promoters/owners.

6) Many private companies have already gone for big ticket global acquisitions. The future would envision more such acquisitions and help Indian private companies to emerge as global companies.

7) The government having realized the competence of private sector especially in execution of projects has recently resorted to the public private sector partnership (PPP) model for infrastructure development.

8) There would be an increasing trend towards 'corporate governance' which is complete transparency in operations, working in the interest of the company (not only owners) and seeking to maximize 'value' to the shareholders. It is also about broader overview and greater professionalism by having independent board members in the board of directors of companies, not related directly or indirectly either to the company or to the owners. Already, SEBI has made corporate governance mandatory for all listed companies and a stipulation of companies to have at least one-third directors as independent.

9 The private sector would operate with greater responsibility with moral and ethical values towards their company, society and the country as a whole, referred in the corporate world as corporate social responsibility (CSR), of businesses cannot be confined to the realms of business only and will have a spill-over in the society.

(a) It is self-consciousness realization, of the companies of the need to reciprocate by fulfilling the societal responsibilities, in any manner, as deemed appropriate by the company, but without any compulsions or directives from the government. Through a recent amendment to the Companies Act, CSR has been made mandatory for all listed companies,The Companies Act, 2013, has called upon companies having a net-worth of ₹ 500 crore or more; or a turnover of ₹1,000 crore or more; or a net profit of ₹ 5 crore or more to have a CSR spend of at least 2% of their average net profits of past three years.

(b) There will be a growing realization on the part of the private sector that growth of businesses and moral responsibilities will go together in future, as distinct from the earlier perception of driven only for benefit of self.

(c) It is hoped that the unethical operations and frauds of M/s Satyam Computers was more in the nature of an exception and not repeated by other companies.

(10) Many business houses may become philanthropic, giving their due share to society by setting up charitable trusts, hospitals, etc.

(a) They would demonstrate to the government that the private sector can contribute in its own way towards welfare of the people and social development.

(11) Finally, the 'mixed economy' character would get further entrenched in future with co-existence of both the public and private sector working shoulder to shoulder in all the key areas and jointly increasing industrial and overall growth of the economy.

The mixed economy character has always been an avowed objective of the government since the first Industrial Policy of 1948, however, it was only seen as an intention of the government, more on paper. The future is likely to see the true emergence of the mixed economy character. The policy of liberalization has imposed great confidence on the private sector, as becoming partners to the government in developmental efforts, operating with a code of ethics, business and moral responsibilities, transparency in operations.

It is up to the private sector to rise to the occasion, meet the expectations of the government and the people and ensure that the confidence reposed is never let down. However, for the private sector to truly emerge as visualized in the policy would require the government change from a direct provider of goods and services in creating that enabling environment, to 'permit rather than prevent', to 'allow rather than stop'.

The challenge before the private sector is not only to deliver, but in a more responsible manner realizing that business and moral responsibilities go together.

Exit Policy

'It is often said that absence of an exit policy is a cog in the wheels of liberalization.' What is an exit policy? The policy of liberalization has given the freedom of entry but also given the risks of businesses that it is not necessary for all to survive, some may die a natural death, some industries may need to reorient into different businesses by closing down existing businesses and there lies the need for an exit policy.

An exit policy thus facilitates companies to close down their businesses, allowing them to reorient, restructure operations, in terms of market needs, with minimum restrictions from the government and in a quick time frame. At present, in India there is no exit policy and closure of companies is complex and cumbersome with multiple government bodies and 'acts' making closure extremely difficult and can take over several years.

Realizing its importance the government has set up the 'National Company Law Tribunal' as a one stop shop, single reference point for all sick companies either seeking revival or closure within a period of twenty-four months of the case filed with NCLT. This would bring under one roof all the multiple bodies together to work in a coordinated manner either for revival or for the closure of companies in a time bound manner, The NCLT is yet to become operational as it requires amendments to various 'acts' and also compliance of legal formalities.

An exit policy also has a ticklish issue which is labour-related and is a larger freedom to the management of companies in addressing labour-related issues. That is, if there is freedom to recruit there should also be discretion to a company to dismiss in the larger interests of the company. Unfortunately, all the labour laws have been enacted during 1920s and 1930s to protect the interests of the workers in the industrial sector and making dismissing labour as virtually impossible with fears of strikes and labour unrest.

This has given rise to complacency, non-productive workers and a complete mismatch between salaries paid and the output of workers. As long as the Indian market was sheltered, large role of public sector these could be tolerated but in todays environment with increased competition productivity and efficiency have become critical for survival of companies.

Labour has to realize that 'in the growth of the companies lies their future' and not the other way around. Thus, labour reforms would involve factoring in productivity and linking salaries to productivity. Many feel that this will bring back the 'hire and fire' policy which had forced the government earlier to enact labour laws to protect interests of labour.

Labour reform is most controversial and no political party would like to touch given the likely fall-out, even going out of power. Let us get the facts straight first. All labour laws are there to protect the interest of 6-8 per cent of the workforce in the organized sector while the remaining 90 per cent and above engaged in the unorganized sector are outside the purview of labour laws.

Which sector needs protection: the organized or the unorganized sector? Clearly it is the vulnerable unorganized sector. Second, employment in the organized sector is 'skilled' and today most economies including India are feeling the pinch of shortage of skilled manpower. Companies would like to preserve the skill set acquired out of experience. If the labour has the skills and a willing worker why will be he thrown out? Times have changed and employee retention instead is a big challenge for companies today.

Thirdly, all the labour laws have been framed much before Independence and surely working environment has undergone a sea change which is not captured by these laws. Further, there is confusion over basic definitions, such as workmen, wages, employee, etc. Factory, etc., are all defined differently in different 'acts'.

Provisions under factories act do not match provisions under minimum wages act. In fact, all these acts are not only out of time but provided for rigidity and excessive regulatory legislations in the economy and as mentioned previously only for 6-8 per cent of the workforce in the organized sector.

Fourthly, has it occurred that despite the increased industrial growth it has not led to increased employment opportunities in the organized sector as the prevalent stringent labour laws have forced the companies to substitute labour with labour displacing capital, greater automation which is ironical for a labour surplus country like India.

Fifthly, realization is required amongst labour that the priority is to first protect the interest of the company and if that is protected their interest would also get protected. Labour and management have to become partners in the process of improving productivity as well as protecting the interests of the company.

Agreed, no matter how much be the compulsion for labour reforms in the larger interest of the economy, it may be difficult to attempt given the democratic framework and fragile political set-up and cannot be pushed down as done in China.

However, at least a beginning can be made by reviewing the different labour laws, making them more comprehensive, removing duplications and ambiguities in different acts, having a uniform definition of a 'worker or labour'. That should not be difficult. The government can also initiate dialogue with political parties and representatives of various trade unions emphasizing upon the need for such reforms and arriving at a broad-based consensus.

What is appalling is the government disinterest to even start thinking on these lines. Labour reforms in India is the hardest of reforms and has the potential of unleashing a storm, a great upheaval, and can have a grave political fallouts and has to tread carefully and gradually by building consensus step-by-step. Until such a time it may delay further reforms and the correct way for going ahead is to make a modest and acceptable beginning. At the same time it should also be kept in mind, that without changing the labor environment and with present levels of protection through multiple trade unions, would only imply not getting full benefits of reforms for which reforms cannot be blamed.

9.8 EASE OF DOING BUSINESS IN INDIA

The government of India has taken a series of following measures to improve 'Ease of Doing Business' in the country. Existing rules have been simplified and information technology is introduced to make governance more efficient and effective:

- The process of applying for Industrial License (IL) and Industrial Entrepreneur Memorandum (IEM) has been made online and this service is now available to entrepreneurs on a 24x7 basis at the eBiz website.

- Twenty services are integrated with the eBiz portal which will function as a single window portal for obtaining clearances from various governments and government agencies.
- Notification has been issued by Directorate General of Foreign Trade (DGFT) to limit number of documents required for export and import to three.
- The Ministry of Corporate Affairs has introduced an integrated process of incorporation of a company, wherein applicants can apply for Directors Identification Number (DIN) and company name availability simultaneous to incorporation application [Form INC-29].
- The Companies (Amendment) Act 2015 has been passed to remove requirements of minimum paid-up capital and common seal for companies.
- Application forms for Industrial Licence (IL) and Industrial Entrepreneur Memorandum (IEM) have been simplified.
- Defence products' list for industrial licensing has been issued, wherein a large number of parts/components, castings/forgings, etc. have been excluded from the purview of industrial licensing.
- Similarly, dual-use items, having military as well as civilian applications (unless classified as defence item), will also not require ILs from the defence angle.
- The Ministry of Home Affairs has stipulated that it will grant security clearance on IL applications within 12 weeks.
- An Investor Facilitation Cell has been created under Invest India to guide, assist and handhold investors during the entire life-cycle of the business.
- The process of applying for environment and forest clearances has been made online through the Ministry of Environment and Forests and Climate Change portals.
- Registration with the Employees Provident Fund Organization (EPFO) and Employees State Insurance Corporation (ESIC) has been automated and ESIC registration number is being provided on a real-time basis.
- A unified portal for registration of units for Labour Identification Number (LIN), reporting of inspection, submission of returns and grievance redrcssal has been launched by the Ministry of Labour and Employment.
- A report titled 'Assessment of State Implementation of Business Reforms' was released on 14th September 2015. It reports the findings of an assessment of reform implementation by states by the DIPP, Ministry of Commerce and Industry, Government of India, with support from World Bank group and KPMG. This assessment has been conducted to take stock of reforms implemented by states in the period January 1 to June 30 2015, based on a 98-point action plan for business reforms agreed between the DIPP and states/union territories (UT) and rank them according to the ease of doing business.

9.9 VISION OF A NEW INDIA

The Government has created an action-oriented plan by highlighting specific sector level interventions to make India becoming a $5 trillion economy by 2025. The vision aims to boost Services sector $3 trillion, Manufacturing and Agriculture to $ 1 trillion each.

12 Champion Sectors

The Government has decided to give focused attention to 12 identified Champion Services Sectors for promoting their development, and realizing their potential. These champion sectors include Information Technology & Information Technology enabled Services (IT &ITeS), Tourism and Hospitality Services, Medical Value Travel, Transport and Logistics Services, Accounting and Finance Services, Audio Visual Services, Legal Services, Communication Services, Construction and Related Engineering Services, Environmental Services, Financial Services and Education Services.

Agriculture Export Policy, 2018

The Government has formulated India's first ever Agricultural Export Policy with a focused plan to boost India's agricultural exports to $60 billion by 2022 thereby assisting the Agriculture Ministry in achieving its target of $100 billion. The vision of the Agriculture Export Policy is to harness the export potential of Indian agriculture through suitable policy instruments and to make India a global power in agriculture and raise farmers' income.

Promotion of Trade

The Government has identified 15 strategic overseas locations where the Trade Promotion Organisations (TPOs) are proposed to be created. The locations where TPOs are proposed: Astana (Kazakhstan), Beijing (China) Cape town (South Africa), Dubai (UAE), Frankfurt (Germany), Ho Chi Minh City (Vietnam), Jakarta (Indonesia) Lima (Peru), London (U.K.), Melbourne (Austrialia), Mexico City (Mexico), Moscow (Russia), New York (USA), Sao Paulo (Brazil) and Tokyo (Japan).

Diversification of Exports

The Government is making all efforts to diversify India's export basket region wise and commodity wise. Free Trade Agreements (FTAs) are a means of correcting India's balance of trade.

Trade Infrastructure for Export Scheme

The Trade Infrastructure for Export Scheme (TIES) provides assistance for setting up and up-gradation of infrastructure projects with overwhelming export linkages like the Border Haats, Land customs stations, quality testing and certification labs, cold chains, trade promotion centres, dry ports, export warehousing and packaging, SEZs and ports, airports cargo terminuses.

Ease of Doing Business for Exporters - Steps Taken By Dgft:

Director General of Foreign Trade (DGFT) has taken several measures to strengthen the IT platform and create ease of doing business for exporters:

- DGFT has upgraded the existing IT-hardware this year.
- An online grievance redressal service was launched on DGFT website as a single point contact for all foreign trade related issues of the exporters and importers.
- DGFT $ EDI system provides facility for online application by exporters-importers for most of its schemes and authorizations.
- An online view of Shipping Bill data, electronically received form Customs, has been created. Now DGFT regional Offices are using electronically transmitted SB data from Customs for various other purposes also.
- Exporters can self-generate Importer Exporter Code (IEC) on online platform.
- Online auto approval of MEIS benefit has been introduced.

Ranking of States

The Ministry of Commerce and Industry, in collaboration with the World Bank conducts an annual reform exercise for all States and Union Territories (UTs) under the Business Reform Action Plan (BRAP) to improve delivery of various Central Government regulatory functions and services in an efficient, effective and transparent manner. States and UTs have conducted reforms to ease their regulations and systems in areas like labour, environmental clearances, construction permits, contract enforcement, registering property and inspections. States have also enacted Public Service Delivery Guarantee Acts to enforce the timelines on registrations and approvals.

District Level Development

Department of Industrial Policy has also developed a District level reforms plan. It has been shared with the State and UT Governments for implementation by Districts. The State and UT Governments have been requested to evaluate districts on the basis of achievements in implementation of this plan on the basis of users' feedback.

Make in India

Launched in 2014 to make India the hub of manufacturing, research and innovation by making India a part of global supply chain. This initiative is based on four pillars of New Processes, New Infrastructure, New Sectors and New Mindset.

Start up India

Start-up India is a flagship initiative of the Government of India, intended to build a strong ecosystem that is conducive for the growth of start-up businesses, to drive sustainable economic growth and generate large scale employment opportunities. This initiative aims to empower start-ups to grow through innovation and design.

Support and outreach campaign for MSMEs.

A support and outreach programme has been launched by the Government to boost MSME sector. This is aiming at Access to credit, Access to market, Technology up gradation, Ease of doing business and a sense of security for employees. As part of this programme, government unveiled various initiatives to help the growth, expansion and facilitation of MSMEs across the country.

Multi -Modal Logistics Parks Policy

The Multi-Modal Logistics Parks (MMLPs) are key policy initiatives of Government to improve the country's logistics sector by lowering over freight costs, reducing vehicular pollution and congestion and cutting warehouse costs with a view to promoting moments of goods for domestic and global trade.

Sez Policy

The objectives of new SEZ policy aims to make it WTO compatible, maximizing utilisation of vacant land in SEZs, effect changes in the SEZ policy based on international experience and merge the SEZ policy with other Government schemes like coastal economic zones, Delhi-Mumbai industrial corridor, national industrial manufacturing zones and food and textiles parks.

Industrial Corridors

Industrial corridor programme envisions creation of world class infrastructure, connectivity and new greenfield smart cities as global manufacturing hubs which will create large employment opportunities.

Based on the initial success of Delhi Mumbai Industrial Corridor (DMIC) Project the Government has started planning and development activities in four other industrial corridor projects i.e. Amritsar Kolkata Industrial Corridor (AKIC), Chennai Bengaluru Industrial Corridor (CBIC), Bengaluru Mumbai Economic Corridor (BMEC) and East Coast Economic Corridor (ECEC) from Kolkata to Chennai.

Indian Footwear, Leather & Accessories Development Programme (IFLADP)

The Government has approved a special package for employment generation in leather and footwear sector. The package involves implementation of Central Sector Scheme

“Indian Footwear, Leather & Accessories Development Programme” with an approved expenditure of Rs. 2600 crore over the three financial years from 2017-18 to 2019-20.

North East Industrial Development Scheme

With the purpose to boost industrialization of the States of North East region including Sikkim, the Government has been implementing industrial subsidy schemes such as North East Industrial Policy, (NEIP), North East Industrial and Investment Promotion Policy, (NEIIPP), Transport Subsidy Scheme(TSS) and Freight Subsidy Scheme(FSS). To continue extending benefits for the industrial units situated in the North Eastern Region, a new policy “North East Industrial Development Scheme” (NEIDS) was notified in 2017 for a period of five years.

Industrial Development Scheme for Himalayan States.

Department of Industrial Policy & Promotion (DIPP) had introduced various concessions for the State of Jammu & Kashmir namely, to boost up industrialization. For the States of Himachal Pradesh and Uttarakhand various concessions were introduced

More Power to Geographical Indications (GI):

G1 logo and tagline have been launched by Union Government for recognition of GI's in India. Many GI's have been registered in past recently including famous GI like Bangla Rasgulla and Alphonso.

CHAPTER 10

INFRASTRUCTURE DEVELOPMENT

10.1 INFRASTRUCTURE IN GLOBAL CONTEXT

Overall infrastructure basically comprises of crude oil exploration and refining, electricity generation, coal, steel, cement, communications and transport (rail, road, ports and airports). Infrastructure is also segregated as rural infrastructure (comprises of irrigation, roads, electricity and creation of social assets in villages) and urban infrastructure (comprises of public transport, up-gradation of roads and civic amenities in urban areas).

There is also reference nowadays to soft infrastructure which is education and skill development, human capital development. While all these are important but in terms of criticality it is the overall infrastructure and with increased growth there is need for more than proportionate growth in infrastructural sector investment to match the growth of the economy.

India's infrastructure can be known to be adequate solely in respect of communications and in all other areas as deficient. Infrastructure globally has certain unique characteristics as mentioned below:

(1) It is a dynamic concept implying continuous investments in infrastructure. It can never be said to be adequate'.

(2) Infrastructure growth has to precede growth of economies. First roads need to be re-built before cars are manufactured or factories can be set up only once electricity is there and not the other way around.

(3) Infrastructure has to be for 365 x 24 hours leaving no scope for reactive maintenance (after break-downs) but has to be proactive maintenance (before break-down).

(4) Infrastructure development requires visioning, always for the future and not for the present as otherwise given their long periods for completion they would become inadequate once completed.

(5) Infrastructure always needs to be seen from a global perspective and not from the past history.

  (a) For example, the Government of India can take pride in mentioning that in the last 10 years they have constructed 8000 km of highways a feat never achieved in the past.

  (b) However, in the same period China has constructed 25,000 km of highways. Infrastructure comparison is always global.

(6) Infrastructure has always got to be effective'. This can be defined with the following example: Hyderabad airport in India is world class. It has cut down time at the airport, faster check-in can handle manifold more passengers but it is located further away from the city.

Hence, what one has gained in saving the time at the airport has got lost in travel time to the airport. So what effective infrastructure implies is while building the airport simultaneously start the process of either widening the road to the airport and if it is not feasible explore an alternate entry point to the airport from the city.

10.2 ISSUES IN INDIAN INFRASTRUCTURE

(1) **Need for Long-term Resources**—it has been estimated by the Planning Commission of India that an investment of USS 1000 billion is required in overall infrastructure alone over the next 10 years.

This will be USS 500 billion in the next five years or an annual investment of US$ 100 billion for sustaining the present levels of growth and if we are talking about higher levels of growth, the magnitude of investment will only increase further.

This would mean that investment in infrastructure which is presently around 5.5 per cent of GDP would have to be more than double to 12.5 per cent.

Infrastructure projects have long gestation period raising such long-term resources on an ongoing basis is a major issue. Such long-term funds are usually available in insurance and pension funds both of which are relatively still evolving in India. Insurance penetration is very low and so are pension funds.

Banks are not able to take exposures given the need for long-term resources as it will result in mismatch between assets and liabilities and can weaken the banks.

(2) **Pricing of Infrastructure**—another issue is the under-pricing (pricing less than the commercial viability in terms of the market) of infrastructure which has questioned its sustainability in the long run.

(3) **Absence of Visioning**—as mentioned previously, a key feature of infrastructure is the need for visioning say Infrastructure in India 2050. No serious thoughts are being given to the requirement of infrastructure over the next 30—40 years.

(4) **Infrastructure as a National Issue**—infrastructure development continues to be driven through various governments in terms of their own priorities.

One government may favour building highways whereas another government may feel making rural roads a priority. Infrastructure has to be made apolitical or cutting across party lines as a national issue.

10.3 RECENT MEASURES TAKEN BY THE GOVERNMENT

The government realizing the importance of infrastructural sector has taken a number of steps that are briefed below:

(1) It has set up the India Infrastructure Finance Company Ltd., (IIFCL) exclusively for leveraging investment in infrastructure projects. It is expected to leverage an investment of over ₹ 50,000 crores over a period of time.

(2) IIFCL, Infrastructure Development Finance Company (IDFC), Citigroup, and Blackstone Group have jointly announced a launch of USS 5 billion fund to finance infrastructure projects in India.

(3) IIFCL has set up a subsidiary at London with funds of USD 5 billion to fund Indian companies importing capital goods/machineries exclusively for infrastructure projects in India.

(4) The Planning Commission of India has proposed a USD 11 billion multi infra debt funds for funding infrastructure projects in India.

(5) The government has recently announced the public private sector partnership (PPP) model for infrastructure projects in India.

(a) This model seeks to leverage on the strengths of the government (inter-ministerial clearances, environment and forest clearances, shifting of vital installations and land acquisitions).

(b) The private sector is then entrusted the task of building the infrastructure in terms of government specifications by using their own resources in a given time period. There is an incentive mechanism for projects completed ahead of schedule.

(c) In turn, it allows the private sector to levy pre-agreed 'Toll' (for road projects) or 'user charges ' (airports) under the build -operate -transfer (BOT) model of partnership.

(d) A slight variant to this is design-build-finance-operate (DBFO) where the competence in the 'design of projects is also done by the private sector rather than by the government.

(e) Recently, the government under the PPP model has also initiated levying of 'negative grants' for highly profitable road projects.

(f) The private companies while bidding for such projects would also have to provide the amount of money from their likely future earnings they are willing to give 'Up-front' before the contract is awarded by the government, as what is known as negative grant.

Urban Infrastructure

The Government of India has launched the following schemes for development of urban infrastructure:

1. **Smart Cities:** The Government of India has launched a mission on Smart Cities, with the collaboration of states and UTs for implementation of the flagship programme for urban development. The purpose of the Smart Cities Mission is to drive economic growth and improve the quality of life of people by enabling local area development and harnessing technology, especially technology that leads to smart outcomes.

   The Smart Cities Mission targets promoting cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment and application of'smart' solutions. The focus is on sustainable and inclusive development and the idea is to look at compact areas and create a replicable model which will act like a lighthouse to other aspiring cities. The core infrastructure development in a smart city includes adequate water supply; assured electricity supply; sanitation, including solid waste management; efficient urban mobility and public transport; affordable housing, especially for the poor; robust IT connectivity and digitalization; good governance, especially e-Govcrnance and citizen participation; sustainable environment; safety and security of citizens, particularly women, children and the elderly; and health and education.

The strategic components of area-based development in the Smart Cities Mission are city improvement (retrofitting), city renewal (redevelopment) and city extension (greenfield development) plus a pan-city initiative in which smart solutions are applied covering larger parts of the city. Retrofitting will introduce planning in an existing built-up area to achieve smart city objectives, along with other objectives, to make the existing area more efficient and liveable. In retrofitting, an area consisting of more than 500 acres will be identified by the city in consultation with citizens. Redevelopment will effect a replacement of the existing built-up environment and enable co-creation of a new layout with enhanced infrastructure using mixed land use and increased density. Redevelopment envisages an area of more than 50 acres, identified by ULBs in consultation with citizens. Greenfield development will introduce most of the smart solutions in a previously vacant area (more than 250 acres) using innovative planning, plan financing and plan implementation tools (e.g. land pooling/ land reconstitution) with provision for affordable housing, especially for the poor. Greenfield development is required around cities in order to address the needs of the expanding population.

The Mission will cover 100 cities which have been distributed among the states and UTs on the basis of equitable criteria. The distribution of smart cities will be reviewed after two years of the implementation of the mission. Based on an assessment of the performance of states/ULBs in the challenge, some reallocation of the remaining potential smart cities among states may need to be done by the Ministry of Urban Development (MoUD).

2. **Swachh Bharat Mission (SBM):** The SBM aims at making India free from open defecation and at achieving 100 percent scientific management of municipal solid waste in 4041 statutory towns/cities in the country. The targets set for the mission which have to be achieved by 2nd October 2019 are: construction of 1.04 crore Individual Household Latrines (1HHL), 2.52 lakh Community Toilet (CT) seats and 2.56 lakh Public Toilet (PT) seats; and achieving 100 percent door-to-door collection and scientific management of Municipal Solid Waste (MSW). The estimated cost of implementation of the SBM is ₹62,009 crore. As on 1st December 2015, 5.91 lakh

   IHHLs and 28,948 community and public toilets have been completed under the SBM. In 33,278 wards out of a total of 78,633, 100 percent door-to-door collection is taking place under Municipal Solid Waste Management and 17.62 percent of the total waste generated is being processed.

3. **National Heritage City Development And Augmentation Yojana (HRIDAY):** The Government has announced the vision of a slum-free India through a new scheme, the Rajiv Awas Yojana. The HRIDAY scheme aims at preserving and revitalizing the soul and unique character of heritage cities in India. In the first phase, with a total outlay of ^500 crore fully funded by the central government, twelve cities-Ajmer,

Amaravati, Amritsar, Badami, Dwarka, Mathura, Puri, Varanasi, Velankanni, Kanchipuram, Gaya and Warangal—have been identified for development.

4. **Atal Mission For Rejuvenation And Urban Transformation (AMRUT):** Owns which will be known as mission cities/towns. The total outlay for AMRUT, which is being operated as a Centrally Sponsored Scheme (CSS), is ₹50,000 crore for five years from financial year 2015-16 to 2019-20. Cities with a population of 10 lakh or above are entitled to central assistance of one-third of the project cost and all other cities, one half of the project cost. Balance funding is to be arranged by state governments /Urban Local Bodies (ULB), including private investment.

5. **HRIDAY: North Eastern Region Urban Development Programme -NERUDP:** The North Eastern Region Urban Development Programme (NERUDP)has been teken up by the Ministry of Urban Development (MoUD) with the financial assistance from Asian Development Bank (ADB). ADB contribution is 70% of the cost as loan to the Government of India. The scheme is being implemented in the capital cities of 5 North Eastern States viz. Agartala (Tripura), Aizawl (Mizoram), Gangtok (Sikkim), and Kohima (Nagaland) covering priority urban services viz. (i) Water Supply, (ii) Sewerage and Sanitation, and (iii) Solid Waste Management besides capacity building, institutional and financial reforms at an estimated cost of Rs 1371 crore. The projects under the NERUDP scheme have been spread over three Tranches and are under execution in the project cities since 2009. These projects have been planned for completion by June, 2019.

   Funds are released by the Ministry to the participating Stares on reimbursement basis in the ratio of 90% grant and 10% loan.

6. **Setu Bharatam Program:** Setu Bharatam program aims at building bridges for seamless and safe on National Highways and make all National Highways free of railway level crossings by 2019. This is being done to prevent the frequent accidents and loss of lives at level crossings. Under this program, 208 Railway Over Bridges (ROB)/Railway Under Bridges (RUB) will be built at the level crossings at a cost of Rs. 20,800 Cr as part of the program. In addition to this, about 1500 old and worn down bridges will also be improved by replacement/widening/strengthening in a phased manner at a cost of about Rs. 30,000 crore.

7. **Bharatmala Pariyojana:** Bharatmala Pariyojana is a new umbrella program for the highways sector that focuses on optimizing efficiency of freight and passenger movement across the country by bridging critical infrastructure gaps through effective interventions like development of Economic Corridors, Inter Corridors and Feeder Routes, National Corridor Efficiency Improvement, Border and International connectivity roads, Coastal and Port connectivity roads and Green-field expressways. A total of around 24,800 kms are being considered in Phase I. In addition, Phase I also includes 10,000 kms of balance road works under NHDP. Estimated outlay for Phase I is Rs 5,35,000 crores spread over 5 years. The objective of the program is optimal resource allocation for a holistic highway development/improvement initiative.

8. **Pradhan Man tri Awas Yojana (Urban):** Pradhan Mantri Awas Yojana - Housing for All (Urban) is launched by the Central Government with an aim to provide housing to all urban people by 2022. Under the scheme central assistance is given to States and UTs for constructing houses to all eligible sections from urban slums and economically weaker sections. Slum rehabilitation and affordable housing to Economically Weaker Sections are the major features of this project.

10.4 INFRASTRUCTURE AND ITS KEY CHALLENGES

Despite the efforts of the government as highlighted above infrastructural development still has a few challenges as mentioned below:

(1) The World Economic Forum has ranked India in terms of infrastructure as 89 among 139 countries. Countries such as China have a rank of 50 and Brazil 62. This implies that our infrastructure is viewed as grossly inadequate by global standards.

(2) Raising long-term resources would require reforms in banking, insurance and pension funds as that is where long-term resources are available.

(3) Further, long-term resources for infrastructure can also come through foreign investment (like in case of China) and government would have to further liberalize its policies to attract foreign investment in India.

(4) The PPP model is appreciable but cannot substitute government spending given the huge magnitude of resources required. It can at best play a supportive role in infrastructure development.

(5) India's metro infrastructure of Delhi, Mumbai and Chennai are virtually collapsing despite efforts of the state government. Even the major urban centres are having severe infrastructural constraints, despite having the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

(6) That is, to say the government cannot absolve itself of its responsibilities of infrastructure development.

The twin challenges are as follows:

How would the government raise resources given the budgetary constraints? The compulsions of the Fiscal Responsibility and Budget Management Act (FRBMA) would not only allow it to raise expenditure to keep the deficit level under check. The government has a legacy of an inefficient spender in the economy with as many as three hundred government projects delayed by over eight years with a cost over-run of ₹49,000 crores.

How to make the government an efficient spender in the economy? There are myriads issues of land acquisition, inter-ministerial coordination and bureaucratic delays which is inbuilt in any government functioning.

The other is that we have to learn from the Chinese experience in infrastructure development. They have kept the scale of existing ideas, instructive and unconventional, something as unbelievable.

Globally, it was believed that trains running over 450 km per hour was technically and scientifically not possible. The Chinese have proved every one wrong. They have constructed around 17 bridges over one river which is 100 years maintenance free and many of them are the longest in the world and completed in record time.

Beijing, their capital, has an airport which is bigger than Heathrow of London and is sufficient to meet the passenger and cargo load for the next 25 years. Their rail link of 2000 km from mainland China to Tibet at a height of over 15,000 ft is an engineering feat in itself.

India is still bogged down with playing around with existing ideas, existing knowledge and technology. India requires 'innovative infrastructure', the impossible infrastructure, beyond conventional and then just do it the way China has done and thus requires infrastructure visioning, making it a-political, cutting across political parties with the objective of providing the infrastructure to support higher rates of growth and at the same time not only world class but defining newer boundaries of infrastructure.

10.5 ENVIRONMENTAL ISSUES AND INFRASTRUCTURE

A still larger issue now emerging is the environmental issues, erosion of forest cover, etc., around the infrastructure projects. The present issues being faced in Orissa and other states on projects which can not only alter the face of the state but also the nation in terms of economic development need deeper introspection.

The environmental issues raised on companies such as POSCO and the Vedanta Group in Orissa may deny an investment opportunity' in the state of over ₹60,000 crores which has the potential to transform Orissa from being a backward to a progressive state.

Similarly, stalling the Lavasa project in Maharashtra, is a myopic view' by the government as it has the potential to redefine the urban development and probably post-construction would be extremely environment-friendly more than any other city in the country.

The Prime Minister has indicated that there should be a balance between the two aspects. However, development should be a prime concern clearly as it involves the people, means of livelihood for them as fundamentally more important today.

It needs to be remembered in mind that improvements in welfare of people and states should be the prime consideration and 'way out' should be found for addressing the environmental issues and the way out should not be by abandoning the project but finding the ways around them.

Are these the only environmental issues? What about the issues of slum development, waste management, banning use of plastics, rural/urban habitation, polluted rivers, erosion of forest cover? Are these not major issues?

India has myriads of issues of unemployment, acute backwardness of states, development deficit, investment deficit, development divide across many states and such other divides. If it is possible for the private/foreign players to provide answers for such divides, their projects should be encouraged rather than discouraged and a way out found for them.

This is a government-related issue of being short sighted in the guise of environmental issues, over-looking positive and tangible welfare gains for the states and the country as a whole. India, thus, has a number of infrastructural related issues, which will solely get compounded with increased intensity as the growth levels begin to accelerate and also with the growing population exerting greater pressure on the infrastructure.

The government can also consider of having a separate budget for infrastructure. The railway budget could constitute a part of this budget allowing for greater complementarity between various sectors of infrastructure.

There is a need for a greater broad-based discussion on the imperatives of infrastructure in future as otherwise it will become a limiting factor for growth.

10.6 PORTS IN INDIA—AN ECONOMIC PERSPECTIVE

Globally ports are regarded as gateway for trade of goods and merchandise entry and exit from a country. They also play a pivotal role in accelerating the development of regions/economies. As an open economy, neglect of ports can solely be at the expense of development of such economies.

India's fact sheet of ports consists of twelve major ports (two additionally approved—one in West Bengal and the second at Andhra Pradesh) and two hundred odd minor ports accounting for 95 per cent of cargo movement by volume and 70 per cent by value. The present port capacity is around 1000 million tonnes (MT).

Imports of crude petroleum, iron ore, coal and other essential commodities are all through the sea route. Realizing the importance of developing our ports to handle large volumes and increase cargo movement, the government has allowed 100 per cent private sector and 100 per cent FDI participation in this sector. Further, a 'Maritime Agenda 2010-2020', a perspective plan has been prepared which has set the goals as follows:

(1) To increase India's share in global ship building to 5 per cent from the present 1 per cent.
(2) To increase the share of Indian seafarers from 6-7 per cent to at least 9 per cent in the global shipping industry during 2015.
(3) To create a port capacity of around 3200 MT to handle the expected traffic of about 2500 MT during 2020.
(4) To bring ports at par with the best international ports in terms of performance and capacity.
(5) To increase the tonnage under the Indian flag and Indian control and also the share of Indian ships in our exim trade.
(6) To promote coastal shipping as it will help in decongesting our roads and is environment-friendly.
(7) In order to promote private participation and foreign direct investment (FDI) in the country, the Government of India has allowed 100 per cent FDI under the automatic route for:
    - Captive facilities for port-based industries.
    - Leasing of equipment for port handling and leasing of floating crafts.

- Leasing of existing assets of ports.
- Construction/creation and maintenance of assets such as-container terminals bulk/break bulk/multi-purpose and specialized cargo berths, warehousing, container freight stations, storage facilities and tank farms, handling equipment, setting up of captive power plants, dry docking and ship repair facilities.

As way of incentive, 100 per cent exemption from income tax is also extended to companies that are investing in port infrastructure. Further, a ten-year tax holiday has been given to enterprises which are engaged in the business of developing, maintaining and operating ports, inland waterways and inland ports.

India's shipping ministry is considering in removing the tariff fixing for major ports, passing responsibility for this to the ports themselves. Instead, a new regulator for the sector will be appointed who will be responsible for setting, monitoring and regulating service levels as well as technical and performance standards. The ministry has also decided that all new major ports would be constructed through a corporate structure and will be registered under the Companies Act 1956.

Recent Government Initiatives

Contract to develop the Jawaharlal Nehru Port Trusts (JNPT) container terminal at Navi Mumbai has been awarded to a Dubai-based company at a total cost of ₹600 crores (USS 100. 20 million). Gail India and the Shipping Corporation of India (SCI) have signed a memorandum of understanding (MoU) to cooperate for transportation of liquefied natural gas LNG sourced by Gail from the United States (US).

The government has approved the project for upgradation of an existing facility and the creation of a new facility at Visakhapatnam Port Trust (VPT) for iron ore handling in two phases on design, build, finance, operate and transfer (DBFOT) basis with an investment of₹845.41 crores (USS 153.95 million).

Three major projects, with an investment of ₹ 1800 crores (USS 330.08 million), are being taken up by the VPT. The Union Shipping Ministry has started working on some of its plans such as corporatization of major port trusts. Mumbai 's JNPT will be the first port to be corporatized. There are 14,500 km of navigable and potentially navigable inland waterways in the country of which the following five inland waterways have been declared as National Waterways and the details are listed below.

- **National Waterway-**1—Allahabad-Haldia stretch of the Ganga-Bhagirathi-Hooghly river (Total length 1620 km) in the states of Uttar Pradesh, Bihar, Jharkhand and West Bengal.
- **National Waterway-2—**Sadiya-Dhubri stretch of the Brahmaputra river (Total length 891 km) in the state of Assam.
- **National Waterway-3—**Kollam-Kottapuram stretch of West Coast Canal and Champakara and Udyogmandal canals (Total length 205 km) in the state of Kerala.

- **National Waterway-4:** (Total length 1027 km) in the states of Andhra Pradesh and Tamil Nadu and the Union Territory of Puducherry.
- **National Waterway-**5: (Total length 588 km) in the states of West Bengal and Orissa.
- **National Waterway 6:** National Waterway 6 is the proposed waterway which connects Assam with Mizoram on the river Barak. The 121 km long waterway will help in trading between town of Silchar to Mizoram State.

The government has approved projects for development of multi-purpose berths as well as merchandised berths with allied facilities on DBFOT (design-build-finance-operate-transfcr) basis at Haldia Dock II (North) for a period of 30 years at an estimated cost of ₹821.40 crores (USS 151.39 million) and at Haldia Dock II (South) for a period of 30 years at an estimated cost of ^886.10 crores (US$ 163.32 million). The projects will enable Kolkata Port Trust to enhance its capacity by 23.4 million tonnes per annum (MTPA) and meet the demand for coal and other bulk cargo in the hinterland of Kolkata Port.

The government has also approved licensing of land to the concessionaires for seven projects which are taken up in the PPP mode. These projects have been taken up in terms of the extant policy of the Government of India to pursue maritime development projects under the PPP mode. This will lead to efficiency in operations at major ports which will benefit trade and the economy as a whole.

Government has recently approved incentives to promote domestic shipbuilding industry. These include (i) financial assistance to domestic shipyards for any vessel built by them subsequent to its delivery and (ii) relaxation of eligibility criteria for procurements or repair of vessels done by Government departments or agencies including PSUs for government purpose or for their own purpose to grant Right of First Refusal to domestic shipyards.

Special Purpose Vehicle to provide efficient last mile rail connectivity to Major Ports with equity from 11 Major Ports and Rail Vikas Nigam has been incorporated under the Companies Act. This SPV ‘The Indian Port Rail Corporation Limited’ started functioning from July 2015 and since then has taken up 23 projects which are critical for last mile rail connectivity to the Major Pons.

The Ministry of Shipping, along with the Directorate General of Lighthouses and Lightships (DGLL) has drawn up an ambitious programme to develop 78 lighthouses in the country as centres of tourism in the first phase under Public Private Partnership (PPP). The identified lighthouses are in Gujarat, Maharashtra, Goa, Karnataka, Kerala, Lakshadweep, Tamil Nadu, Puducherry, Andhra Pradesh, Odisha, West Bengal and Andaman and Nicobar Islands.

Emphasizing that waterways would be a game changer for the economy, Shipping Ministry has sought enhanced budgetary allocation from the Finance Minister for the sector as despite being crucial to economy the Ministry has a paltry budgetary allocation of Rs 900 crore.

The ministry also urged the government to cut logistics cost in the country and streamline the taxation structure, including the implementation of the crucial goods & services tax (GST) in the upcoming budget, to give a much-needed boost to the shipping industry.

The money granted by Union Budget should be of the amount facilitating grant of industry' status to the sea logistics sector in India to enable coordination among various industries for integrated policy development. Further, the government should grant 'infrastructure' status to the port and shipping industry so that it would reduce costs to buy technologically advanced and environment friendly ships and fleets, and create a Logistics Modernisation Fund' for the growth of the sector.

Larger Issues of Ports in India

Notwithstanding the recent efforts of the government in augmenting capacities in ports in India there are certain critical issues which need to be resolved. They are as follows:

Development of port infrastructure in India is not on par with the other ports across the world. Trade in India has to face severe challenges due to inefficient port services. Shipping lines avoid touching ports in India because of the long waiting time. The capacity of various ports including Mumbai has already been exhausted and now capacities of other ports such as JNPT are on the verge of exhaustion.

Port development has to seen in a holistic and comprehensive manner and not in isolation. They have to emerge as integrated transport centers as logistics platform covering links to the hinter land with the rail road network. There has to be complementarities between rail, road and ports, seen as one and not separately.

Indian ports are not equipped to handle large containers as a result ships are re-routed and parked at other larger ports and cargos are loaded in smaller vessels to facilitate their entry/exit out of the country. This raises costs and also transit time. India is heavily dependent on Colombo as a transshipment hub which has both economic as well as political implications.

India also needs 24 x 7 custom cargo clearance facilities besides excessive paperwork and documentation requirement solely increase transaction cost. Average turn-around time of vessels of 3.5 days is very high compared to the international standards which are only in hours and not in days. This is a critical factor which delays consignments making them uncertain, unreliable and uncompetitive in comparison to other ports.

Indian ports also have a high through put and transport cost because of an inefficient, unorganized and un-coordinated truck movement which not only increase costs but also takes more time. It is also subject to frequent labor unrests, which disrupts loading and un-loading at ports.

Efforts at development of ports in India is only a recent phenomenon, however, more than development is to develop them with the future in view and how India can be made a hub for cargo movement. Rapid increasing trade will only add more and more pressure on the already created capacities which need to be augmented on a war footing.

Sagarmala Programme

This initiative is a series of projects to leverage coastline and inland waterways to drive industrial development. The Project was originally mooted in 2003 as the waterways equivalent of the Golden Quadrilateral. This Project is expected to reduce cost and time for transporting goods, thereby benefiting industries and export and import.

The project includes modernization of port infrastructure, improve port connectivity through rail corridors, freight-friendly expressways and inland waterways, create coastal economic zones and development of skills of fishermen and other coastal and island communities. Sagarmala project is expected to boost India's merchandise exports to $110 billion by 2025 and create an estimated 10 million new jobs.

E-governance Initiatives

The following services have now been made online -

- Registration of ships
- Application and seat booking for written and oral examinations
- Application and processing of Continuous Discharge Certificates (CDCs), renewal and replacement/duplicate CDCs
- Application processing and issuance of Certificate of Competencies (CoCs), dangerous cargo, GMDSS and Cookery certificates
- Application, processing and issuance of chartering permission
- Issue of registration certificate to transport operators
- Master checker for seafarers

Despite being cleaner and cheaper mode of transportation, so far waterways development has remained on the backseat but government has taken a slew of steps to promote it. Though, outlook for the shipping sector looks subdued for short term, but it will turn out to be fruitful in long term as government is taking several initiatives like Sagarmala Project and Jal Marg Vikas Project. Moreover, approval for incentives to promote domestic shipbuilding industry and developing 78 lighthouses as tourism centers will provide some boost to the sector. On the concern side, the performance of dry bulk and container operators will continue to be affected by weak global trade growth and persistent overcapacity. Nevertheless, the tankers segment, which accounts for a majority of the Indian fleet, had a dream run in 2015-16 with more than double daily rates for each asset class. The segment will remain an exception due to its better demand-supply situation.

10.7 INDIAN RAILWAYS—A CARRIER OF THE NATION

Indian Railways (IR) is known as the life line of the nation, with a total length of around 64,000 km and the fourth largest network in the world after US, Russia and China. It runs around 12,000 passenger and 7000 freight trains daily. Only recently it has achieved a landmark of crossing 1 billion tonnes of freight movement.

Indian railway has dual function one of running commercially (freight operations) and the other social responsibility of being the life line (passenger movement) of the country. Bulk of the profits of railways thus comes out of freight operations. During 1951-1952, the ratio of freight shares of railways to roadways was 79:21. The railways enjoyed total dominance of bulk cargo as well as retail parcel cargo on medium and long haul routes. However, over the last 60-odd years, the ratio has been completely reversed and now road freight has a market share in excess of 80 per cent. More interestingly, roadways now have 95 per cent share of retail parcel cargo transport. Even in bulk movement the share of rail movement is only 35 per cent and 60 per cent by road. In China, freight movement by road is only 22 per cent while in US it is 37 per cent. This essentially implies that freight movement by road is cheaper than the rail in India unlike other countries such as China and US where movement of freight by rail is cheaper than road.

This is despite the fact that the movement by roads has disadvantages, such as inclement weather conditions, fears of theft, accidents and also involves interstate movement resulting in crossing and checking at octroi check points, which could result in hold up, if papers and materials are not in order.

Problems of Rail Freight

First and the foremost reason for this is the high cost of rail movement arising out of policy of cross subsidization by IR. Passenger fares especially sleeper class are underpriced and made up through increased freight fares. In India, passenger rail fares are highly politically sensitive. However, this is also because of the social responsibility character of IR. At the same time, actual cost should be recovered. If fares are to be kept low, efforts should also be made to bring down costs at the same time. If passenger fares are to be lower than costs, then the difference should be recoverable from the government and not from freight charges.

According to the figures compiled by the World Bank, the freight rates charged by IR are extremely high compared to major freight railways such as US Railroads, Chinese and Russian Railways. In fact, the rates of US Railroads are only one-fourth of that charged by IR. Germany is the only country which has freight charges higher than India, but it is nor among the major railway freight movers globally.

Ihis is reflected in a fall in the fare-freight ratio for IR over the last five years, from 0.32 to 0.26. In sharp contrast to this, the fare-freight ratio for China is 1.2 and for South Korea 1.4. The passenger fares to freight ratio for the Chinese Railways is four times higher than that of India. This shows that even a Communist country such as China is charging remunerative fares to run their railway network, which is considered far more efficient than that of India.

Second reason is that over 60 per cent of the freight movement is through electric traction which has high initial capital cost and also high overheads, resulting in higher cost for freight movement. There has always been a debate around diesel versus electric traction. However, there has been no empirical evidence found over superiority of electric over diesel traction. It has been established that initial capital cost of electric traction is manifold more than that of diesel traction. This becomes more relevant in the case of India as it is deficit in power and electric traction of the railways will always get priority over the other users. The only positive factor is that it does not have variable price like that of diesel. The other point in this is the diesel and electric traction cannot be seen as alternates but as complements and a mix of say 50:50, given the vulnerability of supply and prices of imported crude petroleum.

One method of distribution is to allocate passenger traffic for electric traction and freight traffic for diesel traction. Allocating specific operational and geographic areas to either mode is another method. The objective is to give equal importance to both the modes.

Flexibility of diesel traction is its main advantage. Diesel traction is highly flexible and adaptable to future technological advancements such as the 'fuel cell' technology, posed as a promising alternative source of energy in the near future. Under this technology, a simple device combines hydrogen from a variety of fuels w ith oxygen from air to produce electricity. This requires no moving parts, and does not produce noise or smoke. Diesel locomotives can be easily converted by replacing engine with fuel cell.

According to the International Railway Journal, fuel cell trains shall be a reality in the near future. All overhead wires will then become redundant. A breakthrough has already been achieved by BHEL, Hyderabad. As and when it is imbibed all controversies around diesel versus electric traction would cease.

It is of vital importance that for the moment, we do not ignore the fact that both diesel as well as electric traction can meet the needs of the IR with equal efficiency. IF electric traction has a high capital cost, diesel traction is highly sensitive to diesel prices. Had diesel prices been that of the eighties, one could say diesel is preferable but not at todays prices. Thus, there should be no attempt at developing one mode at the cost of the other.

Whatever is the mode of movement either by road or rail, the entire logistics sector has a large number of inefficiencies, as a result the cost of logistics in India remains high at 13-14 per cent of GDP as against 7-8 per cent of GDP in developed countries including China.

Remedial Measures

First and the foremost are the passenger fares that need to be raised to cover costs of operations especially for sleeper class in general. Higher classes should be seen from the commercial angle and not as part of social responsibility. If at all, any cross subsidization should be there, it may be 'inter class', between sleeper class and the higher classes.

Secondly, it needs to streamline its freight operation and raise the share in freight movement to around 50 per cent from the present level of 35 per cent which can be done through PPP model and wherever possible through privatization. Towards this the government has taken a few steps in recent times.

Private Sector Participation

Indian railways has announced opening up of freight train and terminal operations to private firms. Under thenew private freight terminal (PFT) and special freight train operator (SFTO) scheme, the ministry has allowed private firms to use the IR's network for commodity transport and to develop freight terminals. Private players will be allowed to set up PFTs and also to operate freight trains. The ministry plans to extend this to the existing registered container train operators and users having private sidings on private land. The license fee, under the SFTO scheme ranges between ₹ 5 crores and 15 crores, which depends on the commodity being moved.

The SFTO scheme offers a freight rebate of 12 per cent for a period of 20 years until the recovery of investment, whichever is earlier. This could prove to be beneficial to private operators. It also addresses serious issues such as empty return load, which would be exempted from freight charges by the 1R. The private operator will be free to charge his customer freight and the handling charges.

The SFTO will be operated for movement of goods such as bulk fertilizers, cement, fly ash, chemicals, petrochemicals , steel, etc. A major concern with logistics companies is thetact that the automobile segment has not been included in this scheme.

Under the PFT policy, operators will be able to book and handle all the traffic excluding outward coal, coke and iron-ore traffic. The revenue sharing for green field projects would start after five years of commissioning the terminal and after two years of commissioning a brown field project. The revenue-sharing model would be of 50 per cent of the then prevailing rate of terminal charge leviable at goods sheds or ₹10 per tonnes, whichever is higher. Revenue sharing will be annually increased by indexing it to increase in whole price index (WPI).

The 'own your wagon' scheme was introduced during 2005. The scheme focused on assured supply of a guaranteed number of rakes every month to a customer based on the number of rakes procured by him with freight concessions. Private firms faced turnaround issues due to congestion and the scheme did not really take off as envisaged.

Dedicated Freight Corridor (DFC)

However, the most ambitious project being undertaken, seen as a game changer, is the dedicated freight corridor (DFC). The Prime Minister has addressed that the DFC Project costing nearly ₹ 1 lakh crores should be given the highest priority by central ministries and urged the state governments also to do so. The project will connect a land mass over 3300 km in the country and could prove to be a backbone of India's economic transport facility.

The western corridor from Dadri in Uttar Pradesh to JNPT near Mumbai will be 1499 .•on and will connect Haryana, Rajasthan, Gujarat and Maharashtra with an exclusive high speed railway track. The Eastern DFC from Ludhiana (Punjab) to Dankuni (West Bengal) will be 1839 km long and will connect Punjab, Uttar Pradesh, Bihar and West Bengal. A major part of western corridor will be funded with Japanese assistance and nearly two-third of the eastern corridor will be constructed with World Bank assistance.

With India joining the select group of billion plus club in freight movement, the rocus has once again shifted on the prestigious DFC. The project will enhance the freight carrying capacity of railways by manifold leading to incremental gains, apart from freeing the existing lines on congestion. The project cost of eastern and western DFC is currently estimated at ₹ 95,836 crores, which also includes cost of land. Western DFC is funded by loan from Japan International Cooperation Agency. While part of Eastern DFC, of Ludhiana-Khurja-Dadri-Kanpur-Mughalsarai section is funded by World Bank.

The DFC will not only decongest the existing lines, which will in turn also help in increasing the speed of passenger trains, leading in to other benefits. The DFC though will run almost parallel with the existing lines but will not be used for moving passengers. Its aim is to provide multi-modal system for moving goods. The plan to construct DFCs across the country marks a strategic inflexion point in the history of IR that has essentially run mixed traffic across its network. Once completed, the DFCs will enable IR to improve its customer orientation and meet market needs more effectively. Creation of rail infrastructure on such a scale—unprecedented in independent India—is also expected to drive the establishment of industrial corridors and logistic parks along its alignment.

Over two hundred locomotives with 9000 horse power (HP) are being bought from Japan that will run on DFC. The carrying capacity of rakes will increase from the current 300 tonnes to over 12,000 tonnes. Even the length of the train will increase to 1500 m.

Length distribution of the corridor indicates that Rajasthan (39 per cent) and Gujarat (38 per cent) together constitute 77 per cent of the total length of the alignment of freight corridor, followed by Haryana and Maharashtra 10 per cent each and Uttar Pradesh and National Capital Region of Delhi 1.5 per cent of total length each. This DFC envisages a high-speed connectivity for High Axle Load Wagons (25 tonnes) of double stacked container trains supported by high power locomotives. The Delhi-Mumbai leg of the Golden Quadrilateral National Highway also runs almost parallel to the freight corridor. This corridor will be equipped with an array of infrastructure facilities such as power facilities, rail connectivity to ports en route, etc. Approximately, 180 million people, 14 per cent of the population, will be benefitted by the corridor's development.

This project incorporates nine mega industrial zones of about 200—250 sq. km, high speed freight line, three ports, and six air ports; a six-lane intersection-free expressway connecting the country's political and financial capitals and also a 4000 MW power plant. Several industrial estates and clusters, industrial hubs, with top-of-the-line infrastructure would be developed along this corridor to attract more foreign investment. Funds for the projects will be from the Indian government, Japanese loans, and investment by Japanese firms and through Japan depository receipts issued by the Indian companies.

This high-speed connectivity between Delhi and Mumbai offers immense opportunities for development of an industrial corridor along the alignment of the connecting infrastructure. A band of 150 km (influence region) has been chosen on both sides of the freight corridor to be developed as the Delhi-Mumbai industrial corridor. The vision for DMIC is to create strong economic base in this band with globally competitive environment and state-of-the-art infrastructure to activate local commerce, enhance foreign investments, real-estate investments and attain sustainable development. In addition to the influence region, DMIC would also include development of requisite feeder rail/road connectivity to hinterland/markets and select ports along the western coast.

Delhi-Mumbai industrial corridor is being conceived as a model industrial corridor of international standards with emphasis on expanding the manufacturing and services base and develop DMIC as the ‘global manufacturing and trading hub’. The government is considering this ambitious project to establish, promote and facilitate Delhi-Mumbai industrial corridor to augment and create social and physical infrastructure on the route which is world class and will help spurring economic growth of the region.

Integrated Investment Regions and Industrial Areas (IAs) have been identified within the corridor to provide transparent and investment friendly facility regimes. These regions are proposed to be self-sustained industrial townships with world-class infrastructure, road and rail connectivity for freight movement to and from ports and logistics hubs, served by domestic/ international air connectivity, reliable power, quality social infrastructure, and provide a globally competitive environment conducive for setting up businesses. An Investment Region would be a specifically delineated industrial region with a minimum area of over 200 sq. km (20,000 hectares), while an IAs would be developed with a minimum area of over 100 sq. km (10,000 hectares).

As mentioned earlier, it is very ambitious project and once completed it will redefine freight movement, provide multipliers to increase growth, create employment opportunities and also the beginning of making IR a basis for all round development with an efficient mode of state-of-the-art transportation facilities.

Despite these recent initiatives, there are still other issues which IR needs to address over a certain period of time.

Railways have to become a part of a holistic ‘national logistic policy’ covering all modes of transport with linkages and complementarities between rail, road and sea. Expansion of rail network should keep the economic rather the political perspective. The government should expedite establishing rail links especially in the NE states and also with neighbouring countries. This would provide for better links and relations in and around the region.

It should also review the practice of having a separate budget for railways, a practice initiated by the British rule since 1924. Budgetary allocation made to defense, oil sector are much more than allocations made to railways. By the same token, there should also be a separate budget for defense. Or is it that IR is more important than defense. These are some aspects which the government should examine.

To conclude, railways, ports and roads have to become a part of multi modal logistics in India, for achieving efficiency, cut down time and costs, in transportation of goods from the producers to the ultimate user both in India and overseas.

High Speed Training Project

The Japan International Cooperation Agency (JICA) which undertook the study on the feasibility of this prestigious project, submitted its report in July 2015. The project was approved by the Cabinet Committee on Economic Affairs, in December 2015, to be implemented with Japanese technical and financial assistance. The memorandum of understanding for cooperation between India and Japan was signed on 12th December 2015. A new special purpose vehicle with 50 per cent equity participation from the Ministry of Railways and 50 per cent from the state governments of Maharashtra and Gujarat was to be set up to implement the project.

The salient features of this project are as follows:

- The total construction cost of the project is approximately ₹ 70, 915 crore including land cost. Project completion cost is approximately ₹ 97,636 crore (including price escalation , interest during construction and import duties). Average per km cost of construction works out to be ₹140 crore.
- Project implementation time will be approximately seven years from the commencement of construction.
- Japanese official development assistance will be ₹ 79, 165 crore (81 per cent of project cost) for 50 years with 0.1 per cent interest and a 15-year moratorium.
- Certain identified packages would have either a Japanese company as prime contractor or a Japanese-led JV.
- Certain identified goods manufactured in Japan would be procured from Japan.
- Total length of the proposed corridor is 508 km between the Bandra Kurla complex in Mumbai and Sabarmati/ Ahmedabad in Gujarat.
- Sixty-four per cent of the corridor will be constructed on embankment, 25 per cent viaduct and 6 per cent tunnel, with a standard gauge.
- The stretch will cover 12 stations between Mumbai and Sabarmati.
- The maximum design speed will be 350 kmph with an operating speed of 320 kmph.
- It will have 10-car trains (750 seats) in the beginning and 16-car trains (1200 seats) in the future.
- Thirty-five trains per day each way will operate by 2023, which will go up to 105 trains per day each way in 2053.
- It will have approximately 36,000 daily users per day (both ways) in 2023, i.e. 13 million per annum projected, which will go up to 186,000 per day (both ways) or 68 million per annum by 2053.

10.8 REGIONAL CONNECTIVITY THROUGH UDAN

UDAN (Ude Desh ka Aam Naagrik), a key element of National Civil Aviation Policy 2016, is an innovative Regional Connectivity Scheme to supplement air traffic growth in regional aviation through a market based mechanism. UDAN provides few seats at affordable passenger fares of Rs. 2,500 for an hour-long flight. Under UDAN, 70 airports and 128 routes arc connected, and over 100 more unserved airports are to be connected in the next rounds of bidding of routes.

The Government offers fiscal support through Viability Gap Funding (VGF) and infrastructural development of under-utilized airport facilities to incentivize regional air traffic. UDAN ensures route profitability to airlines to sustain their operations through reducing operating costs by eliminating airport charges on UDAN routes, subsidizing ATF, providing market based subsidy for half of the seats, and guaranteeing three years exclusivity on routes. Under UDAN, 13 Regional Connectivity Scheme airports have been covered in the Eastern and NorthEastern regions, 12 each in Northern and Western regions, and 8 in the Southern Region in the first round.

10.9 ADARSH RAILWAY STATION SCHEME

This scheme is targeting the modernization or upgradation of railway stations. At present, upgradation of stations is being undertaken under Adarsh Station Scheme'. The expenditure on development of stations under this Scheme is generally funded under Plan Head of Passenger Amenities.

CHAPTER 11

INVESTMENT MODELS

11.1.TRADITIONAL MODELS

Having discussed the public sector, reforms and infrastructure an attempt is being made to bring them all together different investment models, talked about in the previous sections together and also what can be other models for boosting the investments in an economy like India.

Contemporary' macro-economic framework revolved around growth models and growth a function of both savings as well as investments but largely determined by the overall levels of savings, in the earlier concept of‘closed’ economy. India in its initial years, post-independence, suffered from low savings and it resulted in low investments leading to low growth. India was believed to be caught in the low growth cycle and unable to break through this cycle, known as ‘Hindu rate of growth’ (refer to Chapter on Inclusive Growth). Investment was determined by the overall levels of savings and secondly the investment was largely by the government. Excess spending over and above savings, resulted in deficit in such economies.

It may be appropriate to define savings of an economy as the difference between income and consumption. It could be financial saving (money put in banks, government securities shares, bonds, debentures, insurance, pension funds, etc.,) but other than the cash held. The other is physical savings which could be assets such as real estate, gold and commodities.

Savings can be across household sector, corporate sector and even through the departmental undertaking of the government like Department of Posts, etc. However, more than 70 per cent of the savings is accounted for by the household sector. It can well be known that India is a ‘household sector savings driven economy’. The recent increase in saving, post reforms, is known as a ‘macro-economic fundamental strength of India’.

Investment in the macro-economic framework implies increase in capital (machinery) stock, known as gross capital formation and after accounting for depreciation (usage of machine), as net capital formation. Growth can only be increased with capital formation and thus, the importance of investments in an economy. For example, if Maruti decides to set up* a new plant leading into production of more cars, and increase in GDP, it will also lead to greater employment and increased income for the people.

What investment model has been followed by India in the past?

Traditionally, there were two models of investment 'top down investment' and the other as 'bottom up investment'. The first model is to invest in basic, capital and core industries such as crude oil, steel, cement, power generation, etc. This would lead to investment in other industries and finally investment in consumer goods which would then drive more investment in the core industries. The other focuses more on small and village industries and then allowing for their scalability to higher and more capital intensive investment over a certain period of time.

India opted for the first investment model post-independence as a part of the second five-year plan through the new concept of investment through public sector (refer to Chapter on Planning in India).

Pre-reforms investment was through public sector being set up in the core areas, through budgetary allocation. The objectives were of increasing significant capacities in critical areas, achieve self-reliance and become a driver of industrialization and increase overall growth of the economy (refer to Chapter on Industrial Sector). Such investment can be known to be basic capital expenditure or as 'core investment.

What were the limitations of the earlier public sector-led investment?

First, India in the past was characterized by low savings resulting in low-levels of investment and thus low growth. Secondly, the government always had a binding resource constraint arising out of increased social sector spending, increased subsidy on food grains, fertilizers, etc. The government was not able to raise tax revenue in the economy resulting in an ever increasing fiscal deficit (refer to Chapter on Government Finances).

Thirdly, government is an inefficient spender in the economy especially in capital formation as there is time overrun in completion of projects which results in cost overruns and higher cost of projects. This results in 'capital deepening', increasing capital intensity but not allowing for 'capital efficiency'.

Fourthly, the focus of earlier investment was on 'creation of capacities' in different areas through 'available technologies' in India or technologies from other economies following a similar investment model like erstwhile USSR.

Fifthly, this model allowed for capital formation but in a limited manner and not technology and knowledge intensive' driven investment.

Sixthly, with the lack of focus on profits and with other social responsibilities, public sector did not have sufficient resources to augment investment in die economy.

Finally, as a closed and regulated economy there were no alternatives to savings and public sector investment.

11.2 NEO-INVESTMENT MODELS

The concept of other investment models is a post-reforms phenomenon, post liberalization and with the beginning of transformation of India from a closed to an open economy. The economy at present requires digging deeper into investment shifting from quantitative to qualitative', from 'traditional ro technology and knowledge intensive' and from 'capacity building to efficient capital investment'.

Private Sector Investment

Opening of the economy allowed for newer avenues of investment especially as private investment. This helped in raising the investment levels in the economy but with a difference, of investment earlier being in the public sector domain now to private sector investment. Post-reforms with larger role of private sector, a liberalized environment, allowed private sector to operate in a competitive environment and at same time with new windows of untapped opportunities, resulting in plough back of profits translating into increased investment. This led to 'supplementary core investment' and also a 'diversified capital investment' into newer areas. This model also differed from public sector investment which was more 'capacity building investment' to an efficient capital investment'. This contributes to leveraging of the core investment and diversification of the industrial base, capable of lifting the plain of growth, as happened in the case of India.

Leveraged Investment

Another investment model being experimented in India, is the concept of public private sector partnership (PPP) which is being used for infrastructure projects. Such investment can be known as 'leveraged investment' (refer Chapter on Infrastructure Development). Briefly, this model seeks to take advantage of the strengths of both the government as well as the private sector for execution of various infrastructure projects and operations by the private sector for a limited period.

In recent times, there were a few question marks on this model, due to lack of transparency and ambiguities in the model concessionaire agreement (MCA) executed between the government and private players. There has to be a resolution mechanism for *inter-se* disputes arising from private parties and the government. The discontinuance Delhi metro airport express line is an example. Such instances can derail the model being used in India. There is nothing wrong with the model if the areas of work, responsibility and accountability of both the private party and the government are clearly delineated and made integral part of the MCA.

Similarly, wherever 'tolls' are being levied there should be a complete display of the details of the project, toll levied, period of levy. Most tolls levied are not 'rounded off resulting in the problem of'change '. For example , instead of toll being say ₹ 22 it could be rounded up to ₹ 20. Similarly , toll of ₹ 18 can be altered to ₹ 20. There would be no loss of revenue to the concessionaire and this result in a lot of operational convenience also for the commuters and lesser waiting time at toll gates. The other alternative to this could be to retain the existing tolls and to introduce 'smart cards' which would allow for electronic auto debit through sensors installed at the toll gate.

The other issue around levy of toll is that each toll gate is independent of the other resulting in the payment at multiple gates during the course of one journey. Understandably, this could be because of different concessionaire for different stretches of the same journey . What is being suggested is, for example , traveling from Delhi to Chandigarh , is it possible to pay the entire toll at the first gate itself rather than at five different gates of the journey. The concessionaires could have a technology -enabled toll sharing mechanism . This would reduce waiting time at toll gates and effective use of the created infrastructure.

Yet another variant to the existing PPP model be bringing and additional 'P' standing for 'People'. In this variant, a representative body of people gets involved in the project right from the conception stage to the project building, monitoring progress thereof and also maintenance once the project is completed. This PPPP model can be used for people centric investment especially in social sector programs. It could be the Accredited Social Health Activist (ASHA) under primary health care, rural electrification, rural roads, minor irrigation projects, etc.

Foreign Direct Investment

As a result of opening up of the economy, this has allowed for inflow of foreign capital both as foreign direct investment (FDI) and also foreign portfolio investment (FPI). The government only recently as clubbed all categories of FII investment as FPI. The investment model now being talked about is FDI which is 'direct interest of a foreign investor in production or rendering of services' (having control of over 51 per cent shares). It can also be indirect if the foreign investor has a control of minimum 26 per cent shares which would give it 'management control' (ability to 'influence' production, rendering of services bur not able to 'directly run' the business).

This model goes beyond the domestic savings and is envisioned as a supplement to domestic investment. This allows for scalability' of investment even beyond the savings of an economy and the model used by China for increasing die overall investment and becoming the fastest growing economy of the world. It has redefined the boundaries of investment.

Various forms of FDI in India could be the following:

(1) Wholly owned subsidiary (WOS).

(2) Wholly owned company incorporated in India (WOC).

(3) Joint venture (JV) company incorporated in India (JV with an Indian partner with management control or controlling share of 51 per cent to directly manage the business).

(4) JV into an existing line of business with management control.

All options are open in India. The government from time-to-time notifies FDI caps for different sectors of 26 per cent, 49 per cent, 51 per cent and 74 per cent and 100 per cent. The government is considering increasing sectoral caps in many areas to attract more FDI into India. Changes in the sectoral caps are notified by the Department of Industrial Policy and Promotion (DIPP) under Ministry of Industry and Commerce.

FDI has two distinct advantages—one of augmenting domestic investment and the other helps in meeting current account deficit (CAD). For detailed elaboration, refer to sections on foreign investment and balance of payments.

Sector Specific Investment

Another investment model being used in India is setting up of special economic zones (SEZs) to attract investment for increasing exports from India (refer to Chapter on Export Orientation). This investment adopted by China in seventies has been responsible for China emerging as the largest exporter of manufactured goods, a position enjoyed by US in the past. Such investment can be known as 'sector specific investment models'.

Another example of sector specific investment model is setting up of National Manufacturing Investment Zones (NMIZs) which will be integrated in industrial townships. It will co-locate productions units, logistics, public utilities and residential and green environment. The prime objective is to increase the share of manufacturing sector output to around 25 per cent as a percent of GDP over the next decade. This model also aims to double employment in the manufacturing sector in the same period. Tax and other fiscal benefits as applicable to SEZs would also be applicable to NMIZ. They are now referred as Integrated Manufacturing Clusters (IMC).

Venture Capital

Venture capital is form of financing through which the investors provide capitals to startup companies and small businesses. This capital generally comes from well-off investors, investment banks and any other financial institutions. Sometimes it takes in the form of technical or managerial expertise as well.

Cluster Investment

While sector specific investment can be multi-dimensional, cover different industry groups, cluster investment can be there to promote specific set of industries, such as handlooms, leather, garments, brassware, electronic goods, etc. These clusters comprises of small-scale industries which enjoy certain benefits of location, of proximity to raw material, markets, availability of skills and infrastructure. These clusters are promoted by the government.

11.3 PUBLIC PRIVATE PARTNERSHIP MODEL (PPP)

PPP means bringing the best from both public and private investments. Few of the Project Finance Schemes are as below:

- BOT (Build-Operate-Transfer)
- BOOT (Build-Own—Operate-Transfcr)
- BOO (Build-Own-Operate)
- BLT (Build-Lease-Transfer)
- DBFO (Design-Build-Financc-Opcrate)
- DBOT (Design-Build-Operate-Transfer)
- DCMF (Design-Construct-Manage-Finance)

Hybrid Annuity Model?

Under this model the government will provide a percentage of the project cost to the developer to start work while the remaining investment has to be made by the developer.

Swiss Challenge Model

This model of investment explores a way to award a project to a private player on an unsolicited proposal. Such projects may not be planned by the government but are considered important given the gaps in physical or social infrastructure that they propose to fill, and the innovation and enterprise that private players bring. The government may enter into direct negotiations with a private player who submits a proposal.

Viability Gap Funding (VGF)

It means a grant provided to private players to support infrastructure projects of usually having long gestation period. Such projects are economically justified but fall short of financial viability. Through this innovative provision of granting assistance to private players , several projects may become bankable and help to mobilize private investment in infrastructure.

The Right Model for India

The above are various investment models which have emerged in recent times especially in post-reforms and also from experiences of emerging marker economies (EMEs). These models are not alternates to each other but are only variants of investment models. At a broad level, investment in India has to be driven by private sector and FD1. However, this will require a large role of the government in providing policy support' with 'a partnership approach and an enabling environment' to facilitate natural flow of investment to bring back India on the high growth trajectory.

The policy support will require well-drafted 'futuristic policies' in different areas especially in the areas of 'pricing and tax matters'. These are the areas of grave concerns affecting investment in the economy. Pricing should be such to induce investment and also at the same time protect the interest of the ultimate consumers. Ar the same rime, it should also be ensured that the pricing is competitive. Similarly, there should be 'certainty' of taxes, unambiguous and provide comfort that they would not be applicable retrospectively, unless warranted in exceptional circumstances and that too it should be on a case-to-case basis. Policies should be like goal posts, which are firmly entrenched and visible to all.

Partnership approach is not to 'prevent but to allow' or finding a way of getting things performed but within the policy framework. It is not short circuiting of laid down procedures but looking at them positively. It is about giving speedy clearances through single window approach both at the central as well as state government level.

Enabling environment lies in creating the infrastructure around which such investment can be induced. 'Reviewing' various acts which influence such investments like mining and minerals (development and regulations) act, land acquisition and various labour laws all of which date back to 1950s. There is a requirement to comprehensively review them in totality to make them more relevant to the changed present context.

India is one among the few countries today which is 'investment starved' and requiring huge levels of both resource as well as technology intensive investment and requires concerted efforts on the part of the government to play its role to facilitate both private and foreign investment in the country, to reverse the present down turn in India's growth story.

CHAPTER

INTEGRATED ENERGY POLICY (2031-32) 12

12.1 IMPORTANCE

The importance of this policy lies in the fact that for the first time the entire energy sector is brought together in one policy and developing a long term vision. Energy is a key requirement and as investment is scaled up so do energy needs of an economy. Today even* sector needs energy be it agriculture, industrial activities or even service sector. The policy gives out energy needs, their sources and the way going forward. Its other importance lies in the fact it is bold in accepting realities and the challenges for the government in future.

12.2 THE POLICY

In terms of the policy, power demand is likely to be a mammoth 8,00,000 MW by 2031-32 as against an existing capacity of 2,00,000 MW (actual generation is only around 1,50,000 MW), requiring an investment of over ₹ 2,50,000 crore in the power sector only. There has to be exponential increase in additions to the power generation capacity. India has taken 66 years to build its present capacity and it will have to add over 6,00,000 MW in the next 20 years, over more than 1.5 lac MW in each of the nest 4 five year plans, beginning with the twelfth five year plan.

Besides the huge resources required there are structural issues like, one of the highest Aggregate Transmission and Distribution (AT&D) losses of 25 per cent the highest in the world. There are other issues like power thefts which along with distribution losses result in losses to the State Electricity Boards (SEBs), under pricing, mounting losses of the State Electricity Boards and concept of free power.

The Policy has mentioned dependence on coal based thermal energy. 'Coal' would the '*primary* source of energy accounting for 60 per cent even by 2031-32 and thermal power generation alone accounting for 47 per cent. The proven reserves are not an issue for the present, but quality is a matter of concern. Our present coal reserves are not that which is required in the power plants.

The other issue around coal is complete monopoly of Government in mining and thus the policy favoured reforms in the coal sector opening to private and foreign participation, pricing to be market determined so that scarcity value of coal gets reflected and there is optimization and efficient use. There was a need to step up 'coal forecasting' as it is widely believed that 'coal potential' in India is over 100 years.

The other source to meet the energy requirement is petroleum which would account for 25 per cent. But the problem here is that it is also non renewable. Besides there is heavy import dependence of presently 70 per cent which is likely to go up to 90 per cent by 2030 making India the third largest importer of crude petroleum after US and China. This would make the economy extremely vulnerable to global price fluctuations besides supply factors in the wake of adverse developments in West Asia.

There is an urgent need to free up pricing of retail petroleum goods in the domestic market so that their scarcity value gets reflected. The government should spread awareness on the need for energy conservation, increasing energy efficiency and lowering energy intensity. There was a need to step up efforts at developing viable alternatives to the growing dependence on oil through R & D. The government should set up a National Energy Fund by levying a cess of 1 per cent on turnover of all companies in the energy sector. Many countries in Europe have already announced a zero dependence on crude petroleum in a given time frame. India needs to do the same. Given the volatility in the international crude petroleum prices the policy has suggested creating strategic reserves of crude petroleum of at least 90 days.

With respect of Hydro power, the policy cautioned on its high cost of power generation and should be promoted after evaluating its impact on ecological imbalances, habitation etc. In any case the full potential is limited to only 1,50,000 MW about 20 per cent of the energy requirement by 2031-32.

Nuclear energy was the source for the future but given the long gestation period in commissioning of such plants, availability of nuclear fuels from other countries and uncertainties in inking nuclear deals, one can expect optimistically any change in the energy mix only beyond 2050. But one should also be aware of its high capital intensity and high cost of power generated, besides the potential dangers of radiation leakages, nuclear waste and their long term impact. It will not be able to meet more than 5 per cent of the energy requirements by 2031-32.

There is a lot of focus on renewable sources of energy like fuel wood plantation, bio-gas, bio-mass, ethanol as they can meet local agricultural and domestic needs cheaply. Wind energy and solar energy are capital intensive with high per unit power cost and would require additional resources. But again they would be able to meet only local requirements, their promotion is precisely for this reason, besides it will promote local entrepreneurs, create local employment and are environment benign. But at the same time their large scale integration in the broader energy requirement framework may not be possible for a foreseeable long time in the future.

12.3 GOVERNMENT INITIATIVES

Planning Commission has been aware of the of this impending need and has begun to give as decisive thrust for increasing power generation capacity since the ninth five year plan. Each subsequent plan has only scaled up planned expenditure for creation of power generation capacities. But unfortunately the targets set out were never achieved. The Ninth five year plan could achieve only 47 per cent of the targeted level of power addition. The later plans including the eleventh five year plan could not go beyond meeting 50 per cent of the targets. The twelfth five year plan is highly ambitious of adding 88,000 MW in the next five years.

The Government at its level has shown some urgency by announcing setting up of Ultra Mega Power Plants (UMPPs), by the private sector each with a capacity of 4000 MW.

Realizing the importance of coal as a raw material for thermal power plants, it has asked Coal India Limited (CIL), the sole authority to do mining of coal to sign Fuel Supply Agreements (FSA) with power plants to ensure steady supply of coal to them.

The Government has also focused on solar energy, besides exploring the prospects of shale gas as a potential source in the future.

Recent Initiatives.

The Government has initiated several initiatives and policies for the development and improvement of power sector recently. Some of the new initiatives are as follows:-

(i) Prepared state specific action plans for **'24 x 7 Power for All'** covering adequacy of generation, transmission capacity and distribution system.

(ii) Notified revised Tariff Policy with a focus on '4 Es' i.e. Electricity for all, Efficiency to ensure affordable tariffs, Environment for a sustainable future, Ease of doing business to attract investments and ensure financial viability.

(iii) Launched **Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)** for rural areas: The scheme provides for (a) separation of agriculture and non-agriculture feeders; (b) strengthening and augmentation of sub-transmission and distribution infrastructure in rural areas including metering at distribution transformers, feeders and consumers end; and (c) rural electrification.

(iv) Launched **Integrated Power Development Scheme (IPDS)** for urban areas: The scheme provides for **(a)** strengthening of sub-transmission and distribution networks in urban areas; **(b)** metering of distribution transformers/feeders/consumers in urban areas; and **(c)** IT enablement of distribution sector and strengthening of distribution network.

(v) **Operationalised Power System Development Fund (PSDF):** This fund shall be utilized for the project proposed by distribution utilities for (a) creating necessary transmission system of strategic importance; (b) installation of shunt capacitors etc. for improvement of voltage profile in the grid; **(c)** installation of standard and special protection schemes; and **(d)** Renovation and Modernisation of transmission and distribution systems for relieving congestion; etc.

(vi) Launched **Ujwal Discom Assurance Yojana** (UDAY): The scheme has been launched for operational and financial turnaround of Discoms.

(vii) Measures initiated for reducing the generation cost of coal based power projects:

(a) Increasing supply of domestic coal;

(b) Coal usage flexibility

(c) Rationalisation of coal linkages

viii) **Standard Bidding Documents (SBDs)** have been developed for carrying out competitive bidding for procurement of power and transmission services.

xi) Guidelines and Model Bidding documents on "short term Procurement of power by distribution licensees through tariff based bidding process" and "Procurement of electricity for medium term from power stations set up on Finance, own and operate (FOO) basis".

(x) Approved an innovative mechanism for utilisation of stranded gas based capacity by making available **Re-gasified Liquefied Natural Gas (RLNG)** along with interventions by all stakeholders, including support from PSDF through a transparent and efficient manner.

12.4 STRUCTURAL BOTTLENECKS

Thermal power generation, as mentioned earlier, has a major structural problem. The relatively larger role of the State governments through their respective State Electricity Boards (SEBs) where generation, transmission and distribution are all bundled together. Power sector needs unbundling these as separate, distinct and independent activities. There also a need to have market related pricing and a strict power discipline. Power sector has to be kept at arm's length distance from both the State and Central government.

Coal mining has to be opened up to private and even foreign investors to get the state of the art technology, improving mining skills besides moving into a market determined pricing for coal.

Increasing dependence on imported crude oil, needs to be reduced. Amongst the larger economies of US, China and others, India is the most vulnerable to supply shocks and price volatility. What makes it worse is their direct transmission on domestic prices.

Another worrisome factor for India is the low level of awareness of energy conservation and preservation resulting in their excessive use only compounding the problem of growing dependence.

The energy sector has to be viewed seriously by the Government. As and when growth accelerates, energy constraints would become binding. On the whole the policy has sounded pessimistic but then that is the ground reality of the seriousness of the energy sector and would require the government to introspect of the possible solutions to the likely 'energy crisis' of the future.

Clearly the major issue in the energy sector is the mounting power requirements, coal as the primary source of energy, primarily thermal power generation, excessive dependence on imported crude petroleum, absence of energy security and above all leaving the government with little options in the short term.

CHAPTER 13

GOVERNMENT FINANCES

13.1 FISCAL POLICY IN INDIA

The government does not perform any business so it cannot earn money to spend. Hence, the government has to raise the money from the economy to enable it to spend that money in terms of requirements and national priorities. The government raises money primarily through 'taxes' and the spending known as 'public expenditure'. A policy which iffects either the manner in which the government raises resource or spends is known as fiscal policy'. The objectives of any fiscal policy of a country' are as follows:

1)To ensure that the expenditure in an economy is in terms of national priorities, to boost growth for the welfare of the people.

2)Expenditure being incurred should not lead to a price rise situation.

3)There should be efficiency in the way of resources that are raised and spent.

4)Efforts are to be made to avoid wasteful expenditure in the economy.

5)Resources being raised by the government through taxes should not create burden on the common man.

6)Taxation should be 'just and helpful in reducing income inequalities.

7)The policy should aim for overall improvement of the welfare of the economy.

India, there is no fiscal policy by the name; however, the objectives of those are being achieved by the annual financial statement popularly known as the budget which is tablled in the parliament. Hence, budget is not merely the details of expenditure and taxes but is also a policy tool to sub-serve objectives of a fiscal policy. The budget, thus, more than a balance sheet of government receipts and expenditures presented to the parliament.

13.2 PUBLIC EXPENDITURE OF GOVERNMENT

Public expenditure is spending by the central government. Till 2016-17, Government defined broadly, there are two kinds of expenditure—one is plan expenditure, which is expenditure ear marked for investment in different areas, in the five-year plans for various sectors of the economy. These could be either capital or revenue in nature. Capital expenditure represents creation of assets in an economy and is thus desirable for growth.

For example, money spent for setting up power plant is a capital expenditure. Revenue expenditure is recurring in nature, for maintenance, etc.

The other is the non-plan expenditure which is an expenditure not covered in the five-year plan but yet has to be incurred and could again be either revenue or capital. In India, non-plan expenditure is 70 per cent of the total expenditure whereas plan expenditure is only 30 per cent. The highest expenditure is non-plan revenue expenditure accounting for 63 per cent of total expenditure.

What are the components of non-plan revenue expenditure? The first is the interest payments (servicing of the loans taken by the central government both internal and external) accounting for over 25 per cent of the total expenditure. Secondly, subsidies (food, fertilizers and retail petroleum goods). Thirdly establishment expenses of defense. Fourthly, loans to state govemments/UT, establishment expenses of central government, pension to defence/central government retired personnel. Expenditure on these heads would account for over 90 per cent of non-plan revenue expenditure. These expenses are also known as consumption of the government as no assets are created.

13.3 RECEIPTS BY THE GOVERNMENT

The expenditure in an economy is met out of receipts by the government through various sources. The receipts could be revenue (which do not create any interest liability for the government, regularity in their receipts and not representing borrowings) and the other as capital (cither creating a liability for the government or less certain of their receipt or borrowings). Of the total receipts, 90 per cent is revenue and 10 per cent is capital receipts. The primary source of revenue receipts is tax revenue (84 per cent of total receipts). Taxes could be either direct or indirect.

How to distinguish direct tax from indirect tax? Direct tax is a tax where the subject on whom the tax has been levied is identifiable, who has to pay the tax and the tax burden cannot be shifted. Examples can be income tax, corporate taxes, wealth tax, etc. In case if the subject is not identifiable or if the burden can be shifted it is an indirect tax. Common examples are excise duty (payable by companies on manufacturing activities), customs duty (duty on import of goods), service tax (tax on services being rendered by service providers), etc.

Fifty-five per cent of the tax revenue arrives through direct taxes while 45 per cent of the revenue is from indirect taxes. The base on which the tax is applied for indirect taxes could either be on value *(ad valorem)* or specific on a particular attribute (length of staples in cotton). India primarily follows an *ad valorem* indirect tax structure.

Certain taxes are levied by the central government and at the same time it is also collected by the central government (income tax, customs duty, excise duty and service tax), certain taxes levied by the central government bur collected by the state governments (central sales tax levied on inter-state movement of goods). A few other taxes are levied and collected by the respective state governments (sales rax, octroi, municipal taxes, road tax, entertainment tax and agriculture tax).

The basis of sharing the rax revenue between the centres and the states are decided by the finance commission. The thirteenth finance commission under the chairmanship of Shri Vijay Kelkar has since submitted its report and is effective from 2010 to 2015.

There are two additional taxes—one is the surcharge which is imposed for additional revenue considerations by imposing an additional percentage on the absolute amount of tax payable. Suppose surcharge on a tax is 5 per cent and the tax payable is ₹100 then the total tax liability including surcharge would be ₹105.

The other is cess which is similar in application as the surcharge except that the amount collected by way of cess is meant solely for specific funding/cause like education cess, the amount collected would go for funding of education only.

Components of revenue receipts other than taxes are dividends received by the government from public sector, payment of interest by the state governments etc. Similarly, capital receipts of the government comprises of recoveries of loan, grants, assistance received by the government etc.

13.4 WAYS AND MEANS ADVANCES

An interesting characteristic of expenditure and the receipts of an economy is that, all the receipts come with a lag over a period of time like direct taxes would be by the end of each quarter while committed expenditure as to be incurred immediately.

That is, for example, if there is a temporary mismatch between governments receipts and expenditure in a financial year and to meet this mismatch the Reserve Bank of India provides temporary overdraft to the government through the 'ways and means advances'.

This overdraft facility is for a time period of 90 days and the amount of overdraft is ₹20,000 crores during April to September and ₹ 6000 crores during October to March.

13.5 NATURE OF GOVERNMENT BUDGET

Thus, so far we have discussed the expenditure and receipts. What happens if expenditure exceeds receipts? It would result in a deficit or otherwise in a surplus and if both match then balanced.

What is good for an economy—a deficit, surplus or a balanced budget? To answer this question, a few aspects should be understood. There is a difference between personal and government budget and that being in a personal budget, spending is strictly in accordance with income. However, in a government budget, it is important to understand that expenditure is seen first and the reason for receipt is because of the need for spending in the economy. That is, a government budget by its very structure is deficit-oriented.

Only in an economy where receipts surpass spending can there be a surplus or the government scales-down spending to match the receipts. This could drag down growth as lesser expenditure is taking place. More so in India, given the inflexibility to bring down non-plan expenditure, any reduction in expenditure would imply lesser capital expenditure and expenditure on social sector.

A balanced budget is good only if the budget is seen as a balance sheet or a statement of accounts of the government of India. A better thing can be a balanced budget multiplier which is an incremental increase in expenditure in any given year is met out of incremental increase in receipts in a given year.

13.6 NATURE OF DEFICITS

Different components of expenditure and receipts are explained for a better understanding of deficits in the budget.

	Receipts	Rs in crores		Expenditure	Rs in crores
1.	Revenue receipts	90,000	4.	Non-plan revenue expenditure a) (interest payment)	90,000 (50,000)
2.	Capital receipts (of which market borrowings of the government)	(10,000)	5.	Non-plan capital expenditure	25,000
			6.	Plan capital expenditure	50,000
			7.	Plan revenue expenditure	10,000
3.	Total receipts (1+2)	1,00,000	8.	Total revenue expenditure (4 + 7)	1,00,000
			9.	Total capital expenditure (5 + 6)	75,000
			10.	Total expenditure (8 + 9)	1,75,000

From the above example, we acquire to know various kinds of deficit.

(1) Budgetary deficit is total receipts (3) less total expenditure (10) ₹ 75,000 crores).

(2) Fiscal deficit is total receipts (but excluding government market borrowings) less total expenditure (₹85,000 crores).

(3) Revenue deficit is revenue receipts (1) less revenue expenditure (8) (₹ 10,000 crores).

(4) Primary deficit is fiscal deficit less interest payments (4a) (₹35,000 crores) (A negative sign before the deficit would indicate surplus).

Since economies have begun targeting the fiscal deficit, usage of budgetary deficit has been discontinued. Of the remaining three, fiscal, revenue and primary which can be said to being potentially most dangerous? ‘It is not the fiscal but the revenue deficit. As revenue deficit implies borrowing money for meeting the consumption of the government and not to create assets. Borrowings *per.se* are not bad as long as assets get created and the assets can service the borrowings.

In India, 70 per cent of the fiscal deficit is accounted for by revenue deficit. The primary deficit, on the other hand, tests for the sensitivity of interest payments towards fiscal deficit or how far the interest payments are responsible for the fiscal deficit.

A high primary deficit would mean that fiscal deficit is on account of factors other than the interest payments and structural in nature. A low primary deficit indicates that the high fiscal deficit is on account of interest payments, which is the case in India.

Hence we started by saying that the nature of government budget is deficit-oriented but too much of deficit is also bad as it contributes to inflation. It is difficult to say as what could be the ‘safe* level of fiscal deficit.

A basic thumb rule is it should be under 3 per cent of GDP with a balanced budget multiplier. There are various compulsions of the government which make expenditure control difficult especially given their responsibilities for socio-welfarc schemes, infrastructure development, etc.

Still the government in line with the above had set definite time frame for reducing the fiscal and revenue deficit under the Fiscal Responsibility and Budget Management Act (FRBMA) for gradual reduction of revenue deficit by 0.5 per cent every year to be brought down to zero by 2007-2008. In respect of fiscal deficit the aim was to reduce it by 0.3 per cent every year beginning from 2004 to 2005. Clearly, the targets have not been achieved.

The global crisis initiated during 2007 required a fiscal stimulus package to ensure that the Indian economy does not slip into a recession and a conscious decision taken to relax the FRBMA provisions until the situation is improved.

If the expenditure needs are inflexible and deficits have to be checked the only way is to augment the receipts and this is where the government has focused through tax reforms with the taxes being a major source of receipts for the government as it offered great potential. There is a need to increase the tax to GDP ratio which is presently around 10 per cent especially given the growth of the economy there should be proportionately larger increase in tax revenue.

13.7 TAX REFORMS—INDIRECT TAXES

It was mentioned previously that indirect taxes contribute about 45 per cent of the tax revenue. A major source of indirect taxes is excise duty which is payable on value of manufacturing activities in the economy. Excise duty like other indirect taxes by its inherent structure is regressive in nature.

For example, the excise duty on salt is 10 per cent on a factory price of ₹10 which means the retail price for a packet of salt is ₹11 with an excise of ₹ 1 per packet going to the government. The price of ₹11 is being paid by a person who is earning ₹5000 per month and also even by a person whose earning is ₹1,00,000 per month. The tax burden is higher on the people with lower income and that is what is meant by regressive.

Secondly, multiple excise structure with multiple rates giving rise to different interpretation on tax payable giving scope for evasion, litigations and revenue loss to the government.

The third issue in excise is the cascading effect of taxes. For example, Maruti buys tyres from MRF company. The purchase price of tyres from MRF would have a component of excise duty, which becomes the input price for Maruti and excise duty has to be paid on the frill value of car. This is known as the cascading effect, that is, taxes increase the manufacturing cost and get again taxed.

The government has tried to address the issue by reducing the slabs of excise duty only and lower excise duty on essentials or mass goods to minimize the regressive character. With regard to the cascading effect, the best way to prevent it is by introducing value added tax VAT) which is a tax on the value additions at each stage of production rather than on the finished goods. Provided the federal structure both centre and state government VAT would have to be at both levels.

An initiation was made with the government by first introducing the modified value added tax (MODVAT) scheme which allowed partial adjustment of duties on capital goods purchased, however, it was restrictive in nature. The government replaced MODVAT with a wider scheme of input credit for the excise duties inputs (raw materials, capital goods and services) purchased for direct use in production known as central value added tax (CENVAT) at the central level during 2004.

A major reform has been at the state level with the replacement of sales tax with state VAT. The credit for this goes to Shri. Asim Das Gupta the then Finance Minister, West Bengal and can be hailed as a landmark in tax reforms.

'Why' it is a major reform? First to make all the state governments to agree for the replacement of sales tax with a state VAT. The sales tax regime was very complicated with different sales tax rates for same products in different states. A state VAT required one product one tax rate' across all states and to drive a consensus for this was herculean effort as some states would stand to gain and others would tend to lose.

If in a particular state sales tax was a high of say 24 per cent but the consensus under a state VAT was only 12.5 per cent for that good clearly there would be revenue loss for that state government.

State VAT made effective from 1 April 2005 has the following salient features:

(1) State VAT is not a new tax but only a change in the way of collecting tax from the final stage to the value addition stage.

(2) This allows for set-off of duties from the tax payable but against original invoices/ challans of the tax paid on the inputs purchased.

(3) There would be a uniform 4 per cent state VAT on 270 mass-consumed goods across all states, a uniform VAT of 12.5 per cent on 280 goods and 1 per cent on gold and silver ornaments across all states.

(4) Those with a turnover of ₹ 5 lakh and less would not be liable for any VAT, from ₹ 5 to 50 lakh a composite tax but with no set-off. VAT is payable for turnover exceeding ₹ 50 lakhs

The state VAT has helped in checking tax evasion by introducing a 'bill culture, transparency in tax administration and collection, increased revenue for the state government. Further, as part of deeper reforms, the government is proposing to integrate taxing of goods and services at differential rate separately into one tax with one tax rate as goods and services tax (GST) with both the centre and states taxing concurrency as the central government GST (CGGST) and the state government GST (SGGST).

This would considerably simplify the indirect tax regime, enlarge the tax base for larger resource generation and thus lower GST rate resulting in lower prices does of goods and services but also in ensuring the revenue for the government not to suffer , the government proposes to implement the GST regime as soon as there is broad based consensus with the states and technology put in place. Reforms in indirect taxes are commendable and the government' s proposal of propelling to GST would place India with an efficient indirect tax regime at par with other mature economies of the West.

13.8 TAX REFORMS—DIRECT TAXES

Direct taxes as seen earlier contribute 55 per cent of the tax revenue and it is a better way of taxation as it is progressive in nature and based on 'ability to pay', higher the income, progressively, more the tax rate leading to greater revenue with least burden on the masses or those with low income. Direct taxes particularly income tax is progressive and in contrast to other taxes which are regressive in nature.

The progressivity of income taxes in periods of inflation pushes people up the tax bracket, as pay packets get inflated due to inflation resulting in higher taxes paid and reduced spending by the individuals. On one hand, the coffers of the government fills up because of people moving up the tax bracket and on the other there is a reduced spending. This phenomenon is known as 'Fiscal drag'.

How many people do you think are tax payers in the economy?

At present, 4.0 per cent are tax payers in the Indian economy, about 37 million in a population of over one billion people. This number is low especially considering the fact that India in its growing economy, with increased income, rising middle class, the affluent class and large number joining the elite billionaire club. In comparison, the number of tax payers has only increased by 11 per cent.

What are the ways through which tax payers and tax revenue can be increased? There could be three ways through which it can be increased and are as follows:

1) Increase in the direct tax rates.
2) Increase in the tax base.
3) Enforce tax compliance.

Increase in Tax Rate

Any increase in tax rate is seen negatively and resented by the people. There is also a relationship between the direct tax rate and revenue generated. Starting from a low tax rate and gradually increasing it, is positively related and increases tax revenue. However, beyond a level, any increase in tax rates becomes counter-productive as it lowers tax revenue rather than in increasing it. This is popularly known as the 'Laffer curve'.

An economy being on the Laffer curve implies that any increase in tax rates would lower the tax revenue and on the contrary lowering of tax rate would lead to increased revenue for the government. It is widely believed that India is on the Laffer curve with limited prospects of raising taxes.

This is because high tax rates lead to tax evasion, non-disclosure of income and generation of black money (taxes not paid). All efforts are made to minimize the incidence of taxes legally and illegally. It serves as a disincentive in the economy leading to lowering of income and the output. Hence, raising tax rates is not an option available in India.

Increase in Tax Base

Tax base refers to that threshold level of income on which taxes become applicable. India has an exemption level, that is, if income is less than ₹ 2.5 lakh per annum taxes are not payable. So one way could be to lower the exemption level so that more people are drawn in the tax net and thereby an increase in tax payers and tax revenue.

At present, the exemption level is very low given the present inflation. Besides the inflation does not factor in cost of education, transport and property prices all of which have increased manifold in recent times creating hardships and making it difficult for the middle class to make both the ends meet. Lowering the exemption would further burden the middle class and more so by this way it may be possible to increase the 'number of tax payers' but 'not necessarily tax revenue' as many would be marginal tax payers.

The other way to increase the tax base is to bring in untaxed sectors under the tax net. All sectors with the possible exception of the agricultural sector are already under the tax net. Agriculture being a state subject can be taxed only by the state government and not by the central government. Thus, like increasing tax rate, even increasing tax base is not a feasible option for raising direct tax revenue in India.

Ensuring Tax Compliance

This is to ask the question that, is every person who ought to pay taxes is paying his/her taxes in terms of existing laws and the second are the people who are not paying should actually be paying taxes. This is what is meant by tax compliance. The government has made an initiation by making the income tax return form user friendly and easy to fill up by an individual and it is known as 'Saral'.

The problem in India is that of tax compliance with lot of leakages, large-scale tax evasion and black money. It is estimated that over 40 per cent of GDP is black money which is circulating in the economy on which no taxes are paid.

13.9 GOODS AND SERVICES TAX: PROGRESSIVE TAX REGIME

India's biggest tax reform since independence ,Goods and Services Tax (GST) came into force from the midnight of 1st July 2017 after 17 tumultuous years of debate, unifying more than a dozen central and state levies.

GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive . GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.

By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.

GST is a destination based tax. It follows a multi-stage collection mechanism. In this, tax is collected at every stage and the credit of tax paid at the previous stage is available as a set off at the next stage of transaction. This shifts the tax incidence near to the consumer and benefits the industry through better cash flows and better working capital management.

1. GST is largely technology driven. It will reduce the human interface to a great extent and this would lead to speedy decisions.

2. GST will give a major boost to the 'Make in India initiative of the Government of India by making goods and services produced in India competitive in the National as well as International market. Also all imported goods will be charged integrated tax (IGST) which is equivalent to Central GST + State GST. This will bring equality with taxation on local products.
3. Under the GST regime, exports will be zero-rated in entirety unlike the present system where refund of some taxes may not take place due to fragmented nature of indirect taxes between the Centre and the States. This will boost Indian exports in the international market thus improving the balance of payments position. Exporters with clean track record will be rewarded by getting immediate refund of 90% of their claims arising on account of exports, within seven days.
4. GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance. GST is likely improve India's ranking in the Ease of Doing Business Index and is estimated to increase the GDP growth by 1.5 to 2%.
5. GST will bring more transparency to indirect tax laws. Since the whole supply chain will be taxed at every stage with credit of taxes paid at the previous stage being available for set off at the next stage of supply, the economics and tax value of supplies will be easily distinguishable. This will help the industry to take credit and the government to verify the correctness of taxes paid and the consumer to know the exact amount of taxes paid.
6. The taxpayers would not be required to maintain records and show compliance with a myriad of indirect tax laws of the Central Government and the State Governments like Central Excise, Service Tax, VAT, Central Sales Tax, Octroi, Entry Tax, Luxury Tax, Entertainment Tax, etc. lhey would only need to maintain records and show compliance in respect of Central Goods and Sendees Tax Act and State (or Union Territory) Goods and Services Tax Act for all intra-State supplies (which are almost identical laws) and with Integrated Goods and Services Tax for all inter-State supplies (which also has most of its basic features derived from the CGST and the SGST Act).

Salient Features of GST

The salient features of GST are as under:

(i) The GST would be applicable on the supply of goods or services as against the present concept of tax on the manufacture or sale of goods or provision of services. It would be a **destination based consumption tax.** This means that tax would accrue to the State or the Union Territory where the consumption takes place. It would be a dual GST with the Centre and States simultaneously levying tax on a common tax base. The GST to be levied by the Centre on intra-State supply of goods or services would be called the Central tax (CGST) and that to be levied by the States including Union territories with legislature/Union Territories without legislature would be called the State tax (SGST)/ Union territory tax (UTGST respectively.

(ii) The GST would apply to all goods other than alcoholic liquor for human consumption and five petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. It would apply to all services barring a few to be specified . The GST would replace the following taxes currently levied and collected by the Centre:

a. Central Excise Duty

b. Duties of Excise (Medicinal and Toilet Preparations)

c. Additional Duties of Excise (Goods of Special Importance)

d. Additional Duties of Excise (Textiles and Textile Products)

e. Additional Duties of Customs (commonly known as CVD)

f. Special Additional Duty of Customs (SAD)

g. Service Tax

h. Central Surcharges and Cesses so far as they relate to supply of goods and services

(hi) State taxes that would be subsumed under the GST are:

a. State VAT

b. Central Sales Tax

c. Luxury Tax

d. Entry Tax (all forms)

e. Entertainment and Amusement Tax (except when levied by the local bodies)

f. Taxes on advertisements

g. Purchase Tax

h. Taxes on lotteries, betting and gambling

i. State Surcharges and Cesses so far as they relate to supply of goods and services

(iv) The list of exempted goods and services would be common for the Centre and the States.

(v) An Integrated tax (IGST) would be levied and collected by the Centre on inter-State supply of goods and services. Accounts would be settled periodically between the Centre and the States to ensure that the SGST/UTGST portion of IGST is transferred to the destination State where the goods or services are eventually consumed.

(vi) **Use of Input Tax Credit:** Taxpayers shall be allowed to take credit of taxes paid on inputs (input tax credit) and utilize the same for payment of output tax. However, no input tax credit on account of CGST shall be utilized towards payment of SGST/UTGST and *vice versa.* The credit of IGST would be permitted to be utilized for payment of IGST, CGST and SGST/UTGST in that order.

(vii) **Exports and Supplies to SEZ** shall be treated as zero-rated supplies. The exporter shall have an option to either pay output tax and claim its refund or export under bond without tax and claim refund of Input lax Credit.

(viii) **Import of Goods and Services** would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties. The IGST paid shall be available as ITC for further transactions.

GST Council

The mechanism of GST Council would ensure harmonization on different aspects of GST between the Centre and the States as well as among States. It has been specifically provided that the GST Council, in its discharge of various functions, shall be guided by the need for a harmonized structure of GST and for the development of a harmonized national market for goods and services. The GST Council shall establish a mechanism to adjudicate disputes arising out of its recommendation or implementation thereof.

National Anti-profiteering Authority

National Anti-profiteering Authority under GST will be the apex body, which is mandated to ensure that the benefits of the reduction in GST rates on goods or services are passed on to the ultimate consumers by way of a reduction in prices. The National Anti-profiteering Authority (NAA) will be headed by a senior officer of the level of Secretary to the Government of India with four Technical Members from the Centre and/or the States.

NAA aims at comforting consumers that Government is fully committed to taking all possible steps to make sure the benefits of implementation of GST in terms of lower prices of the goods and services reach them. The “anti-profiteering” measures are enshrined in the GST law, which provides an institutional mechanism to make sure that the full benefits of input tax credits and reduced GST rates on the supply of goods or services flow to the consumers. This institutional framework comprises the NAA, a Standing Committee, Screening Committees in every State and the Directorate General of Safeguards in the Central Board of Excise & Customs (CBEC).

NAA work for affected consumers who feel the benefit of proportionate reduction in prices is not being passed on when they purchase any goods or services may apply for relief to the Screening Committee in the particular State. However, in case the incident of profiteering relates to an item of mass impact with ‘All India ramification, the application may be directly made to the Standing Committee.

Input tax credit

Taxpayer is allowed to take credit of taxes paid on inputs (input tax credit), as self-assessed, in his return. Taxpayer can take credit of taxes paid on all goods and services, other than a few items in the negative list, and utilize the same for payment of output tax. Credit of taxes paid on inputs can be taken where the inputs are used for business purposes or for making taxable supplies. Full input tax credit shall be allowed on capital goods on its receipt as against the current Central Government and many State Government practice of staggering the credit in more than one installment.

Unutilized input tax credit can be carried forward. The facility of distribution of input tax credit for services amongst group companies has been provided for through the mechanism of Input Service Distributor (ISD).

IT Preparedness

Putting in place a robust IT network is an absolute must for implementation of GST. A Special Purpose Vehicle called the GSTN has been set up to cater to the needs of GST. The GSTN shall provide a shared IT infrastructure and services to Central and State Governments, taxpayers and other stakeholders for implementation of GST. The functions of the GSTN would, *inter alia,* include: (i) facilitating registration; (ii) forwarding the returns to Central and State authorities; (iii) computation and settlement of IGST; (iv) matching of tax payment details with banking network; (v) providing various MIS reports to the Central and the State Governments based on the taxpayer return information: (vi) providing analysis of taxpayers' profile; and (vii) running the matching engine for matching, reversal and reclaim of input tax credit.

The GSTN will also make available standard software for small traders to keep their accounts in that, so that straight away it can be uploaded as their monthly returns on GSTN website. This will make compliance easier for small traders.

13.10 BLACK MONEY

Black money has nothing to do with the colour except to convey that it is necessarily an evil. It is an unaccounted income, earned through illegal channels and put to unproductive anti-national use and conspicuous consumption. Checking black money and tax evasion are the critical aspects of tax compliance.

Black money gets generated when big transactions are performed in cash, source and end use not possible to ascertain . For example , a friend gives you cash of ₹1000 . Technically, it is black money, may be not so in your case because the amount is small. However, say somebody gives ₹10 lakh in cash it is definitely black money.

In other way, all transactions where payments have to be made or received beyond a level of say ₹ 10,000 and above if done in cash is black money. Or still differently, transactions performed other than by way of cheques , drafts , credit cards , debit cards , direct transfers of money in bank accounts would be black money.

If you deposit ₹10 lakh in cash in your bank account it is black money (unless and until if you show the source from where you got it). If your father sends you a cheque of the same amount and you deposit it in your bank account it is a 'white transaction . Thus , transactions performed other than through banks and post offices would generate black money.

Why does black money ger generated? The primary reason for the black money generation is high tax rates, complex tax laws and provisions, strict controls on transactions, large amount of cash dealing, people not having bank accounts, land and property deals in cash, need for money to get jobs performed through various government departments, donations required for admission in schools and colleges, meeting dowry needs, compulsions of social functions and also for doing illegal activities both within and outside the country.

What has the government done to curb black money? Not much except the voluntary disclosure schemes and giving amnesty for the amount disclosed and demonetization of higher denominated currencies. (Recall India had earlier ₹5000 and ₹ 10,000 notes which have now been discontinued and cease to be legal tenders.)

The government has also declared that all transactions over ₹10,000 should be done through cheques/drafts. Drafts would not be made by banks against cash exceeding ₹50,000 in one day. A permanent account number (PAN) has been issued to all tax payers and it is mandatory to quote the PAN number for all transactions over ₹50,000.

The income tax offices at the four metros have been computerized and networked, creating a database of tax payers and transactions being performed by them. All Registrar offices registering land deals, credit card companies, automobile manufactures, etc., are required to furnish information beyond a cut off level.

The government with a view to have better tax compliance, lesser tax evasion, is proposing the direct tax code which would simplify tax laws and provisions, plug leakages, raise exemption levels and consider further lowering tax rates. However, till then tax compliance will be a major constraint to further raise tax revenue for the government.

Demonetisation Policy: Surgical Strike on Black Money

On November 8, 2016, the government announced a historic measure, with profound implications for the economy. The two largest denomination notes, Rs 500 and Rs 1000,were " demonetized " with immediate effect, ceasing to be legal tender except for a few specified purposes. At one fell stroke, 86 percent of the cash in circulation was thereby rendered invalid. These notes were to be deposited in the banks by December 30, 2016, while restrictions were placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits.

The aim of the action was fourfold: to curb corruption; counterfeiting; the use of high denomination notes for terrorist activities; and especially the accumulation of "black money", generated by income that has not been declared to the tax authorities.

It followed a series of earlier efforts to curb such illicit activities, including the creation of the Special Investigative Team (SIT) in the 2014 budget; the Black Money and Imposition of Tax Act 2015; Benami Transactions Act 2016; the information exchange agreement with Switzerland; changes in the tax treaties with Mauritius, Cyprus and Singapore; and the Income Disclosure Scheme. Demonetisation was aimed at signalling a regime change, emphasizing the governments determination to penalize illicit activities and the associated wealth. In effect, the tax on all illicit activities, as well as legal activities that were not disclosed to the tax authorities, was sought to be permanently and punitively increased.

In the wake of the demonetisation, the government has taken a number of steps to facilitate and incentivize the move to a digital economy. These include:

Launch of the BHIM (Bharat Interface For Money) app for smartphones. This is based on the new Unified Payments Interface (UPI) which has created inter-operability of digital transactions. The 250 million digital-haves can use their smartphone to make simple and quick payments.

Launch of BHIM USSD 2.0, a product that allows the 350 million feature phone users to take advantage of the UPI.

Launch of Aadhaar Merchant Pay, aimed at the 350 million who do not have phones. This enables anyone with just an Aadhaar number and a bank account to make a merchant payment using his biometric identification. Aadhar Merchant Pay will soon be integrated into BHIM and the necessary POS devices will soon be rolled out.

Reductions in fees (Merchant Discount Rate) paid on digital transactions and transactions that use the UPI. There have also been relaxations of limits on the use of payment wallets. Tax benefits have also been provided for to incentivize digital transactions.

Encouraging the adoption of POS devices beyond the current 1.5 million, through tariff reductions.

Benefits of Demonetisation

Tax on black money: The most important way to view demonetisation is as a tax administration measure, one designed to tax holdings of black money. Of course, demonetisation of large denomination notes is not exactly the same as demonetisation of black money. Some cash holdings were perfectly "white", the fruit of income upon which taxes had either been paid or had not been applicable in the first place (agricultural income, for example).

Cash holdings arising from income that had been declared could readily be deposited at banks and ultimately exchanged for new notes. But those with black money faced three difficult choices. They could:

- Declare their unaccounted wealth and pay taxes at a penalty rate;
- Continue to hide it, not converting their old notes and thereby suffering a tax rate of 100 percent; or
- Launder their black money, paying a cost for converting the money into white.

Tax compliance: Demonetisation can also be interpreted as a regime shift on the part of the government. It is a demonstration of the state's resolve to crack down on black money, showing that tax evasion will no longer be tolerated or accepted as an inevitable part of life. Since this action has commanded support amongst the population, demonetisation shows that black money will no longer be tolerated by the wider public, either.

Demonetisation could also aid tax administration in another way, by shifting transactions out of the cash economy and into the formal payments system. With large denominations eliminated, households and firms have begun to shift from cash to electronic payment technologies.

Tax on informal savings: Beyond reducing tax evasion, demonetisation could have other farreaching effects. For example, it will channel savings into the formal financial system. Without doubt, much of the cash that has been deposited in the banking system will be taken out again, as the cash withdrawal limits are eased and the note supply improves. But some of the new deposits will surely remain in the banks, where they will provide a base for banks to provide more loans, at lower interest rates.

In the longer-term, if demonetisation is successful, it will reduce the equilibrium cash-GDP and cash-deposits ratio in the economy. This will increase financial savings which could have a positive impact on long run growth.

13.11 VIEWS ON TAX COMPLIANCE

(1) Has it ever occurred why people do not want to pay taxes? Paying taxes globally is a matter of pride and joining hands with the government to provide better for the masses and improved civic amenities. Not so in India.

(2) That is, because, people doubt the intentions of the government in using it productively for the masses. Tax compliance would thus require austerity measures on the government lesser lavish spending and more responsiveness and sensitiveness towards the spending for masses.

(3) Tax compliance should be top-driven. Have you ever seen any top political leader, bureaucrat going to file his income tax return at the IT office in-person. No! it is not required officially but it sends the right message to people that how it is of high priority despite their busy schedule. Who is the first person seen as voting in an election? It is the President, Prime Minister and other top leaders. ‘Why?’ Just to send the right message to the people to come out and cast their vote.

(4) Hence tax compliance should start right from the top. The President, PM, Chief Ministers and senior leaders all of them filing their tax returns in-person.

(5) Who is the highest tax payer in the country? It is difficult to say or even more difficult to say who are the top 100 tax payers in the country. What prevents the government from honouring them at a public ceremony acknowledging their contribution to the national cause? It will transmit positive signals and encourage people to pay their taxes.

(6) What if one is seen by one’s friend or relative at the income tax office? It would definitely not be positive. The perception of the income tax officials has got to change from treating everyone as a tax evader to that of trust, a friend guiding and supporting the people. Let them have ‘May I help you counter’ at their offices for any assistance people may want. They could send out staff to assist tax payers in correctly filing their returns. It should not be difficult but could go a long way in increasing the compliance.

(7) It is not difficult to find out regular tax payers, a small well-worded thank you card can be sent to them each time after they have filed their return. Today, technology support is available to generate such computerized letters. What is being meant here is that the incentive for a tax payer to pay his taxes, a mere token of appreciation can work.

(8) Our policies for tax evasion can be said to be ‘soft’. What is required is strong punishment for tax evaders, those generating black money uniform for all irrespective of whether political leader, bureaucrat, private organization, etc., to serve as a lesson and a source of discouragement.

While tax compliance would remain an issue, still there are some other issues which can help augment revenue to the government like completely simplified tax regime based on income at low rates with no exemptions easily enforceable and minimizing leakages.

What is a an efficient tax system? An efficient tax system should allow for raising revenue without burdening the common man. It should provide for BECN briefed as below:

B buoyancy (raise tax revenue with increased growth of an economy rather thanby changing the tax rates).
E effectiveness (promoting tax compliance).
C cost-effective (lower cost of collection with increased tax revenue).
N neutral to economic decisions (not influencing location of businesses).

The present tax structure in India is still evolving and moving in the right direction of a GST for indirect taxes and direct tax code for direct taxes. While all these efforts at increasing tax compliance are appreciable there are other issues which should also get adequate attention of the government and that is cost of collection of taxes is continuously increasing. There is a requirement to arrest this trend and ensure higher collections at lower costs.

The other is given the inflexibility of expenditure, there is scope for rationalizing government expenditure by reviewing the requirement for so many ministries, merging ministries for sharper focus, abolition of vacant posts, greater austerity in government spending and small expenditure cuts wherever feasible. It is these small cuts which would make the picture larger. And for once economics should prevail over political compulsions in the larger interests of the economy.

Typical Budget in India

We have covered public expenditure, taxes and different kinds of deficits as part of the budgetary process. A typical budget presentation initiates with a review of the economy in terms of the Economic Survey presented in the Parliament (a few days before the budget is presented), which is followed by the expenditure proposals and finally the tax proposals which most anxiously awaited by all.

All receipts in the economy are retained in the consolidated fund of India and money can be utilized only after the budget is passed by both the Houses of Parliament, which is that Parliament provides approval for various expenditure and permits withdrawal of funds for various expenditure needs of the economy. Certain expenses can be incurred by the government without the approval of Parliament and are known as 'charged expenditure' such as meeting interest obligations, salaries and emoluments to constitutionally appointed heads such as chief justice of India, CVC, CAG, etc.

There are two other kinds of budgets interim and vote on account. Interim is a kind of budget addressed for a period less than a Rill year. Vote on account is not a type of budget strictly, but seeks approval for ongoing expenditure needs, no fresh expenditure or tax proposals. This is normally presented when the government is about to face elections or when the time period is too short even for an interim budget to be presented. In any case, the choice of the type of budget to be presently lies with the government.

In case, election dare has already been announced the election commission is empowered to restrain the government from presenting an interim budget but present a vote on account only. Traditionally, budgets are shrouded with secrecy and it lacks transparency.

There should be greater and broader participation of people from all walks of life to ensure budgets being prepared are not only of the government but also of the people.

The budgets are focused on 'outlays' or spending under different heads but no provision is made to know the outcome' of such spending. The ocher aspect is the outlays are not linked to the actual need. For example, the budget might propose increased outlay of say ₹100 crores on education in comparison to an increase of only ₹ 50 crores in the last budget . However, there is no mention of how much actually needs to be spent on education in total.

MERGER OF RAIL BUDGET WITH UNION BUDGET

Changes made in Budget and Budgetary Practices

- Merger of Rail Budget with Union Budget
- Advancement of Financial Year
- To advance its presentation by 27 days.
- To dispense with Plan-non-Plan dichotomy in expenditure.

Budget Presentation Date Advancement

The objective behind this move is to have the Budget constitutionally approved by Parliament and assented to by the President, and all allocations at different tiers disseminated to budget-holders, before the financial year begins on April 1.

- The proposal for a change in the budget presentation date was first mooted by some of the government's senior most bureaucrats as part of a 'Transforming India initiative in January 2016.

Advantages:

- In the existing system, the Lok Sabha passes a vote on account for the April-June quarter, under which departments are provided a sixth of their total allocation for the year. This is done by March. The Finance Bill is not passed before late April or early May. If the Budget is read in January and passed by February-March, it would enable the government to do away with a vote on account for the first three months of a financial year.
- Retired and serving officials say the biggest plus would be that the Finance Bill, incorporating the Budget proposals, could be passed by February or March. So, government departments, agencies and state-owned companies would know their allocations right from April 1, when the financial year begins.
- It would also help the private sector to anticipate government procurement trends and evolve their business plans.

To dispense with Plan-non-Plan dichotomy in expenditure from 2017-18

From 2017-18, the Central Government expenditure will be classified only as capital and revenue spends.

The move is a part of the governments decision to do away with the classification of Plan and Non-Plan expenditure. In line with the government's decision to dismantle the

Planning Commission, the new spending classification will come at a time when the Five-Year Plan mechanism will also end. Instead, it will be replaced by a medium to long-term planning system under the NITI Aayog.

The classifications in the Union Budget 2016-17 for Centrally-sponsored schemes have already been changed to "core of the core", "core" and "optimal".

Improving Quality

Economists have for long argued that Plan and Non-Plan classifications should be done away with and the focus should be on improving the quality of government spending by focusing on the end use of the funds.

Plan expenditure, denotes the more productive use of government resources as investment in various programmes and schemes, but forms a small chunk of the total spending bill. Non-Plan expenditure, on the other hand, is the majority of the government spending and is used for interest payments, subsidies, wages and grants to States.

Plan/Non-Plan will help in resolving the following issues

- This distinction of expenditure had led to a fragmented view of resource allocation to various schemes.
- It had made it difficult to ascertain cost of delivering a service and also to link outlays to outcomes.
- It had led to bias in favour of Plan expenditure by Centre as well as the State Governments and had neglected essential expenditures on maintenance of assets and other establishment related expenditures to provide essential social services.
- The merger is expected to provide appropriate budgetary framework that will have focus on the capital and revenue expenditure

The separate Railway Budget, a 92-year-old tradition, has been scrapped by the centre. The Rail budget will be merged with the Union Budget starting next year as indicated by Finance Minister Arun Jaitley .The government is also in favour of advancing the Budget process, including the date of presentation.The Railway Budget was usually presented two days before the Union Budget.

From now onwards all the proposals regarding Railway Budget will be part of general budget, which will have a separate discussion on railway expenditure, but the functional autonomy of the Railways will be maintained. The end of a separate Budget will be a relief for the Railways, since its revenue deficit and capital expenditure will now get transferred to the Finance Ministry.

The Railways is also facing an accumulated burden of a whopping Rs. 4.83 lakh crore towards execution of 458 unfinished and ongoing projects. With the scrapping of die rail budget, the Railways will also not have to pay a special dividend to the government for getting gross budgetary support. The Railways pays about Rs. 10,000 crore as dividend a year after getting about Rs. 40,000 crore.

A committee led by Niti Aayog member Bibek Dcbroy on restructuring of the Ministry of Railways had recommended that the British-era legacy of having a separate railway budget should be phased out, merging it with the General Budget.

This step will help raise capital expenditure in Railways which will enhance connectivity in the country and boost economic growth. Functional autonomy, distinct identity of Railways will remain as it is. The merger would also facilitate an integrated and seamless approach towards transportation strategy in the country.

It has been proposed to hold the budget session of Parliament early and present the union budget on February 1 instead of the past practice of it coming only on the last day of February.

The budgets year after year get engaged in micro issues for example taxes on tooth pastes, etc., which is not required. The budget may address broad issues of the tax rates in general rather than go into the minutest of details or should be more macro-oriented and micro-detailing done through annexures, for a better understanding of the underlying macro-issues in a budget.

Such reforms in the budgetary process itself also need to be integrated as part of the larger reforms. All the reforms in the country are around the government but not in the government.

13.13. SOME OTHER FORMS OF BUDGETING

Zero-Based Budgeting - ZBB

This is a method of budgeting in which all expenses must be justified for each financial year. The process of this budgeting starts from a "zero base," on every financial year. Every function within the ministry or department is analyzed for its needs and costs. Budget allocations are then made according to the need of ensuing financial year.

Outcome Budget

The Outcome Budget is a progress card on what various Ministries and Departments have done with the budget allocation in the previous budget. Outcome based budgeting is a practice of suggesting and listing of estimated outcomes of each programmes or schemes designed.

Gender Budget

A Gender Budget or Gender-Responsive Budget is a budget allocation that considers the gender patterns in the society and allocates the resources to implement policies and programs to help moving society towards a more gender equal society.

Gender Budget disaggregates the mainstream budget according to its impacts on women and men. It visualizes the process of conceiving, planning, approving, executing, monitoring, analyzing and auditing budgets in a gender-sensitive way.

Performance Budgeting

Performance Budgeting also known as Planning-Programming-Budgeting System (PPBS) is an attempt to integrate budgeting with overall planning of the country as a whole. It tries to make the planning, execution, and evaluation of government policies in a more systematic manner. The centre for PPBS is the budget; the methods used are planning and decision-making. The purpose of this budget is for ensuring a more viable economy and improved coordination among various sectors.

CHAPTER 14

RESERVE BANK OF INDIA AND MONETARY POLICY COMMITTEE

14.1 RESERVE BANK OF INDIA

In the previous section on government finances, we had discussed about various kinds of deficits. How are deficits met or do they remain as deficits on paper only. Any deficit has to be met. A government budget could be met through either printing of notes or it could be borrowed known as market borrowings of the government.

The fulfilling of deficits takes us into the realms of'banking'. At the apex is Reserve Bank of India (RBI) aslo known as the Central Bank of India, which controls banking in India and is also the banker to the government. Both printing of money as well as market borrowings are the major functions of RBI.

But then what is money? Something which has universal acceptability, functions as a medium of exchange, store of value and also having the backing of the government as a legal tender in the economy. Then what is 'near' money? Near money functions similar to the money but is not actually money as it is not universally acceptable such as credit cards 'also known as plastic money), drafts and debit cards.

Money in India comprises of currency notes of ₹2000, 500, 200, 100, 50, 20 and 10 signed by the Governor of RBI and coins of ₹ 10, 5, 2, 1, 50 paisa which are not signed but carry the denomination and the national emblem.

All notes are printed at the printing presses functioning under the RBI and coins minted at government mints under the Ministry of Finance, Government of India. The basis of printing is minimum reserve system with a minimum value of government-held gold of ₹200 crores and the remaining is backed by the government securities issued and held by RBI. The RBI/government has complete flexibility in printing of notes. However, printing of money increases the stock of money in relation to goods available and thus pushes up the prices resulting in inflationary pressures.

If the deficit is financed through printing of money it is known as monetization of deficit or monetized deficit. Any monetized deficit will leads to inflation. Realizing the dangers of monetization, governments have switched to market borrowings for meeting the deficit to prevent build-up of inflationary pressures for the past several decades.

What are market borrowings? Market borrowing for meeting the deficit is performed by the RBI, on behalf of the government being a banker to the government. This is performed through issuance of central government securities by RBI and could either treasury bills (borrowings of less than a year) or dated securities (more than a year).

All carry a fixed interest rate (also known as coupon) directly in case of dated securities and can be derived in case of treasury bills. There is always a market for government securities as they are risk-free (gilt edged) as the government can never be a defaulter in meeting its debt obligations and in the most exceptional circumstances it can always resort to printing of currency in discharge of its debt obligations.

A major role is played by banks as they subscribe to these borrowing programs of the RBI. This is discussed separately in the chapter on Banking.

However, large government borrowings to meet the deficit have three issues. One, it crowds out private investment which otherwise would have arrived in the economy. This is because the money is being raised in the same economy from where the private investment comes. Secondly, large borrowings would add pressures on interest rates as large borrowing would necessitate higher interest rates. If the interest on government securities is high it would add pressures on the general interest rate which could create inflationary pressures. Thirdly, interest payment is the number one expenditure head accounting for over 25 per cent of the total expenditure in the economy. This has happened as over the past several decades deficits are being financed through market borrowings.

Hence it is easy to understand that both the methods of meeting the deficits have their own downturns and a better way is to contain the deficits to 'manageable limits*. This would require fiscal consolidation both back-ended (boosting receipts through tax reforms) as well as front-ended (curtailing unproductive expenditure and austerity in government spending).

The challenge for the government especially 'open' ended subsidies or those which do not have any outer cap, lies in striking a balance between meeting expenditure needs of the social sector and infrastructural development, maintain growth momentum and at the same time keep the fiscal deficit manageable as a long-term strategy.

14.2 MONETARY POLICY COMMITTEE

Monetary policy decisions by central banks can have far-reaching implications for the economy, investors, savers and borrowers. And if seen to be taken by an individual, these decisions can cause a lot of heartburn. Therefore, globally many governments have solved this problem by appointing a committee.

The Government amended the RBI Act to hand over the job of monetary policy-making in India to a newly constituted Monetary Policy Committee (MPC) on June 27, 2016.

The new MPC is to be a six-member panel that is expected to bring "value and transparency" to rate-setting decisions. It will feature three members from the RBI: the Governor, a Deputy Governor and another official and three independent members to be selected by the Government.

A search committee (yes, another committee) will recommend three external members, experts in the field of economics, banking or finance, for the Government appointees. The MPC will meet four times a year to decide on monetary policy by a majority vote. And if there's a tie between the 'Ayes' and the 'Nays', the RBI governor gets the deciding vote.

Where the government nominees will serve a four-year term "or until further orders, whichever is earlier", they will function as independent members. The committee decides interest rates through a majority vote, with each member having one vote. In case there is a tie, the governor will cast vote. At least four members will have to be present for the quorum to be complete. The special feature of MPC is that, it doesn't comprise of only pure monetary economists.

Functions of the MPC

Under the Monetary Policy Framework Agreement, the RBI will be responsible for containing inflation targets at 4% (with a standard deviation of 2%) in the medium term. Under Section 45ZA(1) of the RBI Act, 1934, the Central Government determines the inflation target in terms of the Consumer Price Index, once in every five years in consultation with the RBI. This target would be notified in the Official Gazette. Though the central bank already had a monetary framework and was implementing the monetary policy, the newly designed statutory framework would mean that the RBI would have to give an explanation in the form of a report to the Central Government, if it failed to reach the specified inflation targets. It shall, in the report, give reasons for failure, remedial actions as well as estimated time within which the inflation target shall be achieved. Further, RBI is mandated to publish a Monetary Policy Report every six months, explaining the sources of inflation and the forecasts of inflation for the coming period of six to eighteen months.

Given this backdrop, MPC decides the changes to be made to the policy rate (repo rate) so as to contain the inflation within the target level specified to it by the Central Government. Each member of the Monetary Policy Committee has to write a statement specifying the reasons for voting in favour of, or against the proposed resolution, and the same alongwith the resolution adopted by the MPC is published as minutes of the meeting by RBI after 14 days of the said meeting. In addition, subsequent to the MPC meeting, RBI has to publish a document explaining the steps to be taken by it to implement the decisions of the Monetary Policy Committee, including any changes thereto.

Decision Making at MPC

The proceedings of MPC are confidential and the quorum for a meeting shall be four a members, at least one of whom shall be the Governor and in his absence, the Deputy who is the Member of the MPC.

The MPC takes decisions based on majority vote (by those who are present and voting). In case of a tie, the RBI governor will have the second or casting vote. The decision of the Committee would be binding on the RBI.

No act or proceeding of the Monetary Policy Committee shall be invalid merely by reason of—

- any vacancy in, or any defect in the constitution of the MPC; or
- any defect in the appointment of a person acting as a Member of the MPC; or
- any irregularity in the procedure of the MPC not affecting the merits of the case.

As per the Act, RBI has to organise at least four meetings of the MPC in a year. The government may, if it considers necessary, convey its views, in writing, to the MPC from time to time.

RBI is mandated to furnish necessary information to the MPC to facilitate their decision making and if any member of the MPC, at any time, requests the RBI for additional information, including any data, models or analysis, the same have to be provided, not just to that member but to all members.

The transitioning from the current decision process to that of an MPC will impart diversity of views, specialised experience and independence of opinion in the monetary policy decisions which could help in improving the representativeness in the overall decision-making process.

CHAPTER 15

BANKING

In the previous chapter, it was mentioned that the apex bank is the RBI besides acting as a banker to the government. It is also banker to banks and functions as the monetary authority in the economy.

15.1 BANKS IN INDIA

Bank is a financial intermediary between the people (which accept deposits from them by providing them interest on deposits maintained within the bank) and economy (lends for productive purposes at an interest) and in the process earns profits. This is known as commercial banking. Banking in India is truly a reflection of a mixed economy with public sector banks, private and foreign banks.

Public sector banks in India are presently twenty-one comprising of State Bank of India. Banks have an important role to act in the overall growth of an economy in their ability to lend to various sectors of the economy for expansion, diversification of existing businesses and also to support the new businesses.

In line with the liberalization policy, reforms were also initiated simultaneously in the banking sector during 1991 based on the recommendations of the Narasimham committee.

Before 1991, banking was highly sheltered and regulated by the RBI, like the industrial sector. To support the policy of liberalization and also to allow for growth of the private sector, it became essential to undertake banking sector reforms.

15.2 BANKING STRUCTURE IN INDIA

Reserve Bank of India (RBI)

The RBI is the supreme monetary and banking authority in the country' and controls the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks.

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

Scheduled & Non-scheduled Banks

A scheduled bank is a bank that is listed under the second schedule of the RBI Act, 1934. In order to be included under this schedule of the RBI Act, banks have to fulfill certain conditions such as having a paid up capital and reserves of at least 0.5 million and satisfying the Reserve Bank that its affairs are not being conducted in a manner prejudicial to the interests of its depositors. Scheduled banks are further classified into commercial and cooperative banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934.

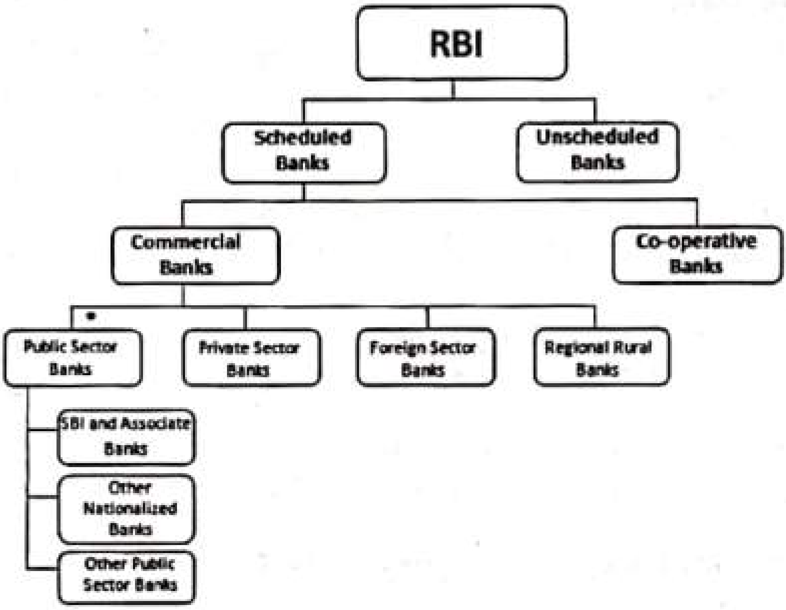
Commercial Banks

Commercial banks may be defined as, any banking organization that deals with the deposits and loans of business organizations. Commercial banks issue bank checks and drafts, as well as accept money on term deposits. Commercial banks also act as moneylenders, by way of installment loans and overdrafts. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals.

Scheduled Commercial Banks (SCBs)

Scheduled commercial banks (SCBs) account for a major proportion of the business of the scheduled banks. SCBs in India are categorized into the five groups based on their ownership and/or their nature of operations. State Bank of India and its six associates (excluding State Bank of Saurashtra, which has been merged with the SBI with effect from August 13, 2008) are recognised as a separate category of SCBs, because of the distinct statutes (SBI Act, 1955 and SBI Subsidiary Banks Act, 1959) that govern them. Nationalised banks and SBI and associates together form the public sector banks group IDBI ltd. has been included in the nationalised banks group since December 2004. Private sector banks include the old private sector banks and the new generation private sector banks- which were incorporated according to the revised guidelines issued by the RBI regarding the entry of private sector banks in 1993.

Foreign banks are present in the country either through complete branch/subsidiary route presence or through their representative offices.



Types of Scheduled Commercial Banks

Public Sector Banks

These are banks where majority stake is held by the Government of India. Examples of public sector banks are: SBI, Bank of India, Canara Bank, **etc.**

Private Sector Banks

These are banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. Examples of private sector banks are: ICICI Bank, Axis bank, HDFC, etc.

Foreign Banks

These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Examples of foreign banks in India are: HSBC, Citibank, Standard Chartered Bank, etc

Regional Rural Banks

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State.

RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

Cooperative Banks

^ co- operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts, etc).

- 'Ihey provide limited banking products and are specialists in agriculture-relatec products.
- Cooperative banks are the primary financiers of agricultural activities, some small-scale industries and self-employed workers.
- Co-operative banks function on the basis of “no-profit no-loss”.
- Anyonya Co-operative Bank Limited (ACBL) is the first co-operative bank in India located in the city of Vadodara in Gujarat.

15.3 MAJOR AREAS OF REFORM IN THE BANKING SECTOR

(1) Liberal entry of private sector and foreign banks. It is as a part of the reforms that today there are big private banks such as ICICI, HDFC, Axis and foreign banks such as the Citi group, HSBC, Barclays operating along with the public sector banks.

(2) Public sector were provided greater autonomy to function in a competitive environment and frame independent policies based on broad framework provided by RBI.

(3) Interest rates both the deposits as well as advances were de-regulated and each bank was free to decide on the interest rates it chose to offer including interest on savings account which until recently was regulated by RBI.

(4) Similarly, in respect of lending rates, banks were free to decide on the interest rate they would charge, they had to publish the lowest rate of interest they would charge to their best except that clients known as the benchmarked prime lending rate (BPLR).
   - BPLR, however, lacked transparency as banks were lending even below BPLR known as sub BPLR lending. As a result, transmission of policy rate of RBI on lending by banks was diffused. To obviate this, RBI in 2010 has asked the banks to switch to base rate of interest, and that lending would not be done by banks, below their respective published base rate of interest, except DRI advances for weaker sector, loans against own deposits and loans to employees.
   - The basic difference between BPLR and base rate is that, while BPLR had a component of risk premium, it has to be loaded on the base rate. Thus, lending below base rate would be a losing proposition for banks.
   - The MCLR methodology for fixing interest rates for advances was introduced by the Reserve Bank of India with effect from April 1, 2016. This new methodology replaces the base rate system introduced in July 2010. In other words, all rupee Ioans sanctioned and credit limits renewed w.e.f. April 1, 2016 would be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark (means a reference rate determined internally by the bank) for such purposes.

- Existing loans and credit limits linked to the Base Rate (internal benchmark rate used to determine interest rates uptill 31 March 2016) or Benchmark Prime Lending Rate (BPLR or the internal benchmark rate used to determine the interest rates on advances/loans sanctioned upto June 30, 2010.) would continue till repayment or renewal, as the case may be. However, existing borrowers will have the option to move to the Marginal Cost of Funds based Lending Rate (MCLR) linked loan at mutually acceptable terms.
- The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. It is an internal benchmark or reference rate for the bank. MCLR actually describes the method by which the minimum interest rate for loans is determined by a bank - on the basis of marginal cost or the additional or incremental cost of arranging one more rupee to the prospective borrower.

(5) Banking was made more transparent, stress on full disclosure of both the good and bad assets.

(6) There was a standardization and uniform income recognition, asset classification and provisioning norms for the banking sector. For the first time, a uniform definition was given to non-performing assets (NPAs) known as the 90 days norms. Thus, interest on loans provided if not received within the stipulated time would require to be classified as an NPA.

(7) Realizing that banking is risky business having normal risks in lending and also to safeguard interest, banks were required to adhere to 'capital adequacy' norms in terms of international best practices (dealt separately below).

Finally, the overall objective was to bring in greater competition in the banking sector allowing for better products, improved services and fine-tuned interest rates to support the financial requirements of a growing economy like India and enable bigger banks in India to emerge as global banks.

15.4 CAPITAL ADEQUACY (BASEL NORMS)

Capital adequacy is a part of the larger global frame work of banking committee for financial supervision (BCFC), also known as Basel I and II and now also III norms post-global crisis. (Basel is a place in Switzerland where BCFC prescribed norms applicable to all banks across countries and thus known as Basel norms). Capital adequacy implies that any bank, being engaged in a business of lending has normal risks' associated and should have some minimum own funds to meet such risks.

Capital of banks being defined as the banks own capital and reserves as the core capital (Tier I) and also a component of supplementary capital (Tier II) is available to banks but less readily, like the revaluation of its assets (taken at a discount), provisions held for standard assets and long-term bonds raised by the bank (sub-ordinated debt).

Banks are today required to have their own capital in terms of shareholders funds, retained profits (deposits in banks are not bank's own but public money). The condition was that Tier II capital could not be more than 100 per cent of Tier I capital and that subordinated debt under Tier II capital not to exceed 50 per cent of Tier I capital.

The assets portfolio of a bank were weighted by the risk element, prescribed by central banks in the respective countries and aggregated, and a minimum 8 per cent of capital prescribed as the capital adequacy measure or Basel I norms. Which is, if a bank has risk weighted assets of ₹100 then it should be having at least as capital (Tier I and II), to comply with the Basel I norms.

Reserve Bank of India for Indian Banks, as a part of the financial sector reforms gave a time frame to Indian banks to become the Basel compliant. Subsequently, the norm was raised to 9 per cent and continues to be the same presently in India. Basel II norms further refined the concept of measurement of risk and also brought in concept of operational risk, which are not covered as part of the Basel I norms and retaining the ratio as 8 per cent. All Indian banks are both Basel I and II compliant.

Post-global crisis the ratio has been further increased implying greater capacity need for banks to ensure that such global financial sector crisis does not recur in future. Capital adequacy thus has allowed for financial regulations to become global. It also allows any investor or a depositor to know the fundamental strength of banks and take their own informed decisions based on the capital adequacy levels of different banks.

15.5 LIQUIDITY MANAGEMENT BY RBI

Relevance of banking apart from meeting the growing needs of the economy is their strong linkage with inflation through their ability to increase liquidity in the economy. This is said to be as one of the major cause for buildup of inflationary pressures.

Liquidity

A bank accepts deposits from the public which is lent in the economy. The money which can potentially' be lent by the banks is known to be liquidity. Bank leverages the deposit manifold for lending in the economy known as 'credit creation' by banks. This credit creation is almost like fresh money injected in the economy and contributes to inflationary pressures. Thus, liquidity in the economy should strike a balance between requirements of growth and at the same time keep the prices under check. Managing liquidity is a major aspect of the RBI functions.

Previously, it was mentioned that RBI was the apex central bank of the country functioning as banker to the government and banks, responsible for printing of currency' notes, overseeing the functioning of the banking sector and now its another important and critical role in liquidity management.

It is important to understand first that money deposited in the bank is a source of liquidity. Money deposited could either be 'demand' deposits (payable by the bank on demand by a customer like money retaining in your savings account in the bank can be withdrawn by you at any time) or, 'time' deposits (can be withdrawn after a fixed period only like fixed deposits). Both demand as well as time deposits is the liabilities of the bank as the bank has to pay it back to the customer.

Thus, both are known as 'demand and time liabilities' of banks. These demand and time liabilities of the banking system are the source of increasing liquidity. If unchecked, it will be keep on increasing. RBI cannot question the public to not deposit money in the banks as it is the source of liquidity and neither can it direct banks to stop lending as if they do not lend they will not be able to meet the interest on deposits which the banks have to pay and also not able to earn profits for their future growth.

RBI thus has certain quantitative and qualitative tools through which it manages liquidity and they are as follows:

(1) **Cash Reserve Ratio (CRR)**—Every bank has to retain a certain percentage of its demands and time liabilities in cash with the RBI which can be raised by the RBI to drain out excess liquidity or reduced to release the liquidity in the economy.

For example, on a public deposit base of over ₹ 50,00,000 crores in the banking system a 1 per cent increase in CRR would lead in overnight transfer 50,000 crores from the banking system to RBI or which cannot be leveraged for lending by the banks. Even a 0. 25 per cent increase would imply about ₹ 12,500 crores going out of the banking system. Such a large amount could lead to a drop in lending by banks dampening industrial growth or even triggering a recession in the economy.

Thus, CRR as a monetary tool which has to be carefully used by the RBI keeping in view all aspects of the economy and not merely decreasing liquidity for fears of inflation. Frequent use of the CRR, especially their increase by any central bank of a country sends negative sentiments in the economy. Changes in CRR are necessary in exceptional circumstances or adverse developments in the economy rather than being frequently used as a monetary tool for managing liquidity.

The other issue in its use is that it is applicable to all banks alike and does not allow banks to take a long-term lending decision as they are uncertain about when the RBI would raise CRR. The present CRR effective from Dec, 2017 is 4.00 per cent.

(2) **Statutory Liquidity Ratio (SLR)**—This is another monetary tool of the RBI, in terms of which every bank is required to set aside again a certain percentage of their demand and time liabilities and retain as cash with RBI, or in gold with the RBI or invested in government securities. The banks prefer to invest in government securities as it earns them interest.

At present, a minimum 20% (effective from August 2017) » r the demand and time liabilities are to be invested. Banks have, however, parked greater than the minimum stipulation in government securities and is thus today an in-effective tool to managing liquidity.

(3) **Bank Rate**—It is the rate of interest charged by RBI for lending money to banks against eligible securities. In the era of controlled and regulated banking, bank rates were raised to discourage banks to borrow from RBI for increasing liquidity as a way to reduce liquidity. It also served as a bench mark for determining other rates of interest by the RBI. Bank rate though still continuing is not used as a tool for liquidity management by RBI as there is already a secondary market for such securities and it has lost its significance. It presently uses as a penalty rate imposed by RBI on banks for violations of RBI directives.

(4) **Open market operations (OMO)—**This is sale/purchase of secondary government securities by RBI through the auction route and not binding on the banks unlike the CRR and SLR. In periods of excess liquidity RBI resorts to 'sale' of government securities to banks draining out the money from banks thus reducing liquidity. For increasing liquidity, it purchases' securities from banks thereby transferring money to banks to lend resulting in liquidity increase. These OMO are performed at quarterly intervals.

(5) **Repo auction (Re-purchase obligations)—**This is the most frequently used tool by the RBI for managing short-term liquidity even overnight. It is the same as the OMO except that there is an inbuilt clause of automatic 'repurchase' after a specified period. Banks can keep eligible government securities, over and above those kept for maintaining SLR, with RBI and borrow for a short period (generally overnight) and interest paid by banks on such borrowings is called as 'Repo rate.'

RBI also has a window where it offers government securities, which banks can subscribe, and the rate of interest now paid by the RBI to banks is referred as 'Reverse repo.' Both of these will involve repurchase after the contracted period automatically. Both these rates are determined by RBI. Repo rate and reverse repo rate are linked on a 25 bps and always repo rate (presently 6.0% effective from September 2017) will be higher than the reverse repo rate (presently 5.75% effective from September 2017).

(6) Marginal Standing Facility- This is a new Liquidity Adjustment Facility (LAF) created by Reserve Bank of India in 2011. It is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely. The MSF rate is pegged 100 basis points or a percentage point above the Repo Rate. Under this facility, banks can borrow funds up to one percentage of their net demand and time liabilities (NDTL)

(7) **Moral Suasion.** It refers to a method adopted by the Central Bank to persuade or convince the commercial banks to advance credit in the economic interest of the country. In this process, the Central Bank requests or persuade the commercial banks to lend or credit to other banks or institutes in compliance with the general monetary policy of the central.

Ideally short-term/volatile liquidity should be addressed through repo auctions, medium-term liquidity through OMO and long-term liquidity through the CRR.

Reserve Bank of India addresses liquidity management and changes made to the CRR, SLR, repo rates as part of the annual monetary policy reviewed on a quarterly basis and rates revised keeping in view the liquidity position. An area of concern of the RBI in its policy is to keep a watch on inflation. While RBI role, besides liquidity management, controlling inflation, also acts as bankers to all the commercial banks in the country.

15.6 DIRECTED LENDING OF RBI

Reserve Bank of India as a part of mass banking, mandates that lending by banks should also provide loans for agriculture, medium and small-scale sector industries and other critical sectors including to the weaker sections, known by RBI as 'priority sector lending'. RBI has provided the categories which are classified as priority sector lending by commercial banks in India.

Priority Sector Lending Norms

Priority Sector includes the following categories:

(i) Agriculture
(ii) Micro, Small and Medium Enterprises
(iii) Export Credit
(iv) Education
(v) Housing
(vi) Social Infrastructure
(vii) Renewable Energy
(viii) Others

Lending to farmers, Self Help Groups and institutions engaged in agriculture and allied sectors is covered under direct and indirect financing by banks.

Q. What are the Targets and Sub-targets for banks under priority sector ?

The targets and sub-targets for banks under priority sector are as follows:

Categories	**Domestic scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) and Foreign banks with 20 branches and above**	**Foreign banks with less than 20 branches**
Total Priority Sector	40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, which-ever is higher, to be achieved in a phased manner by 2020.
Agriculture*	18 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, which-ever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equiv-alent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers.	Not applicable

Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	Not applicable
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher	Not applicable

* Domestic banks have been directed to ensure that their overall direct lending to non-corporatc farmers does not fall below the system-wide average of the last three years achievement.

Loans to individuals for educational purposes including vocational courses up to ₹ 10 lakhs for studies in India and ₹ 20 lakhs for studies in abroad are included under priority sector.

Loans to individuals up to ₹ 25 lakhs in metropolitan centres with population above 10 lakhs and ₹ 15 lakhs in other centres for purchase/construction of a dwelling unit per family excluding loans sanctioned to bank's own employees. What is included under weaker sections under priority sector? Priority sector loans to the following borrowers are considered under weaker sections category:

- Small and marginal farmers.
- Artisans, village and cottage industries where individual credit limits do not exceed 50,000.
- Beneficiaries of swarnjayanti gram swarozgar yojana (SGSY), now national rural livelihood mission (NRLM).
- Scheduled castes and scheduled tribes.
- Beneficiaries of differential rate of interest (DRJ) scheme.
- Beneficiaries under swarna jayanti shahari rozgar yojana (SJSRY).
- Beneficiaries under the scheme for rehabilitation of manual scavengers (SRMS).
- Loans to SHGs.
- Loans to distressed farmers indebted to non-institutional lenders.
- Loans to distressed persons other than farmers not exceeding 50,000 per borrower to prepay their debt to non-institutional lenders.
- Loans to individual women beneficiaries up to 50,000 per borrower.

As a part of directed lending, RBI stipulates that all domestic commercial banks and foreign banks with branches more than twenty in India, should lend at least 40 per cent of their advances to priority sector as a whole (foreign banks with branches less than 20, this ratio is 36%). There are sub-targets of 18 per cent as agriculture lending and 10 per cent advances to the weaker sector, as a per cent of their total lending.

15.7 RURAL INFRASTRUCTURE DEVELOPMENT FUND (RIDF)

Banks which are not able to meet their targets of priority sector lending are required to keep the shortfall in RIDF. The RIDF was set up by the government during 1995-1996 for financing ongoing rural infrastructure projects. The fund is maintained by the National

Bank for Agriculture and Rural Development (NABARD). Domestic commercial banks contribute to the fund to the extent of their shortfall in stipulated priority sector lending to agriculture.

The prime objective of the fund is to provide loans to the state governments and state-owned corporations to enable them to complete the ongoing rural infrastructure projects. The scope of RIDF has been widened to include activities such as rural drinking water schemes, soil conservation, rural market yards, rural health centres and primary schools, mini hydel plants, shishu shiksha kendras, anganwadis and system improvement in the power sector. From RIDF V onwards, the ambit was extended to projects which are undertaken by panchayat raj institutions and projects in the social sector covering primary education, health and drinking water.

The activities to be financed also include minor irrigation projects/micro irrigation, flood protection, watershed development/reclamation of waterlogged areas, drainage, forest development, market yard/go down, apna mandi, rural haats and other marketing infrastructure, cold storage, seed/agriculture/horticulture farms, plantation and horticulture, grading and certifying mechanisms such as testing and certifying laboratories, etc., community irrigation wells for irrigation purposes for the village as a whole, fisheries, animal husbandry and modern abattoirs.

15.8 OVERVIEW AND OUTLOOK—PUBLIC SECTOR BANKS

There is a dominance of public sector banks even after two decades of financial sector reforms, though getting eroded by the growing private banks. Their ability to undertake large-scale lending for infrastructure, risk assessment and their mitigation capabilities are yet to be tested.

They are having issues of excessive manpower, ageing work force, 'adopted' technology but not their successful 'assimilation, fairly risk averse, overwhelming security consciousness and not able to reach the needy segment like the small-scale sector, despite well-intentioned schemes both by the RBI as well as banks.

As mentioned previously, their efforts at financial inclusion has been far from satisfactory and what is worrying is they still continue to look at it from a social and not as a commercial proposition. Too many nationalized banks of different sizes not allowing for their organized growth and one nationalized bank competing with the other.

India can be said to have survived the global financial sector crisis of 2007, largely perceived because of the public sector character, of not having the exposure to complex products and seen as a prudent banking. But the same public sector character has largely been responsible for not leading to expansion of banks in the same way as the private banks are expanding.

While India's output is amongst the top five countries, none of the Indian public sector banks figure in the top fifty banks of the world. The requirement of the future would be for them to become stronger to serve as the backbone of an ever growing economy, through a process of consolidation, shedding their risk averseness (not to be seen as uncontrolled risk expansion but judicious risk exposure).

It may be premature at this stage to discuss of privatization, however, will become an imperative in future. This would be in the interests of the public sector banks and the economy as a whole, to meet the expanding growth through innovative products and over time emerge as global bank.

However, at the same time a regulatory framework by the RBI with an oversight mechanism which is where RBI has scored over all the other central banks in other countries. Banking in India is still evolving and there is a need to achieve rapid banking penetration. There is also a need for some Indian banks to grow in size and act as global banks. The challenge will be in their ability to meet the needs of the economy, effectively. Their role in infrastructural development and financial inclusion cannot be undermined and can also be said to critical.

Globally, banking is the fulcrum of an economy and on its strengths; economies achieve rapid economic growth and play the role of a facilitator in channelizing smooth flow of resources in terms of needs.

15.9 FINANCIAL INCLUSION

Banking also lacks penetration with as much as 60 per cent population outside the reach of banks. There is a need for greater 'financial inclusion' that is, to provide banking products and services to the masses especially die poor, technology enabled, at affordable prices. It is believed that this is the reason why India needs public sector banks. The contention may be true if financial inclusion is envisioned as a socio-welfare measure, similar to the prevailing concept of priority sector lending, at a concessional rate in India for the neglected sections and agriculture. Such kind of directed lending has been there since banks were nationalized with the objective of converting 'class' into 'mass' banking.

Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre- condition for accelerating growth and reducing income disparities and poverty. In view of this, Financial Inclusion has been identified as a key dimension of the overall strategy of "Towards Faster and More Inclusive Growth" envisaged in the eleventh Five Year Plan (2007-12).

Financial inclusion is generally defined in terms of exclusion from the financial system. A target group is considered as financially excluded if they do not have access to mainstream formal financial services such as banking accounts, credit cards, insurance, payment services, etc.

Government of India had constituted a committee in 2006 under the chairmanship of Dr. C. Rangarajan to study the pattern of exclusion from access to financial services across region, gender and occupational structure and to identify the barriers confronted by vulnerable groups in accessing credit and financial services and recommend the steps needed for financial inclusion. The committee submitted its report in January 2008. The committee has given a working definition of financial inclusion as;

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

Clearly, directed lending is seen more as a compulsion as have to be performed, rather than willingly lending to them. Seeing financial inclusion as a socio-welfare measure will ensure that it will never happen. It has to be seen as a commercial and viable business. The opportunity cost to the poor for raising money from money lenders is very high. They can become an important profitable venture for banks. Any private bank will be driven by the profitability angle, be it the rich or the poor segment.

The biggest issue is the ability to reach out to them through an organized finance route, besides the money lenders. The proliferation of MFIs in the private sector is an example of how the profit motive can drive reaching them.

However, this will require innovativeness as it may not be feasible nor practical or cost effective to open bank branches in all the villages. Various models can be considered and the private sector will find a way to reach them in a cost-effective manner, better than the public sector banks.

Today, technology has penetrated virtually every segment every walk of life then why not the poor people. Not long ago mobile phones were for the affluent and how now they have penetrated all classes of the people . This is the ingenuity of businesses , of tapping opportunities wherever available, and making them profitable.

Financial inclusion is achieved when all individuals and businesses have access to and can effectively use a broad range of financial services that are provided responsibly, and at reasonable cost, by sustainable institutions in a well-regulated environment.

The essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services.

In order to achieve a comprehensive financial inclusion, a slew of initiatives have been taken by Government of India, RBI and NABARD. Some of the important initiatives include; SHG-Bank Linkage programme, opening of No Frills Accounts, mobile banking, Kisan Credit Cards (KCC) Pradhan Mantri Jan Dhan Yojna etc.

Financial inclusion can happen, but with technology and seeing it as a business proposition rather than as a welfare measure. It is the biggest imperative today of linking the poor to banks as it can serve multiple objectives of first, access to organized source of finance for the poor, second getting them outside the clutches of the money lenders, third allowing the government to provide them with income support rather than subsidies and most importantly getting rid of all the middlemen. It is also seen as an integral aspect of inclusive growth of India in the future.

Benefits of Financial Inclusion

Financial inclusion enables good financial decision making through financial literacy and qualified advice as also access to financial services for all, particularly the vulnerable groups such as weaker sections, minorities, migrants, elderly, micro entrepreneurs and low income groups at an affordable cost so as to enable them to:

- Manage their finances on day to day basis confidently, effectively and securely;
- Plan for the future to protect themselves against short term variations in income and expenditure and for wealth creation and gaining from financial sector developments; and
- Deal with financial distress effectively thereby reducing their vulnerability to the unexpected.

The United Nations Capital Development Fund (UNCDF) visualises financial services for poor and low-income people and micro and small enterprises as an important and integral component of the financial sector, each with its own comparative advantages, and each presenting the market with a business opportunity.

Despite the marked progress made in the direction of financial inclusion, the problem of exclusion still persist. For achieving the current policy stance of "inclusive growth" the focus on financial inclusion is not only essential but a pre-requisite. And for achieving comprehensive financial inclusion, the first step is to achieve credit inclusion for the disadvantaged and vulnerable sections of our society.

15.10 SMALL FINANCE BANK

The Small Finance Bank (SFB) is a private financial institution intended to further the objective of financial inclusion by primarily undertaking basic banking activities of acceptance of deposits and lending to unserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities, but without any restriction in the area of operations, unlike Regional Rural Banks or Local Area Banks.

Small Finance Banks were created pursuant to the announcement in Union Budget 2014-2015, presented on July 10, 2014. RBI issued the guidelines on 27th November 2014 for licensing and regulation of SFBs. On 16th September 2015, RBI decided to grant "in-principle" approval to 10 applicants to set up small finance banks to further push the agenda of financial inclusion.

The 10 entities that received the nod for small banks include, Au Financiers (Jaipur), Capital Local Area Bank (Jalandhar), Disha Microfin (Ahmedabad), Equitas Holdings (Chennai), ESAF Microfinance and Investments (Chennai), Janalakshmi Financial Services (Bengaluru), RGVN (Northeast) Microfinance (Guwahati), Suryoday Micro Finance (Navi Mumbai), Ujjivan Financial Services (Bengaluru) and Utkarsh Micro Finance (Varanasi).

The aforementioned banks were selected from a list of 72 applicants. Small finance banks will be allowed to take deposits from customers. And as against payments banks, small finance banks will also be allowed to lend money to people.

Most of the entities that have received the 'in-principle' nod include micro-finance institutions. Which means, most customers of small finance banks will account for small and medium enterprises and small businesses. These banks will now be able to provide secured and legal loans to MSMEs and SMEs, bringing them under the ambit of the financial system.

Small finance banks is another step to bring the unbanked under the ambit of the banking system. Small finance banks will provide banking products to the unserved and undeserved sections of the country, which includes small and marginal farmers, micro and small industries, and other organized sector entities, at an affordable cost.

RBI has created a framework for licencing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force.

15.11 PAYMENTS BANKS

A payment bank is a differentiated bank that will undertake only certain restricted banking functions that the Banking Regualtion Act of 1949 allows. These activities include acceptance of deposits, payments and remittance services, internet banking and function as busines correspondant of other banks. Initially, they are allowed to collect deposits up to Rs 1 lakh per individual.

They can facilitate money transfers and sell insurance and mutual funds. Besides, they can issue ATM/debit cards, but not credit cards. They cannot set up subsidiaries to undertake non-banking financial services activities. More importantly, they are not allowed to undertake lending activities at all.

RBI released the list of entities which had applied for a payments bank licence on February 2015. There were 41 applicants. An External Advisory Committee (EAC) headed by Nachiket Mor is constituted to evaluate the licence applications. The government decided that India Post will use its large network to run payments bank. The external advisory committee headed by Nachiket Mor submitted its findings on 6th July 2015. The applicant entities were examined for their financial track record and governance issues. The objective of payment banks will bring unbanked masses under the ambit of formal banking and also expedite financial inclusion. The spread of banking will also make the poor financially literate and help fight poverty. The establishment of payment banks is a significant and important step from the RBI. Payments banks will reach out to people in rural areas. Payments bank will ensure more money comes into banking system. Various banks are looking at increasing their rural reach, including big banks like SBI, payments banks will help them realise this objective.

The Reserve Bank of India gave "in-principle" licences to the following entities to launch payments banks:

- Aditya Birla Nuvo
- Airtel M Commerce Services
- Cholamandalam Distribution Services
- Department of Posts
- FINO PayTech
- National Securities Depository
- Reliance Industries

- Dilip Shanghvi, Sun Pharmaceuticals
- Vijay Shekhar Sharma , Paytm
- Tech Mahindra
- Vodafone M-Pesa

Out of these, three have surrendered their licenses. First one being “Chalomandalam Distribution Services”, then “Dilip Shanghvi, Sun Pharmaceuticals” and the latest, “Tech Mahindra”. The “in-principle” license is valid for 18 months within which the entities must fulfill the requirements. They are not allowed to engage in banking activities within the period. The RBI will consider grant full licenses under Section 22 of the Banking Regulation Act, 1949 , after it is satisfied that the conditions have been fulfilled.

The Payments Bank are proposed to be registered as a public limited company under the Companies Act, 2013, and licensed under Section 22 of the Banking Regulation Act, 1949, with specific licensing conditions restricting its activities to acceptance of demand deposits and provision of payments and remittance services. It will be governed by the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, other relevant Statutes and Directives, Prudential Regulations and other Guidclines/Instructions issued by RBI and other regulators from time to rime, including the regulations of the securities market regulator, SEBI, regarding public issues and other guidelines applicable to listed banking companies.

With differentiated banks entering the banking space, the biggies like SBI, ICICI Bank etc. feel the jitters.These banks will function only in specific areas. The major banks can actually make use of these banks to spread their reach as payment banks are allowed to function as business correspondents too. Some of them have already tied up with existing licence holders.

D-SIBs

Recently RBI listed HDFC as Domestic - Systematically Important Bank (DSIB) under the bucket structure identified last year.

The Domestic- Systematically Important Banks (DSIBs):

- DSIBs are also referred to as **“Too Big To Fail” (TBTF)** because of their size, cross-jurisdictional activities, complexity and lack of substitute and interconnection.
- Banks whose assets cross ***2%* of the GDP** are considered DSIBs. If these banks fail, they can have a disruptive effect on the economy.
- D-SIBs are categorised under five buckets.
- According to these buckets the banks have to keep aside die Additional Common Equity Tier 1 as a percentage of Risk Weighted Assets (RWAs).
- D-SIBs are closely monitored by the central bank to ensure their better functioning and prevent the indulgence of such banks in any grey areas such as money laundering etc.
- They are domestically identified by Central Banks of a country and globally by **BASEL committee on banking supervision.**

15.12 GOLD INVESTMENTS SCHEME

Union Government had launched Sovereign Gold Bonds and Gold Monetisation Schemes on 5th November, 2015. The main objectives of the schemes are to reduce the demand for physical gold and shift a part of the gold imported every year for investment purposes into financial savings.

Sovereign Gold Bonds

These are issued by RBI on behalf of the Government of India in rupees and denominated in grams of gold and restricted for sale to the resident Indian entities only both in demat and paper form. The minimum and maximum investment limits are two grams and 500 grams of gold per person per fiscal year respectively. The rate of interest for the year 2015-16 is 2.75 per cent per annum, payable on a half yearly basis. The tenor of the Bond is for a period of 8 years with exit option from 5th year onwards. KYC norms are the same as that for gold. Exemption from capital gains tax is also available. Redemption is made in the rupee value equivalent to the price of gold at the time of maturity. In the first two tranche of SGB total subscription of 3788 kilograms of gold amounting to ₹993 crore were received from about 3.90 lakh applications.

Gold Monetisation Scheme

The Gold Monetization Scheme is a welcome step initiated by the Government of India to unlock the unused and idle gold lying in households and institutions and bring them into mainstream and release the capital locked in for use in the economy for its development. The key objectives of this scheme are stated as under:

- To mobilize the gold held by households and institutions in the country.
- To provide a fillip to the gems and jewellery sector in the country by making gold available as raw material on loan from the banks.
- To be able to reduce reliance on import of gold over time to meet the domestic demand.

The gold mobilization scheme is likely to work according to the draft guidelines:

1. The scheme is meant to mobilize gold held by domestic households and institutions. Gold collected through the scheme will be made available to jewellers for manufacturing of new jewellery and other items.
2. The scheme will initially be launched at a few places because the government will have to first set-up infrastructure for facilitating easy and secure handling of gold.
3. Gold collected from consumers will first be cleaned and measured at test centres; it would then be melted to test for purity. After the tests, consumers can either deposit the gold for a fee or take it back after paying a nominal fee.
4. The minimum quantity of gold that a customer can bring is proposed to be set at 30 grams.
5. Those willing to deposit the gold will be given a certificate mentioning the amount and purity of the deposited gold. Banks will open a ‘Gold Savings Account’ on the basis of such certificates.

6. Consumers will be paid interest on their gold savings account after 30/60 days of account opening. The amount of interest rate to be given is proposed to be left to the banks to decide.
7. Both principal and interest will be paid to the depositors of gold, will be valued' in gold. For example: if a customer deposits 100 gms of gold and gets 1 per cent interest, then, on maturity he has a credit of 101 gms.
8. The customer will have the option of redemption either in cash or in gold, which will have to be exercised in the beginning itself (that is, at the time of making the deposit). The tenure
9. of the deposit will be minimum 1 year and in multiples of one year. Like a fixed deposit, breaking of locking period will be allowed.
10. Gold savings account will be exempt from capital gains tax, wealth tax and income tax.

According co che government, gold deposit accounts will utilise the 20,000 tonnes available within the country and help in cutting down the 800-1,000 tonnes of gold the country ships every year. Among the regulatory issues for banks, it said some certainty on use the gold deposits as part of their Cash Reserve Ratio (CRR) and Statutory Liquidity' Ratio (SLR) requirements would be helpful. Irrespective of the difficulties, it underscored that the scheme holds great benefits on the macro front, saying, it can lower gold imports by bringing into circulation domestically-held idle gold, thus, helping the external balances. Additionally, the easy availability of the precious metal can reduce costs for jewellers and increase the exports. Seeking to mobilise idle gold worth up to Rs 60 lakh crore held by households and institutions, the government proposed a new scheme offering tax-free interest on depositing the yellow metal with banks. The draft of gold monetisation scheme also provides for incentives to the banks. Individuals and institutions can deposit as low as 30 gms of gold, while the interest earned on it would be exempt from income tax as well as capital gains tax.

The government can partly address the problem to a certain extent by making invoices mandatory only for gold brought in the form of bars or coins and not necessarily for household ornaments. The banks can track the transaction with sufficient proofs on address and identity. In case, the quantity exceeds a particular limit, even on ornaments, questions can be raised. Unless the government structures the GMS carefully, the fate of the scheme cannot be far different from that of its older version.

15.13 BANKING RELATED INITIATIVES

NPA

What are NPAs

A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

1. **Substandard assets:** Assets which has remained NPA for a period less than or equal to 12 months.

2. **Doubtful assets:** An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
3. **Loss assets:** As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

Status of NPA

NPA problem is one of the most severe plaguing the Indian Banking sector posing questions over the stability of Indian Banking System. Raghuram Rajan, the ex Governor of RBI has identified the NPA problem as a major challenge facing the Indian Banking Sector . The problem which was largely hidden earlier as Banks used to do window dressing of their account statement has now come to the forefront after Rajan exhorted the banks to clean up their asset books by March 2017 . Resultantly this led to 29 public sector banks writing off Rs 1.14 Lakh Crore of bad debts between 2013 -2015 , much more than what they had done in the preceding 9 years.

- The gross bad loans of 39 listed Indian banks , in absolute term , rose 92% in fiscal year 2016 to Rs.5.79 trillion even as after provisioning , the net bad loans more than doubled to Rs.3.38 trillion.
- In percentage terms, the average gross non-performing assets (NPAs) of this group of banks rose from 4.41% of loans in 2015 to 7.91% in 2016; net NPAs in the past one year rose from 2.45% to 4.63%.
- Public sector banks, which have close to 70% market share of loans, are more affected than their private sector peers. Two of them have over 15% gross NPAs and an additional eight close to 10% and more.

SARFAESI Act

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is a legislation that helps financial institutions to ensure asset quality in multiple ways. This means that the Act was framed to address the problem of NPAs (Non-Performing Assets) or bad assets through different processes and mechanisms.

The SARFAESI Act gives detailed provisions for the formation and activities of Asset Securitization Companies (SCs)and Reconstruction Companies (RCs). Scope of their activities, capital requirements, funding etc. are given by the Act. RBI is the regulator for these institutions.

As legal mechanism to insulate assets, the Act addresses the interests of secured creditors (like banks). Several provisions of the Act give directives and powers to various institutions to manage the bad asset problem. Following are the main objectives of the SARFAESI Act.

- The Act provides the legal framework for securitization activities in India
- It gives the procedures for the transfer of NPAs to asset reconstruction companies for the reconstruction of the assets.
- The Act enforces the security interest without Court's intervention
- The Act give powers to banks and financial institutions to take over the immovable property that is hypothecated or charged to enforce the recovery of debt.

Insolvency and Bankruptcy Board of India (IBBI)

Insolvency and Bankruptcy Board of India (IBBI) has amended its Corporate Insolvency Resolution Process Regulations to ensure that as part of due diligence, prior to approval of a Resolution Plan, the antecedents, credit worthiness and credibility of a Resolution Applicant, including promoters, arc taken into account by the Committee of Creditors.

Insolvency and Bankruptcy Board of India was set up on 1st October 2016 under the Insolvency and Bankruptcy Code, 2016 (Code). It is a unique regulator: regulates a profession as well as transactions.

Functions:

- It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies and Information Utilities.
- It writes and enforces rules for transactions, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code.
- It is a key pillar of the ecosystem responsible for implementation of the Code that consolidates and amends the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals.
- This is done in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

Organizational structure of IBBI:

The IBBI has a ten-member board including a Chairman. Following is the structure of the IBBI:

- One Chairperson.
- Three members from Central Government officers not below the rank of Joint Secretary or equivalent.
- One nominated member from the RBI.
- Five members nominated by the Central Government; of these, three shall be whole-time members.

Indradhanush Plan

The Public Sector Banks (PSBs) play a vital role in India's economy. In the past few years, because of a variety of legacy issues including the delay caused in various approvals as well as land acquisition etc., and also because of low global and domestic demand, many large projects have stalled. Public Sector Banks which have got predominant share of infrastructure financing have been sorely affected. It has resulted in lower profitability for PSBs, mainly due to provisioning for the restructured projects as well as for gross NPAs.

Indradhanush Plan for revamping Public Sector Banks (PSBs), announced by the Government on 14.8.2015, envisaged capital infusion by the Government of Rs. 70,000 crore. Under Indradhanush, Government infused capital of Rs. 51,858crorc, till the first half of the financial year (FY) 2017-18.

The 7 elements includes:

1. Appointments
2. Bank Board Bureau
3. Capitalizatio
4. De-Stressing Public Sector Banks
5. Empowerment
6. Framework of accountability
7. Governance Reforms

1. **Appointment:** The Government decided to separate the post of Chairman and Managing Director by prescribing that in the subsequent vacancies to be filled up the CEO will get the designation of MD & CEO and there would be another person who would be appointed as non-Executivc Chairman of PSBs. This approach is based on global best practices and as per the guidelines in the Companies Act to ensure appropriate checks and balances. The selection process for both these positions has been transparent and meritocratic. The entire process of selection for MD & CEO was revamped. Private sector candidates were also allowed to apply for the position of MD & CEO of the five top banks i.e. Punjab National Bank, Bank of Baroda, Bank of India, IDBI Bank and Canara Bank.
2. **Bank Board Bureau:** The BBB will be a body of eminent professionals and officials, which will replace the Appointments Board for appointment of **Whole-time Directors as well as non-Executive Chairman of PSBs.** They will also constantly engage with the Board of Directors of all the PSBs to formulate appropriate strategies for their growth and development.

   The structure of the BBB is going to be as follows:

   - The BBB will comprise of a Chairman and six more members of whom three will be officials and three experts (of which two would necessarily be from the banking sector).
   - The Search Committee for members of the BBB would comprise of the Governor, RBI and Secretary (FS) and Secretary (DoPT) as members.
   - The BBB would broadly follow the selection methodology as approved in relevant ACC guidelines.

   The Bank Board Bureau will start functioning from the next financial year and is the first step toward a full-fledged bank holding company, an entity that will house the governments stake in state run banks struggling with mounting non - performing loans that have touched 6 per cent of gross advances.
3. **Capitalization:** The government will inject a total of Rs 25,000 crore of capital into debt-laden state banks in this fiscal; Rs 20,000 crore would be injected in a month. Over the next four years, the government plans to inject Rs 70,000 crore.
4. **De-stressing:** The government will concentrate on distressing the banks' bad loans.
5. **Empowerment:** Government has said that it will not interfere in the functioning of public sector banks and encouraged them to take decisions independently; keeping the commercial interest of the organization in mind. A clearer distinction

between interference and intervention has been made. With autonomy comes accountability, accordingly Banks have been asked to build robust Grievances Redressal Mechanism for customers as well as staff so that concerns of the affected are addressed effectively in time bound manner. The government will strive to make it easier for PSBs to hire. Hie government is looking at introducing Employee Stock Ownership Plan (ESOPs) for the PSU bank managements.

6. **Framework of Accountability:** The government also announced a new framework of key performance indicators for state-run lenders to boost efficiency in functioning while assuring them of independence in decision making on purely commercial considerations, (a) The present system for the measurement of bank's performance was a system **called Sol —Statement of Intent.** Based on certain criteria decided by Ministry of Finance, the banks used to come up with their annual target figures which was discussed between the Ministry and banks and finalized. The entire exercise took very long and sometimes the targets for banks used to be finalized only towards the end of the year which is not a desirable thing to do.
7. **Governance Reforms:** The process of governance reforms started with **"Gyan Sangam" -** a conclave of PSBs and FIs organized at the beginning of 2015 in Pune which was attended by all stake-holders including Prime Minister, Finance Minister, MoS (Finance), Governor, RBI and CMDs of all PSBs and FIs. There was focus group discussion on six different topics which resulted in specific decisions on optimizing capital, digitizing processes, strengthening risk management, improving managerial performance and financial inclusion. Continuing with this year's Gyan Sangam, next Gyan Sangam will be held between 14-16.01.2016 to discuss strategy with top level officials.

The Indradhanush framework for transforming the PSBs represents the most comprehensive reform effort undertaken since banking nationalisation in the year 1970. Our PSBs are now ready to compete and flourish in a fast-evolving financial services landscape.

PARA

Economic Survey 2016-17 suggests settingup of a centralised Public Sector Asset Rehabilition Agency The Agency will look after the largest, most difficult Cases, and make Politically Tough Decisions to reduce Debt.

The Economic Survey shows that our country has been trying to solve its *'Twin Balance* SZwf(TBS) problem - overleveraged companies and bad-loan-encumbered banks, a legacy of the boom years around the Global Financial Crisis. So far, there has been limited success. The problem has consequently continued to fester: Non-Performing Assets (NPAs) of the banking system (and especially public sector banks) keep increasing, while credit and investment keep falling. Now it is time to consider a different approach - a centralised Public Sector Asset Rehabilitation Agency (PARA) that could take charge of the largest, most difficult cases, and make politically tough decisions to reduce debt.

As per the Survey , gross NPAs has climbed to almost 12 per cent of gross advances for public sector banks at end-September 2016. At this level, India's NPA ratio is higher than any other major emerging market, with the exception of Russia. The consequent squeeze of banks has led them to slow credit growth to crucial sectors-especially to industry and medium and small scale enterprises (MSMEs)-to levels unseen over the past two decades . As this has occurred, growth in private and overall investment has turned negative. A decisive resolution is urgently needed before the TBS problem becomes a serious drag on growth.

15.14 MERGER OF SBI ASSOCIATES WITH STATE BANK OF INDIA (SBI)

Government has approved the proposal for merger of State Bank of Bikaner & Jaipur (SBBJ), State Bank of Hyderabad (SBH), Stare Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank ofTravancore (SBT) with State Bank of India (SBI). The merger has come in effect from 1st April, 2017. The Bharatiya Mahila Bank is also now stands merged with SBI.

CHAPTER 16

INFLATION

16.1 MEANING AND MEASURING INFLATION

Right in the first chapter, a reference was made to output of an economy has always to be adjusted for inflation. That is the monetary value of output tends to increase in periods of inflation-rising prices. In simple terms inflation refers to situation when prices in an economy tend to increase.

Inflation

Inflation is the measure of the rate of increase in the prices of goods and services. However, when there is a decrease in the rate it is called deflation.

In India CPI (combined) is declared as the new standard for measuring inflation. CPI numbers are typically measured monthly, and with a significant lag . India uses changes in the CPI to measure its rate of inflation.

WPI

Wholesale Price Index (WPI) is measured on weekly basis. The first index of wholesale prices commenced in India for the week January 10, 1942. The base year of WPI is revised periodically. The Wholesale Price Index (WPI) series in India has undergone six revisions in 1952-53, 1961-62, 1970-71, 1981-82, 1993-94 and 2004-05 so far. The current series is the seventh revision. The revision entails shifting the base year to 2011-12 from 2004-05, changing the basket of commodities and assigning new weights to the commodities.

For determining WPI, commodities are divided into three categories - Primary Articles (102 items), Fuel & Power (19 items), and Manufactured Products (555 items). As you can see, the weight assigned to manufacturing is highest at 82% followed by primary articles like fruits and vegetables.

CPI

Consumer Price Indices (CPI) measure changes over time in general level of prices of goods and services that households acquire for the purpose of consumption. CPI is widely used as a macroeconomic indicator of inflation, as a tool by governments and central banks for inflation targeting and for monitoring price stability, and as deflators in the national accounts. CPI is also used for indexing dearness allowance to employees for increase in prices.

The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation has revised the Base Year of the Consumer Price Index (CPI) from 2010=100 to 2012=100 with effect from the release of indices for the month of January, 2015. The earlier series on Base 2010=100 was started w.e.f January' 2011.

Unlike WPI, there is not a single measure of CPI. In India, four CPI indices are used to determine inflation at the consumer level. These are: CPI-IW (Industrial Worker), CPI-UNME (Urban Non-Manual Employees), CPI-AL (Agricultural Labourers), and CP1-RL (Rural Labourers).

IIP

The Index of Industrial Production (IIP) is an index which shows the growth rates in different industry groups of the economy in a stipulated period of time. The IIP index is computed and published by the Central Statistical Organisation (CSO) on a monthly basis.

Description: IIP is a composite indicator that measures the growth rate of industry groups classified under,

1. Broad sectors, namely, Mining, Manufacturing and Electricity
2. Use-based sectors, namely Basic Goods, Capital Goods and Intermediate Goods.

Index of Eight Core Industries (Base: 2011-12 = 100)

Tlie Eight Core Industries comprise 40.27 per cent of the weight of items included in the Index of Industrial Production (IIP). The eight core industries are :-

- **Coal** Coal production (weight: 10.33 %)
- **Crude Oil** Crude Oil production (weight: 8.98 %)
- **Natural Gas** The Natural Gas production (weight: 6.88 %)
- **Refinery Products** Petroleum Refinery production (weight: 28.04%)
- **Fertilizers** Fertilizer production (weight: 2.63 %)
- **Steel** Steel production (weight: 17.92 %)
- **Cement** Cement production (weight: 5.37%)
- **Electricity** Electricity generation (weight: 19.85%)

Revision of base year of All-India Wholesale Price Index (WPI) from 2004-05 to 2011-12

The Government periodically reviews and revises the base year of the macroeconomic indicators as a regular exercise to capture structural changes in the economy and improve the quality, coverage and representativeness of die indices. In this direction, the base year of All-India WPI has been revised from 2004-05 to 2011-12 by the Office of Economic Advisor (OEA), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry to align it with the base year of other macroeconomic indicators like the Gross Domestic Product (GDP) and Index of Industrial Production (IIP).

It has generally been the practice to undertake the revisions on the advice of a Working Group constituted each time. For the new series with base 2011-12=100, a Working Group was constituted on 19th March 2012 chaired by Late Dr. Saumitra Chaudhuri, Member, erstwhile Planning Commission and comprised most stakeholders.

Key Highlights:

In the revised series, WPI will continue to constitute three Major Groups namely Primary Articles, Fuel & Power and Manufactured Products. Highlights of the changes introduced in the new series are summarized below:

- Updated item basket and weighting structure conforming to the structure of economy in 2011-12.
- Increase in number of items from 676 to 697. In all 199 new items have been added and 146 old items have been dropped.
- The new series is more representative with increase in number of quotations from 5482 to 8331, an increase by 2849 quotations (52%).

New Features

- In the new series of WPI, prices used for compilation do not include indirect taxes in order to remove impact of fiscal policy. This is in consonance with international practices and will make the new WPI conceptually closer to ‘Producer Price Index*.
- A new “WPI Food Index” will be compiled to capture the rate of inflation in food items.
- Item level aggregates for new WPI are compiled using Geometric Mean (GM) following international best practice and as is currently used for compilation of All India CPI.
- A high level Technical Review Committee has been set up for the first time to carry out dynamic review process in order to keep pace with the changing structure of the economy.

WPI Food Index

^ new “Food Index is being compiled combining the “Food Articles” under “Primary Articles and “Food Products” under “Manufactured Products”. Together with the Consumer Food Price Index released by Central Statistics Office, this would help monitor the price situation of food items better.

Some other measures of inflation are the core inflation’ which refers to price increase excluding that of volatile fluctuation in prices of food and energy. This measure can also be known as ‘structural inflation*. The other is ‘food inflation’ which is increase in food prices.

Yet another measure is ‘imported inflation wherein prices of imports contribute to inflation like increase in crude petroleum prices leading to increased fuel prices and it results in overall increase in prices.

Besides these, various economists have coined different kinds of inflation based on the degree of rate of increase in prices like:

- **Hyper or runaway inflation** (averaging 100 per cent in three years).
- **Galloping inflation** (inflation increasing in arithmetic or geometric progression).
- **Creeping inflation** (gradual increase in price are seen as good for economies).

- **Dis-inflation** (reduced rates of increase in prices).
- **Deflation** (inflation turning negative and prices falling).

Demand-pull Inflation This inflation occurs when aggregate demand increases at a faster rate than aggregate supply. This type of inflation will typically occur when the economy is growing faster than the long run trend rate of growth. If demand exceeds supply, the prices of commodities rise.

Cost-push Inflation. This inflation occurs when there is an increase in the cost of production for firms. Cost-push inflation could be caused by rising energy and commodity prices.

Fall Out of Inflation

It is said that a mild dose of price rise is good for an economy like creeping inflation as it provides incentive to producers in an economy to produce more, thereby more output and income in an economy. The increased income enables the people to bear the modest increase in prices.

However, once rate of increase in price rise is more than the increase in income it begins to hurt, especially the poor who are hit the hardest. Essential items of consumption get out of reach of a majority of people. To maintain the same standards, living people have to spend more in inflationary period, very often they have to dip into their savings. Protracted periods of continuous inflation can damage the fabric of the economy and experience in the past has shown that inflation has led to the downfall of many governments in different countries.

Why Prices Increase?

It is simply because demand is more than what is being supplied and accordingly could be demand-driven as demand-pull inflation or driven from the supply side as either as cost push inflation. However, in inflationary period both reinforce each other, difficult to distinguish which is the cause and which is the effect. Demand-pull inflation can occur because of the following reasons:

(1) Increasing population and a natural increase in demands of goods in an economy.
(2) Increase in income levels leads to increasing purchasing power of people to purchase more goods.
(3) Consumerism in the economy when people believe in spending money rather than saving.
(4) Increase in money supply and liquidity in the economy.

A demand in the economy is said to be good provided there are no supply constraints because if supply is not able to adjust by expansion it will lead to demand-pull inflation.

Some of the major aspects on the supply side in India are as follows:

(1) Food grains production has virtually become stagnant creating a severe demand supply mismatch and similarly for other agricultural products. It may not be out of place to say

that rising food prices is essentially a supply issue. In the past the problem of inflation was on account of shortage of food grains, but in recent times it is essentially on account daily consumables of fruits, vegetables etc.

(2) Excessive monsoon dependence of the agricultural sector and the weather has a large role in augmenting supply.

(3) India also has problems in the supply chain and involvement of too many middlemen disrupting supply and creating an artificial shortage in the agricultural sector.

(4) Supply of key industrial goods such as electricity, steel, cement hampers adjustment of supply to the increased demand.

(5) Despite the policy of liberalization and the freedom given to the private sector it is not relatively easy to make the supply flexible enough in the short-term which would potentially become inflationary.

(6) Increased prices of raw materials, labour, etc., increase the cost of production giving rise to cost-push inflation.

Traditionally measures of inflationary control are seen from three angles as explained below:

One, as a monetary phenomenon of increased liquidity with the banks, increasing money supply, leading to ‘too much money chasing too few goods' results in a price rise of commodities or inflation. Controlling such liquidity is within the domain of RBI through policy tools such as CRR, SLR, OMO, Repo auctions (refer to the Chapter on Banking to refresh).

Secondly, being seen as fiscal, through expenditure and tax measures and from the supply side which is essentially in respect of agricultural products, which may arise due to genuine production bottlenecks or distribution bottlenecks or speculation and hoardings. It is simple to segregate as above but once inflation sets in all the above, it is difficult to say which is the cause and all get interrelated.

It can thus be seen that inflation is multi-dimensional and cannot be tackled through one policy tool but through a combination of strategies aimed at the supply side especially in the agricultural sector. Therein, is the challenge for the government that once inflation sets in, all efforts at taming inflation will always fall short of expectation.

At a still broader level, inflation is also about the perception which people in general hold in the ability of the government to maintain price stability. As if one is unsure of the prices tomorrow, one will stock up today. And if ones apprehensions come out true it will lead to more stocking. Imagine this situation if everyone in the economy starts to behave similarly. No matter what the government does it will not be able to prevent rising prices for that good and this invariably happens in periods of inflation.

It often said that no government would not like to lift the lid of inflation, as containing it, is always a stiff challenge for the government and inflation leaves a scar in the minds of people which are difficult to remove.

There are structural problems like rising income of the poor through the NREGA and other such income , generation activities for the poor which is bound to increase demand for food items and given the near stagnancy in agricultural production build inflationary pressures again. It is solely a matter of time when inflation would resurface and continue to haunt the government unless serious measures are taken to address the stagnancy issue in the agricultural sector.

CHAPTER 17

CAPITAL MARKET

17.1.CAPITAL MARKET

Requirement of capital is an absolute necessity for any economic activity to sustain. Infusing the adequate and required liquidity to the commercial ventures determines the intended success or failures. Here comes the need for an active and alert mechanism to fulfill these needs of the industry and other ventures.

Capital Market has to be seen in this context. It provides a platform whereby, the people who required investment and those who are willing to invest are coming together and satisfying their respective need and requirements.

There are various mechanisms through which the capital requirements of any venture can be accomplished.

Share capital

It is a portion of the share capital of the company. It is a unit into which the capital of company is divided. A person who has subscribed it is called as shareholder of that company and is regarded as the part of owner of the company.

Debentures

It is a long term borrowed funds of the company from those who have subscribed it. It has fixed maturity period as well as fixed interest rate.

Bonds

Bonds are commonly known as the long term borrowed funds of the government and also companies. Bonds fetches fixed rate of interest along with fixed maturity period.

Derivatives

It is a contract between parties whose value is based on an underlying financial asset. Such underlying instruments include bonds, commodities, currencies, stocks etc.

17.2 DISINTERMEDIATION

It is easy to recall that we had discussed about bank as a financial intermediary between the people and the economy. What will happen when this intermediary' is removed and the companies are allowed to directly raise money from the public? It is known as ‘disintermediation facilitated by the capital market which mean companies can raise money directly from the public through issuance of shares and bonds.

Shares provide ownership in companies and they are bought for trading purposes, while bonds carry the fixed interest payable every year by the company. Companies raising money for the first time by the issuance of shares are known as initial public offering (IPO) and those coming out subsequently again are known as follow on public offer (FPO). All IPOs, FPOs, bond issued by the companies are known as primary market operations.

17.3 STOCK EXCHANGES.

Stock Exchanges are the places where trading of stocks and shares are facilitated. Following are the currently functioning stock exchanges located at various part of India.

- Bombay Stock Exchange (BSE)
- Calcutta Stock Exchange (CSE)
- National Stock Exchange (NSE)
- Magadh Stock Exchange (MSE)
- India International Exchange (India INX)
- Indian Commodity Exchange Limited.
- Multi Commodity Exchange of India Ltd.
- National Commodity & Derivatives Exchange Ltd.

17.4 VARIOUS INDICES OF STOCK MARKET.

The health and functioning of capital market and through which the direction of national economics is sensed through various indices of stock market.

BSE SENSEX

It is an index that comprises of equity shares of 30 financially strong and well-established companies. The selection of these companies are made on the basis of various factors such as liquidity, depth, industry representation etc.

NSE NIFTY

The Nifty is an indicator of all the 50 major companies listed on NSE (National Stock Exchange) and it is considered as a benchmark stock market index for Indian equity market.

iCOMDEX

It is a recently launched India's first co-branded commodity index series, This index consists of commodities like Base Metals, Bullion, Gold, Copper and Crude Oil.

CriSidEx

This Index is the India's first sentiment index for micro and small enterprises (MSEs) developed jointly by CRISIL & SIDB1. CriSidEx is a composite index based on different parameters and measures MSE business sentiment.

17.5 ROLE OF SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

All such issuances in terms of quantum to be raised, pricing is left to the company, however, regulated by the Securities Exchange Board of India (SEBI) which has the following objectives:

(1) To ensure that all companies accessing the primary market are making complete disclosures about their company and their functioning.
(2) Pricing has been determined through the book-building process (price-discovery mechanism by the markets).
(3) Reservation of shares for bulk buyers like qualified institutional buyers (QIBs) is in terms of norms that are laid down by SEBI.
(4) Issues are not bunched together and there is a gap between offerings being made by companies.
(5) There is an adequate participation of retail or small buyers in the offering.
(6) Interest of the small investor is completely protected in terms of allotment being made to them and in case of excess applied than that allotted then refunds by the company performed promptly within the prescribed time frame of SEBI.

An approval of an offering by SEBI should not be seen as a recommendation to subscribe but merely that the company has complied with all the stipulations of SEBI. Any investment decision in a particular offering of an individual or an institution is purely their own wisdom.

Once the process of issuance is complete, company received the money, refunds completed, it has to get their shares/bonds listed at any of the stock exchanges which will allow for trading or sale purchase of shares of the company at the stock exchanges.

This is known as secondary market operations where shares are traded i.e., bought and sold at prices decided by the sellers and buyers of shares of a particular company. The two most important stock exchanges of the country are the Bombay stock Exchange (BSE) and the National Stock Exchange (NSE).

Even though there is a larger trading at the NSE, BSE is said to be the nerve centre of the Indian capital market, one being the oldest and the later located in the financial capital of the country; As it is difficult to track down trading of all the listed companies, an index is used to comment on the general-trading trend of a particular day. This index is known as SENSEX at BSE which is an index of trading of top thirty companies in terms of their volume of trade and their share prices.

Similarly, NIFTY is the index of the NSE which has fifty companies. There is also NIFTY JUNIOR which is next fifty companies in terms of volume of trade and those which have the potential to become a part of NIFTY in future.

Further trading at the stock exchanges have been made simple and easy with computerization and issuance of shares and their trading is performed in the electronic form (dematerializing which is conversion into electronic form of all physical shares). Even with the capital reforms, greater transparency in allotment of shares and also trading of shares, there is a great degree of ignorance about the capital market and thus a little participation of the public, confined to a select middle class, and finance is understood more as banking.

The preferred modes of investment continue to be the traditional areas of gold, land and bank deposits for the masses in India. It may still take some time for capital markets becoming alternates to the traditional forms of investment in India.

17.6 MARKET CAPITALIZATION AND WEALTH

Market capitalization is the number of shares of a company multiplied by their share price at the stock market. The same way, wealth is also the number of shares held by a person multiplied by the share prices at the stock market.

Recently, SEBI has introduced the concept of'free-float market capitalization' which is the number of shares of the company available for trading at the stock market. This excludes the shares of the promoters of a company.

Capital market in India is emerging and trading community investment and trading in the capital market is by less than 1 per cent of the population. However it still attracts a lot of media attention, making headlines with the movements at the stock markets. It may not be a concern for the common man. But still it allows government to gauge reactions to various policy announcements. Adverse movement at the stock market can also allow a government to take remedial measures.

When stock prices are going up it is seen as a good for an economy or BULLISH and when stock prices are going down, it is known as negative sentiments in the economy (BEARISH). Thus, the terms of BULLs and BEARS are used in the stock market. Some of the well-known global stock markets are National Association of Security Dealers Automated Quotations (NASDAQ), Dow Jones (US) and Nikkei (Japan).

17.7 MUTUAL FUNDS AND UNIT-LINKED INSURANCE PLANS (ULIPS)

Dealing in shares and their trading at the stock exchanges has risks of sharp volatility in prices of shares (also known as equity shares or scrips). Mutual funds allow for sharing of risk or minimizing the risk in terms of risk appetite.

Mutual fund operators are specialized institutions who pool money from the public and then invest in the stock markets based on the research, past trends, company performance, so as to maximize the value to investors. There are various options available to an investor of reinvestment of the profits earned or taking back the profits at the discretion of the investor.

It should, however, be clearly understood that mutual funds do not 'eliminate' risk but 'minimize' the risk in terms of risk appetite. Mutual fund operators are in the public sector such as the Unit Trust of India and also in the private sector and foreign companies. It is gradually emerging in India with a large number of middle class preferring to invest in mutual funds in India.

Unit-Linked Insurance Plans (ULIPs)

In recent times, there has been an increased preference of mutual fund companies as well as insurance companies to combine the investments in stock markets with life insurance plans, known as ULIPs. This need has arisen as there is very low penetration of life insurance in India or lack of awareness of the need for such policies, compared to other countries.

The insurance sector till recently was government-controlled with the LIC acting as the sole institutions for selling of life insurance products, till recently, based on the recommendations made by R. N. Malhotra committee, of opening the insurance sector to private players.

Even though insurance sector has been opened for both private as well as foreign companies, the equity cap for foreign equity is 26 per cent, i.e., foreign players can come in solely as a joint venture with an Indian company. Despite the opening of the insurance sector, life insurance penetration is fairly low in India.

As part of the efforts of both the mutual funds as well as the insurance companies to expand their base, ULIP was seen as a way to attract a larger number of the untapped vast potential of the country. The logic followed by the people for insurance products was that they should also give a reasonable assured return besides the life cover to them.

There is a fundamental flaw in the perception of not being able to understand that investments for life cover and investments in mutual funds are with different objectives. A life insurance cover cannot be seen as maximizing returns. It is a protection to the family in case of untimely demise and for uncertainty of life. Protection has to come first before looking at maximizing returns.

All insurance companies have such policies known as endowment policies, with fairly low levels of premium, but have no returns, except the life cover for the amount insured. The other aspect not understood is the fact that 'lower the age, lower is the premium; and higher the age, higher is the premium' for the same amount of sum assured. At young age, the endowment policies have very low levels of premium.

The insurance companies rather than educating the people of these fundamental issues choose the option of combining the returns with life covers resulting in higher premium and denying the benefits of maximizing returns or a decent sum assured as life insurance cover.

This has also led to regulatory conflicts as the insurance companies as pure insurance companies are controlled by the insurance regulatory development authority (IRDA) while mutual funds come under SEBI. As a larger number of insurance companies while investing in mutual funds were outside the purview of SEBI and IRDA with only responsibility of insurance business had no role in their investment in mutual funds. While, the investment by the insurance companies in mutual funds had no regulators making it difficult for SEBI to protect the interests of the investors.

However, more than this conflict is to spread awareness amongst the people of setting aside some money for life cover and not as an investment but as a protection measure, merely as one saves for a rainy day without bothering for returns.

Depending on income levels and family requirements, a certain portion may be invested with the sole objective of maximizing returns for the people. This would be a judicious decision achieving both the objectives rather than combining the two as an UL1P, as a better option.

CHAPTER 18

PLANNING IN INDIA

18.1 GENESIS

Planning in post-independence India has been driven by the five-year plans which is a horizon of five years with a mid-term review and then the next five-year plan. In exceptional years of wars and other such situations, India has also opted for annual plans. also known as 'plan holiday', a break from the five-year plans.

There was also a concept of rolling plan which also has a horizon of five years, bur allowing for corrections mid-term or even annually depending on the performance under various heads. However, primarily in India, it has been the five-year plans with each plar. having a mid-term review.

Planning in India is centralized, which provides a macro framework of developmental and investment needs, mobilization of resources to achieve desired levels of growth. The responsibility of planning in India vests with the Planning Commission which is not a statutory body, headed by a Deputy Chairman and the Prime Minister as the Chairman of Planning Commission. The plans are formulated by the Planning Commission and are approved by the National Development Council (NDC) with the Prime Minister as its Chairman.

The Government of India, in keeping with its reform agenda, constituted the NITI Aayog to replace the Planning Commission instituted in 1950. This was done in order to better serve the needs and aspirations of the people of India. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in national interest, and thereby fosters Cooperative Federalism.

The National Institution for Transforming India, also called NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog is the premier policy 'Think Tank' of the Government of India, providing both directional and policy inputs .

18.2 PLANNING AND MARKET ECONOMY

It is widely believed that planning is relevant for developing economies and absence of a market mechanism results in most economic decisions being taken by the government.

As economies get market-oriented, the role of planning gets diluted as decisions get taken efficiently by the markets. This is actually an incorrect way of looking at planning and market economy as substitutes. Both have different set of objectives. Planning gives a direction to the economy and market economy gives efficiency in use of resources , investments and production in an economy.

Planning is much broader and it offers a macro perspective, vision of the country into the future, chart out a growth path, required levels of savings and investments to achieve desired levels of growth. It also provides how to allocate precious scarce resources to competing end uses. It ensures complementarity of investments and a more balanced, equitable development and distribution in an economy.

More fundamentally, it also seeks to balance demand on public resources leaving sufficient for future generations to come and at the same time the present requirements are also met. Market economy does not allow for these, as a market economy is restricted to decisions taken by the market for efficiency in production activities and does not allow focus on national priorities and needs. As a market economy, there is still a need for direction which is what planning is able to provide.

18.3 INDIA AND FIVE-YEAR PLANS

Directed Planning (PI—P6)

India's five-year plans commenced with the first-five year plan spanning 1951-1952 to 1955—1956, with a modest overall growth target of 2.1 per cent. With just having becoming an independent country, objective was on increasing agricultural sector growth and balance development while keeping inflation under check. Being the first plan, targets were fairly modest and emphasis was on consolidation.

It was from thesecond five-year plan (1956-1957 to 1960-1961) that planning in the true form acquired shape of vision of India, need for an industrial base and the resultant initiation of industrialization. This was also known as the Mahalanobis model, used in the second five-year plan, which was creating significant capacities in both capital as well as core industries by the government.

The emphasis of this model was on achieving self-reliance and also the ability to meet the needs of the domestic economy. This plan is known for a top-down industrialization of the big industries creating a base for the growth of medium and small-scale industries and going down to village and cottage industries. It also gave birth to the concept of public sector of state run enterprises based on the Russian model of industrialization. Public sector was also envisioned as to meet broad socio-welfare objectives in the economy.

Most of the public sector in India was set up during this plan period and also known as the industrialization or the public sector plan. With the first plan target for overall growth surpassed the second plan which had set out an ambitious target of 4.5 per cent for the five-year period, but managed only an average growth of 3.9 per cent during the plan period.

The third five-year plan (1961-1962 to 1965-1966) had proposed a larger thrust on industrialization but the war with China and subsequently Pakistan, quite destabilized the third plan because of the changing priorities of the war, and resulted in a plan holiday from 1966-1967 to 1968-1969. Towards the end of the third plan, the plan holiday had a great contribution in ushering in the green revolution which increased the productivity of crops like wheat by using high-yielding varieties of seeds.

The fourth plan (1969-1970 to 1973-1974) was rebuilding the economy with the scarce resources that had got diverted towards war and aimed at growth with stability, greater self-reliance especially in defence, as a fall out of the war and increased vulnerability of more such wars in the future.

The fifth plan (1974-1975 to 1978-1979) for the first time actually addressed the issue of removal of poverty as a prime objective.

However, it was sixth plan (1980—1981 to 1984-1985), it was realized that the growth by itself was not sufficient, for one, they were not sufficiently high enough to address the larger issues of poverty in the country and the other being that there were structural rigidities. This plan made a frontal attack on poverty; when the then Prime Minister, late Smt. Indira Gandhi gave the slogan of *'Garibi Hatao.*

It marks the transformation from allocating scarce resources in the economy, to welfare orientation with focus on specific programs for poverty alleviation. These were not new schemes, however, all different schemes were combined as one scheme and known as the Integrated rural development programme (IRDP). It was the first plan to focus on gender issues, women empowerment and the growing inequalities amongst the states and also intra-regional imbalances.

From Pl to P6 five-year plan, they were directed plans as there was a large role of public sector and substantially larger investment by the government or the government could ensure investment in specific areas as it was the major investor. The general overtone in these five-year plans was towards industrialization, setting up of the public sector, self-reliance and establishing India as a self-generating economy, to provide employment and meeting the needs of the economy, rather than they being provided directly by the government. Towards P5 and more in P6, poverty' and welfare orientation of the plans became visible.

Indicative Planning (P7 onwards)

The seventh plan (1985—1986 to 1989-1990) had two important aspects, one that of, larger agricultural sector orientation of increasing production and productivity and the second that of, a steady decline in the public sector investment falling to below 50 per cent of the total outlay, implying a larger contribution from private sector in the total outlay of the plan.

It was the plan which recorded the highest ever agricultural and overall growth of 10.4 per cent in 1988-1989; however, this was largely due to the lower base of the previous year with a growth of only 3.8 per cent. It has experienced for the first time, a problem of imports outstripping the exports resulting in a balance of payment crisis in the country requiring India to seek loan from the International Monetary Fund (IMF). This is further discussed in detail in a separate section on the same subject.

These adverse developments again forced the government to opt for a plan holiday from 1990 to 1992. As in the previous plan period, even this resulted in the launch of economic reforms also known as the New Economic Policy 1991, which has been discussed earlier in the section on public sector. Each successive plan after P7 has seen a phased reduction in public sector outlay and larger levels of private sector, changing planning from 'directed to indicative', which is, indicating which sectors require investment in terms of priorities and private sector expected to make that investment.

The eighth plan (1992-1993 to 1996-1997), besides the objectives of increasing growth, agricultural production mentioned the need for attaining self-sufficiency* in food grains. It, for the first time, brought the need for strengthening infrastructure especially in the areas of energy, transport, communications and energy.

It was the first plan to have universal elementary education and eradication of illiteracy in the age group of 15-35 years as a major objective . This plan was also the first to have people initiative and participation in education , literacy , family planning , land development , irrigation, etc., also the need to rap voluntary agencies for meeting the needs of the social sector. The private sector investment was increased to 55 per cent, playing a larger role in mining , communication, electricity and gas. The role of public sector was seen now as selective.

The ninth plan (1997-1998 to 2001-2002), was only a further extension of the earlier plan, but besides the focus on growth also to provide for social justice and equity in the economy.

The tenth plan (2002-2003 to 2006-2007) became more ambitious in terms of wide-ranging objectives addressing each and every aspect of the economy but for one difference it gave a time frame for poverty reduction, elementary education, literacy and other such issues. It is in this plan that the Fiscal Responsibility Budget Management Act was enacted which set out time frame for reduction in fiscal and revenue deficit as part of fiscal consolidation.

The eleventh plan (2007-2008 to 2011-2012) has coined the concept of Inclusive growth which means the benefits of growth should be benefiting the masses. It has set out monitorable and quantifiable targets both for the centre as well as the states and has grouped the priority areas to be addressed by the government.

It was concerned with the growing divide across the economy and a specific mention of drawing the NE states into mainstream development of the economy. The eleventh plan saw the lowest ever public sector outlay of 25 per cent with a private sector outlay of 75 per cent as against the previous policies having over 60 per cent outlay from the public sector.

It has also brought out the need for neo-liberal policies given the changing global dynamics and a changed face of the economy. It gave thrust to the public-private sector partnership model for infrastructural development in the economy. The mid-term appraisal has, however, scaled the original-targeted rate of growth because of the global recession during 2008-2009. It has also mentioned that most sectors were on track as visualized and by the end of the plan there should be performance of an increased all round performance including the farm sector.

18.4 INCLUSIVE GROWTH : THEME OF 12TH PLAN

Twelfth plan which covers years 2012 to 2017 focuses on instilling "inclusive growth' . The plan is expected to be one that encourages the development of India's agriculture, education, health and social welfare through government spending. It is also expected to create employment through developing India's manufacturing sector and move the nation higher up the value chain.

The planning commission will strive to enact policies that will achieve somewhere around a 10% growth rate in factories and a 4% growth rate in farm produce, though Prime Minister has asked to set the nations growth rate firmly at 9 per cent to 9.5%.

An important aspect of generating "inclusive growth" is shifting target of government aid to rural areas. Typically, large projects such as power generation, roads whereby freight can travel, and airports receive the lion's share of government subsidies, while rural infrastructure receives comparatively little.

Rural infrastructure, which serves 70 per cent of the population, doesn't get the attention it deserves. As the Planning Commission sets out to draft the country's planned investments for the next five years, it is important to take note of this gap, and the innovative solutions needed to fill it.

Twenty five core monitorable targets of twelth five year plan focusing on objective of inclusive growth are as follows:

Economic Growth

- Real GDP growth rate of 8.2 per cent.
- Agriculture growth rate of 4.0 per cent.
- Manufacturing growth rate of 10.0 per cent.
- Every State must have a higher average growth rate in the Twelfth Plan than that achieved in the Eleventh Plan.

Poverty and Employment

- Head-count ratio of consumption poverty to be reduced by 10 percentage points over the preceding estimates by the end of Twelfth Five Year Plan.
- Generate 50 million new work opportunities in the non-farm sector and provide skill certification to equivalent numbers during the Twelfth Five Year Plan.

Education

- Mean years of schooling to increase to seven years by the end of Twelfth Five Year Plan.
- Enhance access to higher education by creating two million additional seats for each age cohort aligned to the skill needs of the economy.
- Eliminate gender and social gap in school enrollment (that is, between girls and boys, and between. SCs, STs, Muslims and the rest of the population) by the end of Twelfth Five Year Plan.

Health

- Reduce IMR to 25 and MMR to 1 per 1000 live births, and improve Child Sex Ratio (0-6 years) to 950 by the end of the Twelfth Five Year Plan.
- Reduce Total Fertility Rate to 2.1 by the end of Twelfth Five Year Plan.
- Reduce under-nutrition among children aged 0-3 years to half of the NFHS-3 levels by die end of Twelfth Five Year Plan.

Infrastructure, Including Rural Infrastructure

- Increase investment in infrastructure as a percentage of GDP to 9 per cent by the end of Twelfth Five Year Plan.
- Increase the Gross Irrigated Area from 90 million hectare to 103 million hectare by the end of Twelfth Five Year Plan.
- Provide electricity to all villages and reduce AT&C losses to 20 per cent by the end of Twelfth Five Year Plan.
- Connect all villages with all-weather roads by the end of Twelfth Five Year Plan.
- Upgrade national and state highways to the minimum two-lane standard by the end of Twelfth Five Year Plan.
- Complete Eastern and Western Dedicated Freight Corridors by the end of Twelfth Five Year Plan.
- Increase rural tele-density to 70 per cent by the end of Twelfth Five Year Plan.
- Ensure 50 per cent of rural population has access to 55 LPCD piped drinking water supply and 50 per cent of gram panchayats achieve the Nirmal Gram Status by the end of Twelfth Five Year Plan.

Environment and Sustainability

- Increase green cover (as measured by satellite imagery) by 1 million hectare every year during the Twelfth Five Year Plan.
- Add 30,000 MW of renewable energy capacity in the Twelfth Plan.
- Reduce emission intensity of GDP in line with the target of 20 per cent to 25 per cent reduction by 2020 over 2005 levels.

Service Delivery

- Provide access to banking services to 90 per cent Indian households by the end of Twelfth Five Year Plan.
- Major subsidies and welfare related beneficiary ments to be shifted to a direct cash transfer by the end of the Twelfth Plan, using the Aadhar platform linked with bank accounts.

18.5 CHALLENGES BEFORE TWELFTH PLAN (2012-2013 TO 2016-2017)

The twelfth plan would have the following challenges:

(1) A bigger challenge than Pll of providing for inclusive growth or the ability to provide broad-based benefits to the masses.

(2) Planning would increasingly become indicative with larger role of private sector in the total outlay.

(3) The challenge will be on improving agricultural production and productivity given the near stagnation levels. Their commercialization, adoption of biotechnology, access to finance, land reforms, etc., have all remained a challenge in the previous plans, but a larger challenge before twelfth plan, especially as it falls within the domains of the state government with limited central government interventions.

(4) Infrastructure investment and the requirement of long-term resources are the more important needs for coordinated and an effective infrastructure.

(5) Poverty continues to be the major issue and also a major limitation of not having the actual number especially in recent times. This does not allow an understanding of the impact of schemes like Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and other social sector programmes of recent times. There is also a need to leverage technology in this area, for appropriate corrections in policies.

(6) The need for labour sector reforms cannot be more than the present because of their links with creating employment opportunities with increased growth in future.

(7) Panchayati Raj Institutions (PRI) would be acting as an important role not only for decentralized planning but also in implementation of various programmes. The challenge will be in evolving them as 'effective' institutions for better delivery in the economy.

(8) The eleventh plan had mentioned about the growing 'divide' across regions of increased inter- and intra-regional divides and also exclusivity of the NE states in overall development process. Strategies for bridging this divide would also be a challenge.

(9) Skill formation has engaged the attention of the central government but would require greater thrust as actionable targets and sensitizing the state governments of their larger role in skill formation.

(10) All the plans since eighth plan can be seen as more or less as a five-year 'ritual' unlike the earlier plans which were intellectually stimulating.

Hope the twelfth plan will be path-breaking, different from the earlier plans, forcing the government and the others to think and provide a greater credibility and respect to the five year plans and also Planning Commission.

18.6 NITI AAYOG: THE PREMIER POLICY THINK TANK

The National Institution for Transforming India, also called NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog is the premier policy, 'Think Tank' of the Government of India, providing both directional and policy inputs. While designing strategic and long term policies and programmes for the Government of

India, NITI Aayog also provides relevant technical advice to the Centre and States.

The Government of India, in keeping with its reform agenda, constituted the NITI Aayog to replace the Planning Commission instituted in 1950. This was done in order to better serve the needs and aspirations of the people of India. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in national interest, and thereby fosters Cooperative Federalism.

At the core of NITI Aayog s creation are two hubs — Team India Hub and the Knowledge and Innovation Hub. The Team India Hub leads the engagement of states with the Central government, while the Knowledge and Innovation Hub builds NITI's think-tank capabilities. These hubs reflect the two key tasks of the Aayog.

Niti Aayog's Functions

The main functions of Niti Aayog are enlisted below:

- To evolve a shared vision of national development priorities sectors and strategies with the active involvement of States in the light of national objectives.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for resolution of inter-sectoral and inter departmental issues in order to accelerate the implementation of the development agenda.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.

- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

NITI Aayog's Role

NITI Aayog has been entrusted with the role to co-ordinate 'Transforming our world: the 2030 Agenda for Sustainable Development' (called as SDGs). Moving ahead from the Millennium Development Goals (MDGs), SDGs have been evolved through a long inclusive process for achievement during 2016-2030.

The SDGs cover 17 goals and 169 related targets resolved in the UN Summit meet 25-27 September 2015, in which India was represented at the level of Hon'blc Prime Minister. These SDGs will stimulate, align and accomplish action over the 15-year period in areas of critical importance for the humanity and the planet.

The task at hand for NITI Aayog is not merely to periodically collect data on SDGs but to act proactively fructify the goals and targets not only quantitatively but also maintaining high standards of quality.

Ministry of Statistics and Programme Implementation (MoSPI) has already undertaken a parallel exercise of interaction with the ministries to evolve indicators reflecting the SDG goals and targets.

To achieve these tasks, the draft mapping of the goals and targets as an initial step on proposed Nodal and other Ministries has been carried out in consultation with MoSPI.

Further, as an illustration, the Centrally Sponsored Schemes (CSSs),including the core of the core', 'core' and optional' Schemes being implemented by the States have been mapped along with some of the recent initiatives undertaken by the Central Government.

In addition, Ministries are implementing Central Sector Schemes and States are also implementing various State Schemes aligned with one or more SDGs.

Vision, Strategy and Action

The 15-year vision document has a seven-year strategy document for 2017-24 as the 'National Development Agenda.' Separately, a three-year Action Agenda from 2017-18 to 2019-20 is also under works to assess funding requirements. The three-year agenda is further divided into seven parts, with a number of specific action points for each part to boost economic growth.

The 12^{rh} five years plan has came to an end on March 31, 2017. The three-year action plan came into force from April 1, which will also end the prevailing system of the centre patiently waiting (for) the state governments to implement the schemes.

Niti Aayog has also been entrusted the work on the 15-year Vision Document and a seven year strategy, which would guide the government's development work till 2030.

18.7 RECENT INITIATIVES OF NITI AAYOG.

NITI Aayog has taken slew of measures and initiatives towards building an inclusive and sustainable India. The major recent initiatives undertook by Niti Aayog can be seen under the following ways.

Ek Bharat Shrestha Bharat

The Initiative of Ek Bharat Shrestha Bharat aims to make India united, strong and promote excellence in all walks of life by means of long-term inter-state engagements through cultural exchanges and education.

Sustainable Action for Transforming Human Capital (SATH)

As part of initiating transformation in sectors of education and health, it has initiated SATH. Under SATH, Niti Aayog aims to bring transformative change by hand-holding States towards improving their social sector indicators and providing technical support.

Development Support Services to States (DSSS) for Development of Infrastructure

It has launched DSSS to address key structural issues in project development and build institutional and organizational capacities. The initiative aims at establishing a Centre-State partnership model and reignite and establish Private Public Partnership across infrastructure sectors.

Public-Private Partnership in Health

To aid States in achieving the health goals in the area of prevention, diagnosis and treatment of select Non- Communicable processes, Niti Aayog has developed a guiding framework tor States, for implementation at the district hospital level.

Cooperative Federalism

As part of resolving pending issues with the Central Ministries from all States and UTs. Niti Aayog is providing a platform to share best practices among states and for collaboration to achieve common good.

State Human Development Report

Niti Aayog assisted states in the preparation of State Human Development Reports.

Transforming of 115 Identified Aspirational Districts.

Niti Aayog is the prime force behind the Aspirational District Programme. This Programme aims at rapidly transforming 115 identified districts that have shown lesser progress in key social areas and remind as pockets of under-development.

Competitive federalism

To ensure a healthy competitive federalism it has taken following steps.

- Finalized indices to measure incremental annual outcomes in critical social sectors like health, education, water and Sustainable Development Goals (SDg).
- Developed the District Hospital Index to measure and monitor the performance of hospitals with a focus on outputs and outcomes.
- Developed the ‘Healthy States, Progressive India Report also known as the ‘Health Index.
- Announced the Composite Water Management Index to assess and improve the performance of States/ Union Territories in efficient management of water resources.
- It is in the process of formulating ‘School Education Quality Index (SEQI)’, ‘SDG India Index’ and the ‘Digital Transformation Index’ (DTI) to measure states’ progress in respective sectors.

PART B

EXTERNAL SECTOR-
LOOKING OUTWARDS

Towards Globalization and Beyond

CHAPTER

19

LOOKING OUTWARD— TOWARDS GLOBALIZATION

So far, we have discussed about the domestic economy. What does it mean to look outward? Looking outward is to look at the Rest of World.

19.1 NEED TO LOOK OUTWARD

The need to look outward brings us to the importance of trade and various currencies. Any trade with other countries would involve receipts and payment in currencies other than home currency. As an inward looking economy focused on domestic sector, the home currency was important. Trade will involve imports (goods coming into the country) and exports (goods going outside the country). All payment for imports has to be in foreign currency and all receipts in foreign currency.

The need to look outwards thus is to look for newer markets and at the same time allowing foreign currency to come to pay for imports, required for developmental needs domestically.

19.2 NEED FOR IMPORTS AND EXPORTS

It is well-known that there are different countries in the world with different resource endowments, levels of development, income levels, diverse languages and cultures. No one country can be said to have the best of everything in the world i.c., there is a *'relative deficit'* in each country which could either be resources, or people, or knowledge or technology or markets or even goods and services differing in terms of their range and superiority.

The needs of a country keep on changing continuously . It also undergoes a change with increasing population pressure and increased income levels, requiring optimal and efficient allocation and utilization of scarce resources depending on the resource endowments of different countries.

Basically, there are two different kinds of resource endowments in an economy—labour and capital, This is *'relative resource endowment'* i.e., though every country will have both but relatively one would be more than the other across countries. India, for example, has relatively large and abundant pool of labour than capital. Similarly Germany has relatively more capital than labour. Thus, labour would be cheap in India, whereas capital would be cheap in Germany.

Thus, production process in India would be labour-intensive and such goods would be cheaper in India. What about labour-intensive goods in Germany? They will be more expensive given their relative scarcity and higher cost of labour in comparison with India.

What about capital-intensive goods? The same, it will be cheaper to produce capital-intensive goods in Germany given their relative abundance of capital than India where capital is scarce.

Thus, India producing capital-intensive goods and Germany producing labour-intensive goods is not efficient utilization of resources, sub-optimal and resulting in higher cost in both economies. Thus, the need arises for trade and to look outwards for an economy.

A better solution for both the countries, India as well as Germany would be that: le: India produce labour-intensive goods (as it is relatively cheaper in India) and export to Germany while import capital-intensive goods from Germany (as it is relatively cheaper in Germany).

This is what is known as *Theory of Comparative Advantage, which states that a labour-intensive country will export goods over which it has a comparative advantage (labour-intensive goods by India) and import goods over which it has a comparative disadvantage (capital-intensive goods from Germany).*

The relative differences in resource endowments then become the basis of trade for efficient allocation and utilization of resources resulting in *economic gains* for trading countries. Thus, no trading will only lead to growing inefficiencies, high costs, burden of inflation besides lop-sided development. Trading solely will allow for better addressing the needs of development, through efficient allocation of resources, reducing costs, increasing income of economies which is also known as welfare gains' for both the countries.

As long as, an economy is looking at quantities of what is being produced, focused on creating capacities, meeting the *basic needs* of its population and the economy and issues such as *efficiency, quality* not on priority a country can afford to ignore trade. However, not indefinitely, as costs would gradually build-up, making economies high cost, uncompetitive given the high levels of inefficiency and chinks in the economy would start to appear of a high-cost, caught in a low-growth cycle, economy unable to meet the demands of growing population and the needs of higher growth.

19.3 FLIP SIDE TO TRADE

Yes! there can be a few *perceived* fall outs of trade. First, it could come in the way to build a self-reliant economy bring back dependence, on economies memories of the exploitative colonial and imperial rule.

Secondly, trade strictly based on comparative advantage may not happen with each country having own national priorities and in conflict with trade based on resource endowments.

Thirdly, there could be restrictions to trade distorting comparative advantage. Similar to levy of import duties, also known as tariff and non-tariff barriers to trade in the form of quotas, discrimination and other protectionist measures. These aspects will be examined in detail while discussing WTO.

The flip sides can be resolved only through greater openness, firm determination and resolve of economies and breaking the belief that trade is detrimental and on the contrary, they will provide for welfare gains. Trade is inevitable for economies wanting to chalk out new growth paths and reflects a win-win situation for all the trading partners, better allocation of scarce resources, opening newer markets and resulting in long-term gains for economies.

19.4 NEW GLOBALIZATION REPORT: THREE MEGA-TRENDS.

Globalization has impacted people and communities across the globe and has significantly influenced global developmental efforts. It has helped the world to be more interconnected than ever before.

Three mega -trends related to globalization have been emerged recently , namely , Shifts in production and labor markets, Rapid advances in technology and Climate change. These trends are expected to shape and influence our future.

- The **first mega-trend** refers to the impact of production changes on the labour markets. These trends in labour markets are associated with higher rates of income inequality, which has increased in a majority of countries across the globe.
- The **second mega-trend** is related to the fast-moving development and advancement of new technologies. The countries that do not have access to these facilities are at risk of being left behind.
- The **third mega trend** is related to climate change. Many trends closely linked to globalization, including economic activity, lifestyle changes and urbanization, are having an impact on our environment and may contribute to climate change.

CHAPTER

INWARD AND OUTWARD-LOOKING ECONOMIES' GLOBALIZATION 20

20.1 CLOSED ECONOMIES

In the initial years of development, most economies are inward-looking (closed) economies with a strong focus on domestic demand, domestic population, domestic resources and fulfilling the basic needs in an economy. These economies are characterized by high-levels of insulation from the rest of the world virtually and complete cut-off from trade with imports restricted to essentials not possible to produce in the domestic economy and exports are permitted only of surplus over-domestic demand.

Such economies have a large role in the government as a direct producer of goods and services in the economy, highly regulated (remember India before 1991 reforms), focused on self-reliance and import substitution. However, as economies move up the development ladder, inflexibility, high levels of controls, relative inefficiencies and high-wage cost starts building up of a high-cost economy stifling the economy.

This gets compounded by their relative inability to increase growth rates and income because of the inadequacy and misallocation of resources, technology and knowledge. Further, import of goods increases to meet domestic requirements. The inward character of such economies become liability and forces them or pushes them to look outwards not as a matter of choice but as a compulsion, which is looking 'outwards' to meet 'inward' or domestic requirements of an economy.

Fast-paced global developments over the last two decades have played the role of facilitators to the changed outlook, making this transformation seamless and a natural outcome.

20.2 WHAT ARE THESE FACILITATORS?

(1) **Global Accessibility:** The global economy has virtually shrunk with multi-modal fast global accessibility in terms of speed and time taken to travel. Air travel previous?, meant for 'elite' has been brought closer to the 'common man by making it affordable Travel today is faster, lesser time-consuming, comfortable and also affordable for the people. This has given boost to tourism and more importantly increased the 'awareness' of different economies.

(2) **Telecommunication Revolution:** Telecommunication has undergone a complete revolution in the last two decades, both in terms of global teledensity as well as reach. Technology-intensive telephony is cost-effective and provides cheaper mode of telecommunication. Audio telecommunication is now giving way to visual telecommunication allowing one to view and talk at the same time. Multi-location video conferencing is gaining popularity as it saves time of travel besides providing an alternate way of telecommunication simultaneously across multiple locations. However, the real revolution is mobile telephony which has completely redefined telecommunications globally.

(3) **Information Metamorphosis:** It is a metamorphosis of the form of information from physical gathering, books, literature, magazines, previously known as 'information asymmetrical' (less information) to that of now symmetrical information (complete information) through the internet powered by the 'search engines' (google, yahoo, etc.). What this has done is global information' right on your computer cutting across countries, products, services and knowledge. This has not only increased awareness, speed of information gathering but also the knowledge base of people.

(4) **Media Transformation:** The media transformation has been a gradual shift away from the print media to electronic media with the advent of televisions. Satellite connectivity today allows one to watch global developments right in ones own drawing room.

(5) **Redefined Living Standards:** The living standards of people have also undergone a change from 'hard living' to 'soft living' facilitated by the availability, enlarged choice set with greater stress on convenience and comfort. Increased demands for televisions, refrigerators, washing machines, air conditioners, etc., is not only because of increased income levels but also because of their continuous falling prices making them affordable.

(6) The easy paced lifestyle has paved way to fast-paced lifestyle such as fast foods, convenient goods, etc.

(7) **Cultural Exchanges:** Globalization has facilitated and still facilitating socio-cultural exchanges across the countries and communities. These exchanges of ideas have cross border influence now, than ever before.

All the above factors have led td integration of the world economy from an economic perspective to what is known as a 'global village'. Goods and services today are not confined to geographies but are available across the countries. Countries of origin have lost relevance with emergence of global brands and global players.

It is difficult to ascertain today that a good being purchased is of which country. For example, Sony, a Japanese company could be selling televisions in India which may have been manufactured in Korea or Taiwan. Today goods and services, and their availability not identifiable by geographical boundaries but are driven by markets.

The above facilitators have served as an accelerator to the transformation of an inward-looking (closed) economy to an outward-looking (open) economy which is known as the process of globalization. The first thing to understand is that globalization is not an objective but a process or a journey towards opening up of an economy by looking towards the rest of the world and to achieve integration in a rapidly transforming global village.

20.3 GLOBALIZATION INDICATORS

The degree of openness and thus globalization though generic in nature, differs from country to country in the process followed, but has a few common characteristic^ such as:

(1) Lowering the levels of insulation from the rest of the World.
(2) Easing of restriction on cross borders inflow of goods, services, resources and investment.
(3) Increasing share of exports and imports to GDP of economies.
(4) Greater thrust on exports.
(5) Increasing share of exports of goods and services in GDP.
(6) Increase in foreign currency transactions in relation to the total output.
(7) Focus on competitive forces, greater efficiency levels aiming at achieving global competitiveness.
(8) Globalization is also a reflection of the changed ideology and mind set of the government.

Inward-looking economies like erstwhile USSR or the Soviet Union. China initiated their transformation in the seventies and India still later in the nineties. It can be said that curtains have fallen on the era of closed economies with the largest inward-looking economies which comprises of the erstwhile USSR, China and more recently India having adopted open policies through reforms in the domestic sector.

India's efforts at globalization, as mentioned previously in the nineties, was a part of Economic Reforms of 1991 centred around the three pillars of liberalization, privatization and globalization also known as the L,P,G of economic reforms. Liberalization and privatization are to achieve domestic competitiveness while globalization is to achieve global competitiveness. Their roles are complimentary reinforcing each other. It is not possible to achieve the global competitiveness unless domestic sector is competitive and efficient.

All of them are processes rather than objectives to achieve better qualitative growth and widespread economic betterment, besides meeting ever expanding domestic requirements of the economy but with the active government interventions. India's efforts at globalization had two significant aspects—one was the trade-related globalization which was relatively slow, compared to the other aspect of financial integration, with the capital inflows on the current and capital account sharply increasing and exceeding 100 per cent of the GDP Globalization is a relatively new concept, dynamic, continuously evolving, requiring redefinition in terms of need and the most important aspect is, it is driven naturally across economies and could be said to have crossed the stage of 'as a matter of choice', but a matter of'compulsion' or being driven naturally with the tide.

20.4 WHILE BEING DRIVEN INTO THE GLOBAL VILLAGE, CAN HAVE ITS OWN FALLOUT TOO

While it is a fact that globalization has been a natural process driven out of need it could also have its own set of fall outs as under:

(1) Coupling of Economies: The relative coupling of economies in a global perspective would not allow decoupling of economies from adverse global fallouts.
(2) The ability of economies to insulate themselves from crisis of one country adversely impacting their economies was possible rill the nineties.
(3) Like the earlier crises of Mexico, Chile, South-east Asia and Argentina, economies did nor impact countries like India. It was widely believed that globalization and decoupling theory could co-exist i.e., economies even when following open policies could remain relatively de-coupled from adverse global fallouts.

However, the world recession of 2008 has exposed the earlier belief. It is not possible for economies to remain as 'hermit economies', which is insulated from rest of the world in adverse times. Economies of the world including India, China and other emerging economies were also impacted by the global crisis, though to a lesser degree. However, as they pursue open policies they would increasingly be coupled making them vulnerable and susceptible to adverse global fallouts.

The coupling neither be geographic nor be selective but is global in nature. Problems of Greece and Spain can also impact countries such as India and China.

20.5 GLOBALIZATION WOULD ALSO BRING ITS OWN SET OF CHALLENGES

While globalization does provide for means of betterment for economies, it has some inherent challenges which will have to be addressed:

(1) While decisive thrust on exports is required, there would be pressures for liberal imports which could create issues in the domestic sector by making imported goods cheaper threatening domestic goods. Already, the Indian market has a large number of low-priced Chinese goods.
(2) With easing of restrictions on inflows there could be a surge on foreign funds which could have an adverse impact like appreciating home currency and hurting exports especially for a country like India (explained in the section on Exchange Rate later).
(3) It could lead to increase conspicuous consumption or 'consumerism' leading India into a consumption-driven from investment-driven economy. This can lead to lopsided development neglecting the interests of the masses. Greater production of goods demanded and lesser production of those which are less-demanded. Any consumerism also leads to lower savings in the economy.
(4) The biggest challenge of globalization would be in making the domestic sector globally competitive, ability co withstand global competition and make inroads into global markets.

(5) The other is about expectations from globalization. It is not' to provide answers for larger issues of poverty, unemployment, reducing regional imbalances or other such issues.

As mentioned previously, it is all about achieving integration with the rest of the world, global competitiveness as the key to globalization. Therein, lies the challenge of the ability of the government to change the misconception of globalization . The Economic Reforms of 1991 comprising of liberalization , privatization and globalization seeking to achieve domestic and global competitiveness , increased share in global trade, efficient and competitive domestic manufacturing base, higher growth driven by manufacturing sector and exports.

The increased growth, would 'over a period of time', bring about overall development. And the government in letting economic reforms to deliver should also be conscious of the fact that answers to the larger issues of poverty, unemployment, regional imbalances lie within 'its' domain.

A criticism of the economic reforms of not delivering in these areas or not impacting social issues, is an acceptance, by the government, of not being able to clearly delineate deliverables from economic reforms from 'deliverables falling within government' own domain.

20.6 IMPACT ON INDIAN SOCIETY SO FAR

Indian society is one among the oldest in the world, varied and complex in its heritage. It has a diverse culture of unity in diversity; having withstood the colonial rule but yet impacted, with society entrenched and weaved around considerations of race, religion, caste, community, language and region. A heterogeneous society with overriding concerns of a low income economy and large-scale poverty inherited post-Independence. The painstaking rebuilding of the economy was a slow and gradual process , culminating in the process of a series of reforms lifting growth , economic empowerment and improvement in standards of living of its people . This is not to say that poverty is no longer an issue. Higher growth has led to a reduction in poverty levels. But, rural India where the heart ol India resides , by and large , has not undergone any significant transformation and a society still, with a traditional outlook and conservative beliefs.

Reforms and their impact on economy and the people have largely been around urban India. The economic perspective has been dealt in the previous sections. An attempt is made here to understand how it has affected lives of urban India.

Growing Middle Class

A direct impact of globalization widely accepted is the growing middle class, especially China and India as a part of Brazil, Russia, India, China and S. Africa (BRICS) economies, a potential market of the future with definite increased income, enhanced purchasing power, demand for better variety of goods and distinct improved and changed life style.

This is being observed not only in metro cities but also spreading across tier 2 and 3 cities.

This class is creating a niche for newer goods attracting more foreign companies to set up shops. The 'mall culture' as shopping and entertainment under one roof, is gradually spreading across a large number of cities, witnessing a large number of foot falls. 'Fast food' is gradually gaining acceptability amongst the middle class. Dining out which was once only for the elite society, has now become a common feature of the growing middle class.

Global Goods and Services

As has been addressed earlier, one of the objectives which globalization seeks to achieve, is to enlarge the choice set' of a wider and diversified basket of goods and services, available globally, at 'affordable' prices for the people in India. Today, goods and services are moving pan India, without any nationality but as brands, reaching different sections of people. Another notable feature has been goods and services fit every class of consumer.

Information Symmetry

Globalization has not only increased choice set, but also provided for 'information symmetry' enabling them to take informed decisions, on their requirements and the best bet for them. This is complete contrast to the earlier information asymmetry, which often resulted in decisions based on the seller of goods, rather than own perception about goods/ services. These information gaps have now been sealed. This has raised levels of awareness of the people who are now better informed. It has also raised levels of knowledge of people cutting across different age groups.

Mobile Telephony

One of its biggest contributions has been the spread of affordable mobile telephony even into villages, achieving a penetration level of over 80 per cent in about five years. Villages which were earlier cut-off from the communication links due to adverse topography, difficult and hilly terrains are now well-covered. It has definitely improved communications and also the life style of the people in general.

Social Networking

An outcome of globalization has been the spread of social networking sites which has allowed a novel way to connect with people irrespective of their location. It provides a wide platform for 'faceless communication' and 'free and frank expression' of views almost instantaneously across the world. It has allowed 'discovery' of friends and acquaintances, of connecting with those people who had lost contact or whose whereabouts were not known. This has led to a more 'open society' not bound by caste, creed or religion.

Cross Border Cultural Engagement

Thanks to the growing middle class for increasing income, together with air travel becoming cheaper, has promoted cross border tourism, with many Indians travelling abroad for vacations and holidays, increasing their exposure to different people and culture of different countries. Further, there is also an increase 'in bound tourism' with more and more foreigners visiting in India which has increased cross border cultural engagement. This has led to better understanding and acceptability of different cultures and developing mutual respect of each other.

Emergence of a Harmonized Culture

Globalization has resulted in not only greater cross border cultural engagement, but also marks emergence of a harmonized culture, with cross border acceptability. This culture can be seen, in the perceived preferences for unisex personal wear, celebrations such as fathers , mother 's and valentine 's day . This harmonized culture cuts across caste and creed , fostering a cohesive society.

Changing Role of Women

Women have always occupied centre stage in society. There are an increasing number of women today who are seeking a career, being independent, leading a life as they wanted, rather than being directed by a family. The more important aspect is acceptance of this fact by the society, of going beyond running homes and marriage as the ultimate for any girl. They today have the same status as their male counter parts, commanding respect from them. Many Indian women have reached the top of the ladder both in India as well as globally. Many jobs which were considered as male bastion are now being performed by women. Flying aircrafts, army, police, etc., now have sizeable women participation. Dowry system which virtually had become institutionalized in the past has seen a decline.

However, can we say that this globalization has not impacted society' in any adverse manner? While globalization has been able to expand the middle class, there is now an upper and a lower' middle class with wide income in equality. It has led to consumerism. But it cannot be attributed to the process of globalization, as in general income levels have increased and as mentioned previously, globalization has only allowed for increase in the choice set for the consumers'.

But the present society has become more materialistic; life styles have become fast tracked, lesser time for relationships, with everyone in a rat race of out doing the other. Satisfaction levels have become relative and craving for more. Nothing wrong with this, except that it has led to increase in health disorders and an early 'burn out' of the people.

Even though women have now changed and bigger role, crime against them, in particular has increased. Cases of physical abuse, marital discords leading to divorces have only increased. Newer concepts of 'live in relationships have emerged. Urban India has become more liberal and modern in outlook especially the young generation. Their addiction to the internet and social networking sites has led to their abuse. Extensive use of mobile for purposes, other than communication has increased, resulting in distraction and taking them away from studies.

There is also an exodus of students going abroad for higher studies and seeking employment overseas, resulting in 'brain drain' from India.

Can it be said that globalization has been a bane for society? Globalization is not only about India, it has been a wave encompassing the world economy and cannot be seen as a bane either from the economy or societal perspective. It is not about an option but about acceptance as part of global integration. As a process, it cannot be faulted and its abuse is not a fault of the process. Social ills seen as fallout of globalization have always been there only that now they have been highlighted. Globalization is about economic betterment and the benefits of such betterment will always be in the society itself. Yes, some may benefit more others less, but benefits will always be there.

People, society and economy are integral in any development process. Reforms are aimed at not only uplifting the economy as a whole but also provide better standards of living for its people. Globalization is getting the 'best' at the door step of people. It is about our people benefiting from others. It is a blend of the world economy looking for newer markets and our people getting the best of the world. The world order is changing, so also has to be our thinking and perceptions. It is about accepting change. The endeavour should be how to reach out to a larger cross section of people? How to overcome the hurdles which come in the way?

Globalization today is not a subject matter of debate, but a natural process driven across economies, as a necessity, for meeting own needs of economies.

CHAPTER

21 GOING FORWARD— INDIA AND GLOBALIZATION

21.1. TRADE STRATEGIES

We have previously discussed about concepts and objectives of globalization. But how did India go forward? Firstly, it was the Economic Reforms of 1991, which liberalized inflows of goods and services and also capital inflows as a signal of gradual and calibrated opening of the economy and at the same time a distinct thrust and focus on promotion of exports not that of surpluses' but catering to the global market in terms of demand, tastes and preferences.

As a strategy to promote exports there are two textbook strategies one which is the export-led growth' strategy and the other as the 'growth-led exports' strategy. An export-led growth strategy is of recent origin in the nineties, resulting out of the experience of the South-east Asian economies essentially comprising of Thailand, Malaysia, South Korea and Indonesia in the late eighties and early nineties. They were hailed as the Asian tigers'.

In a short span of time, they were able to accelerate the rate of growth, increase per capita income providing for all round development of such economies, by a distinct openness, liberal foreign investment and a strong focus on exports. Thus, the strategy of exports increasing overall growth rates in such economies in a very short time, were also known as 'butterfly economies' which is smaller economies ability to grow and expand income at a fast pace in short time frame.

This strategy subsequently got questioned by the crisis which struck these economies in the late nineties, as 'contagion effect' (spreading across all these economics) plunging them into currency crisis'. That is, complete erosion of faith in home currency (it will be discussed later).

It may be premature at this stage to say whether openness or the strategy was flawed bur suffice it to say here that it was neither the openness nor the strategy followed but from other factors (it will be discussed later). As a strategy, an export-led growth requires re-orienting the domestic sector catering for exports, allowing liberal foreign investment and promoting exports from the country.

However, this is possible for smaller and homogeneous economies, lesser pressures of population or regional imbalances, lesser structural rigidities, relatively greater flexibility for such transformation. Larger economies like India given the size, large agrarian base, diversity, intense population pressure, large-scale poverty and unemployment, regional imbalances, structural rigidities and inflexibilities make such a strategy neither feasible. appropriate nor desirable.

The other growth-led export strategy is more relevant for economies like India. A strategy also followed by the developed countries in the previous years. This strategy is slow, time-consuming but sustainable in the long run. It allows for growth to increase by expansion of the manufacturing sector, allowing for their maturity and gradually emerging as competitive, finding foothold in global markets and thus increasing merchandise (goods) exports.

Such a strategy also provides an incentive mechanism for the natural growth of export-oriented industries well-integrated with the domestic economy. Both India as well as China have, however, blended both export-led growth and growth-led exports, as their strategy in their efforts at globalization.

Both have dedicated certain geographies within the domestic economy to cater exclusively for exports as part of export-led growth strategy and the remaining part of the economy following the growth-led export strategy. It is no longer the question about the strategy to adopt but that economies have to have a distinct openness and exports both integral to growth of economies in future.

21.2 BRANDING INDIA THROUGH 'MAKE IN INDIA'

The Gol is working under 6P protocol to make project branding a success, these 6P s are explained as under:

Program

In persuit of branding India like other developing economies has done in the World, in this direction the Indian Prime Minister Narendra Modi launched the Make in India initiative on September 25, 2014, with the primary goal of making India a global manufacturing hub, by encouraging both multinational as well as domestic companies to manufacture their products within the country. Led by the Department of Industrial Policy and Promotion, the initiative aims to raise the contribution of the manufacturing sector to 25% of the Gross Domestic Product (GDP) by die year 2025 from its current 16%. Make in India has introduced multiple new initiatives, promoting foreign direct investment, implementing intellectual property rights and developing the manufacturing sector. It targets 25 sectors of the economy which range from automobile to Information Technology (IT) and Business Process Management (BPM), the details of each can be viewed on the official site (www.makeinindia.com). It also seeks to facilitate job creation, foster innovation, enhance skill development and protect intellectual property. The logo of 'Make in India' - a lion made of gear wheels - itself reflects the integral role of manufacturing in governments vision and national development.

Process

Make in India is much more than an inspiring and energising slogan. It represents a comprehensive and unprecedented overhaul of existing set of out-dated processes and policies framework.

THE KEY PILLARS

1. New Processes: Government of India is initiating new age reforms to achieve its various major projects like make in India etc. are also aligned with parameters of World Bank's ' Ease of Doing Business' index to improve India's ranking on it.

2. New Infrastructure: The government is committed to develop industrial corridors and build smart cities with state-of-the-art technology and high-speed communication. Innovation and research activities are supported by a fast-paced registration system and improved infrastructure for Intellectual Property Rights (IPR) registrations. Along with the development of infrastructure, the training for the skilled workforce for the sectors is also being addressed.

3. New Sectors: 'Make in India' has identified 25 sectors to promote with the detailed information being shared through an interactive web-portal. These sectors are as follows:
   - Automobile
   - Automobile Components
   - Aviation
   - Biotechnology
   - Chemicals
   - Construction
   - Defence Manufacturing
   - Electrical Machinery
   - Electronic Systems
   - Food Processing
   - IT and BPM
   - Leather
   - Media And Entertainment
   - Mining
   - Oil And Gas
   - Pharmaceuticals
   - Ports And Shipping
   - Railways
   - Renewable Energy
   - Roads And Highways
   - Space
   - Textiles And Garments
   - Thermal Power
   - Tourism And Hospitality
   - Wellness

4. New Mindset: Switching role from regulator to business partner is a strategic move of Government of India to strengthen its commitment towards make in India.

- Zero defect zero effect
- Minimum goverment maximum governance
- Creative India Innovative India

Come make in India. Sell anywhere

But

Plan

A strategy that inspires, empowers and enables in equal measure was required. Thus, planning premise so designed is as follows:

(a) Inspire confidence in India's capabilities amongst potential partners abroad, the Indian business community and citizens at large;
(b) Provide a framework for a vast amount of technical information on 25 industry sectors; and
(c) Reach out to a vast local and global audience via social media and constantly keep them updated about opportunities, reforms, etc.

Partnerships

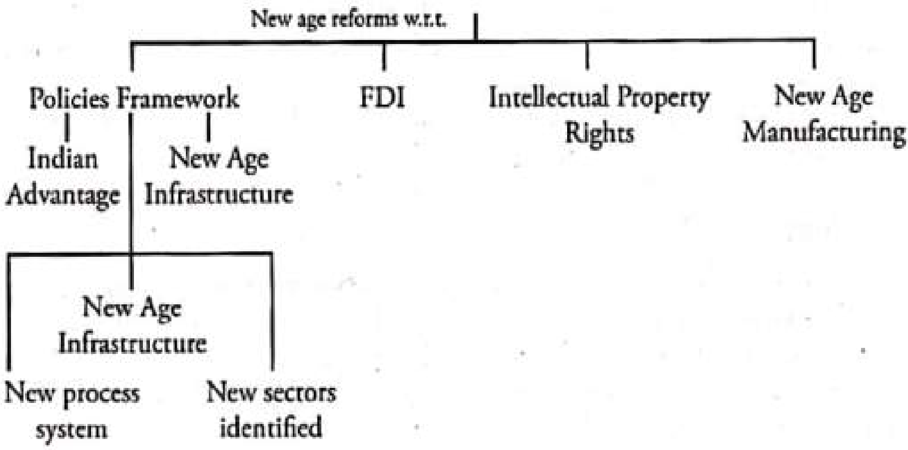
The Make in India initiative has been built on layers of collaborative effort of DIPP, acting as a backbone with Union Ministers, Secretaries to the Government of India, state governments, industry leaders, and various knowledge partners to debate and formulate an action plan for the next three years, aimed at raising the contribution of the manufacturing sector to 25% of the GDP by 2020.

Progress

Opening up of key sectors like Railways, Defence, Insurance and Medical Devices - for higher levels of Foreign Direct Investment. The ministry tie up with the World Bank group to identify areas of improvement aligned to World Bank's 'doing business' methodology. An Investor Facilitation Cell (IFC) dedicated for the Make in India campaign was formed with an objective to assist investors in seeking regulatory approvals, hand-holding services through the pre-investment phase, execution and after-care support. DIPP has set up Japan Plus' team to facilitate and fast track investment proposals from Japan, similarly Korea Plus', also being launched. Liberalised regulatory policies to facilitate investments and ease of doing business. Setting up of six industrial corridors across country, where Industrial Cities will be developed along these corridors. Since the launch of Make in India FDI inflows of USD 77 billion including a equity inflows of USD 56 billion has been received till March 2016. 'Zero defect zero effect' is a key phrase which has come to be associated with the Make in India campaign. According to Prime Minister, "Let's think about making our product which has 'zero defect'... and 'zero effect' so that the manufacturing does not have an adverse effect on our environment".

In December 2015, Micromax announced that it would put up three new manufacturing units in Rajasthan, Telangana and Andhra Pradesh. Japan announced it would set up a USD 12 billion fund for Make in India-related projects, called the "Japan-India Make-in-India Special Finance Facility" after the Japanese Prime Minister Shinzo Abe's visit to the country. Huawei opened a new Research and Development (R&D) campus in Bengaluru and is in the process of setting up a telecom hardware manufacturing plant in Chennai. France-based LH Aviation signed a Memorandum of Understanding (MoU) with OIS Advanced Technologies to set up a manufacturing facility in India for producing drones. Foxconn announced it would invest USD 5 billion over five years for R&D and creating a hi-tech semiconductor manufacturing facility in Maharashtra. Samsung said it would manufacture the Samsung Z1 in its plant in Noida while General Motors declared that it would invest USD 1 billion to begin producing automobiles in the capital state.

Make in India Strategy



Policies Framework

Various new age reforms has been initiated by the Government of India those are reflected in policies announced on various dimensions of the economy. Hie key aspects are discussed below:

Why India?

India should be the new investment capital because of the following:

- 767 million population falls in the age group of 15-64, and also one of the youngest country with mean age of 29 years and also projected 100% literacy level by 2025.
- 2nd largest Internet users base with 462 million Internet users.
- Huge consumer market base of US$ 3.6 trillion by 2020 (BCG Report).
- 3rd largest economy in the world with size of US$ 8.6 trillion by Purchasing Power Parity (PPP) and is expected to rise to USS 20 trillion in size by 2025.
- Fastest growing economy in the world with the rate of 7.6% in 2015-16.
- India has an immediate investment opportunity of $1 trillion (Economic Times).
- India enjoys stable/positive ratings from major credit rating agencies around the globe and has a total foreign exchange reserves of USS 371 billion as on 30th September 16.
- 2nd largest railway network in the world, used by 23 million travelers every day and 2nd largest road network in the world stretching 3.3 million km.
- 12 major ports, 200 notified minor and intermediate ports.

Next Generation Infrastructure

To become new age investment capital next generation infrastructure is required, its dimensions being reformed are:

Industrialization and Urbanization

1. 6 Industrial Corridors and 21 new nodal Industrial Cities to be developed:
   - Delhi-Mumbai Industrial Corridor (DMIC)
   - Chennai-Bengaluru Industrial Corridor (CBIC)
   - Bengaluru-Mumbai Economic Corridor (BMEC)
   - Vizag-Chennai Industrial Corridor (VCIC)
   - Amritsar-Kolkata Industrial Corridor (AKIC)
   - Dedicated Freight Corridor (DFC) of 1504 km as the backbone
   - These 21 new nodal cities will be having advantages like; Large land parcels, Planned communities, ICT enabled infrastructure, Sustainable living, Excellent connectivity- Road, Rail etc. DMIC is a mega infra structure project of USD 100 billion with financial and technical aids from Japan, covering an overall length of 1,483 km.
2. Doubling of Network of Roads by 2020.
3. Railway projects such as Setting up of New Railway Stations, Mordernisation of Rolling stock, High Speed Railways, Port Mine connectivity etc. have been initiated for Modernising and better connectivity of Indian Railways.
4. Sagarmala project is started by the Govt, of India to modernize India's Ports and Inland waterways with a project outlay of US$ 10 billion.
5. The Smart Cities Mission having a project outlay of US$ 7.69 billion is progressing.
6. Aviation industry with target of becoming 3rd largest by 2030.

New Design, Innovation and R & D

3rd largest tech driven Start-up ecosystem globally and Tech Startups in India are expected to reach 11,500 in 2020.

'Start-up India" was launched to foster entrepreneurship and promoting innovation.

Intellectual Property Rights Policy launched in May 2016 is having salient features:

- Strong TRIPS compliant policy framework, ease of access using World-class IT enabled patent offices.
- Internationally acclaimed systems for International Searching and Preliminary Examination of patent applications.
- Augmentation of Manpower: 721 additional technically competent Patent Examiners appointed.
- Time for examination of patents to come down to 18 months from 7 years by March, 2018.
- Time for examination of trademarks to come down to 1 month from 13 months by March, 2017.

Redefining Processes

A more holistic idiology is being followed in the processes already defined to foster the vision 2020. Ihe philosophies so followed are:

Ease of doing business

- Incorporation of a company reduced to 1 day instead of 10 days.
- Power connection provided within a mandated time frame of 15 days instead of 18" days.
- No. of documents for exports and imports reduced from 11 to 3.
- Validity of industrial license extended to 7 years from 3 years.
- Bankruptcy Code 2015 - New bankruptcy law, providing for simple and time-bour.c insolvency process to be operational by 2017.
- Goods and Services Tax - Single tax framework by April, 2017.
- Permanent Residency Status for foreign investors for 10 years.

Other reforms

1. Online portals for Employees State Insurance Corporation (ESIC) and Employees Provident Fund Organization (EPFO) for Real-time registration, Payments through 56 accredited banks, Online application process for environmental and fores: clearances.

   Department of Commerce, Gol has launched Indian Trade Portal, is a single poir.: for relevant information on measures called the non-tariff measures like standards technical regulations, conformity assessment procedures, sanitary and Phytosanitan measures which may affect trade adversely.

New Sectors

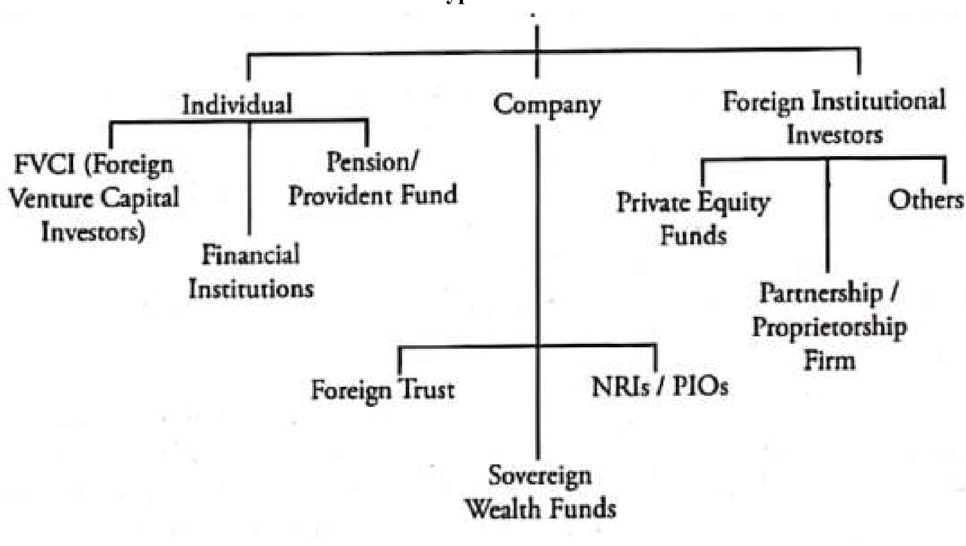
The new sectors has been identified by the Government of India to foster vision 2020. FDI is acknowledged as a game changer for the economy.

Major FDI reforms

1. **Defence:** Up to 49% under automatic route and above 49% through Government route.
2. **Civil Aviation:** 100% FDI under automatic route in Greenfield Projects, 74% FDI in Brownfield Projects, and beyond 74% for Brownfield Projects is under government route.
3. **Broadcasting:**
   - 100% FDI in Broadcasting Carriage Services and down-linking of news channels.
   - Cable Networks: 100% FDI and in News channels: 49% FDI.
4. **Banking:** FDI up to 74% with 49% under automatic route rest through government route.
5. **Railways:** 100% FDI under automatic route permitted in construction, operation and maintenance of Rail Infrastructure projects.
6. **Construction:** 100% FDI through automatic route and removal of minimum floor area and minimum capital requirement.
7. **Pharmaceuticals:** The extant FDI policy on pharmaceutical sector provides for 100% under automatic route in Greenfield pharma, up to 74% under automatic route and 100% under government approval in Brownfield pharma.

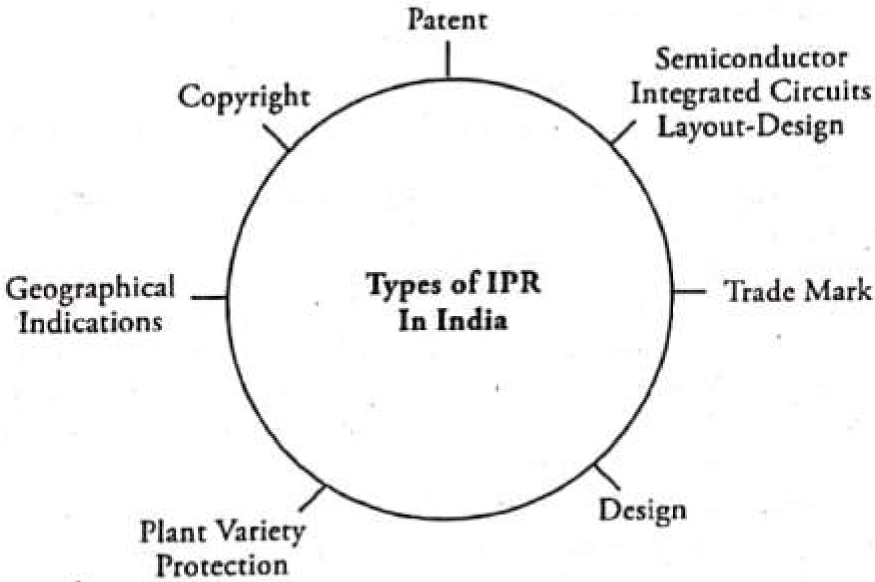
8. **Plantation:** Coffee, rubber, cardamom, palm oil tree and olive oil tree plantations has opened for 100% under automatic route.
9. **Telecom:** FDI up to 100% with 49% under automatic route.
10. **Insurance & Pension:** New sectoral cap of 49% with foreign investment up to 26% to be under automatic route.
11. **Medical Devices:** 100% FDI under automatic route for manufacturing of medical devices has been permitted.
12. **E-Commerce:** 100% FDI in B2B e-commerce, Single brand retail trading entity permitted for B2C e-commerce and e-commerce food retailing.
13. **Retail:** 100% FDI and 49% under automatic route. In case of 'state-of-art' and 'cutting-edge technology' sourcing norms can be relaxed subject to Government approval. 100% FDI is under automatic route in Duty Free Shops located and operated in the Customs bonded areas.
14. **Allied Agriculture:** Requirement of 'controlled conditions' for FDI in Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture and Apiculture has been waived off.

Types of Investors



Intellectual Property Rights

To make Indians recognize their own IPs, as also respect others' IPs a policy was drafted after key stakeholder's consultation with nearly 300 stakeholders, individuals by an IPR Think Tank, 31 departments of the GoI and 5 foreign Governments. The Vision Statement "Creative India; Innovative India'*, an India where intellectual property promotes advancement in science and technology, arts and culture, traditional knowledge and biodiversity resources. The 'Cell for IPR Promotion Management (CIPAM)', setup under a professional body under the guidelines of DIPP, a single point of reference for implementation of objectives so laid for National IPR Policy. Types of IPR In India are as follows:



Patent

A patent is granted for an invention which is a new product or process involving an inventive step and capable of industrial application. "New invention ' means the subject matter has not fallen in public domain or that it does not form part of the state of the art; Inventive step is the feature(s) of the invention that involves technical advance as compared to the existing knowledge or having economic significance or both and that makes the invention not obvious to a person skilled in the art. Capable of industrial application means that the invention is capable of being made or used in an industry.

Design

Definition and significance: a design refers only to the features of shape, configuration, pattern, ornamentation, composition of colour or line or a combination thereof, applied to any article, whether two or three dimensional or in both forms by any industrial process or means which, in the finished article, appeal to and are judged solely by the eye.

Trade Mark

A trademark means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one undertaking from those of other undertakings. A trademark can be a sign, words, letters, numbers, drawings, pictures, emblem, colours or combination of colours, shape of goods, graphic representation or packaging or sound or any combination of the above as applied to goods or services.

Geographical Indications

A geographical indication identifies agricultural or natural or manufactured goods as originating or manufactured in the territory of a country or region or locality in that territory, where a given quality, reputation or other characteristic of such goods is essentially attributable to its geographical origin and, in case where such goods are manufactured goods. One of the activities of either the production or processing or preparation of the goods concerned takes place in such territory, region, or locality, as the case may be.

Copyright

Copyright is a right given by the law to creators of literary, dramatic, musical and artistic works and producers of cinematograph films and sound recordings. In fact, it is a bundle of rights including, inter alia, rights of reproduction, communication to the public, adaptation and translation of the work.

Semiconductor Integrated Circuits Layout-Design

The aim of the Semiconductor Integrated Circuits Layout-Design Act 2000 is to provide protection of Intellectual Property Right (IPR) in the area of Semiconductor Integrated Circuit Layout-Designs and for matters connected therewith or incidental thereto.

Plant Variety Protection

Protection granted for plant varieties, the rights of farmers and plant breeders and to encourage the development of new varieties of plants.

21.3 NATIONAL IPR POLICY, 2016

National IPR Policy on 12th May 2016.

The National IPR Policy is a vision document that aims to create and exploit synergies between all forms of intellectual property (IP), concerned statutes and agencies. It sets in place an institutional mechanism for implementation, monitoring and review. It aims to incorporate and adapt global best practices to the Indian scenario. This policy shall weave in the strengths of the Government, research and development organizations, educational institutions, corporate entities including MSMEs, start-ups and other stakeholders in the creation of an innovation-conducive environment, which stimulates creativity and innovation across sectors, as also facilitates a stable, transparent and service-oriented IPR administration in the country. The broad contours of the National IPR Policy are as follows:

Vision Statement

An India where creativity and innovation are stimulated by Intellectual Property for the benefit of all; an India where intellectual property promotes advancement in science and technology, arts and culture, traditional knowledge and biodiversity resources; an India where knowledge is the main driver of development, and knowledge owned is transformed into knowledge shared.

Mission Statement

Stimulate a dynamic, vibrant and balanced intellectual property rights system in India to:

- foster creativity and innovation and thereby, promote entrepreneurship and enhance socio-economic and cultural development, and
- focus on enhancing access to healthcare, food security and environmental protection, among other sectors of vital social, economic and technological importance.

The policy lays down the following seven objectives:

1. IPR Awareness: Outreach and Promotion- Generation of IPRs: *To create public awareness about the economic, social and cultural benefits of IPRs among all sections of society;*
2. Generation of IPRs- *To stimulate the generation of IPRs;*
3. Legal and Legislative Framework: *To have strong and effective IPR laws, which balance the interests of rights owners with larger public interest;*
4. Administration and Management: *To modernize and strengthen service-oriented IPR administration;*
5. Commercialization of IPR: *Get value for IPRs through commercialization;*
6. Enforcement and Adjudication: *To strengthen the enforcement and adjudicatory mechanisms for combating IPR infringements;*
7. Human Capital Development: *To strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRs;*

The National Intellectual Property Rights (IPR) Policy will endeavor for a Creative India; Innovative India"

21.4 NATIONAL IPR POLICY- ACHIEVEMENTS SO FAR.

The National Intellectual Property Rights (IPR) Policy 2016 was adopted on 12.5.2016 as a vision document to guide future development of IPRs in the country. This has led to the following achievements:-

(i) **Strengthening of Institutional Mechanism** The administration of Copyright Act, 1957 and Semiconductor Integrated Circuits Layout-Design Act, 2000 has been transferred to Department of Industrial Policy and Promotion. This has enabled an integrated approach and synergy between different IP offices and Acts. The Copyright Board is now merged with the Intellectual Property Appellate Board (IPAB).

(ii) **Reducing Pendency and clearing of backlog** Due to various steps and initiatives undertaken by the Government there is a drastic reduction in pendency in IP applications. The patent applications pending for examination have reduced significantly. Automatic issuance of electronically generated patent and trademark certificates has been introduced now.

(iii) **Increase in Filings** Patent filings have increased by nearly 7% and Trademark filings have increased by nearly 28% recently.

(iv) **IP Process Re-engineering** Patent Rules, 2003 has been amended to streamline processes and make them more user friendly.

(v) **Creating IPR Awareness** IPR Awareness programs have been conducted in over 200 academic institutions, including rural schools through satellite communication, and for industry, police, customs and judiciary.

(vi) **IPRs in School Syllabus** Content on IPRs has been included in the NCERT curriculum of Commerce stream.

(vii) **Technology and Innovation Support Centres (TISCs)** In conjunction with WIPO, **6** TISCs have been established in various institutions across different states.

(viii) **Global Innovation Index (GII)** India's rank in the Gil Report issued by WIPO has improved from 81st in 2015 to 57th place in 2018.

(ix) **IPR Enforcement Toolkit for Police** A IPR Enforcement Toolkit have been prepared to assist police officials in dealing with IP crimes, in particular, Trademark counterfeiting and Copyright piracy.

CHAPTER

22 EXPORT-LED GROWTH STRATEGY—SEZs

22.1 EXPORT STRATEGIES

India as parr of this strategy has set up the following exclusively for promoting exports from the country.

(1) Special Economic Zones (SEZ).
(2) Agriculture Export Zones (AEZ).
(3) Electronic Software Technology Parks (ESTP).
(4) Electronic Hardware Technology Parks (EHTP).
(5) Export-oriented Units (EOU).

The most important or the driver of the export-led growth strategy is being followed first by China and then also by India. It is for promoting SEZs for increasing exports and also accelerating the overall growth rate of economies.

22.2 SPECIAL ECONOMIC ZONE (SEZ)

As mentioned previously, export-led growth strategy involves dedicated geographies exclusively for exportables from the country. SEZ is a defined geographical area clearly demarcated with boundary, within the domestic economy, but insulated, known as SEZ.

To provide with a crude example something like a prison insulated from the outside world. Or it is almost like having another country within the same country from an economic perspective. The SEZs are only physically located in the country' but for all practical purposes they are as if outside the country and are deemed foreign areas.

With the concept of SEZ, two other concepts emerge—one is the domestic tariff area (DTA) which is the rest of the domestic economy and the other, rest of the world (ROW). The SEZs have world-class infrastructure for manufacturing goods and service providers exclusively for exports. No duties or taxes are payable in the SEZs. All goods coming into the SEZs either from the DTA or ROW would not attract any duty or taxes. No import duty is payable on any imports into the SEZs.

Private and foreign companies can set up industries without any restrictions from the government, except for a small negative list which would not be allowed. Producers in the

SEZs would enjoy tax holiday for five years on profits earned and 50 per cent taxes would be payable for the next five years. Labour laws are flexible and contractual employment is permitted. A slight modification to the provisions of the SEZ act has been imposition of minimum alternate tax (MAT) on profits earned inside SEZs'.

The basic logic is allowing production without any hindrances of either infrastructure or the government or labour issues. The other is to attract private sector and foreign investment. Ideally, the entire production structure in an economy should operate similarly. However, it may not be possible for large economies as a whole thus the need to create pockets of ideal conditions.

Lack of such conditions lead to delayed production, increased cost of transactions and excessive documentation required for exports, which would all be resolved at the SEZs. SEZs in China have largely been responsible for increasing their exports and overall growth besides attracting significant foreign investment.

Key Features of Special Economic Zones (SEZs)—China and India

1 S. No. 1	Features	China	India
1.	Nature	Manufacturing hubs, integrated townships with commercial, residential, complete with all facilities.	Same, except that apart from manufacturing also processing. Separate SEZ for service sector.
2.	Infrastructure	Government provided.	Private developers.
3.	Location	Strategic coastal areas.	Coastal and land-locked areas.
4.	Decision on location	Government.	Private sector.
5.	Size	Big over 20,000 hectares.	Small minimum of 500 hectares for multi-products.
6.	Number	5 (all operational).	423 (formally approved)
7.	Tax holiday	Selective.	All. SEZ developers, units in SEZ.
8.	Drivers	Government-driven, well thought out locations.	Private sector-driven.
9.	Government	Active and direct.	Passive only in giving approval remaining by the private sector.
10.	Ownership	Government.	Private sector.

It may be observed that there are notable differences between the Chinese and Indian SEZs. China took a lot of time in deciding the locations of SEZs after considering all aspects such as strategic and proximity' to important centres. SEZs are driven by the Government in China while their counterparts in India are being driven by the private sector.

SEZ and EPZ

The government prior to SEZs had the concept of export processing zones (EPZs) also known as free trade zones, first one being the following:

Kandla Free Trade Zone (KFTZ) during 1965, followed by seven other EPZs in the country.

Santa Cruz Electronic Export Processing Zone (SEEPZ), Mumbai.
Visakhapatnam Export Processing Zone (VEPZ), Andhra Pradesh.
Surat Export Processing Zone (SEPZ), Gujarat.
Noida Export Processing Zone (NEPZ), Uttar Pradesh.
Falta Export Processing Zone (FEPZ), West Bengal.
Chennai Export Processing Zone (CEPZ), Tamil Nadu.
Cochin Export Processing Zone (CEPZ), Kerala.

The experience with EPZs has not been particularly good in terms of export performance and there are a number of inherent limitations. Activities were primarily processing in nature.They have played only a supplementary role in increasing overall exports from the country and have logistics issues. The SEZs are seen as a way out for the EPZs. There are some key differences between the earlier EPZs and the now promoted SEZs.

S.No.	Features	EPZs	SEZs
1.	Role	Supplementary in increasing exports.	Primary and dominant role in exports increasing exports and improving share in world trade.
2.	Nature	Only export-oriented activities.	Integrated townships with all facilities.
3.	Area norms	Not specified.	Minimum 500 hectares for mulri products and 100 hectares for single products.
4.	Infrastructure	Government provided.	Private developers.
5.	Range of activities	Primarily processing and some manufacturing.	Manufacturing and IT, sector-specific.
6.	Value addition norms	Yes.	No.
7.	Foreign investment	Not permitted.	Permitted.
8.	Sale to DTA	Up to a specified percentage of production.	Against foreign exchange only.
9.	Domestic banks	No.	Yes. Would operate as off-shore banking units (OBU) and the same status as if operating outside the country.

The SEZs are much broader and will play a more dominant role in increasing exports and also accelerating private and foreign investments, than EPZs.

Status of Special Economic Zones (SEZs) in India

As, a first step all the EPZs have now been designated as SEZs. Promotion of SEZs in India is through the SEZs Act 2005. The government has formally approved 423 SEZs. Though in recent times due to global slowdown and also problems of land acquisitions the pace in setting up of SEZs as slowed down. Once all the SEZs are operational, it would have come across an investment of over ₹5,00,000 crores, the highest ever in India outside the government and provide direct employment to over 10 lakh people and another 10 lakh as indirect employment.

It is likely to increase the exports exponentially and double our share from the present level of just over 1 per cent in world exports of goods over the next decade. SEZs in India are seen as a signal of the high degree of openness, innovativeness, unparallel, unprecedented, bold initiatives surpassing even China in terms of the number and expected wide impact of such SEZs in India. They are the next generation drivers of exports, investments and growth and also have the potential and power to transform the economy beyond the realms of reality.

Opposition to SEZs

There are a number of reasons for the SEZs model shrouded with controversies some genuine, others mere apprehensions and some misplaced notions.

(1) First and foremost is the revenue loss to the government on account of various tax exemptions of over ₹ 1,00,000 crores.

This is true, however, but then the tax exemptions should be seen in the larger context of overall gains likely to accrue, that of increased exports, investments and employments generated. In any case, tax exemptions are not for ever but only for five years. Already MAT has been introduced recently.

(2) Lack of transparency in land acquisition, exploitative tendencies of real estate developers, issues relating to resettlement and rehabilitation of those displaced. These are genuine concerns. But the recently passed land bill is likely to address these concerns.

(3) Arable and fertile land would be acquired for SEZs adversely affecting production and threatening food security. This is not brought out by facts.

All SEZs once operational will occupy only 0.015 per cent of the land area and onl.y 0.1 per cent of the arable land in the country. This is not any material shift away from agriculture to affect production or food security in the country.

(4) Private developers will view SEZs more as real estate project rather than the infrastructure projects. The government to obviate this has strict area norms and completion schedules.

(5) Units would get relocated from DTA into SEZs to take benefit of various tax exemptions. The objective of SEZs is to promote exports and only those units would get relocated who have sizeable export market and not those who view DTA as their markets.

(6) SEZs would create 'islands of prosperity' and 'oceans of glooms' accentuating inter- and intra-regional imbalances.

SEZs are supposed to be developed through private resources and as self-contained for all public utilities insulated from DTA. Investments being made in SEZs will definitely have multiplier effect beneficial for the area around SEZs.

(7) The heavy investment made by private developers would 'crowd-out' private investment in the manufacturing sector leading to their lesser growth. This is solely perceived but not borne out by facts.

(8) Resources available within DTA would get diverted from DTA into SEZs adverse) • impacting investment in DTA.

All the SEZs together constitute a very small part of the DTA and can at best have very limited impact on domestic resources. However, SEZs would also provide for local employment and market for local goods.

(9) Even a country like China which has pioneered the concept of SEZs has only five SEZs, whereas in India there will be more than five hundred SEZs. The government : has been criticized for acting in abundance haste rather than a cautious approach in approving SEZs in India.

On first look the criticism is well-taken. However, it is better to understand each SEZs in China is spread over 30,000 hectares. The largest SEZ in China at Shenzen is over 49,000 hectares.

Even the largest SEZs and only a few of them in India would not be over 10,000 hectares. Many of them will be in the range of 1000-2000 hectares. India's topography does not permit bigger SEZs without encroaching arable land and the already endangered forest cover.

The other is the fact that there has been tremendous positive response from the private sector and confidence in the success of SEZs in India. The government did not want to dampen the spirits of the private sector.

Moving Forward in SEZs

Most of the issues around SEZs have now been resolved and the government is committed to ensure timely completion of the projects which are already notified. Notifications of those already approved ensure that the developers do not violate area norms. However, still there are deeper issues in going forward in SEZs in India.

(1) So far, all the work relating to SEZs is being handled by the Ministry of Commerce. Government of India.

It may be difficult for the Ministry to address the operational bottlenecks, exercising effective control and supervision on private developers. This may increasingly become difficult in future.

There will be a need for an independent government body to have complete responsibility of development, growth of SEZs in India. Something like the IRDA, SEBI and other regulators in the economy. But therein lies the catch of the regulator not bringing back 'regulations'. It is to play the role of a facilitator, providing oversight mechanism permitting rather than 'preventing.

(2) From the approvals given by the central government, SEZs is concentrated in Southern states (44 per cent) and western India (29 per cent) and are mostly in the area of IT and allied areas. This could have implications both for inter- and intra-regional imbalances.

Over 66 per cent of the approval provided is for IT, ITeS, biotechnology' and other services and not for manufacturing hubs as in the case of China.

(3) Similarly many SEZs are in landlocked areas in UP, Punjab and Haryana. How do they find an exit route for export of products?

(4) There would be a need to upgrade infrastructure around SEZs especially road, big enough to accommodate the increased traffic coming out of SEZs.

Similarly ports and airports would need to be upgraded which would not come in the domain of SEZs developers. China has constructed huge warehousing facilities near the ports and airports. India needs to construct similar warehouses and also augment capacities of existing warehousing facilities at all the major ports and airports.

The above would need to be addressed urgently by the government going forward. One thing is sure that there cannot be any rethinking on SEZs. It is too late to debate on its need or the model adopted. The SEZs model in India has to be made a workable and as a viable proposition and more importantly it has to deliver. That should the broad approach to be followed collectively by all concerned. SEZs in India as mentioned previously, has the potential to transform the economy but issues raised above would also need resolution.

This strategy in India, even though similar to the concept used in China, but strikingly different in the model adopted by India. As the first of its kind in the world in terms of the large number of SEZs, their relative small sizes, many are landlocked, private sector- driven model.

In 'its success in India', will lie 'its' ability of being accepted and emulated as a strategy' for export-orientation and rapid transformation of economies. The recent global slow down has impacted exports and also development of SEZs in India. But these are temporary and would reverse as economies begin to recover and so will the pace of growth of SEZ in future.

22.3 AGRI EXPORT/ECONOMIC ZONES (AEZs)

Agricultural sector in India offers a great scope of producing exportables. This helps the farmer in getting a better price for his produce besides dispenses the complex middle - men route. It is also seen as one of the ways for modernization, technology diffusion and promoting intensive research and development.

India is the largest producer of various kinds of agricultural produce, as discussed in the section on Agriculture, but not commensurate share in either total exports from the country or world exports of agricultural goods. Promoting agri exports would require handholding of the farmers by the government unlike exporters of manufactured goods, given their relative little knowledge of export markets for their produce.

The concept of having similar zones like SEZs for agriculture-related products was mooted in the EXIM policy 2001-2002 (this policy is now known as the foreign trade policy), to play the role of key facilitator in boosting agri exports of the country and also a mechanism for increasing income levels of farmers.

Agriculture being a state subject implied a large role of the state governments. Development of such zones is largely the responsibility of the respective state governments in identification of the specific products over clusters and in geographical contiguous areas. AEZs in India presently have been 'product-specific' spread across a number of clusters in different states arc as follows:

(1) Fruits exports zones.
(2) Flowers export zones.
(3) Dry fruits exports zones.
(4) Spices export zones.
(5) Onion export zones.
(6) Potato export zones.
(7) Cereal export zones.

The above zones have achieved the first set of objectives of identification of agri exportables from India. However, their performance in terms of their increased exports has not been encouraging so far. Probably it is the apathy of the state government in their promotion or lack of vision in promoting agri exports.

Farmers also need to be sensitized, imparted knowledge and encouraged to export. However, as explained in the section on Agriculture, our traditional methods, absence of modernizing, technological advancements and R&D are some of the stumbling blocks in making AEZs really effective in increasing agri exports from the country.

The state governments also need sensitizing in playing their due role in making the AEZs a successful model and also for other economies to follow.

22.4 TECHNOLOGY PARKS AND EOU

Besides, SEZs and AEZs, as a way to promote the government has dedicated parks catering to needs of various sectors and assist in increasing their exports. Some of these parks are detailed below:

Software Technology Parks of India (STPI).
Electronic Hardware Technology Parks (EHTPs).
Biotechnology Parks (BTPs).
Export-oriented Units (EOUs).

All of these are a miniature version of the SEZs model in terms of being dedicated for exports with similar facilities. Even the foreign trade policy does not distinguish separately for purposes of their promotion bur treated as one category of STPI/EHTP/BTP/EOU and the other category as SEZs addressed not by the policy but by the SEZ act.

These can also be seen as a part even though small part of India's overall efforts at export-led growth strategy. These technology parks are also dedicated to promote exports of hardware, software and the emerging area of biotechnology from the country. These parks come under the Ministry of Information and Technology, Ministry of Biotechnology, respectively, of Government of India and can be set up by the private sector or even through foreign investment.

lhe units located in these parks enjoy similar benefits as those in SEZs such as tax holiday reviewed every year in the foreign trade policy but do have a sunset clause i.e., a time period by which the tax exemption would be withdrawable.

A certain percent can be sold in the DTA by the STPIs, EHTPs and BTPs as notified from time-to-time. Similarly, all these are also permitted to do inter unit sales and undertake sub-contracting. They also have to fulfill norms of positive Net Foreign Exchange Earnings (NFE) which is earning foreign currency over and over that paid through their imports.

These dedicated technology parks try to tap the immense overseas market for export of both hardware as well as software and also combine the inherent advantage which India enjoys in the services sector. Much of the increased exports of the services can be attribute to these technology parks in recent times. At present, there are thirty-three STPI and twelve EHTPs spread throughout the country.

Export-oriented Units (EOUs)

As a concept, EOUs were units which had a great export potential but for logistics issues or circumstances, could not be located in any SEZ or EHTP or STPI, and were accorded the status of EOUs which entitled them to all the benefits available to any unit holder in an SEZs. EOUs are not location-specific and can be located anywhere in the country.

The concept of EOUs was mooted way back in 1981 and was seen as playing an important role in export reorientation till the SEZs came into the picture.

An EOUs should have a minimum investment in plant and machinery of ₹100 lac. The status of an EOUs also has similar pre-conditions like positive NFE which is exports greater than imports and earning foreign exchange like units in STPIs, EHTPs and BTPs.

The foreign trade policy from time-to-time has laid down norms for EOUs such as minimum export performance, NFE to exports ratio. They are also permitted to sell in the DTA certain quantities as may be prescribed by the policy.

22.5 REPORT OF SEZ POLICY REVIEW COMMITTEE.

The Government had constituted a committee under the Chairmanship of **Baba Kalyani** to study the Special Economic Zone (SEZ) Policy of India. The committe submitted its report and following are the key recommendations.

- Framework shift from export growth to broad-based Employment and Economic Growth (Employment and Economic Enclaves-3Es).
- Formulation of separate rules and procedures for manufacturing and service SEZs.
- Shift from supply driven to demand driven approach for 3Es development to improve efficiency of investment-based on certain industries, current level of existing inventory in the region.
- Enabling framework for Ease of Doing Business (EoDB) in 3Es in sync with State EoDB initiatives. One integrated online portal for new investments, operational requirements and exits related matters.

- Enhance competitiveness by enabling ecosystem development by funding high speed multi modal connectivity, business services and utility infrastructure. Critical to provide support to create high quality infrastructure either within or linked tc the zones eg. High Speed Rail, Express roadways, Passenger/Cargo airports, shipping ports, warehouses etc.
- Promote integrated industrial and urban development- walk to work zones, States and center to coordinate on the frame work development to bring linkages between all initiatives.
- Procedural relaxations for developers and tenants to improve operational and exit issues.
- Extension of Sunset Clause and retaining tax or duty benefits.
- Broad-banding definition of services/allowing multiple services to come together.
- Additional enablers and procedural relaxations.
- Unified regulator for IFSC.
- Utilizing Multi Services SEZ IFSC for all the inbound and out bound investment of the country.
- Incentives for availing services from IFSC SEZ by domestic institutions.
- Extension of benefit under services Export incentives scheme.
- Allowing alternate sectors to invest in sector specific SEZs/ 3Es.
- Flexibility of long term lease for developers and tenants.
- Facility of sub-contracting for customers outside 3Es/SEZs without any restriction or cap at any level.
- Specified domestic supplies supporting 'Make in India' to be considered in NFE computation.
- Export duty should not be levied on goods supplied to developers and used in manufacture of goods exported.
- Flexibility in usage of NPA by developers and sale space to investors/ units.
- Infrastructure status to improve access to finance and enable long term borrowing.
- Promote MSME participation in 3Es and enable manufacturing enabling service players to locate in 3E.
- Dispute resolution through arbitration and commercial courts.

CHAPTER

FOREIGN TRADE POLICY 23

23.1 FOREIGN TRADE POLICY 2015-2020

Foreign Trade Policy 2015-2020 of India was declared on 1st of April, 2015. The new policy would boost exports and create jobs while supporting the Centres 'Make In India ind 'Digital India' programmes. The broad objective is to focus on support co services and merchandise exports, number of very important initiatives such as focus on export of high value addition products, focussed on improving ease of doing business, debottlenecking, :o make services globally competitive and market diversification.

The Foreign Trade Policy 2015-2020 has been designed by including long term and medium term strategy to boost overall growth of India's foreign trade by enhancing trade competitiveness.

By implementing Foreign Trade Policy (FTP 2015-20), the India's share in world trade is expected to double from the present level of 3% by the year 2020. By taking measures for import substitution at one side, the forthcoming Foreign Trade Policy 2015-2020 focuses on increasing exports at the present scenario of increasing current account deficit. The new Foreign Trade Policy 2015-2020 includes necessary measures to boost productivity and earn exportable surplus at competitive rates in exports.

Aspects of the Foreign Trade Policy 2015-2020

The key highlights of the Foreign Trade Policy 2015-2020 are as follows:

1. **Merchant Export From India Scheme (MEIS):** The following five exports schemes with different kinds of duty scrips, have been merged into a single scheme titled Merchant Export From India Scheme (MEIS):
   - (i) Focus Product Scheme (FPS)
   - (ii) Market-Linked Focus Product Scheme
   - (iii) Agri-infrastructure Incentive Scrip
   - (iv) Focus Market Scheme
   - (v) Vishesh Krishi Gram Udyog Yojana (VKGUY)

   The main objective of Merchandise Exports from India Scheme (MEIS) as per Indian Foreign Trade Policy 2015-20 (FTP 2015-20) is to offset infrastructural inefficiencies and associated costs involved in export of goods/products, which are produced/ manufactured in India, especially those having high export intensity, employment potential and thereby enhancing India's export competitiveness.

Entitlement under MEIS includes Exports of notified goods/products with ITCfHS] code, to notified markets as listed in Appendix 3B, shall be rewarded under MEIS. Appendix 3B also lists the rate(s) of rewards on various notified products [ITC (HS) code wise]. The basis of calculation of reward would be on realised FOB value of exports in free foreign exchange, or on FOB value of exports as given in the Shipping Bills in free foreign exchange, whichever is less, unless otherwise specified.

The following exports categories /sectors shall be ineligible for Duty Credit Scrip entitlement under MEIS, EXIM Policy 2015-20 (FTP 2015-20).

(i) EOUs / EHTPs *I* BTPs/ STPs who are availing direct tax benefits/exemption.

(ii) Supplies made from DTA units to SEZ units.

(iii) Export of imported goods covered under paragraph 2.46 of FTP.

(iv) Exports through trans-shipment, meaning thereby exports that are originating in third country but trans-shipped through India.

(v) Deemed Exports.

(vi) Red sanders and beach sand.

(vii) Export products which are subject to minimum export price or export duty,

(viii) Diamond Gold, Silver, Platinum, other precious metal in any form including plain and studded jewellery and other precious and semi-precious stones.

(ix) Ores and concentrates of all types and in all formations.

(x) Cereals of all types.

(xi) Sugar of all types and all forms.

(xii) Crude/petroleum oil and crude / primary and base products of all types and all formulations.

(xiii) Export of milk and milk products.

(xiv) Export of Meat and Meat Products..

2. **Service Exports from India Scheme (SEIS):** Served from India Scheme (SEIS) has been replaced with Service Exports from India Scheme (SEIS). This scheme shall apply to "Service Providers located in India". Thus, SEIS provide for rewards to service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider The rare of SEIS scheme under Foreign Trade Policy 2015-20 is based on net foreign exchange earned on services. The reward issued as duty credit scrip, would no longer be with actual user condition and will no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and services tax 3 debits on procurement of services / goods. Debits would be eligible for CENVAT credit or drawback.The present rates of reward are 3% and 5%. The list of services and the rates of rewards would be reviewed after 30.9.2015.Free Foreign Exchange earned through international credit cards and other instruments, as permitted by RBI shall also be taken into account for

computation of value of exports under SEIS.As per Foreign Trade Policy 2015-20, SEIS is eligible to units of SEZs (Special Economic Zones).

3. **Export Promotion Capital Goods Scheme:** EPCG scheme is one of the best export promotion schemes introduced by government under Foreign Trade Policy where in import of capital goods can be effected ar nil or concessional import customs duties based on the conditions specified in the customs notifications and export obligations. However, EPCG authorisation holder has to fulfill export obligation against the scheme specified, action is taken by the authorities to recover the import customs duty on defaulters through an institutional mechanism.

   EPCG authorisation holders will not get the benefits of exemption from Anti-dumping duty and Safeguard and Transitional Product Specific Safeguard duty. This will boost indigenously manufacturer of capital goods while supplying capital goods under EPCG scheme. Under EPCG scheme, obtaining and submitting a certificate from independent chartered engineer, confirming the use of spare, tools refractory and catalysts imported for final redemption of EPCG authorisation has been dispensed with. At present, EPCG authorisation holders arc required to maintain records for 3 years after redemption of authorisation. This 3 year period is reduced to 2 years. In due course, further reduction will be made as the paperless trade process takes place.

4. **Export Oriented Units and Software Technology Park Scheme:** The key features of Export Oriented Units and Software Technology park scheme are:

   (i) EOUs and STPs have been allowed to share infrastructural facilities among themselves. This will enable units to utilise their infrastructural facilities in an optimum way and avoid duplication of efforts and cost to create separate infrastructural facilities in different units.

   (ii) Inter unit transfer of goods and services have been allowed among EOUs and STPs. This will facilitate group of those units which source inputs centrally in order to obtain bulk discount. This will reduce cost of transportation, other logistics costs and result in maintaining effective supply chain.

   (iii) EOUs have been allowed facility to set up warehouses near the port of export. This will help in reducing lead time for delivery of goods and will also address the issue of unpredictability of supply orders.

   (iv) STP units, EHTP units, software EOUs have been allowed the facility to use all duty free equipment/goods for training purposes. This will help these units in developing skills of their employees.

   (v) 100 percent EOU units have been allowed facility of supply of spares/ components up to 2 percent of the value of the manufactured articles to a buyer in domestic market for the purpose of after-sale services.

   (vi) Time period for validity of Letter of Permission (LOP) for EOUs/EHTP/STPI/ BTP units has been revised for faster implementation and monitoring of projects. Now, LOP will have an initial validity of 2 years.

   (vii) A simplified procedure will be provided to fast track the de-bonding/exit of EOUs and STPs units. This will save time for these units and help in reduction of transaction costs.

The new foreign trade policy is based on the principle of simplicity as it had realigned multiple schemes into a single window' and promoted increased use of technology to reduce transaction cost and manual compliances. The measures proposed in the policy' are rational and in right direction to ensure the growth of India’s share in international trade.

23.2 CONCESSIONS AVAILABLE TO EXPORTERS IN DTA

The FTP is also responsible for various concessions available to exporters operating in the domestic tariff area (DTA) and also changes therein from time-to-time.

The exporters like their counterparts in SEZs are also eligible for various concessions as given below:

(1) **Advance Authorization Scheme (AAS)**—in terms of the FTP for those exporters requiring imports of those goods which are physically incorporated in the exportable goods can import them without payment of any custom or import duty, based on the standard input output norm (SION) specified by Directorate General of Foreign Trade, Government of India (DGFT). There is a minimum value addition norm of 15 per cent except for gems and jewellery where these norms are higher.

(2) **Duty-free Import Authorization Scheme (DFIAS)**—under this scheme, an exporter is allowed to import duty-free other inputs as may be required for exports including fuels, oil, energy, but with a minimum 20 per cent value addition norms and again subject to SION as mentioned above.

(3) **Duty Drawback Scheme**—if any exporter is sourcing inputs for exports from the domestic market, then under the scheme the excise duty paid, or other taxes on such inputs are reimbursed to the exporter.

(4) **Export Promotion Capital Good Scheme (EPCGS)**—this scheme allows for import of capital goods and other such machines as may be required by an exporter for exports at zero import duty, for selected sectors such as engineering, pharmaceuticals, etc., (list is specified in the FTP), but subject to an export obligation of six times the duty saved over six years. For other capital imports not eligible for import at zero import duty, they can be imported at a concessional import duty of 3 per cent but subject to an export obligation of eight times, the duty saved over eight years.

(5) **Exchange Earners Foreign Currency Account (EEFC)**—as a normal Indian resident, one cannot open a foreign currency account in India. However, an exporter or professionals earning in foreign currency in India have been permitted by RBI, to maintain foreign currency accounts with banks in India authorized to deal in foreign exchange. These accounts do not earn interest but allows for retention of 100 per cent of the export proceeds in these accounts. It saves the exporter from exchange rate fluctuations, besides the freedom for using the foreign currency for export promotion activities by the exporter.

What has been the impact of such schemes in promoting exports of the country?

India's Export Performance

The significant openness which started becoming visible in the nineties intensified from 2000 onwards with a sharp focus given through the FTP has resulted in a reversal of the declining trend in global trade. However, the growth of the Indian economy in recent times has outpaced the trade growth or that trade growth has lagged behind the overall growth.

To draw comparisons with China, during 1950, India's exports were more than that of China, however, gradually China overtook India. It may be interesting to note that Chinas share in manufactured exports stood at 1.8 per cent and India's at 0.5 per cent during 1990 but presently China has become the largest exporter of manufactured goods, displacing even the US while for India share in global manufactured exports is only around one per cent. India's export is only about 15 per cent of what China exports to the rest of the world. This is not to take away any credit to India on the export front which has seen some distinct focus and acceleration in the last few years. Except that the global recession has adversely affected global trade including exports of India and China, resulting in contraction of exports in the wake of slowdown of global trade.

There is an apparent turnaround since recent times but resulting out of steep depreciation of the Rupee. With signs of recovery in the US and Europe, exports are likely to pick up. The overall objective, as already covered in the FTP is to double our share by 2020. The composition of Indian exports has also undergone a change, diversified from an exporter of traditional and agricultural-based products to increased exports of manufactured goods which now account for over 69 per cent of the total exports and a relative decline in the share of exports of primary articles.

Notable among manufactured exports are engineering goods, chemicals, petroleum oil and lubricants (POL) products, textiles, leather products, handicrafts, and gems and jewellery. Another important feature is the changing trading partners of India from the dominant US economy to new trading partners and China and UAE emerging as top two trading partner countries. Also exports to countries such as Singapore, south-asian countries and Sri Lanka are increasing due to bilateral agreements entered into recently.

Newer markets comprising of Latin American-Oceania countries and African countries are likely to witness greater thrust in future. This is significant as part of the conscious attempts made by the government to 'look East' to reduce 'dependence on the West'.

Despite these appreciable change in trading partners in terms of the quantum of exports in value terms the major markets continue to be the US and European Union and it may take some to see the east countries actually becoming major if not equal trading partners of India in the future.

What More Needs to Be Done to Increase Exports?

The FTP has played an important role in accelerating exports but can something more be performed which can further boost export growth or help like the Chinese experience.

(1) Liberalization has touched all sectors such as industrial, financial, but not specifically the export sector which is highly restrictive and a multiple complex regulatory framework, comprising of the Ministry of Commerce, DGFT and BOT, etc.

What this has resulted in 'indirect' licensing system, registration formalities for various facilities, documentation requirements or to say they act more as impediments rather than the facilitating exports.

What is required? Simplified procedures, documentation and single window clearances for exporters similar to that for private sector in the manufacturing sector. Or simply liberalize the export sector and get rid of the government interface.

The complex procedures, documentation, government interface and incidentally excessive have led to increased transaction costs, inordinate delays adversely affecting our competitive capabilities.

While export is a thrust area for the government but multiple government bodies dilute the focus such as DGFT, BOT, and the Ministry of Commerce. There is a need to closely look at all the government organs, their relevance, weeding out overlaps and ambiguities, with a leaner effective and efficient structure facilitating exports from the country.

(2) The FTP is a 100 page document detailing micro aspects of exports, multiplicity of schemes, overlaps, not easy to comprehend. Can we have a simplified and easy to understand FTP?

(3) The overall tone from the FTP appears to be an element of 'trust deficit' or a 'disconnect' between the government and the exporters which gets evidenced from the micro-regulations. This has to be bridged with government and exporters becoming partners.

(4) While acknowledging export as a thrust area, there is an apparent confusion of the thrust area within the subset of exports. Is it product, or markets? Which is priority? This cannot be decided by the government.

It can but provided it as a direct exporter. Priority, in the national interest should be deliberated with exporters by placing all facts before them and also challenges and then jointly arrive at an action plan for meeting the challenges.

(5) Agricultural sector in India has great potential for increasing exports and earning maximum foreign exchange given their zero-import content. The performance of AEZ has left much to be desired.

More focused attention needs to be given by the state governments in making agricultural sector contribute a larger share to the overall exports from the country.

(6) The overall direction for promoting exports by the government is from the monetary incentive angle, but very little for strengthening the competitive abilities of Indian exports, except for technology upgradation fund scheme (TUFS) but that is for textiles.

What about upgradation of quality for example, in leather industry or even handlooms or for other products? Can there be fusion of traditional with the modern? The existing 'incentive' orientation has to pave way to 'competitive orientation'.

(7) India also needs to do something like what Japan has done previously that of zero tolerance' or no defect policy'. China went for 'mass-scale standardization to achieve desired quality levels. Can the government set bench marks for various goods to ensure qualities arc not comprised in exportables?

(8) A lot is being talked about in recent times of export competitiveness being eroded because of appreciating home currency, making goods expensive in the international marker and thereby adversely affecting exporters in the home currency.

It needs to be understood, that as economies pursue greater openness, exchange rates will always be a variable and exports sensitiveness to such a variable, is myopic and not provide for long-term stable growth of exports.

Exports should be more a function of 'quality' rather than 'prices'. The focus in promoting stable and sustainable export growth has to be more on better and improved quality, moving up the value chain, greater sophistication and diversified markets rather than looking at competitive abilities based on only prices.

(9) All major countries of the world which can potentially become our trading partners have either an embassy or a high commission of the country, represented by a high commissioner or an ambassador.

Can we also see them as playing brand ambassador to Indian goods or a platform to showcase Indian goods or become a conduit between the importer and the exporter from India? It should not be difficult as each office also has commercial attache.

What is solely required is changed orientation and willingness of the government. This would make government true partners in increasing Indian exports.

(10) Finally, India is a unique country, offering great diversity, almost similar to as being country within the country. Many products sold from India in the international markets are not known for their Indian origin.

Understandably, Indian branding may not be possible, but branding of the product 'being' from India surely can be done.

Can the Indian Government do a similar branding like that of'incredible India showcased for tourism, to promote Indian exports in a composite and comprehensive manner covering all goods and services.

India's 'potential' to export a wide range of diverse goods from Kashmir to Kanyakumari, from Gujarat to north-east states, from traditional, ethnic to modern, its herbs, medicinal plants is probably unknown to the World.

Can the government do a global publicity building? An Indian brand image for tapping this latent potential not only to improve exports but also as an income source and also bring distant and remote places of India on national and global map.

India's Imports

As far as imports are concerned for a long time it was believed that it comprised of critical products such as food items and a fairly high proportion of import of fuels especially POL. Import of fuels was over 70 per cent of the total import basket. In recent years, the share of fuels especially POL has come down to around 33 per cent. Import of commodities such as precious stones, gold and silver bullion, uncut and unpolished gems and jewellery, electronic goods, etc., account for almost 40 per cent of total imports.

Share of fertilizers imports and also that of edible oils and pulses have sharply increased in the last few years. Increased fertilizer imports are largely due to steep escalation in their international prices. While increase in imports of edible oils and pulses is on account domestic production not sufficient to match demand and to further prevent any pressures on their prices in the domestic market.

However, a discerning aspect of our structure of exports and imports of merchandize goods is the fact that imports have always outstripped exports continuously post-Independence. In no given year our exports were sufficient to meet imports. The implications will be examined in the next section.

India's exports in recent times has begun to evolve, diversify in products and markets, moving up the value chain, creeping up its share in global trade, but these only mark an initiation, with no room for complacency, require greater intensification of efforts, tapping the immense available potential, globally competitive, to make robust growth of exports a reality, and a driver of growth in future.

23.3 INDIA'S MAJOR TRADE PARTNERS.

- India shipped US$323.1 billion worth of products around the globe in 2018. Noticed an increase of 1.7% since 2014 and a 9.2% gain from 2017 to 2018. Almost half of Indian exports by value were delivered to fellow Asian countries, 19% to Europe and 18% to North America.
- **Export:** India is exporting its products to more than 200 countries of the world. United States, UAE, Hong Kong, Singapore, China and United Kingdom are the largest export partners of India.
- **Import:** India is importing from more than 170 countries of the world. China, USA, Saudi Arabia, UAE, Switzerland, Korea and Indonesia are the top countries from where India is importing various commodities.

CHAPTER

BALANCE OF PAYMENTS OF ECONOMIES (BOP) 24

24.1 CONCEPT

An open economy, as mentioned previously, will have a large component of trade and that trade would bring in foreign currencies to home country either for making payments for imports or receiving foreign currencies for exports. In addition, in a previous section on Exports, it was mentioned that an adverse feature of the Indian Economy has been year after year imports were more than exports.

What does it mean? It basically implies that India has never been able to earn foreign currency through exports to that extent to meet payment obligations in foreign currency for imports of goods. That is, the first thing to understand about open economies on their ability to 'earn foreign currencies through exports to pay for the import needs of the economy i.e., the criticality of exports.

It is clearly known that India is an importer of crude petroleum and increased consumption of petro goods would require India to export sufficiently to cover the import required of crude petroleum. Exports have been extensively addressed in the previous section.

Open economies would have both domestic as well as foreign currencies and as trade increases with more of exports and imports, there has to be a tracking mechanism in the economy of the foreign currencies going out on account of imports and other factors and the foreign currencies coming into the country on account of exports and other such factors.

Uns is what known as the 'balance of payments' (BOP) of a country, which is a separate and independent 'record of all transactions being done in the foreign currencies in the country: The BOP of country assumes great significance for open economies. In India, the responsibility of maintaining the BOP lies with the Reserve Bank of India (RBI). RBI is not only the apex monetary authority, controller of liquidity but also has a larger role to play in open economies of maintaining the BOP. How is the record of transactions maintained?

24.2 BOP—KINDS OF ACCOUNTS

The balance of trade (BOT) or balance on merchandize goods: This account records all transaction of foreign currencies on account of export and import of 'goods' only. The BOT would be in surplus if inflows of foreign currencies in the economy through exports are more than outflow of foreign currencies on account of imports. Conversely, it would mean a deficit on the BOT. This is what has been referred earlier of a structural trade deficit in India, of insufficiency of foreign currencies through exports of goods to meet the foreign currency required to pay for critical imports.

The second kind of account is the balance on invisibles (BOI). Just as there are imports and exports of goods, there are also imports and exports of services such as banking, shipping, insurance, software, consultancy, etc. This account maintains records of transactions in foreign currencies resulting out of export and import of services.

What could be other types of transactions in foreign exchange other than for import and export of goods and services covered in balance of invisibles. These could be for the following:

(1) **Inward and Outward Tourism**—tourist arriving to India (inward) would require rupees to spend for which they would like to exchange their respective foreign currencies into rupees. Similarly, Indians going abroad (outward) would require foreign currency.
(2) **Inward and Outward Remittances**—many Indians about 35 million are settled overseas in different countries also known as the 'Indian diaspora'. Many of them send money to their family. As they are earning in foreign currency they would send the money in foreign currency (inward remittance) which would be exchanged in rupees in India and given to the beneficiary. Similarly, Foreign residents in India may also like to remit money overseas (outward remittance).
(3) **Inward and Outward Education**—there is an increasing trend of Indian students seeking higher education abroad (outward education). They would need to cover for their fees in foreign currency.
(4) Similarly, foreign students wishing to study in India (inward education) would need Indian rupees to cover their expenses in India. Further, there may also be a need of foreign currency for overseas medical treatment.

In all the above transactions, there will thus be a 'net effect' which is either positive or negative depending on which transactions are more. For example, net tourism will be positive if foreign currencies being surrendered (by foreign tourist for rupees) is more than foreign currencies being demanded (by Indian tourists going abroad) and vice versa and similarly for remittances and education.

All the aforementioned transactions which are net tourism, net remittances, net education and for medical treatment are reflected in the balance of invisibles' (BOI) of the BOP. Thus, BOI records transactions in foreign currencies relating to export and import of services, net tourism, remittances, education and medical treatment. This could also be either positive or negative depending on which is more.

Both the BOT as well as the BOI constitute the balance on current account of the BOP. Accordingly, the BOP may have a current account surplus (CAS) or a current account deficit (CAD) and CAS will result in the following:

With both BOT and BOI in surplus or positive.

It can also be possible with a deficit on BOT but with a surplus on BOI sufficiently large enough to wipe out the deficit on BOT.

On the other CAD will result if there is

Deficit on BOT and BOI.

Deficit on BOT and a surplus on BOI but not sufficient enough to wipe out the BOT.

It appears to be complicated but there is requirement to understand these concepts failing which problems of open economics and crises may be difficult to comprehend. An illustration of an open economy, say A is explained below:

Exports of goods	USD	100 million
Imports of goods	USD	250 million
BOI	USD	200 million

Economy A has a deficit on BOT of USD 150 million but a CAS of USD 50 million . If the economy had a BOI of USD 100 million it would have a CAD of USD 50 million . A surplus on the current account can thus happen both with a surplus and also with deficit on BOT depending on the BOI.

Inflows of foreign currencies (coming into the country) are more' than the outflow of foreign currencies (going out of the country) in an economy. A CAD would imply the reverse i.e., outflows of foreign currencies are more than the inflows of foreign currencies in an economy.

How is the difference between outflows and inflow's met? This would take us into the third account of BOP maintained by the RBI which is a record of transactions other than' those on the current account.

Transactions other than those on the current account is referred as capital account transactions and would comprise of the following:

(1) **Foreign Investment**—this will be discussed separately later. However, this represents inflows of foreign currencies into the economy for investment purposes.

(2) **Deposits**—many of the Indian diaspora settled abroad maintain deposits in foreign currencies in India known as NRI

(3) **Borrowings**—private sector can borrow in the international currency and so can the government bilaterally or from multilateral institutions such as the IMF, World Bank, etc.

(4) **External Assistance and Grants**—government can also receive assistance and grants from other countries in foreign currencies. But this was relevant in closed economies.

All the above transactions are known as capital account transactions and get reflected in the capital account' of the BOP. The balance on current account and capital account constitutes the BOP of the country. The BOP necessarily like a balance sheet has to balance, or no difference between assets and liabilities. Similarly in the case of BOP 'inflows' will have to be matched with outflows' one way or the other. Thus BOP has to be zero. Thar is, any CAD would have to be met out of capital foreign currency inflows of either foreign investment or NRI deposits and if not there, our of borrowings by the government to meet the CAD.

However. BOP can also be zero under:

(1) There is CAS. The excess inflows going to augment the foreign exchange reserves.

(2) There is a CAD but sufficient capital inflows other than borrowings to wipe the deficit.

Thus, by looking at the BOP it is not possible to comment on the health of the economy on the trade front of whether, there is CAD or CAS. BOP is solely an account' of inflows and outflows of foreign currencies and the manner in which inflows and outflows on the current account are matched. The true picture can, however, be seen from the current account of the BOP. As an open economy, the balances on current account of economies become extremely relevant.

Suppose an economy has CAD of USD 100 million. It does not have capital inflows. How does the government acquire foreign currencies to meet the deficit? Remember fiscal deficit, the government could print rupees to meet the deficit or borrow rupees from the market. Hie government can never be a defaulter in borrowings given its sovereign powers to print home currency.

In the absence of capital inflows, the government would have to borrow from the international market. Any borrowing in the market for meeting CAD is crisis for the economy because how does the economy pay back the amount borrowed? It would amount to placing economic sovereignty at stake, leading to economic sub-judication.

A high CAD has been a common denominator in all the crisis-ridden economies in the past and as a parameter closely monitored by all open economies. Both the CAD as well as fiscal deficit are known as the 'twin deficits' that is necessary evils and little to choose between, in terms of damaging impact on economies.

24.3 IS CURRENT ACCOUNT SURPLUS (CAS) BETTER FOR OPEN ECONOMIES?

So it appears that open economies should preferably have a CAS or should not have CAD given their vulnerability to crisis-like situations. The concept of CAS is explained briefly.

CAS typically represents surplus of outflows over inflows and where this surplus is going? It represents 'idle' money as it reaches the RBI instead of the economy. It is idle because it has not been absorbed in the economy, which is possible in an over-invested economy or economics with little investment opportunities. Any further investment in such economies, would not increase growth but only fuel inflation. Such economies need to cool. A CAS is helpful for them. It could also be if the government interferes in their absorption through policy interventions.

So a CAS in China is understandable as it needs to slowdown to prevent build-up of inflationary pressures in the economy.

India is already running a high CAD, but then these are abnormal circumstances of shocks of global recession. It is also because of import of crude petroleum and in recent rimes a surge in import of gold. Despite the high levels of CAD it can be said to be manageable given the surplus on the capital account. However, the same levels can overnight become very disturbing and dangerous should the capital flows reverse, leaving no choice, other than borrowings to meet the deficit on the current account.

Rightfully, the RBI while maintaining the BOP keeps a close watch on the movements both on the current account as well as capital inflows. High CADs in relation to their GDP has been a common denominator for all the crises-ridden economies.

It is wrongly believed that openness has been responsible, rather it was the inability of these economies to see the widening CAD, plunging them into the gorge of crisis. It should also be kept in mind that 'it is not CAD *per se* which is the problem, but the way CAD is meet, whether irreversible capital flows, reversible flow's or borrowings'. Only if CAD is being met out of borrowing by a government can it be said to be a crisis or an unsustainable CAD. As long CAD is met out inflows on the capital account, other than borrowings which is through foreign investment, NRI deposits, it can be said to be manageable, not a serious cause of concern. Crisis on the current account is also known as 'BOP crisis'.

CHAPTER 25

TRADE REFORMS AND FOREIGN EXCHANGE MANAGEMENT ACT (FEMA) 1999

25.1 TRADE REFORMS

India had co embark a massive and series trade liberalization measures post 1991. It had to make a departure from the relatively protectionist trade policies which it adopted post independence . These reforms were necessitated as a response to the concerns of the globalization and integration of Indian economy with that of the world economy . Main features of trade reform policies were as follows:

- Removal of Quantitative Restrictions on Imports
- Reduction in Import Tariffs
- Special Economic Zones (SEZ) Scheme
- Convertibility of Rupee on Current Account
- Sectoral Deregulation
- Concessions and Exemptions
- Promotion of Service Exports
- Setting Up of Agricultural Export Zones
- Export-Oriented Units (EOU) Scheme
- Setting up of Trading Houses
- Market Access Initiative
- Devaluation of Rupee
- Rationalization of Tariff structure

25.2 FOREIGN EXCHANGE REGULATION ACT (FERA)

Trade reforms as a part of opening of the Indian Economy have their genesis in repealing of the foreign exchange regulation act (FERA) 1973, which was restrictive and had regulations on foreign exchange transactions. As an inward-looking economy, with strong insulation from the rest of the World, FERA was to discourage foreign currency' in domestic economy, and if required, be specific and thus need for regulations.

Under FERA, there were very limited transactions which were permitted and that too after seeking approval there were a large number of transactions in the negative list or that transactions could not be done. Cross-border inflows and outflows were also restricted, in line with the levels of insulation of the economy.

All foreign-owned companies were designated as FERA companies. Similar to their counterparts in the domestic sector, MRTP companies under a similar act known as MRTP act. These companies in terms of their respective acts had to be closely monitored and regulated for fears of exploitative and unethical practices.

Foreign exchange regulation act also vested powers to try out criminal cases of violations in foreign exchange regulations. Thus, towards greater openness, and as a part of major trade sector reforms FERA was repealed and a new foreign exchange management act (FEMA) enacted in 1999, through which regulations paved way to management of foreign exchange transactions.

Foreign exchange management act was more liberal in allowing transactions without restrictions and dramatically pruned the negative list of foreign exchange transactions. The basic idea was to permit' rather than the earlier regime to 'prevent'. It also eased restrictions on cross-border capital flows especially foreign investment providing a clear signal of lowering of insulation.

In tandem, the then EXIM policies had already lowered peak-level customs duty to facilitate greater imports into the country. With the dismantling of both the MRTP as well as the FERA acts, nomenclature of FERA companies, MRTP companies were also discontinued. With a strong focus on management of foreign exchange, trying out of criminal offenses was entrusted to a separate newly created enforcement directorate (ED). Thus, FEMA essentially covers three broad areas which are as follows:

(1) Rupee convertibility.
(2) Setting up of a separate ED for trying out criminal offenses in foreign exchange.
(3) Borrowings by the corporate sector.

Like the reforms in the industrial sector, replacing of FERA with FEMA is seen as a major aspect of trade reforms signifying relaxations on inflows and also greater openness of the Indian Economy. It is not only replacing 'regulations' with 'management', but a paradigm shift in die governments outlook towards foreign currency. The other major areas of trade sector reforms are in the areas of foreign investment policy and also exchange rate determination, which are discussed in the subsequent sections.

25.3 RUPEE CONVERTIBILITY

What is the generic meaning of convertibility? Convertibility, as a concept, goes with open economies and little relevance in the era of closed economies. The meaning of convertibility is to treat foreign currency, no different from the home currency for transaction, investment and saving purposes whether in the domestic economy or overseas.

Convertibility is linked to absence of restrictions from the government of conversion of one currency into another and also in its end use domestically or internationally. Or coming back to why mentioned in the beginning. If the government/RBI does not ask 'why' foreign currency is required or foreign currency, freely, available across the counter, like home currency, is what is know as a convertible currcncy/economy. More specifically convertibility is also about the following:

- Freedom to residents to maintain home currency or foreign currency denominated by bank accounts.
- Freedom to residents to remit outside the country.
- Freedom to residents to invest in the global stock markets.
- Freedom to domestic companies to borrow funds either from the domestic or from the international markets.
- Freedom to companies to issue shares/bonds in overseas markets subject to their regulatory compliances.
- Freedom to domestic companies for global operations and also to acquire companies overseas.
- Freedom to do transactions in any currency.
- Freedom to invest globally.
- Freedom to exchange currencies like commodities across the counter.

Most of the larger economies such as US and Europe have convertible currencies, which can be freely exchanged with other currencies, without any restrictions and can also be used for transaction and other such purposes as mentioned above.

Why is convertibility important for open economies?

(1) With increased openness, increased trade and capital flows, absence of convertibility is seen as a hindrance to smooth inflows and outflows, resulting in avoidable delays in conversion, besides increasing transaction costs of conversion.

(2) A convertible currency is acceptable in a non-convertible economy (USD in India) but a non-convertible currency is not acceptable in a convertible economy (Rupees in the US).

(3) It is seen from the global perspective as a growing stature of the home currency gaining global acceptability.

(4) It reflects greater transparency in the foreign exchange transactions in the domestic economy.

5 It is seen as the growing maturity and strong macro-economic fundamentals of an economy and their ability to withstand adverse global fallouts.

(6) It is also believed as a way to attract foreign investment.

(7) It is a reflection of the confidence of the government that convertibility will not result in outflows from the economy.

(8) Economies with convertible currencies have greater levels of efficiency, provide depth to the financial sector and are seen as globally competitive.

(9) Convertibility allows testing of strengths of economies in their bid to global integration.

(10) It is also about dispelling the ‘fear’ factor, the fear of‘what if from the minds of the government.

(11) Most large open economies, as mentioned earlier, such as US and Europe have convertible currencies.

What could be the possible fallouts of convertibility?

(1) All the crisis-ridden economies in the past had complete convertibility and that convertibility exposes economies and makes them vulnerable, especially in adverse global circumstances.

(2) One of the biggest dangers of convertibility is known as the fear of infamous 'Dutch disease', coined during 1977 following the discovery of oil in The Netherlands. There was a surge inflows resulting in currency appreciating adversely affecting their manufactured exports and slow down of the economy.

(3) The stance of the monetary policy changes to managing inflows and outflows, managing what is referred as the'impossible trinity' of open capital account, exchange rate and independent monetary policy. The central bank can at best manage two but not all three.

(4) Large inflows can create issues of liquidity and result in inflationary pressures besides affecting the growth.

(5) The fear factor mentioned above is the apprehension of flight of capital from the country, which can be very dc-stabilizing in nature for the economy.

(6) It is a one-way journey offering no scope of experimenting or going back. Also having begun the journey it will also have to be completed. It cannot be abandoned mid-way. This is because over a period of time, it will not be possible to prevent leakages despite having controls on capital flows.

What can be the basic preconditions to convertibility? It is difficult to lay down a set of defined preconditions to convertibility. It is qualitative in nature, differs from economies to economies and is also about the confidence levels of the government on its own people and the state of the economy.

However, based on the experience of other countries having convertible currencies and also of the crisis-ridden economies, some key fundamentals to convertibility are as follows:

(1) Economies should be on sustained upward growth trajectory.

(2) Exports should be showing signs of buoyancy and moving away from primary to manufactured goods.

(3) Inflation levels should be 'manageable'. Economies should have the confidence on their ability to be able to effectively manage inflation through appropriate policy tools.

(4) Interest rates should be globally aligned i.e., the inflows and outflows should be interest rate 'neutral'.

(5) Current account deficit should be supported by capital inflows or high current account deficit should not lead to external borrowings.

(6) 'Manageable levels' of fiscal deficit. The government should be resolved at lowering the levels of fiscal deficit and should have initiated fiscal consolidation.

(7) Economies should have the confidence of servicing the external debt through export earnings.

(8) The financial sector especially banking should have strong balance sheets, mature, competitive and have the depth to assess and mitigate risks. They should be following prudential lending, not overexposed and a balanced asset portfolio in terms of their risk appetite.

(9) Economies should have initiated economic reforms, greater openness towards competitive, efficient, market-determined and productive domestic economy.

What is the status of convertibility in India? India's effort at convertibility has been cautious, well-calibrated, well thought out and gradual, beginning since 1994. It is not necessary to map the journey or the chronological ordering but that there has no fallouts in the journey so far. The present status is thus 'complete convertibility on the current account' in the balance of payments of the India . But not capital account convertibility (CAC). Convertibility on the current account implies that for export and import of goods and services, transactions in foreign currencies are unrestricted and do not have any restrictions either from the RBI or from the government.

Restrictions on Current Account Transactions

With regard to other transactions on the current account they are also unrestricted except for the following which are restricted:

(1) Outward remittance of prize money earned out of game shows, lottery, betting, racing, etc., is not permitted.

(2) For outward tourism, an Indian resident can freely take up to USD 10,000 per visa holder in a calendar year should more be required prior authorization of RBI would be required.

(3) For education abroad and overseas medical treatment expenses up to USD 1,00,000 is unrestricted and beyond requires prior authorization from the RBI.

(4) All foreign currency payments made to foreign artists in India, and that required for cultural tours overseas require prior authorization of Ministry of Finance, Government of India.

Apart from the above transactions, the remaining transactions in the current account are unrestricted. It needs to be understood and absence of convertibility does not imply that transactions cannot be done but such transactions require prior authorization from either the RBI or the government.

Capital Account Convertibility (CAC)

In the status on convertibility it was mentioned above that presently India does not have CAC. CAC has been driven in India based on recommendations of various experts committee from time-to-time, but the most notable has been the Tarapore Committee recommendations. The committee had given a road map of'fuller' convertibility which is easing of restrictions on the capital account but not complete removal of all restrictions on the capital account over a period of time. However, the committee has remained silent on the issue of'full' convertibility.

In terms of the recommendations made, the government has, however, gone ahead with the easing of restrictions on the capital account as under:

At present, all inflows in foreign currency, irrespective of the nature, are completely convertible. For example, 'that there are no restrictions either by the government or RBI, on any kind of inflows, or their reversal as outflows'. Then what kinds of outflows on the capital account arc restricted? Outflows arising out of conversion of rupees into foreign currency by Indian residents, Indian companies, Indian financial institutions for overseas transactions.

Even here, recently, the government has considerably eased restrictions on such transactions on the capital account which are as follows:

(1) Indian residents can freely remit up to USD 2,00,000 in a financial year overseas without any restrictions, for any investment purpose. Except that it should not be remittance of prize money earned. However, in view of the recent rupee turbulence it has been brought down to USD 75,000.
(2) Indian residents can open foreign currency accounts in India for foreign currency earned for services rendered overseas. Such accounts are known as foreign currency Indian residents FC(IR) accounts.
(3) Indian mutual fund managers can invest up to USD 5 billion in global stock markets.
(4) There has also been considerable relaxation to Indian companies to borrow overseas which are discussed in the next section.

What do the above imply that even without having CAC, rupee is virtually convertible except that it is not 'formal' declaration. This means that the government today has a choice of going back and can choose to re-impose restrictions on these kinds of transactions at any time.

Should the government then press the accelerator and go for full convertibility?

(1) At present, there are no apparent compulsions for the government to announce complete convertibility, as the purpose of attracting foreign inflows is being served especially in the last two years and India's stature globally is not affected even without complete convertibility.
(2) Further, China has broken the myth of inflows linked to convertibility and that openness not possible without convertibility or that convertibility and global competitiveness go together.
(3) Chinese economy is the fastest growing and expanding economy of the world, with robust exports, sitting on a trade surplus and globally competitive.
(4) China has seen sizeable inflows into their economies of over USD 500 billion in the last two decades and if Hong Kong is included it will go over USD 1 trillion, all without any convertibility.
(5) Definitely Chinese experience has diluted the importance and relevance of convertibility for open economies.
(6) Even India despite not having CAC, particularly after 2007, there has been sizeable inflows including foreign direct investment as can be seen in the section on Foreign Investment discussed subsequently.
(7) However, over a period of time with a more balanced global economy, from the present unbalanced, favouring Asian economies, convertibility would eventually be

seen as maturity, resilience of economies with strong macro-fundamentals allowing smooth integration within the global economy.

(8) Lack of convertibility also allows for leakages, conversion of good money into bad money, a hindrance to the increasing cross-border flows. As openness of economies increases it only raises transaction costs of conversion.

(9) India unlike China, fortunately has initiated the journey, but even with no apparent compulsions of completing the journey, at some time would have to complete it as the controls would become ineffective or outflows finding way around the controls.

(10) Full convertibility of the Indian rupee can be delayed, but is inevitable and the only issue is by when?

25.4 EXTERNAL COMMERCIAL BORROWINGS

A major aspect of FEMA and trade reforms is also the easing of restrictions on the private corporate sector to borrow from the international market especially for paying for its imports and saving on the transaction cost of converting rupees to foreign currency for import of goods. This is known as external commercial borrowings (ECBs) which is similar to domestic borrowing except that they are in foreign currency from the overseas market.

It also allows the corporate sector to take advantage of the interest rate differential between the domestic and international rates of interest. A key aspect of interest rates on ECBs is that they are linked to London inter-bank offer rate (LIBOR) a market-determined rate of interest, at which global banks lend to each other and the floor level of interest and bench mark for global interest rates. The mark up over LIBOR is usually in 'basis points (bps)'. A 100 bps mark up implies 1 per cent over the LIBOR.

Who decides the mark up for ECBs? The mark up is in terms of the sovereign rating of countries first and then the companies given by the international rating agencies such as Moody's, Standard & Poor and Fitch. Normally a company's raring cannot be better than the sovereign rating and it is invariably the country's rating which decides the mark up. These rating agencies arrive at ratings of economies based on well-defined objective parameters. The ratings is in a scale comprising of two broad categories one—as 'investment' grade, economy has good fundamentals and can be considered as investment grade with minimum to moderate risk and the other—'speculative' grade which is, economy can be considered for investment but that the risk is high.

The higher up on the scale implies less risk and thus a lower mark up and the lower down the scale there is high risk and mark up accordingly is much higher. At present, the rating of India by the three rating agencies is a low of one notch above the last in investment grade which is, India is considered 'marginally as investment grade'. Why such a low rank by international-rating agencies?

(1) First and foremost is because of the high fiscal deficit. The combined fiscal deficit of the center and states put together over 10 per cent. Such high levels are unsustainable in the long-run.
(2) High levels of public debt (all liabilities of Central and State Governments) to GDP ratio of over 70 per cent.
(3) Such high debts are trigger points of an internal crisis like it happened in Greece and Ireland.
(4) Near absence of fiscal consolidation.
(5) Slowing down of the reform process.

Even though the government has protested against the rating given to India, but these agencies are known for their independent and unbiased thinking. The most important aspect is that these ratings have global acceptability and the basis for deciding the mark up for ECBs besides also influencing overseas investment decisions.

At present, RBI under FEMA has allowed companies to raise ECBs up to USD 750 million under the automatic route which is not requiring approval of RBI. All ECBs under automatic route or also subject to maturity period stipulated by RBI and have end use' restrictions i.e., the purpose of ECBs has to be declared and it is to be ensured that the proceeds are used only for the declared end use by the company.

There is also a restriction that the proceeds have to be parked overseas and will not be allowed to be converted into rupees for bringing it back into the domestic economy. There is presently an overall country level ceiling of USD 35 billion for ECBs. The only issue with ECBs is that only reputed companies can access the ECB route. The amount raised as ECBs are reflected in the external debt of the country.

American Depository Receipts (ADRs) and Global Depository Receipts (GDRs)

There is yer another route through which Indian corporate sector can raise foreign currency denominated funds which is through issuance of ADRs and GDRs. In the absencel of convertibility, Indian companies cannot access the global capital market by issuance of shares just as they can be in the domestic market. To enable companies to access global markets, companies can issue shares, but instead of selling in the overseas market directly can off-load the shares to an international depository.

This depository on the strength of underlying shares held by it in the capacity of a custodian, would issue depository receipts and sold, just like shares in the overseas market.

These receipts are akin to a share, have similar features but are not shares as it does not confer voting rights to the holder of these receipts. They can be listed and traded at the global stock markets just like the shares. Such receipt issued in the US is known as ADRs and elsewhere as GDRs.

Most of the reputed Indian companies are enjoying listing at the global stock markets through the ADR route. This mechanism also allows domestic companies to test international markets for their inherent strengths, competitiveness and global acceptability.

All ADRs and GDRs offering are not on the automatic route and require prior approval of Ministry of Finance, Government of India.

Foreign Currency Convertible Bonds (FCCBs)

Foreign Currency Convertible Bonds also known as foreign currency convertible notes (FCCNs) are quasi-debt instruments issued by Indian companies in foreign currency which may or may not have a coupon and principal payment option or the option of they be converted into shares at a pre-determined rate at the discretion of the investor.

At present, FEMA allows issuance of FCCBs by Indian companies subject to amount and minimum maturity stipulation under the automatic route. Thus, the Indian private corporate sector can access the international market either as ECBs or ADRs or FCCBs or a combination of all.

CHAPTER

FOREIGN INVESTMENT IN INDIA 26

26.1 CHANGING NOTIONS

Foreign investment has been a key area of reforms over the last two decades. It was nor too long ago when foreign investment was treated with mistrust associated with the multinationals operating for self-interests with exploitative tendencies, a bitter fallout or the earlier colonial regime.

It was China, a highly closed economy in the seventies, changed the notion of development by following liberal policies for attracting foreign investment as means to meet the investment needs and to accelerate growth of their economy.

They showed that for development purposes money matters and not the 'colour' of the money. Also that foreign investment is not a necessary evil, as widely believed, by many economies. The transformation of the Chinese Economy to its present look can largely be attributed to foreign investment in their country.

But what exactly is foreign investment? Foreign investment comprises of two components, one referred as foreign direct investment (FDI) and the other as investments by foreign institutional investors (FII) now referred as foreign portfolio investor (FPI). FDI represents overseas equity investment projects in India with the investment objective of directly managing businesses. The equity investment can be in an existing company or as a new company for various projects in the country. The objective is to do commercial business in the country.

The extent of equity a foreign investor can bring in different projects is referred as 'sectoral caps' and prescribed by government through its various 'press notes, issued by Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry'. Some aspects of FDI should be kept in mind, one is that they come with a business orientation, with an explicit profit motive and they provide a unique blend of resources, technology, knowledge and professionalism and management techniques. Their interests are not short-term but long-term. A misconception of FDI is repatriation of profits or outflows from the country. As mentioned earlier, they operate with a commercial motive, but will not begin to earn profits immediately and it takes time to achieve break even by companies before they begin to earn profits. Even when they begin to earn profits repatriation , is not of the entire profits but only a certain percentage of profits earned and that cannot be legitimate criticism of FDI.

Investment by FPls on the other hand, is predominantly in the stock markets with the purpose of solely trading in shares of companies, and also investment in corporate debt and government securities. Their objective is to book profits on investments made. Such investments are short-term and volatile and if millions of dollars can come in, they can also go out overnight. They stay in the markets as long as things are good and the first one to leave in periods of uncertainty. They are referred as 'fair weather friends'. Such investments are also known as portfolio investment'.

26.2 FOREIGN DIRECT INVESTMENT (FDI)

What changes have been taken place with regard to foreign investment in India? India's attempt at opening up for foreign investment has been gradual and cautious step-by-step. First, foreign investment policy was selective and restricted to high-priority areas only. Then came the era of 'hyphen' products. Foreign companies were allowed to invest in India but only as a joint venture along with an Indian partner, such as Maruti-Suzuki, Akai-Bush, BPL-Sanyo, Tata-Yodogawa, etc.

Subsequently, foreign companies could use their brand names without any Indian attachments. As a further step, the 'dividend balancing' requirement of repatriation of profit by companies to be matched with exports of the company, in respect of twenty-two industries was dispensed. At present, almost the entire economy has been opened up for foreign investment, in most areas 100 per cent foreign participation is permitted to sectors such as petroleum sector, road building, power, drugs and pharmaceuticals, hotels and tourism, etc.

Besides, certain areas have sectoral caps such as insurance and foreign equity is restricted to 26 per cent. For banking, telecommunications and airport service provider it is not exceeding 49 per cent. The sectoral caps are increased by the government through its various 'press notes' depending on needs of the economy.

In certain areas such as gambling, betting, lottery business, atomic energy, agriculture and multiproduct-organized retailing, FDI is not permitted.

The government to facilitate foreign investment has also introduced fast-track mechanism of the 'automatic route' subject to sectoral caps, for projects which do not require industrial license and not having existing joint venture in India. All investments by NRI/persons of Indian origin (PIO)/overseas corporate bodies (OCB) as also SEZ, EOU, EHTP and STPI are under the automatic route.

Government also set up the foreign investment implementation authority (FIIA), for inter-ministerial coordination and to ensure quick translation of the approvals given into the investment. It can be seen that almost the entire economy, except for the agricultural sector and select sectors, has been thrown open for foreign investment, indicating that the government is welcoming foreign investors in the domestic economy.

We have to be clear that the debate over foreign investment in terms of their demerits has been given a quite burial. The second is whether it is a matter of choice or compulsion. We have to face the fact that India has a distinct 'investment deficit' and there are 'no options' other than foreign investment to bridge this huge deficit.

It has been discussed previously about the investment in infrastructure alone of a staggering USD 1 trillion dollars over the next decade. Yet another thing not understood is that: 'India needs foreign investment more than foreign investment needs India'. It is in this light the easing of restrictions on foreign investment has to be seen.

What has been the impact? Since the beginning of opening up for foreign investment in 1991, India has been able to attract around USD 500 billion.

Is it impressive? China on the other hand, during the same period has been able to attract over USD 1000 billion or over USD 1 trillion. FDI in India came in driblets till 2007. The period 1991-2007 witnessed very poor levels of foreign investments. It, however, has picked after 2008 wich USD 55 billion coming in just three years to again get reduced since 2013. Thus India, at least in the last few years, can be said to be attracting foreign investment but clearly not as much as the other economies are attracting. The global crisis since 2007 has come as a blessing in disguise with a lot of capital flows coming into emerging economies and India included even though not in a same magnitude.

Despite the considerable easing of restrictions why is India not a preferred destination for FDI? It has a large pool of English-speaking workforce, cheap labour, natural resources, a growing economy, second largest market and a government-favouring FDI. The answer lies in a number of factors which are as follows:

(1) First and the foremost, a foreign investor draws a global comparison before taking a decision on the choice of destination and thus the government has to look from 'their perspective and not from 'its own perspective. It has to see what are they looking for and then providing it to them.
(2) There are a lot of areas where India has a comparative disadvantage over economies such as China, Korea and Brazil in infrastructure, stringent labour laws, still large dominance of public sector, relative imperfect market and so on.
(3) It may also be mentioned that globally India is ranked very low in terms of the 'ease of doing business'.
(4) Even though there is single window clearance for all FDI, it is 'ineffective' as still multiple clearances are required at the central and also state governments level.
(5) The earlier controversial Enron power project and the present controversy around POSCO and die Vedanta group serve as enough deterrents to FDI.
(6) Even though policy has changed but the mind sets have not changed, it is still felt that India is doing them a favour rather than the other way around.
(7) The state governments do not give due priority of the same degree as the central government leading to delays.
(8) The labour market is inflexible with regulations around them making it difficult for foreign investors to comprehend and prefer to go to other destinations which have greater flexibility in labour laws.
(9) Yet another factor has been the fact that the so-called reforms and the liberalization policies still lack transparency with explicit licensing replaced by implicit back door regulations in the economy.
(10) Somehow the clear message of liberal FDI in India has not been publicized at the international level. Something as 'India as an investment destination'.

It is precisely for the above reasons that economics like China and others are scoring above us. There is yet another important difference is the indifference of the NRI to invest in India. Most of the FDI in China comes from expatriates and those who were earlier of Chinese origin but now settled in various countries.

The Chinese people though settled overseas still continue to have their roots for investment matters in China, which is the missing link in India. Our NRIs, when comes to investment decisions rank other countries higher than India.

Foreign Direct Investment (FDI) in Organized Retail

Foreign Direct Investment in organized retail is yet another area shrouded in controversy. What is organized retail? Let us define retail first, it is household requirement of the people comprising of food and grocery, clothing, convenience, consumer goods, etc. Secondly, organized retailing is selling of these household commonly used goods to the people directly, as branded products across counters in big stores.

Organized retailing is virtually non-existent in India and dominance of the 'mom-pop' scores, kirana shops and neighbourhood shops. Unorganized retailing accounts for over 90 per cent of retail business in India. The retail market in India is growing exponentially and is projected to reach over USD 350 billion by 2015. Can such a huge market be handled as 'unorganized' business efficiently?

What is the present status of FDI in retail sector? FDI in organized retailing is permissible in India through the following four routes:

(1) FDI in retail is permitted through the franchise route like McDonalds where the foreign company gives a franchise to an Indian to sell on their behalf and use their brand name.

(2) Yet another way retail is if the company is sourcing from India and manufacturing the product in India it can use the brand name such as Arrow, Benetton, etc.

(3) Another route is the cash and carry' concept, where the company can sell the product to a wholesaler in India who would then do the retailing like 'Spencers'.

(4) FDI is also permitted up to equity participation of 51 per cent but only for single products/brands.

(5) Only recently government has permitted 51 per cent equity (shares) as FDI in multi brand retailing business, subject to a minimum investment of USD 100 million, 50 per cent of which has to be in back-end activities. Such retail stores can only be set up in cities with population more than 10 lakhs and too after approval of the concerned state government. There is also a stipulation that 30 per cent sourcing should be done from small-scale industries.

So FDI in retail implies allowing the foreign companies like Wal-mart to set up the stores in India for selling multi-branded household goods to the people.

So what is wrong with Wal-mart setting up stores in India? It is widely believed that allowing FDI in organized retail would mean an end to the kirana shops, bring the curtains down on the 'mom-pop' stores. The unorganized sector in retail would go out of business, result in mass-scale unemployment threatening the livelihood of the millions who are dependent on this business. It is also feared that such big stores will solely promote more consumerism given their aggressive marketing strength and thus affect savings in the economy as a whole. Such foreign companies may acquire monopoly status in consumer-oriented goods resorting to consumer exploitation.

Is this contention correct? This can be dealt in another way. What can be the likely benefits of FDI in organized retail?

(1) These foreign companies have the experience, knowledge of such businesses and would bring best practices to the country.

(2) They would be able to bring the best in the world to the country and a much wider choice set.

(3) Their motto, rightfully is, customer first. They would always work in the interest of customer in providing better quality products and hygienic food items.

(4) Their functioning is essentially large volumes less margins, scientific inventory management and minimal wastages which enable them to price goods cheaper than the market.

' 5) The present unorganized retailing has huge wastages, not much inventory management resulting in their higher prices.

(6) Thus, these companies will bring better quality goods at very competitive prices, providing value for money.

(7) These companies are very conscious of their precious brand name and reputation and will never compromise on the quality of goods or claims being made by them. If they are promoting goods as the cheapest in the country, then rest assured they have performed their homework well-enough to have made the claim.

(8) They believe in building their own supply chains down the line which is highly employment intensive.

(9) However, the real tangible benefits are likely to accrue to the agricultural sector such as newer technologies, improved productivity, building up of supply chains, warehousing, better quality and price to the farmers because of elimination of the middlemen.

(10) It would also promote setting up of farmers, groups and cooperatives as facilitators between the farmers and organized retailer.

The fear of end of kirana stores in the country because of multi-branded organized has few basic facts. First is, about the retail behaviour in India and the western countries which is quite different. In the west, people believe in monthly grocery shopping and are seen as a family outing. This is not so in India where daily consumables are bought on a daily basis.

Second, each of these stores require huge area to provide everything to the people and are usually located on the outskirts of a town to save on rentals as downtown rates may be expensive. They believe in keeping costs down to the minimum i.e., their unique selling point (USP) It will be difficult for them to reach out the consumers in the same way as a kirana store. Given Indian retail behaviours how many times will a person go the Wal- mart for his purchases of milk, vegetables and other such daily consumables even if they are cheap but located at a far-off destination?

The kind of reach to households which the kirana shops have in India providing personalized services can never be matched by these foreign companies despite their best of efforts i.e., to say that the kirana shops should not fear the Wal-marts. Rather the other way around, of the Wal-marts fearing the kirana shops. This challenge has also been acknowledged by the chairman ofWal-mart, of India being a huge but different and difficult market to penetrate.

On the whole, there appears to be misplaced apprehensions on FDI in organized retail. It will bring distinct improvement in supply chain management, development of back end infrastructure, create employment, give revenue to the government. It will also provide quality goods at affordable prices. Over a period of time, there would be consensus of the broad-based benefits of organized retailing. Besides the aforesaid debate around FDI in multi-product organized retailing there are certain other issues around FDI.

Sectoral Distribution and Direction of Foreign Direct Investment (FDI)

The first of the nature of FDI coming into India which is service sector-oriented with as much as 50 per cent of FDI has been the area of IT, computer software and telecommunication unlike China where FDI has come into the manufacturing hub. More broad-based benefits in terms of employment opportunities would come with increased FDI in manufacturing and not services.

The other disconcerting aspect has been that the spread of FDI across different states has been highly skewed concentration around Mumbai, Delhi, Gujarat and southern states. Over 65 per cent of FDI has gone in states which have only 40 per cent of geographical area and population. FDI has virtually been negligible in the BIMARU states comprising of Bihar, MP, Assam, Rajasthan and UP; north-east states and also the NCS (newly carved out states) consisting of Jharkhand, Chhattisgarh and Uttaranchal.

Incidentally, these states are rich in minerals and natural resources but have still not attracted FDI. It appears that FDI for manufacturing purposes, locations other than India are preferred. Thus, even though our efforts at liberal foreign investment policy, there are still structural issues as outlined above, to establish, India has a preferred destination or as a 'manufacturing hub' attracting overseas investment in the country.

India has distinct advantages over the other countries but they will have to be translated as opportunities and that is where the government's role would become critical. To sum up, having an 'effective' single window set up by involving the respective state government would cut down avoidable delays and help to fructify the investment and well-orchestrated publicity at the international level should be helpful in this direction.

26.3 FOREIGN PORTFOLIO INVESTMENT (FPI)

This is the second component of foreign investment which is largely volatile in nature. As a part of liberalizing FPI inflows there has been an increase in their inflows but have been less volatile in their outflows. Investment by FPIs in the stock markets has been considerably eased with no restrictions on their inflows in the stock markets except for the maximum percent shares of a company, stipulated by the government which can be purchased by FPIs.

Similarly, FPIs can also invest in corporate debt instruments and also Government of India securities subject to ceiling of investment by the FPI stipulated from time-to-time. The FPIs need to be registered with SEBI, before they can invest in the Indian stock markets.

Two issues about FPIs need co be mentioned, one that is of participatory notes (PN)' which allows for participation of unregistered FPIs by subscribing to PNs floated by registered FPIs. Much of the increased FPI investments have been through PNs. One, the problem with this is that it exposes the Indian stock market to those institutions whose neither name nor nationality nor purpose of the investment is known.

However, SEBI has considerably relaxed conditions of registration allowing for a larger number of FPIs getting registered bringing down the number of PNs issued. The other issue is that of 'round tripping' which is capital going out of the country only to return from a different route to avoid incidence of tax on profits earned. It is widely believed that much of FPI investment comes through Mauritius to take advantage of the double taxation avoidance treaty (DTAT).

Even though, much deepening of the Indian stock markets and its emergence as a major stock market is attributed to the sizeable FPI investments. However, as said previous these investments are highly volatile and reversible in nature at very short notice. In vicw of the surge in capital flows as FPI investment in emerging economies, many economies such as Brazil and China have imposed a tax on short-term inflows known as return of d earlier 'tobin tax', imposed 2-3 decades earlier for discouraging short-term capital flow India has not yet any such tax as present FPI inflows/outflows are viewed as comfortable not destabilizing in nature , but could reconsider should there be a surge in inflows or sudden outflow which can be seen as destabilizing the economy in future.

26.4 FDI IN AGRICULTURE SECTOR

The foreign direct investment (FDI) in the agriculture sector rose to ₹ 611 .28 crore till December 2017 of this fiscal. FDI in agriculture was ₹ 515.9 crore in the entire 2016-1' fiscal, ₹ 553.14 crore in 2015-16 fiscal and ₹ 365.31 crore 2014-15 fiscal

The FDI helps in Agricultural sector helps to create the employment opportunities . and infrastructure in the sector which helps to make sector modernisation anc commercialisation. Since the Agricultural sector employs around 59 percent of employment and 17 percent of to the total GDP to economy. Despite this, the FDI goes into Food processing, Agricultural, and allied sector less attractive as compared service sector. The government should give high priority to the agriculture sector and Food processing sector for the enhancement of the productivity to address the growing need of food security as well as to work for the welfare of the small and marginalized farmers . To fulfil the saving investments gap, public private partnership approach will be useful in agriculture sector. To overcome the shortcomings of the foreign investments , proper attention should be pay for the protection of customers and marginal farmers through strong regulatory framework.

26.5 DIFFERENCES BETWEEN FDI AND FPI

The difference between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) can be understood in the following ways.

- While the investment made by the international investors to obtain substantial interest and control in the enterprise is termed as FDI, the investment made by such investors in the instruments like stocks, bonds, etc. is known as a FPI.
- While FDI investors assume active role in the management of the company, the FPI investors play passive role in the company affairs.
- While the level of control is relatively high through the FDI investment as the investors gain both ownership and management control, the level of such control is relatively less in FPI as the investors obtain only ownership right.
- While the FDI investors will have substantial and long-term interests in the company to which they are investing, FPI investors may not have such type of long term interest.

- While FDI investors invest in financial and non-financial assets, the FPI investors invest in financial assets only.
- While it is comparatively difficult for FDI investors to sell out the stake they have acquired through their investment, the FPI investors can sell their stake at their wish as they have invested in financial assets only.
- While the repatriation of the FDI investment is cumbersome, difficult and time consuming, the FPI investment even can have overnight repatriation.

CHAPTER

MULTILATERAL FINANCIAL INSTITUTIONS 27

27.1 INTERNATIONAL MONETARY FUND (IMF)

The International Monetary Fund (IMF) and the World Bank Group (WB) are multilateral financial institutions having their genesis in the Bretton Wood Conference during 1944. The IMF was set up, first for post-war reconstruction and for greater economic cooperation amongst the countries. Subsequently, its role changed to achieve exchange rate stability of different economies.

Its role since 1970 onwards was to provide loans to economies battling on their respective balance of payments front arising out of the collapse of the fixed exchange rates system, oil shocks and also to those economies opening up as part of global integration but having structural problems on their trade front.

Availing loan facilities from the IMF requires membership, (presently 189 members) by buying a 'quota' usually in relation to the output of economies and their stature in the world. The quota in turn determines voting rights for various policy decisions including loans to be provided to the affected economies by the IMF. The quota is bought by paying 25 per cent in any of the Widely Accepted Currency (WAC) comprising of the USD, Euro, Pound Sterling and Japanese Yen. The remaining 75 per cent can be bought in the home currency and maintained with the central bank of that country but cannot be withdrawn without authorization from the IMF.

All loan facilities are short-term, provide interim relief and are linked as a percentage to the quota, which carry commercial interest rate with varying repayment periods and strict conditionalities like reforms in the domestic sector for long-term structural adjustment. All the accounts of the IMF are maintained in a neutral accounting currency known as 'special drawing rights (SDR)' also referred as paper gold'. SDRs can be converted into any WAC at predetermined rates by the IMF.

Special drawing right is not a currency but only an accounting unit of the IMF and the quota can also be purchased in SDRs. IMF besides lending for trade imbalances and currency-related issues of economies also publishes country papers for use by various governments for qualitative improvements in policy-making.

They are also playing an important role along with the World Bank Group for eradication of absolute poverty especially in Asian and African countries through its programmes like poverty reduction growth fund (PRGF), which is the only concessional assistance programme of the IMF repayable over ten years. IMF has been criticized for the large dominance of the US and its interest at the IMF is driven by a 'Washington Consensus, being the largest quota holder.

IMF Resources

Most resources for IMF loans are provided by member countries, primarily through their payment of quotas.

- **Quotas:** Quota subscriptions are a central component of the IMF's financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy.
- **Special Drawing Rights (SDR):** The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.
- **Gold:** Gold remains an important asset in the reserve holdings of several countries, and the IMF is still one of the worlds largest official holders of gold.

Recent Trends at the International Monetary Fund (IMF)

With the rebalancing amongst the global economies, emergence of BRICS economies, with their increasing contribution to the world output, a need was also felt to realign the quotas of the IMF by giving them larger share, commensurate with their growing international stature and contribution to the global output. BRIC economies have thus been allocated 6 per cent additional quotas, with India's share in voting rights increasing from 2.3 to 2.6 per cent, making it the eighth highest quota holder and voting rights from the earlier eleventh highest quota holder.

In terms of quota and voting rights, India ranks behind US, Japan, China, Germany, France, UK and Italy but ranks ahead of Russia and Brazil, amongst the top ten quota holders at the IMF. The rebalancing has doubled the total quota to SDR 477 billion or USD 756 billion.

Post-global crisis, IMF is likely to have a large role in revival but more importantly, functions as a true multilateral financial institution providing greater global financial stability from its present role of currency management. Since, its coming into existence, for the first time IMF has also opened a different window, new arrangement to borrow (NAB), for crisis ridden economies in the euro zone. This functionality would require greater inter-government monetary co-operation, greater transparency in functioning of monetary authorities and the IMF would have to take the lead role.

IMF REFORMS

IMF Launches New SDR Basket Including Chinese Renminbi, Determines New Currency Amounts

- Chinese renminbi (RMB) to be included in SDR basket as fifth currency starting October 1,2016
- Ms. Lagarde says SDR basket expansion reflects the ongoing evolution of the global economy and is a significant change for the IMF

Today, the International Monetary Fund (IMF) announced the launch of the new Special Drawing Right (SDR) valuation basket including the Chinese renminbi (RMB), and the new currency amounts that will determine the value of the SDR during the new valuation period.

As approved by the Executive Board of the IMF on November 30, 2015, effective October 1, 2016, the RMB is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the euro, Japanese yen, and tthe British pound. The Board also decided at that time that the weights of each currency would be 41.73 percent for the U.S. dollar, 30.93 percent for the Euro, 10.92 percent for the Chinese yuan, 8.33 percent for the Japanese yen, and 8.09 percent for the Pound sterling.

To mark the launch of the new SDR basket, **Ms. Christine Lagarde, Managing Director of the IMF,** stated: “The expansion of the SDR basket is an important and historic milestone for the SDR, the Fund, China and the international monetary system. It is a significant change for the Fund, because it is the first time since the adoption of the euro that a currency is added to the basket.

In addition, the Board also decided today that effective October 1, 2016, the value of the SDR will be the sum of the values of the following amounts of each currency:

U.S. dollar	0.58252
Euro	0.38671
Chinese yuan	1.0174
Japanese yen	11.900
Pound sterling	0.085946

These currency amounts are calculated such that the value of the SDR in U.S. dollar terms is the same under the new basket as the value of the SDR prevailing today, and that, at the average exchange rates for the three-month period ending today (July 1 through September 30, 2016), the share of each currency in the value of the SDR corresponds to the weight approved by the IMF Executive Board on November 30, 201 5.

India gets more voting rights as IMF implements quota reforms

India's share has now increased to 2.75% from 2.44%, making it the eighth-largest shareholder in the Fund

Voting rights of emerging-market economies such as India and China have increased at the International Monetary Fund (IMF), which has finally notified governance quota reforms adopted in 2010. The reforms were held up as the US Congress was reluctant to ratify the proposal, fearing a decline in is hold over the institution. It approved the move last month with a set of conditions. India’s share at IMF has now increased to 2.75% from 2.44%, making it the eighth-largest shareholder in the multilateral agency, climbing three notches.

The ratification of the 2010 reforms also clears the way for the institution to begin the next round of review of its quotas to discuss the size and composition of IMF resources and the distribution of quota shares among the Fund’s membership.

International Monetary Fund (IMF) and India

India has been major borrower of the IMF before the reforms were initiated. The borrowings had been from various facilities of the IMF. However, all the loans taken by India have not only been 'repaid but prepaid' to the IMF and our present outstanding is nil. The IMF also has a financial transaction plan (FTP) which is a plan to help the BOP of impoverished low income countries and only forty-seven strong economies are permitted to lend to the IMF for funding this plan.

India has also been admitted as a lender to the IMF for this plan since 2002. The amount contributed towards the plan is taken as a part of foreign exchange reserves of the country. So far, the contribution made by India to the FTP is USD 205 million.

Probably India would be the only country in the world to have become a lender (creditor) to the IMF, from being a borrower (debtor) just two decades ago. It is also an acknowledgement by the IMF of the strong fundamentals, maturity and growing stature of India post-reforms. With the increased quota and voting rights India will now find a greater, say, in various policy decisions at the IMF.

27.2 THE WORLD BANK GROUP

The World Bank Group also set up first, for rebuilding of economies post-World War II. Gradually, the emphasis was shifted to development oriented for developing countries and addressing issues of growing poverty' and poor countries in Asia and Africa. The WB provides financial and technical assistance to developing countries through multiple sister institutions playing a complementary role, for eradication of poverty, education, public health, public administration, agriculture, addressing environmental issues and funding projects which have predominant socio-welfare considerations covering schools, hospitals, dams, etc.

These projects are not World Bank-driven but are of the governments with World Bank only providing financial assistance to them and thus does not come with conditionalities except that the projects for which assistance has been provided is completed on schedule. Their funding not only covers central but also state governments, NGOs and other such institutions , domestic as well as overseas , engaged in development -related work in the country. The financial assistance, unlike the IMF, is not commercial borrowing, but concessional , repayable over long time periods.

As mentioned previously, World Bank comprises of complementary institutions of International Bank for Reconstruction and Development (IBRD) the International Development Agency (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agreement (MIGA) and International Center for Settlement of Investment Disputes (ICSID). The IBRD is more focused on reducing poverty in middle income credit worthy relatively poor countries through income generation activities and capacity building measures.

The IDA looks at the poorest seventy-nine economies including thirty-five countries of Africa, with per capita gross national income of less than USD 1165. Assistance provided is for infrastructure, public health and social sectors. Assistance provided is interest-free and have repayment periods of 35-40 years.

IFC provides technical and financial assistance to medium and small enterprises in developing countries and also to promote entrepreneurship especially in developing countries. MIGA provides guarantees of political risks' to overseas investments, while ICSID resolves investment disputes of member countries.

The major role of the WB has been centred around eradication of absolute poverty in African and Asian countries and also making poverty a global issue and not restricted to one or group of countries. It has also given its own definition of poverty of those living below USD 1 per day.

Besides, it also prepares country level papers on developing countries outlining developmental requirements of developing countries and eradication of poverty in a sustained manner. It also provides insights to economies for inclusive and sustainable growth by providing assistance to the governments and communities.

Hie WB has already committed USD 14 billion assistance to India during 2009-2012. Recently RBI would subscribe to special private placement of bonds issued by WB to the extent of USD 4.3 billion, which will make India eligible for higher concessional borrowings from WB. It will also provide a stable and long-term source for meeting current account deficit. The WB has set up the catastrophe risk deferred draw down option (CRDD) with a corpus of USD 500 million for providing assistance to middle income economies affected by natural disasters.

Playing its role post-global crisis, it has established vulnerability financing facility (VFF) within the IDA, to provide fast track financial assistance and also a rapid social response fund (RSRF) for meeting emergent social needs of low income economies. The 'group' is also committed to fund stabilizing of existing infrastructure and ensure delivery of priority projects amongst developing member countries. The 'bank' also undertakes continuous review of public expenditure and debt management for economies useful for policy-makers of the respective economies.

27.3 ASIAN DEVELOPMENT BANK (ADB)

The Asian Development Bank (ADB) is a multilateral development bank with sixty-seven members and with the US and Japan as the largest shareholders. However, the character is Asian in nature focused on regional cooperation amongst Asian and Pacific regions.

The objective of the ADB is eradication of poverty in the Asian countries, sustainable economic growth, inclusive social development, environment sustainability, information dissemination and greater regional integration. It provides assistance, co-financing and technical assistance to member countries. It not only partners the central governments of economies but also private sector as well as NGOs engaged in poverty alleviation.

All the three multilateral financial institutions comprising of the IMF, the WB and the ADB have played a pivotal role for developing countries and at least, established that indeed poverty is a global issue and the biggest curse of mankind not confined to few countries.

It is too large an issue, in magnitude and wide ranging in impact, incapable to be addressed by individual countries, requiring global interventions, both in terms of resources as well as intensified efforts at their successful eradication.

Their role will be further redefined post-global crisis, in creating an oversight mechanism, not regulatory and also fostering greater economic cooperation amongst countries.

It can be said that these institutions, in future, will play a much larger role than in the past and go beyond the 'Washington Consensus' to emerge truly as multilateral institution not visible earlier.

• ADB Headquarter - Manilla, Philippines

27.4 NEW DEVELOPMENT BANK

At the fourth BRICS Summit in New Delhi (2012), the leaders of Brazil, Russia, India, China and South Africa considered the possibility of setting up a new Development Bank to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies, as well as in developing countries. They directed Finance Ministers to examine the feasibility and viability of this initiative, to set up a joint working group for further study, and to report back by the next Summit in 2013.

Following the report from the Finance Ministers at the fifth BRICS summit in Durban (2013), the leaders agreed on the feasibility of establishing the New Development Bank and made the decision to do so. It was also agreed that the initial contribution to the Bank should be substantial and sufficient for it to be effective in financing infrastructure.

• NDB Headquarters - Shanghai, China

During the sixth BRICS Summit in Fortaleza (2014), the leaders signed the Agreement establishing the New Development Bank (NDB).

In the Fortaleza Declaration, the leaders stressed that the NDB will strengthen cooperation among BRICS and will supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable and balanced growth.

The Bank will also provide technical assistance for projects to be supported by the NDB and engage in information, cultural and personnel exchanges with the purpose of contributing to the achievement of environmental and social sustainability.

The main objectives of NDB operations are:

- Fostering development of member countries
- Supporting economic growth
- Promoting competitiveness and facilitating job creation
- Building a knowledge sharing platform among developing countries

To fulfill its purpose, the Bank will support public or private projects through loans, guarantees, equity participation and other financial instruments.

As per Fortaleza Declaration, the Bank shall have an initial authorized capital of US$ 100 billion. The initial subscribed capital shall be USS 50 billion, equally shared among founding members. The first chair of the Board of Governors shall be from Russia. The first chair of the Board of Directors shall be from Brazil. The first President of the Bank shall be from India. The headquarters of the Bank shall be located in Shanghai. The New Development Bank Africa Regional Center shall be established in South Africa concurrently with the headquarters.

The inaugural meeting of the Board of Governors of the NOB was chaired by Russia and held on the eve of the Ufa Summit on 7 July 2015, when the Bank formally came into existence as a legal entity. During the meeting, the appointment of the President, Mr. K.V. Kamath, as well as four Vice Presidents and the Board of Directors took place.

At the signing of the Headquarters Agreement with the government of the Peoples Republic of China and the Memorandum of Understanding with the Shanghai Municipal Peoples Government on *T7* February 2016, the NDB became fully operational.

In 2016, the Board of Directors of the Bank approved loans involving financial assistance of over USD 1.5 bln for projects in the areas of green and renewable energy, and transportation.

27.5. ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

Asian Infrastructure Investment Bank (AIIB) is multilateral development bank initiated by China with a purpose to provide finances to infrastructure development and regional connectivity projects in Asia-Pacific region. It is seen as Asia's response to West-dominated Asian Development Bank (ADB) and World Bank (WB). The Bank is headquartered at Beijing and officially started its operation from 2016. The Bank has currently 57 signatories and India is a founding member and is expected to have the second-largest shareholding after China.

CHAPTER 28

EXTERNAL DEBT OF INDIA

28.1 EXTERNAL DEBT

The external debt comprises of all foreign currency denominated debt owed by the central and state governments, Indian companies and the Indian residents. As economies follow open policies, external debt becomes an important parameter to track down given their sensitivity and ability to service them, as in the absence of their servicing, would imply more foreign currency borrowings for servicing the debt.

As per the standard practice, India's external debt data are disseminated on a quarterly basis with a lag of one quarter. Statistics for the first two quarters of the calendar year (ending March and June) are compiled and released by the Reserve Bank of India, while the data for the last two quarters (ending September and December) are compiled and released by the Ministry of Finance, Government of India. In addition, the Government of India brings out an annual Status Report on External Debt that contains detailed analysis of external debt position of the country.

At end-March 2018, India's external debt witnessed an increase of 12.4 per cent over its level at end-March 2017 and placed at USS 529.7 billion. The increase is due to primarily on account of an increase in commercial borrowings, short-term debt and non-resident Indian (NRI) deposits. The increase in the magnitude of external debt was partly due to valuation loss resulting from the depreciation of the US dollar against major currencies. The external debt to GDP ratio stood at 20.5 per cent at end-March 2018, higher than its level of 20.0 per cent at end-March 2017.

It is not the quantum of borrowings which is important but how they are being utilized or are they generating sufficient returns to pay the interest and earning sufficient to repay the principal. This is what is meant by 'debt servicing'. As long as debt is 'serviceable' any amount of debt is 'sustainable'.

How do we measure external debt serviceability? This is measured through foreign currency received not as debt but through inflows on the 'balance in current account' of BOP. That is, through exports of goods and services and also other inflows such as inward remittances and inward tourism or inflows which are not debt creating or reversible in nature.

This is seen in relation to the debt liability in a year. Whatever the debt component, some amount as interest and also part payment of the principal would have to be paid every year. Suppose inflows on the current account are USD 100 million and outflows on account of interest liability is USD 20 million and if the loan is repayable in five years it will imply USD 20 million added to the interest then the debt to service ratio (DSR) is 40 per cent .

28.2 INDIA'S EXTERNAL DEBT HIGHLIGHTS

As per the standard practice, India's external debt statistics are released with a lag of one quarter. The major developments relating to India's external debt as at end-September 2018 are presented below.

Highlights

At end-September 2018, India's external debt witnessed a decline of 3.6 per cent over its level at end-March 2018, on account of a decrease in commercial borrowings and non-resident Indian (NRI) deposits. The decrease in the magnitude of external debt was primarily due to valuation gains resulting from the appreciation of the US dollar against the Indian rupee and major currencies. The external debt to GDP ratio stood at 20.8 per cent at end-September 2018, higher than its level of 20.5 per cent at end-March 2018. (The ratio is based on external debt and GDP valued in rupee terms.)

Major highlights pertaining to India's external debt at end-September 2018 are presented below:

- At end-September 2018, India's external debt was placed at USS 510.4 billion, recording a decrease of USS 19.3 billion over its level at end-March 2018 .
- Valuation gains due to the appreciation of the US dollar vis-a-vis the Indian rupee and major currencies (viz., SDR, yen, euro, and pound sterling) were placed at USS 25.4 billion. Excluding the valuation effect, the increase in external debt would have been USS 6.1 billion instead of a decrease of USS 19.3 billion at end- September 2018 over end-March 2018.
- Commercial borrowings continued to be the largest component of external debt with a share of 37.1 per cent, followed by NRI deposits (23.9 per cent) and short- term trade credit (19.9 per cent).
- At end-September 2018, long-term debt (with original maturity of above one year) was placed at USS 406.1 billion, recording a decline of USS 21.4 billion over its level at end-March 2018.
- The share of long-term debt (original maturity) in total external debt at end-September 2018 was 79.6 per cent, lower than its level of 80.7 per cent at end-March 2018.
- The share of short-term debt (with original maturity of up to one year) in total external debt increased to 20.4 per cent at end-September 2018 from 19.3 per cent at end-March 2018. The ratio of short-term debt (original maturity) to foreign

exchange reserves increased to 26.1 per cent at end-September 2018 (24.1 per cent at end-March 2018).

- Short-term debt on a residual maturity basis (i.e., debt obligations that include long-term debt by original maturity falling due over the next twelve months and short-term debt by original maturity) constituted 43.8 per cent of total external debt at end-September 2018 (42.0 per cent at end-March 2018) and stood at 55.8 per cent of foreign exchange reserves (52.3 per cent at end-March 2018) (Table 2).
- US dollar denominated debt continued to be the largest component of India's external debt with a share of 49.7 per cent at end-September 2018, followed by the Indian rupee (36.1 per cent), SDR (5.3 per cent), yen (4.7 per cent) and euro (3.2 per cent).
- The borrower-wise classification shows that the outstanding debt of both government and non-governmcnt sectors decreased at end-September 2018 (Table 3).
- Debt service payments declined to 6.5 per cent of current receipts at end- September 2018 as compared with 7.5 per cent at end-March 2018 (Table 4) - reflecting lower repayments of external commercial borrowings.

Conclusion

India's external debt has remained within manageable limits as indicated by the external debt indicators, and the country is not among the world's top debtors . The prudent external debt management policy of the government has helped contain the rise in external debt and maintaining a comfortable external debt debt position.

International comparison based on World Bank's 'International Debt Statistics 2017' indicates that India continues to be among the less vulnerable nations and India's main external debt indicators compare well with other indebted developing countries. India's key debt indicators, especially external debt to GNI, debt service ratio and short-term debt to total external debt continue to be comfortable indicating that our external debt is within manageable limits. Among developing countries, while China has the highest debt stock and the highest share of short term external debt to total external debt, its key debt indicators like total external debt to GNI, debt service ratio and foreign exchange cover for external debt are more favourable than the other developing countries.

Public Debt of India

While India can draw comfort levels in terms of external debt, India also has a deeper internal problem of the high levels of rupee denominated debt comprising of government borrowings, petro oil bonds, etc. This taken together with external debt is known as 'public debt'. Public debt to GDP ratio has continuously increased reaching almost 70 per cent.

A striking difference in the overall public debt of India in relation to other economies having similar magnitude of public debt is the fact that in India internal debt accounts for 90 per cent of public debt while external debt is only 10 per cent. In other similar economies, the component of external debt was of much higher levels making them more susceptible to crisis than India.

Though high internal debt is preferable to high external debt but not without its implications on domestic liquidity, inflation ultimately threatening long-term sustainability of growth. The government has made conscious efforts at fiscal consolidation but the crisis has taken its own toll in terms of fiscal concessions, increased levels of deficit to prevent the slowdown of growth. This may be understandable but the bigger challenge for the government would be to balance investment needs to increase growth rates and at the same time to keep deficits under check. This is easier said than done.

CHAPTER

EXCHANGE RATE DETERMINATION 29

29.1 EXCHANGE RATE

Exchange rates can be defined as the rate at which home currency is exchanged for a foreign currency or how much of home currency for a foreign currency or how much is a foreign currency worth or equivalent to a home currency. Why is one currency exchanged differently with another? It is about the demand and supply of a currency arising out of relative differentials in income levels, share in world trade, differences in purchasing power and relative differences in cost of production, or it could be even the central bank of the home country deciding on the worth of foreign currency in the home country.

Exchange rates become important for economies pursuing open policies as it increases the intermingling of foreign currencies with home currency necessitating their conversion for use in the domestic economy or the other way around, which is conversion of domestic to foreign currency for example, in meeting import requirements or overseas investment.

As long as economies remain closed, there is little relevance for exchange rate as there is little interface with the rest of the world, as an inward looking economy with predominance of the home currency and relatively lesser need for foreign currency except for the need to cover essential imports.

Determination of Exchange Rates

It may be mentioned that in certain economies, there is no necessity to exchange foreign currencies as there is little role for the home currency and foreign currency circulates 'parallel and predominantly' for all transaction-related purposes. Such economies are also known as 'dollarized economies'. They are relatively very small economies, dependent on the US and also referred as the backyard of US. Examples are such as Panama, El Salvador, Ecuador, etc.

For other economies, exchange rate determination is either as pegged/fixed exchange rates or market-determined exchange rates. Pegged or fixed exchange rates are determined as a direct intervention of the central bank in deciding on the exchange rates. There are certain variants to such interventions like:

(1) **Currency Board**—The central bank of a country pegs the home currency to a stronger currency on a 1:1 basis or on a different ratio, as pegged exchange rate.

That is, home currency in circulation would depend on the available, inflow of foreign currency. This is also referred to as the currency board' system, advocated for economies experiencing uncontrollable inflation of very high levels. It is believed to impose strict monetary discipline and takes away monetary independence. Common examples of currency board system are Argentina, Hong Kong, etc.

(2) **Crawling/Pegged Exchange Rates**—This is similar to fixed exchange rate but with the central bank of that country having the flexibility of letting the exchange rate to float in a small band with a ceiling and a floor'. Examples are China, Russia, etc.

Market-determined exchange rates are as follows:

(1) **Full Float**—The exchange rate in such economies is market-determined by the forces of demand and supply of foreign currency in the home country with no role of the central bank in exchange rate determination. Most economies such as the US, EU arc full float economies.

(2) **'Managed' Exchange Rate**—This is of recent origin especially by countries like India where even though the exchange rate is market-determined, there is active indirect intervention by the central bank, to bring the exchange rate closer to its own perception, but without actually directly tinkering with the exchange rate as under fixed exchange rate system.

This is referred as 'dirty floating', which is interference of the central bank in free markets to influence exchange rates. However, in India, given its impact on the domestic economy, it is known as 'managed' market-determined exchange rate.

Which can be said to be the best way of determination of exchange rates? It is difficult to say as each economy has different sets of challenges, their own internal priorities and a lot also depends on how it affects the domestic economy.

However, as economies pursue greater openness, larger role for capital inflows and outflows and in the long-term, they would be better off, in moving to a market-determined exchange rate which allows for testing of strength of the home currency in relation to a foreign currency and movement in exchange rates can be useful for policy-makers. Just as a thermometer for the foreign exchange market.

However, more importantly, market-determined exchange rates are seen as a maturity of economics with strong macro-economic fundamentals, their relative ability to be globally competitive. Large size economies such as the US, EU, UK and Japan with the sizeable global trade can be said to have hard currencies first, in respect of the volumes of trade. Secondly, their exchange rates are market-determined and third, having 'widest global acceptability' for various kinds of transactions.

Soft currency would be that of economies which have limited global trade, restrictions on their exchange rate determination and have lesser acceptability globally for different kinds of transactions. The Indian Rupee and to some extent the Chinese Yuan can be said to be presently as soft currencies. Why are exchange rates important in open economies? The exchange rates have high sensitivity to influencing inflows and outflows, exports and imports into and out of the country'. Besides, too much of volatility can be fundamentally destabilizing and have the potential to create crises in economies as witnessed in the past especially SE Asian economies.

Exchange Rate and Convertibility

Very often market-determined exchange rates and convertibility are first, 'wrongly' seen as interchangeable to mean the same thing and the second, both, again wrongly seen, as logical extension of each other. It needs to be understood that 'exchange rate determination' and 'convertibility' are two separate and distinct issues, not dependent on each other, not logical extension of each other and all permutations and combinations are

(1) Full float and full convertibility, (US).
(2) Pegged exchange rates and full convertibility, (Thailand).
(3) Pegged exchange rate and no convertibility, (China).
(4) Currency boards and full convertibility (Argentina).
(5) Managed exchange rate and no convertibility or no CAC (as in India).
(6) Managed exchange rate and complete convertibility (Brazil).

That is, to say that if an economy has full convertibility it does not necessarily imply that it will have to have market-determined exchange rate and vice versa as can be seen from above. However, both have a common denominator in terms of their impact on both inflows as well as outflows. The role played both by the exchange rate as well as convertibility responsible for crisis in open economies will be discussed later.

29.2 EXCHANGE RATE IN INDIA

Exchange rate determination has truly evolved in India post-independence and transition points to the evolution are as follows:

(1) Post-Independence India adopted a fixed exchange rate mechanism, with rupee exchanged to pound sterling and vice versa, at a 'fixed rate' as determined by the RBI, being the central bank of the country.

2) After gradually shaking off the cloak of the colonial rule and more broad-based trade, even though restrictive and widening of trading partners, the RBI switched to a 'basket of currencies', but still on a fixed exchange rate system and on exchange rates as determined by the RBI.

3) With the emergence of USD as a major currency and the relative decline of the pounds sterling in relation to USD, RBI adopted USD as its 'intervention and reserve currency'.
   - That is, all the foreign currencies would be denominated in USD including the exchange rate for official statistics and their reporting.
   - The RBI thus had an exchange rate for dollars and rates of other currencies could be derived from this rate.

The first mark of getting off the fixed exchange rate came in the nineties with the liberalized exchange rate management system (LERMS) which allowed for exchange of dollars, 40 per cent at a fixed rate by RBI known as the 'official' rate.

- The remaining 60 per cent could be exchanged at a 'market rate' determined by the market. This is also referred to as dual exchange rate (40:60) in India.
- This also saw the setting up of foreign exchange dealers association of India (FEDAI), outside the government, to arrive at the market rate of USD based on demand and supply conditions.

(4) Towards the end of nineties, the RBI announced discontinuance of the official rate and only FEDAI determined market exchange rate to prevail, abandoning completely the fixed exchange rate system.

(5) As trade reforms gathered momentum in the last decade, large inflows, necessitated the RBI to intervene in the foreign exchange market, what is now referred to as 'managed exchange rate' in India in an otherwise market-determined exchange rate system.

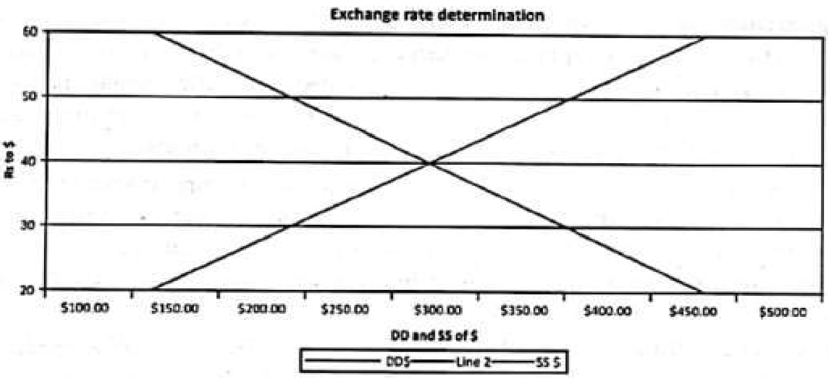
Managed Exchange Rate in India

How does the RBI intervene in a market-determined exchange rate? Before understanding RBI intervention, let us first understand how exchange rates are market-determined. It is well-known that market mechanics, in general, comprises of demand and supply known as market forces.

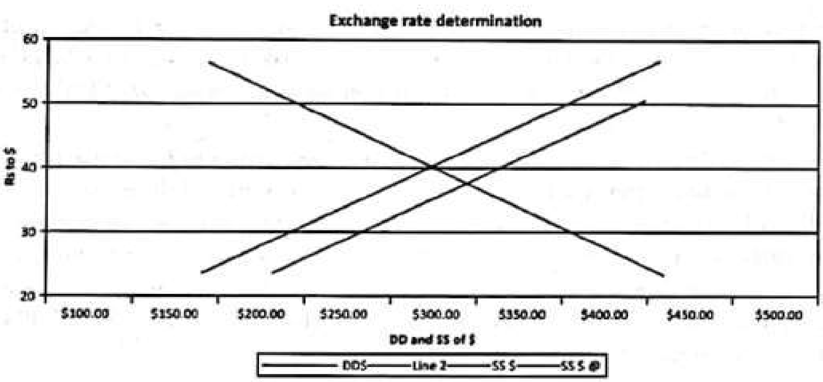
Who are the people who demand USD or any foreign currency in India? It will be the importers who will have to pay in foreign currency for their imports, outward tourists, overseas sales promotion, government, those going abroad for education or for health purposes, etc. That is, at any given point of time there will be a demand for USD in India.

How is the demand and exchange rate related? If 'more' rupees is to be offered to get USD, demand will generally be less. People may feel it is too high a rate to get USD and resultantly the demand is going to be comparatively 'lesser'. If one was to reflect it graphically, typically it would be downward sloping curve. In the same way, there is a continuous stream of USD and other foreign currencies coming into India from sources such as remittances, foreign investment, NR1 deposits, ECBs, inward tourists, etc. This implies there is also a supply of USD.

As a holder of foreign currency, your tendency would be to exchange the foreign currency if you are getting 'more' rupees. That is, to say that 'more' USD would be offered for exchange when 'more' rupees are being received and vice versa. Thus, the supply curve would be upward sloping. This when superimposed along with the demand curve will give an intersection point which will determine the exchange rate of USD with respect to rupees.



The demand and supply curve intersection point in the above illustration is ₹ 40 as the exchange rate of USD. However, let us say that there is a spurt in remittances into India, or surge in any other inflow like through foreign investment which will mean supply of USD in India will increase and push outwardly the supply curve giving a new intersection point and a new exchange rate.



This increased supply of USD would now give a new exchange rate, in the above illustration of USD 1 = ₹38. This means now ‘lesser’ rupees is being offered to USD, which is referred as appreciation of the rupee against a depreciation of USD as USD is now getting ‘lesser ’ rupees than before the increase in supply of USD.

Appreciation of the Rupee

So what is the meaning of this? On account of increased supply of USD in relation to what is being demanded , now ‘lesser ’ rupees would be offered than earlier to USD , or differently rupees now gets ‘more’ USD than earlier. This is what is meant by ‘currency appreciation ’ or rupee has appreciated against the dollar. This can also be seen as the USD now getting ‘lesser’ rupees than earlier, or that to get the same rupees ‘more’ USD is required . This is referred as depreciation of the currency, or the dollar has depreciated against the rupees.

Appreciation or depreciation is not in isolation but always in respect to another currency. If we say rupee has appreciated then it is also implied that USD has depreciated. What is the impact on exports from India? With rupee appreciating implies that India's exportable would now become more expensive in the international market and make our exports price uncompetitive, resulting in declining the value of exports.

So an appreciating currency adversely hits exports. Similarly, imports would tend to get cheaper, as lesser rupees are required to get USD. It will also balloon the current account deficit. This is the rationale of RBI intervention which is to prevent appreciation of the rupee to maintain price competitiveness of Indian exports and keeping the CAD under check.

How does the RBI intervene? RBI initiates buying USD from the market, by creating an artificial demand for USD, absorbing increased excess USD in the economy and the exchange rate going back to what it was before the increased supply.

However, there is a flip side to this, which is, any act of purchase of USD by the RBI would release rupee in the system and increase the liquidity which can become inflationary. Hence, maintaining export price competitiveness comes at a price of inflation in the domestic economy.

To prevent inflationary impact, the RBI simultaneously goes for absorption of the excess rupee by going in for 'reverse repo auction' and soaking up the excess liquidity of rupee in the domestic market, which gets created on account of purchase of USD by RBI. This is referred as 'sterilization of the economy'.

Thus, if the RBI is able to 'completely' soak the excess rupees from the market or that it does not lead to inflationary pressures, it is said to have 'sterilized the economy'. If not, then the RBI has to make a 'choice' between export competitiveness and inflation, which is also referred as the 'prisoners dilemma, of being able to manage one of them, but not both.

The other way to intervene is to discourage short-term inflows by imposition of tax, referred previously as Tobin tax. However, the issue is that such a tax will be on all' kinds of inflows and cannot be discretionary.

This is what is meant by intervention of the RBI in a market-driven exchange rate and the meaning of'managed exchange rate'.

However is managed exchange rate justified in market-determined exchange rates? Market-determined exchange rate as a concept implies letting exchange rate to be determined outside central bank level and once market determined it becomes a variable, fluctuating and economy accepting' the exchange rate. Exchange rates should always be witnessed as a macro tool benefiting the economy at large rather than being used as a myopic tool for micro-management. Export is only one of the sectors of the economy and that too contributing not more than 20 per cent of the GDP.

An aspect gone completely unnoticed is the impact of an appreciating currency on imports into India. Imports become cheaper, and given d our basket comprising of crude petroleum, fertilizers, capital goods, etc., all of which will get cheaper and provide cushioning effect to inflation.

In the section on Exports, the aspect of exports has been discussed that it should not be seen as a function of exchange rates but should become neutral to exchange rate fluctuations. This can be done by moving up in terms of value addition, quality and degrees of sophistication.

More importantly, export promotion as pan of open policies is to achieve global competitiveness, long-term sustainable growth in exports, for which price competitiveness is necessary but not a sufficient condition.

The exports and the exporters have to be sensitized about market-determined exchange rates being known for their uncertainties, fluctuations and volatility and exports have to outgrow and achieve maturity by taking it as a variable and accounted accordingly.

Rather than intervention, India should look at markets other than the dollar denominated, like the Afro-Asian markets which offer a great opportunity to diversify and reduce sensitivity of Indian exports towards exchange rate.

An appreciating rupee reflects strengthening of the currency against a hard currency which should be good in the long run.

If the Indian Government is not comfortable to the volatility or the fact that our exports would always be price-sensitive then moving to a market-determined exchange rate was a wrong decision and India, maybe would have been better off, under a pegged exchange rate, like China.

So can we conclude that intervention by RBI is totally unjustified in market-determined exchange rates? The only justification for RBI intervention is when the inflows are witnessed as short-term, reversible, as portfolio investment or for speculation purposes arising out of global imbalances likely to correct over a period of time.

It should be as a last resort, in exceptional circumstances, of it being seen as destabilizing the domestic economy, creating asset bubbles and fuelling speculation in the economy. Such kind of managing exchange rates during late 2010, by many economies such as Brazil, S. Korea, Russia and Japan have triggered a currency war', with each economy trying to maintain the exchange rates to preserve their export competitiveness in the wake of increased capital inflows.

Such currency wars are self-destructive in nature and rightfully India has refrained from intervening or managing the exchange rate and has taken a lead in cautioning other economies of the implications of such currency wars.

Every economy has to understand the basic fundamental of increasing exports which is triggered by being price competitive in the short-term, but will not provide for long-term global competitiveness. The other is market-determined exchange rate will always be a variable and exports cannot do piggy back riding on exchange rate for long, but will have to establish their standing in the export market for their long-term sustainability, beyond exchange rates.

Depreciation and Devaluation

So far our concern has been with the capital inflows, appreciating currency and impact on exports but then there could be yet another situation of capital outflows or the reversal of capital outflows or even a sudden spurt in the demand for example, USD or any foreign currency. This is completely opposite to when rupee appreciates on account of inflows. In this case, demand for USD is far more than what is coming as inflows. More rupees would now have to be offered for the same dollar, or the same amount of rupees would get lesser' USD which implies that rupee would start depreciating. At the same time, the USD would appreciate as it is now getting more' rupees than earlier or that 'lesser' USD is required for the same amount of rupees.

Let us take our earlier exchange rate of USD 1 = ₹40 and with depreciation of the rupees there would be a new exchange rate of say USD 1 = ₹42. A reference can be made to the graphical illustration given earlier, with either now the supply curve shifting inwards or demand curve shifting outwards.

Now what happens to exports and imports? This implies that exports have become cheaper in the international market as the same USD is getting more rupees now. And imports become more expensive as more rupees are required to purchase the USD for addressing imports. This should be good both for our exports as well as reduce imports and current account deficit. But unfortunately for India, our imports comprise of essentials such as crude oil, import of machineries, etc. This would imply a higher 'value' to existing volume of imports, widening CAD and fears of importing inflation.

A depreciating currency is never seen as a way to promote exports because of larger implications. In a market-determined exchange rate a depreciating home currency has deep fallouts. This has the potential of creating a 'currency crisis' or a 'free fall' situation, of an ever depreciating home currency marking a complete erosion of faith in the home currency.

This would require the central bank to intervene by selling USD in the market, from its foreign exchange reserves, to augment the supply which is fine, if there is abundance of foreign currency with the central bank, but that would choke liquidity, as rupee would be sucked out from the system, pushing it into a recessionary phase, calling for an expansionary monetary policy to counter the choking liquidity arising out of sale of USD in the market.

But there have been instances in the SE Asian economies, of selling foreign currency to stem depreciation of their currency only precipitated further depreciation plunging them into a currency crisis.

Thus, depreciation of the currency in market-determined exchange rates, is never seen as a way to increase exports and central banks in market-determined exchange rates, keeps a close watch especially if the home currency is seen depreciating continuously.

However, under the fixed exchange rate system, the central bank 'deliberately' changes the exchange rate by offering 'more' home currency to a foreign currency referred to as 'devaluation' of the currency to promote exports. Even in India, RBI resorted to devaluation in the late sixties and also in early nineties with the same objective and also with a view to test its readiness to move towards market-determined exchange rates and also to discourage imports and making exports price competitive.

So 'devaluation' is deliberate by the central bank, under a fixed or pegged exchange rate, while 'depreciation is under market-determined exchange rate, arising out of surge of demand or in circumstances of outflows or a decline in inflows of foreign currency.

29.3 DEPRECIATION OF INDIAN RUPEE-REASONS, IMPLICATIONS AND POSSIBLE SOLUTIONS

Since moving to a market-determined exchange rate from 1999, the rupee has sank to a new low, the lowest in the history of India of having breached ₹68 to USD 1. Never in the past has the rupee fallen so much against the USD.

Historical Perspective

A little before Independence the parity between USD and INR was 1:1, even at the time of Independence , the exchange rate was USD 1 = ₹5. However , that was the era of fixed exchange rate, of exchange rates determined by RBI. India was then a 'closed ' economy , so exchange rate really did not matter . Post-independence and over the years, India 's problems mounted , of a rapidly increasing population , low growth , persistent high inflation , growing imports , but not able to earn foreign currency through exports and also as a closed and regulated economy, no other avenues of foreign currency coming into India.

In such circumstances, the rupee was devalued especially after 1966 on a number of occasions, to discourage imports and in a bid to increase exports and reign in the growing trade deficit. In fact trade deficit has become a structural problem of India, of not being able to 'earn' USD through exports to 'pay' for imports of goods.

Towards Market Exchange Rate

The reforms initiated in 1991, only inherited current account deficit, even as it began to 'open' the economy, moving away from fixed or a pegged exchange rate in a calibrated manner, into a market-determined exchange rate since 1999. The demand and supply of USD in India began to determine exchange rate and not any more by RBI. As a market-determined exchange rate there would always be movements in exchange rates based on a number of factors, such as levels of current account deficit, inflows and outflows of foreign currencies, influenced through policy environment and both domestic as well as global favourable/adverse developments.

Just as waves in the sea, sometimes going up and sometimes going down, is a natural phenomenon, not restricting but allowing boats and ships to sail. The same is true for market-determined exchange rates, which will depreciate or appreciate depending on demand supply conditions and always be a variable, not possible to predict. An economy like a ship, it has to have the capability to move along the waves.

However, waves can get turbulent, forcing ships to drop anchor. This is the flip side of a market-determined exchange rate of a currency sliding against foreign currency, destabilizing economies and pushing them into a crisis-like situation. The present situation in India cannot be said to be a crisis so far, but could be a well become one.

Why has the Rupee Depreciated so Steeply?

Ar first depreciation is a 'symptom' and not the problem. It is the result and culmination of multiple factors. As mentioned previously, India has chronic and persistent trade deficit leading to high current account deficit. It has ballooned in recent times due to high crude petroleum prices and also surge in imports of gold. A high deficit only implies greater demand for USD (to pay for imports) but not enough supply of USD (through exports), putting pressure on the rupee to depreciate. Once the rupee begins to depreciate, it further widens current account deficit, leading to further down slide of the rupee. At each stage the landing gets harder and harder.

This situation can still be addressed, through inflows in the capital account (refer to Chapter on Balance of Payment), through foreign investment, NRI deposits, External Commercial Borrowings by corporate and other such capital flows to cover current account deficit. This was happening in India till December 2012. The deficit was being met out of foreign currency coming as FDI, but more through F1I (now referred as foreign portfolio investment or as FPI) and NRI deposit. Thus, making the rupee depreciate, just like waves but not turbulent and volatile until May 2013.

The problem in capital account as far as India is concerned, is that it comprises more of reversible flows like FPI and NRI deposits and not through a relative stable flow as FDI. As a result in adverse circumstances, of reversal of such flows, the deficit gets exposed resulting in a steep depreciation of the rupee as it has happened since May 2013.

The reversal can be attributed to the Federal Reserve in the US announcing a gradual withdrawing from quantitative easing (QE) or abandoning its stance of following a loose monetary policy. This was done earlier through buy back of debt by the Federal Reserve to increase the supply of USD. US economy was beginning to recover in terms of turnaround in growth, even though marginal, but definite signs of recovery since beginning of 2013. Continuation of loose monetary policy would have become inflationary which could be a setback to recovery. This would have resulted in lesser supply of USD by Federal Reserve, affecting capital flows in all emerging economies including India.

Signs of revival of the US economy also lifted US stock markets, resulting in a quick withdrawal of FPI from Indian stock markets, an outgo of around USD 6 billion every month since May 2013. With both FDI as well as FPI easing, together with reversal of FPI, affected supply of USD, leading to sharp depreciation of USD.

The Rupee during November 2016 closed at a fresh 39-month low against the US dollar, resulting in \$5 billion outflows from foreign institutional investors (FIIs) in local equity and bond markets since the government announced the demonetisation scheme.

The FIIs are selling local as well as other emerging market assets on rising expectations of a possible US interest rate hike in its next mid-December policy and as speculation mounts that US president-elect Donald Trumps reflationary policies will mean a quicker pace of monetary tightening by the Federal Reserve. The concern that he will take a more protectionist approach to trade has also weighed on developing-nation assets.

The home currency has touched a low of 68.80 a dollar. So far in current year, it has fallen 3.81%.The currency volatility could increase and liquidity could become scarce during bouts of market risk aversion and dollar strength, as the market tests the new Reserve Bank of India (RBI) leaderships tolerance for weakness in the rupee.

Unless the RBI hints at greater tolerance of larger rupee depreciation, there is a constructive medium-term view on the INR and see it as one of the most resilient EM currencies in a strong dollar environment. Potential anti-immigration and anti-trade policies in the US would not bode well for developing economies, and the dollar likely would strengthen next year—particularly against EM currencies. Bond yields gained after the RBI unexpectedly ordered banks to deposit their extra cash with it, in a bid co absorb excess liquidity generated by the government ban on larger banknotes.

With depreciation of the rupee becoming fairly certain, gave rise to speculation, both on shore and off shore through non-deliverablcs forward (NDF) contracts of rupee and USD. These are contracts which do not require delivery of foreign currency, but only booking of profits, of the difference between the contracted rate and the actual exchange rate on the contracted date on settlement. These contracts are in freer forex markets of Singapore and Dubai, outside regulatory' control of RBI.

What are the Implications of Rupee Depreciation on the Indian Economy?

First, India's imports comprises of essentials such as crude petroleum, machineries and fertilizers which become expensive raising their prices facilitating 'import' of inflation. India is very susceptible to a stubborn and sticky inflation. It hurts the masses in terms of across the board higher prices.

All imports become expensive including raw materials, goods and machineries which further push up domestic costs. It brings with it negative sentiments in the economy, makes investors cautious weary of investment and consumers' reducing spending in the economy. Thus, growth takes a down turn.

Negative sentiments and capital outflows impact the stock markets, which may not directly affect the common man but gets reflected as part of negative sentiment in the economy. It widens the current account deficit, which may require dipping into scarce foreign exchange reserves and their 'relative adequacy' could well become 'inadequate' if the deficit continues to widen. One cannot forget the situation of 1991 when India had no other recourse of meeting the deficit by pledging its official levels of gold and seeking commercial loan from International Monetary Fund (refer to Chapter on Multilateral Institutions).

There are genuine concerns arising out of a depreciating currency of the domestic economy having larger faith in foreign rather than the domestic currency and as mentioned previously, the looming fears of currency crisis.

However, a depreciating rupee does make exports cheaper as the same dollar can now get more rupees. But exports are not only a function of prices but other aspects such as quality, ability to meet changing demands and preferences, global demand, efficient logistics, cargo-handling capacities, etc. Response to the historic depreciation of the rupee has, for the first time, tested how much Indian exports are sensitive to prices or can lower prices drive up exports from India. The impact cannot be immediate, of an overnight increase in exports but over a period of time. Many experts feel that the present depreciation is a correction' and in the long run help India in achieving export (price) competitiveness.

But definitely a slight depreciation can be considered good as long as it is gradual but not such a steep downslide in such a short span of time can destabilize the economy.

What measures are needed to stem the slide of Rupee?

Repo Rate Hike: RBI can consider a hike in repo rate to incentivise foreign investors to invest in Indian debt securities and stop the exodus of foreign capital from the equity market. This way the demand for the dollar will come down and will provide some support to Rupee.

Currency Market Intervention: RBI can step-up currency market intervention by selling more dollars from its reserves which will cater to the higher demand for the US currency.

Restrict Outward Dollar Remittances: RBI under the liberalised remittances scheme can also restrict outward remittance of dollar which is currently capped at $2.5 lakh.

NRI Bond Issue: RBI can moot the idea of NRI bonds to boost the dollar reserves of the country and meet the higher redemption pressure from exporters and foreign investors. Through the NRI bonds, RBI can raise dollar deposits from non-resident Indians at attractive rates of return.

Open-Market Operation: RBI can address this situation by improving liquidity in the system through open market purchase of bonds and by reducing the Cash Reserve Ratio (CRR).

Have These Measures Delivered?

It is quite evident that these measures have been unable to check the extreme rupee volatility. It is because these measures are aimed at witnessing rupee depreciation as a problem rather than witnessing it as a symptom. All measures are at compressing demand for USD, and that is a wrong diagnosis. The problem is not of demand but of supply of foreign currency. Any demand compression only allows for leakages, like squeezing a balloon can never contain the balloon.

The answer has to come more in addressing supply side problems of augmenting supply of USD. This will take care of the demand and also stem rupee volatility.

Potential Solutions to the Symptom

As a first step, the government should go all out to push exports of goods and services, remove all bottlenecks to exports and provide logistics support. This is a 'rare' opportunity for Indian exports, as rupee has depreciated more sharply than currencies of other emerging economies, clearly making Indian goods and services virtually the cheapest globally. With US recovering and so also the euro zone means global markets would also be looking up.

The exporters could not have asked for a better time than the present. The response both by the government as well as the exporters has to be quick'.

All government departments dealing with exports should be directed to cut red-tapism and provide fast clearances wherever required to facilitate faster and quicker exports. Banks should be mandated to provide liberal funding for exports.

All pending FDI proposals with the foreign investment promotion board (FIPB) should be fast tracked and cleared expeditiously. Further, FDI norms should be further liberalized to attract more FDI. All efforts have to be made to get India back on the growth trajectory. Speed up investment by the government, expedite investment proposals held up in bureaucratic red-tapism. Initiate government level reforms non-controversial and easy to implement. It is not about 'bold reforms' but 'quick reforms'.

Government has done well to restrict non-essential imports to reduce CAD. As a further step, India could import more from Iran where it has 'rupee payment agreement'. India could also flag the issue of trade deficit with China, of India importing more from China than what it exports. Reducing trade deficit with China (USD 39 billion) would also ease the pressure on CAD.

It could also be the time for India to go for 'full' convertibility of the rupee, as it would encourage inflows. Outflows may not be a worry at this stage as USD has become expensive. Convertibility would also allow surfacing of the underground USD into money market augmenting supply of USD.

Conclusion

These are difficult times for the Indian rupee, but not questioning inherent strengths which are still fundamentally strong and cannot be said as a crisis as being reported in the media, the press and even some analysts. There is a definite unwarranted pessimism. The levels of savings, availability of resources for investment, levels of forex reserves and potential domestic demand are all strong factors of India.

It is time for a collective action of reversing the negative sentiments and restoring the faith back on the Indian Economy, through appropriate mix of policies, shaking of the political and bureaucratic lethargy and re-bouncing on high growth path with a stable rupee.

The Impossible Trinity'

It may be observed that exchange rate management is complex and a challenge for any central bank. 'There is also the 'impossible trinity' that it is impossible for any central bank to manage 'exchange rates, open current accounts and independent monetary policy' all at the same time. At best, it can manage any two of them but not all the three. This is the biggest challenge before any central bank of which two, to manage, when all three are imperatives, especially in adverse circumstances.

Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER)

With increased trading partners and geographies, the conventional market-determined rate while being useful for transaction purposes does not allow an understanding of export competitiveness over a period of time. The REER is a weighted average of volumes of trade, their exchange rates, adjusted for respective inflation of major trading partners and comprises of USD, Pounds Sterling, Euro, Japanese Yen, HK dollars and Chinese Yuan.

This index is fairly an useful measure of increasing or erosion of competitiveness across major trading partners over a period of time. The NEER is a broader measure of export competitiveness comprising of currencies of thirty-six countries but without any adjustment for inflation across economies.

Exchange Rate and Purchasing Power Parity (PPP)

We have seen that the exchange rates in the ideal sense be a reflection of differences in purchasing power of economies on account of various factors. However, this is true only if the entire global world had free trade, without any restrictions, ability of goods to move across geographies without any hindrance, similar like a bird flying, ability to reach any part of the world.

However, the reality is quite the contrary with restrictions to trade, tariffs and non-tariff barriers to trade. Exchange rates are influenced by many other factors such as inflows, thus completely diluting it as a measure of differential purchasing power across countries.

If the Indian Rupee is appreciating against the USD, it does not imply improvement in the purchasing power. By using the conventional exchange rate, without adjustment for purchasing power would not be a correct measure for comparison of economies in a common currency.

Thus, was borne the concept of purchasing power parity (PPP) which is the adjustment made to the exchange rate such that they truly represent differences in purchasing power. PPP is now a globally accepted methodology being used for all international comparisons but all actual transactions in foreign currency[7] and their conversion would continue to' be guided by the conventional exchange rate.

Thus, all comparisons of GDP and GNI per capita is done both by using the conventional exchange rates for USD of economies and also on adjusted exchange rate or at PPP. The use of USD as a common denominator, for all international comparison purposes is for historical reasons and also because of the US being the largest economy ir. terms of its output.

In a later section, a comparison of the Indian economy from a global perspective tc facilitate an understanding of its global position both by using the conventional exchange rate and also at PPP will be discussed.

CHAPTER 30

FOREIGN EXCHANGE RESERVES

30.1 FOREIGN EXCHANGE RESERVES (FEX) OF INDIA

Foreign Exchange Reserves is country's gold reserves, contributions made to the IMF and the FTP and all the foreign currency assets, denominated in USD, held by the RBI. However, over 90 per cent of the reserves comprise of different foreign currencies, but denominated in USD held by RBI.

India's FEX reserves have risen from a modest level of USD 5 billion during 1991 to reach around USD 275 billion in 2013 and inching towards the USD 300 billion mark. India's foreign exchange reserves scaled to touch USD 367.64 billion as on October 7, 2016. Currently India's Forex reserve touched 400 and standing at 401.8 as on March 2019

Amongst the emerging economies China has reserves of USD 3.5 trillion, Japan USD 1.5 trillion, Russia USD 500 billion, and S. Korea USD 300 billion.

The importance of FEX reserves lies in the following aspects:

(1) As economies pursue open policies, with large cross-border inflows and outflows, it provides a buffer against global fallouts and prevents currency crisis-like situations.
(2) It helps economies to provide import cover, not met out of inflows, ensuring smooth imports, in terms of domestic requirements.
(3) It gives the freedom to run higher current account deficits which could otherwise become a limiting factor for open economies.
(4) It is helpful for economies to retire their high cost foreign currency debt or in meeting short-term foreign currency debt.
(5) It strengthens the confidence of the government for greater openness of economies and bolder reforms.
6) It increases international credibility and stature of economies.
7) Its importance also lies as fundamental requirement for emerging economies by providing them a "hard currency'.

How do reserves build-up in emerging economies? In the previous section, we had discussed about India's reserves and it may be interesting to note that it essentially comprises of Asian economies.

What about US or Europe? These economies already have a hard currency in circulation, thus obviating the need for any forex reserves. The reserves are required, as said previously for the emerging economies unlike the stronger economies of the US or Europe, which in complete adverse circumstances, can print their hard currency, unlike emerging economies which can borrow but cannot print hard currency.

There is yet another reason for reserves not being built-up in these economies, which is that these economies have market-determined exchange rates and convertible currencies. All inflows and outflows are matched through changes in the exchange rate.

Let us see how this works? For example, in Europe there is a huge inflow of USD. That is, more USD is coming than what is being demanded in Europe. This would make the Euro appreciate and depreciate the USD and this will continue till the inflows get discouraged as it would be getting lesser and lesser Euro with a depreciating USD.

Any intervention by any central bank in this free flow foreign exchange market, either in the form of pegged exchange rates or in the absence of convertibility, or even both, would imply build-up of reserves by the central bank.

The other can be if there are surpluses in the capital account over and above the current account deficit. These surpluses would result in increasing reserves of the central bank as overall BOP would require outflows balanced out by inflows. If the current account is in surplus it will straight away go as additions to forex reserves.

In case of India, exchange rates are managed and any capital inflows would be mopped up by RBI to prevent rupee from appreciating, thus resulting in building-up reserves. Further even though India has a current account deficit there were, until recently, sufficient inflows on the capital account to cover the current account deficit and surplus going to increase the forex reserves.

This will be true for all economies which do not have either market-determined exchange rate or convertible currency or both, in the wake of surge in foreign currency inflows into such economies. This build-up of reserves also happens in economies which lack absorption capacity of foreign currency or economies running current account surpluses but with pegged exchange rates or non-convertible currencies. This is why there is build-up reserves in China and Japan.

More than the build-up of reserves, the large inflows are seen as opportunities for the large overseas investors, besides providing the emerging economies with buffer of foreign exchange for handling adverse global fallouts.

Can India's reserves accumulation be said to be 'sufficient' for warding off any crisis? A point needs to be clarified first, is the fact, that crises are known for their unpredictability and their magnitude of impact or the extent of damage they could inflict upon economies are variables. It is also about the government s perception about sufficiency seen qualitatively rather than quantitatively. Each of the successive crises in the past has only raised the bar of sufficiency of reserves.

However, over a period of time, with experience gained, it has now been possible to prescribe some international benchmarks to gauge sufficiency of reserves, especially for the emerging economies, like India.

(1) **Import Cover**—the reserves should be able to provide an import cover of at least three months. Against which reserves in India provide a cover of seven months (it has come down presently but earlier it was as high as fifteen months).
(2) **External Debt Cover**—the reserves to provide cover for at least 75 per cent of the external debt and 100 per cent of short-term debt. India's level presently is much higher than that prescribed of being at least 50 per cent.
(3) **Guidotti Rule**—in terms of this rule average reserve holding to short-term debt during a year should be a minimum of one. Against this in India it is five.
(4) **Liquidity at Risk (LaR)**—this is the most prevalent and widely acceptable given by Alan Greenspan, the earlier Chief of the Federal Reserve, US.

LaR is a matrix of the likely outflows under various adverse circumstances at different levels of probability of their occurrence and confidence levels. The LaR is a dynamic, statistical model mapping outflows from economies in terms of which sufficiency can only be arrived at based on a set of assumptions, requiring continuous modification.

However, as said previously, crises are unpredictable and so arc their impact and neither the Guidotti rule nor the one given by Greenspan has been tested and have yet to prove their worth.

How can a country like India utilize its reserves? There is a major limitation in the use of reserves, in that they can be utilized only in foreign currency and cannot be converted into home currency. Any conversion into home currency would increase liquidity and be inflationary in nature. So how can they be used in foreign currency?

(1) It can be used to liquidate external debt. However, as we have discussed in the section on External Debt that all high cost debt has already been retired by India.
    There is another problem which is retiring of external debt would mean increasing internal debt which would leave the over all-debt position unchanged.
(2) India could consider lowering import duties, run higher CAD to absorb the reserves. However, lowering import duties beyond a level could hurt domestic production and running high CAD is always fraught with risk.
(3) The RBI cannot lend commercially as it being a central bank can lend only to banks, which if done, will seep into the economy and can create inflationary pressures.
(4) The government to ensure liquidity has deployed the reserves partly in US treasury bills and partly in global sovereign bonds where the returns are less but ensure liquidity.

The irony is India is investment starved but the reserves cannot be used to bridge this investment deficit or directly use it for infrastructure funding in the country. Realizing the limitation, the government had set up the Deepak Parekh Committee to examine how the reserves can be used for infrastructure development in India.

Based on the recommendations made and accepted by the government, the India Infrastructure Finance Co. Ltd., wholly owned by the government would borrow USD 10 billion from the RBI and set up two wholly owned subsidiaries (WOS) overseas one at London and the other at Singapore.

The WOS at London would provide loans to Indian companies raising fund overseas for capital imports directly for use in infrastructure in the country. The WOS at Singapore would invest in AAA rated paper of global companies and from the returns generated provide a credit wrap or a monoline insurance, an insurance against defaults, to Indian companies accessing the overseas market for infrastructural development domestically.

There could yet be certain other set of options before the government for utilization of the reserves which are as follows:

(1) **Sovereign Wealth Funds (SWF)**—many countries such as China, Japan and Saudi Arabia have deployed part of their reserves for setting up SWF which look at maximizing returns rather than currency stabilization. However, all the SWFs lack transparency and modus operandi not known except the objective behind SWFs.
   - However, given the volatility of inflows, fragile BOP, high CAD, modest export growth it may be premature for India to look at the SWFs as an option for utilization of reserves unlike China and Japan whose reserves are many multiples more that of India.
   - But more importantly their BOP is much more fundamentally stronger than that of India.
   - In any case, India needs to use it for infrastructure and other priorities which will not be possible by SWFs.

(2) **Strategic Oil Reserves (SOR)**—given India's dependence on crude petroleum and vulnerability to their prices, a part of the reserves could be used to create a SOR, in periods of sharp upward movement of international crude prices.

(3) **Asian Development Fund (ADF)**—China, Japan and India amongst themselves are holding USD 6 trillion as reserves of the USD 15 odd trillion of global reserves.
   - If these countries could pool a part of their reserves to set up an Asian development fund (ADF), something like the IMF to provide assistance to the emerging economies, should they face problems on their currency.
   - This will also be in line with the gradual shifting of global output and trade to the Asian economies.

   However, this will require meeting of political minds, setting aside differences and more mature outlook of all these countries to make this a reality.

   India's forex reserves since 1991 has come a long way giving it comfort on the external front and the confidence of weathering turbulent domestic and global fall outs.

CHAPTER 31

REGIONAL TRADING BLOCS

31.1 REGIONAL TRADING

So far, we have discussed various components of the external sector, generic process of globalization and the strategies being followed for opening of economies. A reference was also made to the basis of trade across countries, which was more economic in nature based on the theory of comparative advantage of goods being traded depending on their relative cost of production in different economies, based on their resource endowments.

However, a new dimension to trading has been given through regional trading or trading across regions having some degree of commonality as a region, proximity, or culture, tastes and preferences, similar resources, etc., or any such common denominator.

This is in complete contrast to trading with the Rest of the World (ROW) which is based on economic criteria and results in measurable welfare gains for all.

Need for Regional Trading

(1) Even though it is widely accepted that trading with the ROW is far more beneficial for economies, over 60 per cent of the global trade is through 200 odd regional blocs in the world. Economies are being driven towards regional trading out of domestic compulsions of looking at newer markets for their products outside domestic boundaries.

(2) Regional trading allows for judging of competitiveness and acceptability of domestic goods.

(3) It enables all the trading partners to collectively have a 'larger' voice in the international arena on international issues.

(4) Regional trading is always meant to achieve penetration of markets, increased trade and host of other objectives such as economic cooperation, jointly addressing issues of energy, environment, political consensus on global issues, etc.

(5) It provides for greater bonding across regions facilitating investment in economics.

(6) It opens economies for tourism, exchange programmes achieving greater degree of cohesion among member countries.

Nature of Regional Trading

First, it can be bilateral (two countries), trilateral (three countries) or pluri-lateral (more than three countries) but can never be multilateral. That is, to say the 'region' and not the 'product' has to be the basis of trade. This is the basic difference between regional and multilateral trading, of the former around regions and the latter across products and not across a given geography but traded globally. Secondly, it could be trade agreements which give preferential treatment to goods of member countries. Thirdly, it could be broader in nature by looking at areas of economic cooperation, joint ventures, etc. Fourthly, it could be deeper framework agreements looking for cementing ties between member countries and government level cooperation.

Most of the regional trading is around trade agreements. Economic cooperation and framework agreements are of recent origin and in an evolutionary phase.

Trade Agreements

Each and every economy has its own set of restrictions of goods coming into the country by imposition of import duty also known as tariffs. An important constituent of any trade agreement would be either gradual reduction of the tariff levels on different product lines or even their elimination. Even before entering into any trading agreement, as a first step, is according status of most favoured nation (MFN), which is based on the principle of non discrimination of goods in terms of tariffs and import duties on goods coming from that country in relation to goods coming from ROW.

Trading agreements is the next step, around goods and tariffs/import duties and can be of various levels:

Level 1—under this, the member countries agree to give a preference in the import duty or tariffs for defined product line. This is referred as preferential tariff agreements (PTA). Let us say, tariff line on pens is 10 per cent for a country, a PTA would mean that pen coming from a member country would attract a lower tariff of say 8 per cent, and if coming from ROW then tariff lines would be 10 per cent.

Level 2—the member countries agree to drop tariff levels to zero on defined product lines or agree to drop it to zero over a given time frame. While member countries drop tariffs to zero, each of them is free to have a different tariff for trading with the ROW. This is referred as free trade agreements (FTA).

Level 3—it is similar to Level 2 except that the member countries, besides having free trade amongst them, also agree to a have a common tariff line' for dealing with the ROW. This is referred as 'Customs Union'.

Level 4—the deepest form of regional trading is besides free trade amongst them but also agree to have a common currency and a common monetary policy.

Issues in Regional Trading

The first is defining the 'sensitive list', or a negative list which would not be open to trade, those product lines on whom tariffs would not be reduced. This is also referred as trading to a negative list, which means trading in goods, other than those in the negative list. Very often it is not possible to arrive at a consensus by the member countries. The second is the 'early harvest ', which is that any agreement will require dropping of tariff lines on certain product lines immediately on signing of the agreement.

The third, it is difficult to establish tangible welfare gains under regional trading. Any trading has two aspects, trade creation and trade diversion. Trade creation happens if a high cost domestic input is replaced by globally the 'lowest' cost input. Trade diversion happens when a high cost domestic input is replaced by a lower cost input from a member country, which may not be the lowest in the world.

In regional trading it is difficult to establish whether trade creation or diversion is taking place. Regional trading does allow[r] for expansion of trade but whether this expansion is better than trading with the ROW is not conclusively established.

The fourth is the contentious issue of establishing what is known as 'Rules of Origin' (ROO), which is how to establish that a good being traded with a member country has originated in the member country. This is becoming increasingly complex to resolve with emergence of global companies operating out of multiple locations, many of them housed in members of various trading blocs. The ROOs may well dilute the entire concept of regional trading.

The experience of various trading blocs in the world has been mixed and difficult to quantify other than that the trade has increased.

The other aspect also established has been that countries with large intra-regional trade have also seen increased multilateral trade at the same time. It has also been established that regional trading is only better than no trading.

What has not been established is that is this a better option than trading on a multilateral platform?

Should Regional Trading Be Promoted?

If one was to keep aside the issue of welfare gains, regional trading should be promoted because:

(1) It is the global trend and one cannot be a silent spectator in the tide. Not swimming with the tide would definitely imply a missed opportunity.
(2) Such blocs enable building a collective voice at the international platform, giving bargaining strength on international matters.
(3) It sub-serves other interests of economic cooperation and cements regional ties.
(4) It can also be seen as a stepping stone of entering the global platform as it will allow for building relative efficiency and competitive abilities.
(5) It can provide a boost to investment and tourism.

Is regional trading in conflict with multilateral trading? Or does it mean that regional trading would lose significance after consensus at WTO? There is no conflict between regional and multilateral trading. Regional trading can co-exist with multilateral trading. In fact, both can play a complementary role with multilateral trading providing welfare gains to economies while regional trading to meet objectives of economic cooperation, better regional ties, mutual betterment and a larger collective voice for them in international matters.

Even though both forms of trading are around tariffs and import duties there is a critical difference of regional trading is around applied' rates of tariffs while multilateral is around 'bound' or the maximum rates of tariffs.

India and Regional Trading

India has been a rather late entrant in regional trading as many of the major agreements were concluded in as late as 2007. India has a number of operational agreements bi-lateral (Sri Lanka, Afghanistan, S. Korea, Bhutan, Nepal, etc.), tri-lateral (India, Brazil and South Africa [1BSA]), and pluri-lateral agreements (ASEAN), ranging from PTAs to FTAs to even broader areas of economic cooperation (Singapore, Thailand, Japan, S. Korea, etc.) and even framework agreements (Bay of Bengal Initiatives for Multi Sectoral Technical and Economic Cooperation [BIMSTEC]).

While all the agreements would provide expansion of trade, two operational agreements can be said to be the landmarks for India in terms of both markets as well as opportunities offered. ASEAN + 3 now ASEAN + 4 (Japan, China, S. Korea and India). This has become operational from 1 January 2010.

India has agreed to drop tariff lines to zero across 4000 products within six years. Ihe sensitive list on which there would be no reduction has been pruned down to only four hundred and eighty-nine products. This agreement alone has the potential to increase trade by over USD 50 billion over the next decade or so.

The other is the IBSA which has the potential to provide newer markets in African and Latin American countries. India in the last few years has been fairly aggressive in concluding agreements conscious of the fact that it has been a late entrant and not to miss the bus.

It has taken a different line of trading of moving away from conventional global 'vertical trading' into a 'horizontal' or deeper levels of regional trading. Global trading is around goods and tariffs while India as part of horizontal trading has gone beyond goods of trade in services and also areas of economic cooperation through comprehensive economic agreements (CECA) and comprehensive economic partnership agreements (CEPA). CECA is an agreement of trade in goods, the same like a FTA but an additional agreement of willing to negotiate or open to trade in services and also explore areas of mutual economic cooperation. Once these areas are negotiated, finalized and signed it becomes CEPA.

India has CECA in different stages with Singapore, France, Australia, Japan and CEPA with S. Korea, Sri Lanka, Hong Kong.

It is in the process of finalizing a broad based trade and investment agreement (BTLA) with the European Union which will open up entire Europe for trading.

Regional trading is seen as a way to accelerate exports and at the same time establishing better relations with member countries.

It will give an opportunity to explore newer markets, new trading partners, diversified trade, greater economic cooperation and a definite signal of its intention of making trade an engine of growth in future.

However, openness and trade are not only market-driven or about newer markets bur also the ability to penetrate by being efficient and competitive. This is the challenge before the government, that eventually what matters, is not the markets of regional or multilateral, but to be globally competitive. That is, where reforms have helped but require far greater aggression in reforms to truly establish India as a globally competitive economy.

31.2 PREFERENTIAL TRADE AGREEMENTS

Preferential Trade Agreements (PTAs) have been proliferating, especially since the establishment of the World Trade Organisation (WTO) in 1994. As of 1st December 2015, the WTO had received notifications of no less than 619 PTAs (disaggregated by goods, services, or accessions), of which 413 were already in force. Between 2008 and 2012, PTAs grew at an average year-on-year rate of 24 percent.

Five forms of PTAs,, with subsequent arrangement being a deeper form of integration, requiring more coordination and a greater loss of autonomy are:

- Partial Scope Agreement (PSA) is only partial in scope, allows for trade between countries on a small number of goods.
- A free trade agreement is a preferential arrangement in which members reduce tariffs on trade among themselves, while maintaining their own tariff rates for trade with nonmembers.

A customs union (CU) is a free-trade agreement in which members apply a common external tariff (CET) schedule to imports from non members.

Λ common market is a customs union where movement of factors of production is relatively free amongst member countries.

An economic union is a common market where member countries coordinate macro-economic and exchange rate policies.

India and Free-Trade Agreements

In addition to its long-standing commitment to multilateralism under WTO agreements and in line with global trends, India has made use of FTAs as a key component of its trade and foreign policy, especially from 2003-04 onwards. India has mainly focused on partnering with other Asian countries, and in goods more so than in services. Within Asia, India has signed bilateral FTAs with SriLanka (1998), Afghanistan (2003), Thailand (2004), Singapore (2005), Bhutan (2006), Nepal (2009), Korea (2009), Malaysia (2011) and Japan (2011). There have also been two regional trade agreements, the South Asian Free Trade Agreement (SAFTA, 2004) and the India-Association of Southeast Asian Nations Agreement (ASEAN, 2010). Outside Asia, FTAs have been agreed with Chile (2006) and MERCOSUR (2004) .There is varing degree of depth of integration offered by these FTAs both in goods and services.

31.3 INDIA'S EXPERIENCE WITH REGIONAL TRADE AGREEMENTS

India’s experience with Regional Trade Agreements (RTAs) have become increasingly prevalent since the early 1990s. RTAs cover more than half of international trade and operate alongside global multilateral agreements under WTO. As of now, around 400 RTAs are in force globally. 14 RTAs are in force in India with a dozen more under negotiation.

Regional Trade Agreements today go beyond tariff cuts in trade in goods and incorporate various other components like liberalization in services, investment etc. India’s experience with respect to some comprehensive agreements can be summed up in the following ways

- India’s exports to FTA countries have not outperformed overall export growth or exports to rest of the world.
- FTAs have led to increased imports and exports, although the former has been greater
- India’s trade deficit with ASEAN, Korea and Japan has widened post-FTAs
- According to Economic Survey 2016-17, FTAs have had a bigger impact on metals on the importing side and textiles on the exporting side.
- A 10% percent reduction in FTA tariffs for metals increases imports by 1.4 %
- India’s exports arc much more responsive to income changes as compared to price changes and thus a tariff reduction/elimination docs not boost exports significantly.
- Utilisation rate of RTAs by exporters in India is very low (between 5 and 25%)

PART
C

GLOBAL ECONOMY AND OUTLOOK

Post-Crisis and Beyond...

CHAPTER

INDIA AND THE GLOBAL ECONOMY 32

32.1 GLOBAL OUTPUT

In an earlier section, we had seen the combined output of the global economy being USD 80.684 trillion in 2017,with one fourth accounted for by the US Economy of about USD 19.39 trillion (2017),making it the largest economy of the world. That is the Importance of US economy.

It was previously mentioned that the international comparisons are being performed through two yardsticks, one the conventional exchange rate and the other adjusted exchange rate also known as purchasing power parity (PPP) basis. PPP is an adjustment made to the conventional exchange rate to capture differentials in purchasing power for meaningful comparisons of economies. This is done by freezing a common set of goods freely traded, which can be bought for USD 1 and then the price of the same set in other economies. Say conventional exchange rate is USD 1 = ₹63 but it terms of PPP say it is USD 1 = ₹9, then adjustment will be by a factor of 7.

PPP has wider acceptability as a measure of global comparison, whereas transactions are done on conventional market-determined/pegged exchange rates.

Various institutions such as IMF and World Bank do ranking of different economies in terms their GDP, per capita GDP etc., and all ranking is after denominating the parameters in USD. Ranking by them can vary but not divergent.

Position of India

First by the conventional exchange rate, World Bank has ranked India sixth largest globally, with the output crossing USD 2 trillion to reach USD2.59 trillion. The second largest economy after US is China with an output of USD 5 trillion, followed by Japan, Germany and United Kingdom. Even though India has joined USD 2 trillion output club, its share in global output is 2.4 percent.

However by using the adjusted exchange rate or PPP basis, India output increases to USD 9.4 trillion making its the fourth largest economy after US (USD 15.6 trillion) China (USD 12.4 trillion) and Japan (USD 4.3trillion).It can also see that third largest economy after China (USD23.3trillion) and united States (USD 19.39 trillion).

The GNI per capita is often seen as a measure of increased income of the people, which is the total output divided by the population. This has its own limitations but still useful enough to give a reasonable comparison of income levels across economies. The rank in GNI per capita globally, for both India as well as China, is very low whether seen from conventional exchange rate or PPP basis.

India GNI per capita in PPP basis is USD 7060 while it is USD 1820 by the conventional method, with a very low rank. China is slightly better placed than India but still low by global standards of a rank of just over 100. Let us look at GNI per capita of other countries. The highest GNI per capita (Atlas method) is that of Isle of Man (USD 82650) followed by Switzerland (USD 80560) USA with its GNI per capita of USD 50,270 is ranked eighth in the world.

What is the implication of this for India? In comparison to these economies, India is a poor country despite having an output of over USD 3 trillion. Is it because of the large population base? Yes, it can be said so. All the other economies of the world have far lesser population, which translates into a high GNI per capita, not true for countries such as India and China.

What can be done about this? The implication of this is that while output of countries such as India and China are good by the global perspective but not sufficient enough for the domestic economy. The answer thus has to be rapidly expanding output to increase income levels and improve our global rank, but this will happen slowly and over time spanning decades.

Human Development Index

What would understand by "Human development"? We have seen earlier that India's output (GDP) is the fourteenth largest in the world or by saying that India is the fastest growing economy in the world after china or that India is the second largest market after china.

However, we have also seen the low rank in GDP per capita. Realizing that modern economics lacked measurement standards for human development in the overall growth process, two noted Asian economists Dr Mahbub U1 Haq (Pakistan) and Dr Amartya Sen (India) formulated the Human Development Index popularly known as the HDI in the nineties. The first comparison of economies based on HDI was during 1990.

This index is simple, completely objective and measurable to track down the governmental efforts for 'basic' human development efforts and useful for ranking countries of the world. The index today has global acceptability and forms the basis for ranking of countries by UNDP in their Human Development Report.

Only three parameters are used in the index. The parameters, their relative weight in the index, their minimum and maximum values is given below:

Parameter	Weight	Maximum Value	Minimum Value	Formula
Life expectancy at birth	1/3	85 years	25 years	
Education index of which:	1/3			(Value for the country - minimum value) divided by (maximum value under the parameter - minimum value)
(i) Adult literacy ratio	2/3 of 1/3	100 per cent	0 per cent	
(ii) Gross enrolment ratio	1/3 of 1/3	100 per cent	0 per cent	
GDP per capita (USD in PPP*)	1/3	USD 40,000	USD 100	

*PPP is the purchasing power parity.

The value or the index would range from 0 ro 1 and is taken up to 3-digit decimal. The closer the value to 1 it is said good efforts at human development and value lower than 0.500 is said to be not satisfactory. The methodology and criteria has been slightly modified from 2010 by making it more scientific first by converting each of the three parameters into an index.

Secondly, adult literacy and gross enrolment index has been refined into an education index comprising (a) Mean years of schooling index (number of years that a 25-year-old has spent in school) and (b) Expected year of schooling (EYS) which is years that a 5-year-old child will spend in education over a life span.

The composite HDI would be a harmonic mean of all the 3 (All multiplied and then cube root taken).

What is your guess on India's HDI rank globally? Well of the one hundred and eighty nine countries, India is at 130th position with HDI value 0.640(2017 data).

What would be your inference from the above? That is to say, as explained previously also, is that the expansion of output though impressive by global standards is insufficient domestically to provide for basic human development in the country.

The population of US, the largest economy in the world, is even lesser than those below poverty line in India not to talk of the entire population. Then can we say, India's population that being the second most populous country after China, which is largely responsible for the low HDI rank?

Well! the answer to that first is, if China can have a better rank with the highest population in the world why not India?

Secondly, traditional thinking has changed and today high population is seen more as an asset rather than liability in terms of potential markets, source for domestic demand and manpower. What is required is their proper harnessing through education, skill development and building human capital. It is in this direction India's efforts have been modest to say optimistically.

Thirdly, one has to realize that curbing population is long protracted effort and has a number of economic and non-economic issues and could span several decades. One cannot wait for population to stabilize before launching developmental efforts or even worst wait for natural calamities to take their own toll.

Curbing population by many countries in the past is now showing adverseness like ageing workforce. India is blessed to have a favourable demographic dividend. India has over 50 per cent of its population under 25 years of age which cannot be said to be the same for any other country in the world today. And like said in the earlier paragraph the population requires only proper harnessing.

Finally, rather than looking at global comparison India should get focused on domestic priorities, needs of the social sector, human development and improving administrative governance at all levels. Look at the domestic requirements and then working to achieve the desired levels of output.

The HDI is a reflection of governmental efforts towards human development and the low[r] rank of India should not be seen as a criticism of the government given the large size of the economy. It should serve as a wake-up call for the government to re-orient its strategies, properly align them aimed at basic human development. So that the people in general get the feeling of well-beingness with improved standards of living with growth of the economy and a vastly improved rank at the HDI.

It is wrongly perceived that outward orientation is only for exports or capital inflows or for the affluent. This orientation can as well be harnessed to fulfil domestic priorities. A significant role can be played by leveraging education, technology, scientific research, all possible by looking beyond domestic frontiers, outward looking for providing economic betterment for the people.

It is in this context our earlier section was titled as 'External Sector—Looking Outwards . And this section 'The Global Economy and Outlook', provides a perspective and outlines the broad overall contours of the world economy, extremely relevant, for economies like India, as it treads into a fairly uncertain, turbulent and volatile future.

32.2 INDIA AND HUMAN DEVELOPMENT INDEX (2018)

- India is placed at 130th position among 189 countries in the latest Human Development Index (HDI) report released by United Nations Development Programme (UNDP) India's HDI value for 2017 was marked at 0.640, which was still higher than the South Asian average of 0.638.
- Between 1990 to 2017, India's HDI value saw a 50 per cent increase from 0.427 co 0.640, life expectancy at birth increased by nearly 11 years, the average years of children staying in school is increased by 4.7 years and gross per capita income increased by a staggering 266.6 per cent between 1990 and 2017.
- The report also notes that about 26.8 per cent of India's HDI value is lost on account of inequalities and the inequality still remains a challenge for India.

CHAPTER 33

GLOBAL ECONOMY—A TRANSITION

33.1 GLOBAL TRANSITION

The global economy has undergone a sharp transformation in the last two decades. It will be interesting to see evolution of global economy from an economic perspective. It was earlier, dominance of the British Empire with its growing imperialism, colonization and mass-scale exploitation of colonies. Trade flourished adding to wealth of the British Empire but at the cost of the colonies.

The second transition was the wave of breaking free from colonial rule, an era of independence with a large number of countries gaining independence and the beginning point of rebuilding their economies highly protected and regulated.

The third transition was the emergence of US, UK, Germany and Japan as superpowers and the increased polarization of economies referred to as the 'North-South divide' (Developed—Developing countries).

A clear dominance and superiority of the North (developed) economies in the global economy. They earned the distinction of being First World countries. Then the demarcation, between the First World and the Third World countries, mostly developing countries like that of India, China, etc., which only accentuated the divide. This was also referred as the 'cold war' period.

The decade of the eighties and nineties had seen the dominance of the QUAD countries comprising of the US, Europe and Japan in terms of global output, trade and investments. The fourth transition was the breakdown of the erstwhile USSR and reforms in China with lesser role of the respective governments and larger role for trade amongst countries.

With China reform process initiated in the seventies and other Asian economies subsequently, the global economy gradually opened up to the Asian economies. This also diffused the polarization and led to evolution of multi-polar trading. The concept of Third World countries, developing countries, or countries looked down upon, changed to that of'New and Emerging Economies' of the global economy. At the same time, it also saw the emergence of the south east economies, as Asian Tigers, rapidly transforming their economies with high rates of growth and sharp increase in income levels. This brought out the importance of trade and open policies and how they can transform economies in a short period.

However, the crisis in these economies was as sudden as their rise, spreading like a contagion which brought in uncertainty and question mark raised on open economies and open policies. Their subsequent revival has somewhat diluted the impact but did set the cautious mode in all these economies. Not with standing the crisis, the last decade has clearly belonged to the 'emerging economies' of China, India, S. Korea, Indonesia, etc., emerging as an important players in the global economy in terms of contribution to global output, trade and investment and marks a distinct shifting of axis away from the so-called First World countries.

However, the real turning point, probably the first of its kind ever witnessed in economic history, greater in magnitude than even the great depression of 1929-1933, in terms of the potential fallouts, is the global crisis being witnessed since 2008. Reeling under the shock, the global economy, is beginning yet another transition, of redefinition or even a metamorphosis unheard and unseen ever in the past. It today stands at a crossroad, highly fluid, uncertain, but with a silver lining, of emerging economies coming centre stage but with a rider that they are not growing to their potential and their global competitiveness is decreasing rather than increasing. These economies have "opportunities but with stiff challenges."

33.2 GLOBAL VILLAGE

While discussing the concept of globalization we had discussed the rapid global integration being driven by a number of factors, especially in the last two decades. We had talked of the seamless emergence of a global village' and transition of the global economy from first polarized , and then multi -polarized to the present inter -dependence not bound by nationalities.

The growing inter-dependence amongst economies has a very important role to play in achieving the global integration. It is not the size of economies but interdependence which makes the integration a necessity. It is the shrinking of the global economy from an economic perspective. Goods and services of countries, increasingly becoming global, companies going global with multiple locations, multiple markets, not identifiable by countries of origin.

Integration is also about colour of money or their origin losing significance and driven by opportunities and markers rather titan by countries. We had also discussed previously about some 'key facilitators' of this integration in the section on Globalization. Very often both these terms are seen as meaning the same, but actually globalization is the 'result' of integration.

Yet another underlying factor facilitating the economic integration process is the silent financial sector integration across boundaries. This has been aided by leaping technology' making it possible to do electronic trans-national transactions seamlessly, in the fastest possible manner.

Sitting on a computer, transactions could be performed anywhere in the world without any physical movements. The global financial sector was reaching new frontiers of technology, services, convenience, diversified products and at the same time continued to expand and spread across geographies. Both the financial sector as well as the economic integration achieved over the last two decades had its own share of hiccups in the form of crisis in different countries.

The crisis in Mexico, Chile, SE Asian economies, Argentina, etc., in the earlier decades, did slow down the integration process, but has survived so far. The era of post-90s has seen increasing global deregulation of trade, capital inflows and financial regulations which has made this integration faster. It has also resulted in 'coupling' of economies or that problems of one country will seep through in the global arena. Smaller and peripheral economies having the potential to destabilize global economy, as it is being seen in the case of Portugal, Greece, Spain, etc.

This is the other side of integration of the relative inability of economies to be insulated from adverse global fall-outs, It is not possible for economies to remain as a 'hermit economy', decoupled from global developments.

Another important aspect of such an integration is also globalization of issues needing collective resolution at a global platform like G-20. However, the recent global crisis has the potential to threaten the basic foundation and fabric of global integration as will be discussed subsequently.

CHAPTER

34 LESSONS FROM CRISES IN OPEN ECONOMIES

34.1 GENESIS

Before talking about the global crisis it may be of merit to put together, in retrospect, the possible reasons, the myths around them and more importantly what could be the lessons for countries like India and also the other emerging economies. As an open economy, moving towards both convertibility as well as market-determined exchange rates are necessary, as a natural outcome, unidirectional but, slow, gradual and cautious and over a period of time.

However , these factors and openness of whether they being responsible for crises in the recent past especially, in the eighties and nineties in countries such as Mexico, Chile, SE Asian countries, Argentina soon after their opening up, cannot be conclusively said.

It can be said now that it was neither the openness, nor full convertibility nor market-determined exchange rates responsible for the crisis but:

(1) An inappropriate combination of the manner in which exchange rate was determined and convertible. That is, a pegged exchange rate and a convertible currency are incompatible. That is, if there is full convertibility then the exchange rates should be market-determined (Thailand and Argentina).
(2) Rushing into opening of the economy as the SE Asian economies allowing for all kinds of inflows, irrespective of their objective, short-term or long-term (all crises-ridden economies).
(3) Absence of monitoring mechanism over critical parameters such as CAD and DSR (S. Korea and Mexico).
(4) Lack of oversight on short-term inflows and their objective (Argentina).
(5) Utilizing short-term inflows for long-term uses which are technically flawed (Thailand).
(6) And over-investment and absence of prudential norms on lending (S. Korea).

Key Fundamentals to Openness

To summarize, as an open economy what are the key fundamentals or lessons learnt from these crises?

- If there is full convertibility there should also be market-determined exchange rates.
- There should be an oversight mechanism and not regulations on all inflows, their nature and objective, destination sector and also on the CAD and DSR levels.
- Commercial and financial viability of projects and prudential norms of lending should never be compromised.
- A robust financial sector having the ability to understand risk and have risk mitigants and sufficiency of own capital to be able to absorb the risk.

It is not about returning back to an inward-looking economy. There is still a larger picture, post-crisis, especially countries such as South East Asian economies, S. Korea, Russia, Chile, Argentina and Mexico, having all bounced back attracting overseas investment moving up the growth and income ladder. Their growth may have been dented in the wake of the global crisis but are now even more aggressive than before in their openness.

That is not to question the fundamentals of openness or of an open economy but to understand that future lies as an open economy, learn from their mistakes, put in checks and balances and pursue openness earnestly carving out separate niche for itself. Thar is, precisely what the Indian Government is presently doing. Even though China is said to be leader as an open economy but between China and India, India stands ahead on both these counts of market-determined exchange rate (even though managed) and moving towards a convertible currency.

CHAPTER

GLOBAL FINANCIAL MELTDOWN 35

35.1 DE-COUPLING THEORY

On a number of occasions previously, we have made a passing reference to '3116 Global Crisis' as a crisis first ever, in economic history, ever outshadowing the 'Great Depression of 1929-1933', in terms of the potential wide ranging impact and ability to destabilize the global economy. The great depression also resulted in contraction of US output and resultant global output, leading to the widespread global unemployment. However, it was confined to the US and Europe.

The impact was little on Asian economies given their small size and most of them under the domain of the colonial rule, with little international stature, for any perceptible impact of the depression. Similarly, all the other crises were relatively confined to geographies and had brought forth the 'decoupling theory '. That it was possible for economics to insulate themselves from adverse fall-outs in different parts of the world or ability of economies to remain 'de-coupled'.

The decoupling theory had worked during all the earlier crises but the theory was first tested during the oil shock of the seventies', which had affected most economies of the world.

The global crisis has broken this myth, that in the present era of integration and globalization, it is not possible for economies to remain decoupled or insulated from adverse global developments. The degree of impact may vary but insulation is not possible. Thus, it got its name as a global crisis, also known as the 'global meltdown' or the 'sub-prime crisis'.

It is first, a financial sector crisis, gradually seeping through to other sectors of various economies. Financial sector globally is seen as the backbone of an economy on which other sectors are heavily dependent for their financial needs. In its strength lies the ability of economies to grow. Any crisis in the financial sector cannot be insulated from the rest of the economy.

In the earlier section on Global Integration, we had seen how financial integration had taken place and it was natural for the financial sector crisis to move across borders across different economies. The global financial institutions besides their spread across economies, over a period of time, had become complex, with new diversified risky products, operating on wafer thin margins, overleveraging and stretching the financial sector.

These institutions were not only spread wide but deep and so interwoven that it was impossible to track. A highly risky product of derivatives' or something deriving value on the strength of an underlying asset (bubble) which can either be exchange rates, bonds, equities or commodities.

It is not the credit derivative which is the issue, but for its exposure extending multiple times the balance sheet of institutions, was a sure recipe for disaster, just waiting to happen, and required only a trigger point. It may be interesting to note that just before the crisis the derivative market was over USD 600 trillion or 11 times the global output during 2007.

The top five banks of the US had combined assets of USD 4 trillion on a capital of USD 200 billion, a leveraging of twenty-one times. While the exposure to the derivative market was leveraged by over 90 times! This is what overleveraging like an inverted pyramid, which can never be stable and can collapse with the slightest of disturbance.

The trigger point was default by the sub-prime borrowers of mortgage loans in the US, against which mortgage backed securities (MBS) were sold after being diced and sliced multiple times by the banks, investment bankers and other institutions spread as tentacles, inter-woven across the global financial system. So much so, it was not possible to track them down not even by the banks which had issued these securities.

As a result, this set of a chain reaction leading to overnight collapse of well-known large financial institutions such as The Lehman Brothers, AIG, Bear & Stearns, General Motors and closure of many established banks, crashing the stock markets thus earning the name of global meltdown. It is the complete decimation of international financial giants and collapse of the stock market, referred as the meltdown.

It is important to understand that the US and European Governments got to know of the collapse after' the collapse and not 'before' the collapse and thus could not prevent the collapse 'before' the collapse. Since the beginning of the crisis as many as one hundred and fifty-seven banks have shut down in the US. It can be said that the crisis had its epicentre in the US but shivers went throughout the global economy.

Who are the sub-prime borrowers? It is that class of people who do not have the resources to service the loan taken or those borrowing for consumption purposes. But why lend to them? It was the US model of 'consumption -driven growth. More the consumption, greater demand for goods and services and thus there would be greater production and output.

As a counter to the earlier slowdown of growth of their economy, US banks went for aggressive lending, reaching out to all, as they had the confidence that their financial sector would be able to balance it, by spreading the risk wide and through their complex range of products.

So what could be the reason(s) for the crisis? Can we say it was the global financial integration, or lending to sub-prime borrowers or aggressive lending or a combination of all, which led to the crisis. They may have contributed their share but there were five excesses'. They are as follows:

(1) Excess overleveraging.
(2) Excess liquidity.
(3) Excess complex products.
(4) Excess confidence of the financial system.
(5) Excessive greed of the financial system.

First is the highly overleveraged financial system something like an inverted pyramid, which is structurally unstable. Secondly, free financial markets and absence of regulations on the overleveraging by financial institutions. Thirdly, overconfidence of international financial institutions of nothing can go wrong.

The sub-prime borrowers only precipitated the crisis, acted as a trigger point, but it was, like said earlier, a crisis only waiting to happen.

35.2 GLOBAL CRISIS AND INDIA

The global crisis took its toll on the US and Europe leading to a contraction of their output, but did not enter the recessionary phase, which is continuous contraction of output more than two quarters. However, the fears of recession haunted both the US and Europe . More than the contraction of output , a greater concern was the increasing pace of the unemployment.

India had a higher degree of financial integration than trade integration with capital inflows both in current as well as capital account more than 100 per cent of the GDP. Let us also accept a fact that US is too large an economy to be ignored for their adverse fallouts by any economy . Being the biggest economy is the biggest driver of integration and coupling of economies.

The crisis did impact India as well as other Asian economies such as China with a 'slowdown' in their growth but not contraction of output, in all these economies. The impact was there but less intense than that experienced by the US and European economies. As said previously, this was a financial sector crisis and the Indian financial system was less affected, given dominance of the public sector banks, which are less exposed to complex risk products, nor overleveraged, fairly risk averse and not much exposure to international markets and products.

What the crisis did to India was to push the domestic financial sector into a 'cautious and wait and watch mode', became averse to lending. It did impact some of the private and foreign banks in India but not to the same magnitude; as such exposures were limited and small in relation to their balance sheet size. This forced tightening of the liquidity by banks, self-imposed, in their own wisdom, dried up money with the industrial sector which in any case, had also gone in the cautious mode.

Both these resulted in build-up of inventories, longer production and repayment cycles and slowdown of industrial and overall growth of the Indian economy. It can be said the banking sector was on the verge of witnessing defaults and build-up of bad loan book, both which could have compounded the problem manifold and impact far greater.

The financial sector was fortunate to have a limited impact in the sense that no bank or any financial institution collapsed. However, it did dent exports, as for the first time, in over a decade or so, there was contraction of exports. But this contraction was not sufficient, to contract overall output, given the relative low share of exports to total output of the Indian economy.

So overall, the impact on India was that it put in the minds of people 'fear and uncertainty', resulting in a slowdown and definitely impacting exports for a short period of six months. The impact and fallout could have been greater and deeper both for the world economy and India, but for 'timely' and 'collective' government interventions both in India as well as other major economies of US, EU and Japan.

35.3 COLLECTIVE INTERVENTION

A positive aspect post-global crisis has been the prompt and collective government level interventions unidirectional, which otherwise, was fraught with graver consequences, as mentioned previously, had the potential to surpass the agony of the great depression.

The government level interventions were first, avoiding any kind of panic but use collective wisdom. Secondly, at the government level itself, of that being 'collective' and 'consensus* driven unidirectional intervention. The third, being of its distinction made between direct and immediate, the other as indirect, in the medium-term and in the long-term, addressing structural issues of the global financial system, to prevent their recurrences in future. Fourthly, interventions would be short-term, as a medicine but need addressing the issues of the global financial system collectively, as part of the larger reform package.

Depending on the impact level, different governments could choose on the immediate intervention either as bailout package', which is providing government finances, capital infusion or as a 'stimulus package' driven around fiscal loosening. The US government resorted to bailout packages through capital infusion, also took over some of the institutions, relaxed its monetary stance by going for 'quantitative easing' and bringing down interest rates to near zero to revive growth and output of the US economy.

The Indian Government on the other hand resorted to a preventive-cum-stimulus measures like:

(1) RBI allowing banks to restructure their loan accounts and reschedule loan installments, as a preventive measure to prevent build-up of bad loans.
(2) It also went for quantitative easing by lowering CRR, to improve liquidity.
(3) It advised banks to shed their risk averseness, as it was a problem not a solution, to the slowdown in the economy.
(4) Fiscal measures as part of the stimulus package were, through rolling down excise duties and corporate tax rate to provide industrial sector necessary boost.
(5) It also ran up a high fiscal deficit by increasing spending in the economy, even at the risk of inflationary pressures and compromising on the compulsions under the FRBMA. In fact, India ran the highest fiscal deficit in the last 16 years.
(6) As a fillip to exports concessions were extended and new strategies of incentives were given to diversify to Afro-Asian countries impacted lesser by the crisis.

Overall, it was a combination of all which limited the impact, without the need for any bailout as no financial institution in India had collapsed. Can we say that impact on India was fairly limited because of the public sector character of Indian financial system, less exposed to global markets?

Many critics feel so that public sector dominated financial sector was the reason for the limited impact. However, as mentioned previously, it was the timely intervention by the RBI and the government, without which, it could have resulted in collapse of some of the smaller banks even in the public sector. Banking globally has elements of risk. Any lending will have risks. But the answer to that is nor to become risk averse.

The answer lies in growth and expansion by better risk assessment capabilities, risk diversification, have risk mitigants, understanding risk appetite and sufficient capital for the risk. The public sector character inherently has risk averseness and cautious approach, both of which are helpful in warding off crisis situations, but are also an impediment to expansion and growth of size of banks, so important in developing risk appetite.

That is why despite India's status as the fourth largest in the world, does not have any bank in the top fifty banks of the world, under any parameter, except may be the number people employed. So the larger question is nor the ability to have withstood the global crisis and of having passed the test of time but what lies in future?

As India goes for deeper levels of integration, it would require mergers of banks to attain a critical mass and at some point will have to discard the public sector character, if it wants a few Indian large banks, actually becoming global banks and play a larger role in global financial system.

35.4 FUTURE OF GLOBALIZATION

Post-global crisis, besides raising uncertainties and unresolved issues has also questioned globalization in terms of whether the era is over or return to inward policies, which is the pre-globalization period. Even though there is a global consensus amongst G20 of the need for further trade as the best way going forward, there will be issues of the first being to reorient strategies especially by the major economies such as the US of the need for focus on innovations, building intellectual capabilities generating newer ideas, breaking technological barriers and going beyond the nuclear deals for restoring their growth and employment.

They will have to carve out a niche for themselves, different from that of India, China and other emerging economies who will always have competitive edge in cheap labour, acting as a magnet in attracting investments and exports to them. Reversal of these to the US will not be possible given the high wage cost in such economies nor can they be competitive in comparison to countries such as India and China for mass goods.

In the past also they have thrived on their higher intellectual skills. They have the base which is still evolving in India and China. Going back to the protectionist measures would be a retrograde step, harming interests alike as levels of economic integration today run very deep. It is also about understanding that expensive wages should be used not for mass goods, which can come cheap in any case from countries such as India and China, but upper end technological and innovative products for use both in their economies as well as by the emerging economies.

This cannot happen in short-term but developing a consciousness and working in that directions may be a better option, rather than through quantitative easings (QEs) which is anti-gravity and would never flowing back in the US but finding their way in the emerging economics.

Globalization has given a new way for economies to go forward. Economic integration has run very deep. The problem of the global economy is not globalization but its perception. There is a definite take away for every economy. Present problems of today, like all other problems have to be understood in the right perspective and then resolved collectively. The crisis was not because of globalization and if so it is the biggest mistake or still a bigger blunder would be to revert back to protectionism in future.

CHAPTER

OVERVIEW OF RECENT CRISES SINCE 2008 36

36.1 US CRISIS 2008 AND 2011

The largest economy of the world went through two major crises in the recent time and the worst since the Great depression 1929-1933. The crisis of 2008 was a 'financial sector crisis', the genesis which was sowed in the inverted financial system, highly over leveraged, as an inverted pyramid. The mechanism of the overleveraging was through complex financial derivative products (products deriving value from an underlying financial assets) which had excessive risk. Globalization of the financial system had happened even earlier to the economic globalization, resulting in a broad global financial architecture covering banks, investment banks, pension and insurance funds, housing finance companies, hedge funds all finely inter meshed with each other difficult to differentiate the financial products and the holders of such products. These products were traded over the counter', outside the stock exchanges resulting in their being unregulated or any kind of supervision on their trading.

It was also driven by consumption-led growth especially through housing loans making it relatively easy for people to get mortgage backed loans which were then sliced and diced as multiple risky derivative products. This crisis has been covered in an earlier section as the Global meltdown or sub-prime crisis.

The US crisis of 2011 was a 'fiscal crisis', arising out of reckless fiscal spending over the past decade with deficit to GDP climbing to double digit in less than a decade. This was due to compulsions of the US of mounting expenditure of social security and the crisis of 2008 only making matters worse, in terms of recession and also rising unemployment of one of the highest in the history of US, requiring increased spending besides monetary easing. At the same time, taxes were never reviewed with tax rates virtually unchanged and on the contrary, as a response to the crisis during 2008, tax rates were lowered for boosting consumption in an attempt to revive growth.

The fiscal crisis occurred when the US hit the ceiling of the overall level of debt of USD 16.4 trillion, which meant that deficit could not be sustained through increased borrowing as done in the past. Further with fears of breaching the cap, there also arose the likelihood of a default as bonds due for payment could not be done through more borrowing, unless the cap was raised.

This resulted in the first ever down grade of the US rating by Standard & Poor during 2010. The Senate realizing the gravity of the problem passed a resolution of suspending the cap but with strict austerity measures in government spending and roll back of tax concessions given effective December 2012, resulting in a 'fiscal cliff', of the relative inability of the government to reduce spending and also raise taxes, in the wake of the growing un employment rates and marginal growth of the US economy. The US government has to cut expenditure by USD 1.2 trillion over a 9-year period beginning December 2012. The fiscal crisis of the US has nor been resolved but only postponed and the fiscal cliff would resurface soon.

However, a silver lining has been a beginning of the revival of the US economy. This is evident in the Federal Reserve now considering withdrawing its quantitative easing (QE), that of not injecting liquidity, a sign of a revival of the US economy. It is difficult to say at this stage whether it will be end of the down turn of the US economy or whether there will be a double dip recession.

36.2 EURO ZONE CRISIS

Earlier, European Union represented one economic market as an economic union with free trade with each other. The Euro zone came into existence with the signing of Maastricht treaty signed during 1992, of a monetary union, one central bank and single currency, replacing country specific currencies in the European Union. As a result, the Euro as common currency came into existence during 2002, but of the twenty-seven member countries only, seventeen members of the EU accepted Euro as the common currency and became part of Euro Zone.

Some of the members not opting for Euro (10) especially Sweden, UK and Switzerland which while accepted Euro, also had their own respective currency and not part of the Euro zone even though part of European Union. There are six other countries which have Euro as their currency but are not part of the Euro zone resulting in twenty-three countries in the world having Euro as their currency with seventeen as part of Euro Zone.

The Euro zone had structural problems ever since it came into existence. They are as follows:

(1) Of a union of dissimilar economies, difference in sizes, economic activities, resources, technology and levels of development and incomes. On the one hand, the stronger economies of Germany, France and Italy and the other 'peripheral economies' such as Greece, Portugal, Spain, etc.

(2) Some of the Euro zone member had strong currency before Euro came into existence such as Deutsche Marks (Germany), French Francs and the Italian Lira, while other had a weak currency such as Greece (Drachma), Portugal (Escudo) and Spain (Peseta). Thus, monetary union was not across similar monetary strengths of economies.

(3) The larger economies especially Germany had a current account surplus while others had a current account deficit largely with Germany.
(4) There was a growth with stability pact' amongst Euro zone members which was more of an understanding rather than a 'fiscal union' of debt to GDP not exceeding 60 per cent and deficit to GDP of not exceeding 3 per cent, which was never adhered to by the member countries resulting in 'fiscal excesses', high levels of deficits resulting in large borrowings especially by what is referred as PIGS economies, which comprises of Portugal, Ireland, Greece and Spain.

The Euro zone crisis is a sovereign debt crisis' as it is government debt outside the country.

36.3 CYPRUS CRISIS

The crisis Cyprus is a 'banking sector crisis', with volume of business many multiple of its GDP, unregulated, high exposure to Greek bonds almost resulting in collapse of the second largest bank necessitating a bail out by European central bank.

36.4 GREECE DEBT CRISIS

The Greek debt crisis is the dangerous amount of sovereign debt the Greek government owes. It became hazardous when a possible debt default threatened the European Union.

Since 2008, EU leaders have struggled to agree on a solution. During that time, the Greek economy shrank 25 percent thanks to spending cuts and tax increases demanded by creditors. Greece's debt-to-GDP ratio grew to 179 percent.

The disagreement is a matter of which countries lose out more. Greece wants the EU to forgive some of the debt. Since February 2015, the various European authorities and private investors have loaned Greece $294.7 billion euros. Greece has only repaid 41.6 billion euros.

The crisis triggered the eurozone debt crisis and created fears of a global financial crisis. It threw into question the viability of the eurozone itself. It warned of what could happen to other heavily indebted EU members.

Greece Crisis Explained

In 2009, Greece announced its budget deficit would be 12.9 percent of its gross domestic product. That's more than four times the EU's 3 percent limit. Rating agencies Fitch, Moody's and Standard & Poor's lowered Greece's credit ratings. That scared off investors. It also drove up the cost of future loans. Greece didn't have a good chance of finding the funds to repay its debt.

The EU and the IMF provided 240 billion euros in emergency funds in return for austerity measures. The EU had no choice but to stand behind its member by funding a bailout. Otherwise, it would face the consequences of Greece either leaving the eurozone or defaulting.

Austerity measures required Greece to increase the VAT tax and the corporate tax rate. It must close tax loopholes and reduce evasion. It should reduce incentives for early retirement. It has to raise worker contributions to the pension system. A significant change is the privatization of many Greek businesses, including electricity transmission. That reduces the power of socialist parties and unions.

On January 15, 2018, the Greek parliament agreed on new austerity measures. It needs to qualify for the next round of bailout payments. On January 22, the eurozone finance ministers are expected to approve 6 billion to 7 billion euros. The new measures make it more difficult for unions to strike. The country is often paralyzed by strikes. It helps banks reduce bad debt, opens up the energy and pharmacy markets, and recalculates child benefits. The bailout program is scheduled to end in August, 2018. Greece's unemployment rate has fallen to 20 percent from more than 25 percent in 2013. Its economy grew 2.5 percent, compared to an almost 10 percent contraction in 2011. It expects to repay at least 75 percent of its debt by 2060. Until then, European creditors will supervise adherence to austerity measures.

36.5 BREXIT

Brexit is an abbreviation for "British exit," referring to the U.K.S decision to leave the European Union (EU). The decision defied expectations and roiled global markets, and caused the British pound to fall to its lowest level against the dollar in 30 years sending ripples across the globe.

CHAPTER

GLOBAL CONSENSUS -- GOING FORWARD 37

37.1 POST CRISIS

Any crisis having global implications should and rightfully be driven by consensus across major economies not only in terms of the kinds of intervention but also in terms of consensus on the way going forward . First thing in going forward , is to review the damage control interventions , in terms of their effectiveness of having arrested ' free falls of output contraction and unemployment.

It is equally imperative to understand that things have to be seen from a global perspective rather than the country perspective. Hie next would be to keep in mind that recovery of economies is going to be slow, long-term and more importantly 'uneven'.

It also needs to be understood that stimulus and bailout packages should be seen as short-term and withdrawable, but replaced with sustained long-term reforms. Accordingly, withdrawing of the interventions should be well thought out, staggered and again done collectively or could facilitate fears of double-dip recession.

More than the recovery, the nature of recovery would not be like the alphabet W but U-shaped with the bottom more elongated, which is the reflection of a longer time period and no sudden spurts of growth. Despite the slow process, the way going forward is not to restrict trade or return to neo-protectionism but on the contrary increased trade across countries as a way for economies to expand.

The crisis should not be seen as the collapse of the free market economy and larger role for the respective states in both acting as a producer or a regulator both. It is not to bring back the public sector or regulations but to continue with the market mechanism. It should not be seen as a market failure or question the merits of the market mechanism, but to bring in awareness in the markets about the following:

(1) Of their larger role and responsibility which is freedom to do business, but not compromising on the moral ethics of businesses.

(2) The desire for expansion and growth can be passions of businesses, but not greed.

(3) They also have societal and responsibilities to their nation.

(4) The interest of the people can and should never be compromised.

At the government level too, there will have to be a greater inter-government monetary cooperation and also at the apex central bank level. At a still broader level, there would be a need to have 'better global supervision and not regulations over the global financial system'. Finally, the need for the good collective leadership is to provide good governance and also to lead both at the same time.

The way going forward has a larger role for the governments of the US, EU, Japan, India and China for resurrection of the global economies as fundamental and primary objective. That is, economics dominating politics and setting aside political differences.

However, the most important in going forward lies in understanding, the importance of trade, not return of neo-protectionism, in these troubled times. Multilateral trade could have never ever been in economic history, as relevant, as it is today for revival of the economies.

37.2 STRUCTURAL ISSUES

The way going forward for greater strength to the global financial system would require addressing the structural issues such as:

(1) The bankers committee for banking supervision (BCBS) as a part of basel international settlement (BIS) will have to implement Basel III accord, which should aim at better risk assessment capabilities of global banks, define risk appetite and have sufficient own funds.

    It should not lose sight of the fact that strengthening would require capital infusion.

    Sufficient time should be given like in the previous accords for smooth transition of banks in different countries to Basel III.

(2) The role of the IMF would need to re-structured to play the role of prevention rather than providing cure. They will also have to play a larger role in global supervision to provide the oversight mechanism to the global financial system.

    There should be greater clarity in the proposed financial stability board (FSB) in terms of its role and provide independence to the monetary authorities in different countries to pursue independent monetary policies.

(3) Evolving a global code of ethics to provide broad financial discipline such as prudential norms of lending, exposure norms for banks in different economies to follow.

(4) The need for a transparent and fair multilateral trading platform like the WTO can never be more than now. It is in the interest of all economies to put their heads together in evolving a consensus at WTO not only for their own interest but for also long-term sustainability of the global economy.

CHAPTER 38

GLOBAL UNRESOLVED ISSUES

38.1 UNADDRESSED ISSUES

There are still a number of global unresolved issues, first being the absence of consensus at the WTO or in the inability to push through conclusion of the Doha round of negotiations which will be discussed in the next section. There are still other issues, potentially destabilizing in nature, which would need an early addressing and early resolutions such as:

(1) The issue of the continuation of'USD as an international reserve currency'. In the wake of crisis, many critics have favoured a neutral currency like the SDR as an international reserve currency

If that happens, it may completely destabilize the US Economy and may lead to grave economic fallouts.

Any reserve currency will require it to be a currency in circulation for settling transactions, completely convertible, backed by a strong and large economy, globally acceptable and market-determined. All of which presently is satisfied only by the USD.

The issue of switching to some other currency should not arise as the problem is not with the currency but with US economy, as USD continues to be a strong currency and widely acceptable.

An unbiased collective view, putting to rest all speculations, would have to be taken in the global' interest for global stability.

(2) Hie future of Euro as a unified currency of the Euro zone has begun to show signs of cracking up especially with the recent crisis in Greece, Spain, Portugal, Ireland or the PIGS Economy which are not only destabilizing Euro zone but also smaller economies having the capabilities to destabilize the global economy.

The Euro has raised a number of fundamental questions of compatibility of smaller and larger economies, differential growth, differences in sectoral contribution of output, labour immobility, high levels of unsustainable deficits and different strategies for growth.

Whether Euro will survive or disintegrate is a big question mark? This will decide whether unified currency a good option or a limitation in the Euro zone.

(3) The 'quantitative easing' (QE) by the US of lowering reserves ratio to near zero first and then purchase of US securities from the market referred to as QE round 2,

is leading to surge in inflows into emerging economies of the world, resulting in appreciating currencies, leading to 'currency war' situation with each economy trying to protect their respective currencies.

This would threaten the relevance of market-determined exchange rates.

This is also a dangerous proposition, as it fuels 'carry trades', which is money being utilized for earning higher returns in the emerging economies.

This could be destabilizing both for the US and emerging economies.

(4) With China becoming the second largest economy of the world and increased contribution to world trade, their reluctance to discontinue with their 'pegged exchange rates', would only distort world trade in future.

(5) There is a larger crisis in the making again epicentred in the US, which is credit card or plastic money becoming the preferred mode of transactions. The credit card market in the US is many more USD trillions.

It leverages spending beyond one's means and a default similar to the sub-prime borrowers, can again potentially paralyze the financial system.

If the sub-prime borrowers were a USD 1.3 trillion market the credit card is more than double the market of around USD 3 trillion.

Can one fathom the fallouts of defaults in credit cards?

(6) The ageing workforce in countries such as US, Europe, Japan and others have grave fiscal implications of increased social security pension liabilities, representing unfunded public liabilities, have seeds of fiscal crisis as that seen in Greece and Ireland.

(7) Already the debt level of the US is over 100 per cent of its GDP, similarly for UK and the other European economies. Can such high levels of debt be sustainable in the long run? Probably, the emerging economies including India are fortunate that their debt levels though high but have not reached the levels seen in the US and other economies.

Clearly as said earlier, the global economy today is at crossroads, uncertain, highly fluid, with lots of question marks.

However, two things can be said with certainty, one that the emerging economies would increasingly play a very important role in reshaping the global economy and two that in multilateral trading lies the future.

Yet a recent disturbing trend is signs of recovery in the US and Europe is adversely affecting emerging economies with India included. While QE in the US was largely responsible for currencies in these economies appreciating, the reverse is happening. Withdrawal of QE or abandoning loose monetary stance has contributed to reversal of inflows in emerging economies resulting in their currency depreciating.

First the worry was global recovery and now the fall out of recovery in bigger economies has become a cause of concern. The concerns of economics like India are genuine and thus withdrawal of QE has to be gradual, not coming in the way of recovery and also not destabilizing emerging economies like India.

CHAPTER

WORLD TRADE ORGANIZATION (WTO)—ISSUES AND INDIA 39

39.1 GATT AND WTO

The transformation of the General Agreement on Trade and Tariffs (GATT) to World Trade Organization (WTO) is truly historic and a landmark in economic history. It lays down transparent basis of orderly world trade, and the first attempt of an evolutionary multilateral trading platform, cutting across countries aimed at improved global trade and welfare gains for countries.

It is broader than GATT both in terms of coverage of areas, extending beyond tariffs and non-tariffs to covering all trade-related issues, across one hundred and fifty-odd countries. More than two-third are developing or emerging markets economies. The rapid integration of the global economy, increased inter-dependence and larger dependence on trade required, developing such a platform.

The task of arriving at a consensus across multiple areas around so many countries was always a challenge and can never be easy . In the last two decades , there has been considerable progress especially in the elimination of non-tariff barriers (NTBs) to trade, broad level consensus on intellectual property rights (TRIPS), investment measures (TRIMS), setting up of the dispute settlement board (DSB) for resolution of trade-related disputes, etc.

The WTO has made possible the global trade increasing by over 150 per cent since 1990. However, where has it got stuck? It has got stuck in the market access initiatives (MAI). That is, market access for goods and services across countries divided into three broad categories of

- Agriculture.
- Non-agriculture market access (NAMA).
- General agreement of trade in services (GATS).

The issues of market access in agriculture was addressed in the Uruguay Round of negotiations but more comprehensively covering all the areas at the Doha Round of negotiations. The initial deadline of conclusion of the Doha Round was fixed as 1 January 2005 which was missed and so was the second unofficial deadline of December 2006, and all subsequent deadlines were also missed. There has been no progress so far and the stalemate continues. There is a broad consensus on the need for a transparent multilateral trading but only a macro level understanding and not beyond in terms of what needs to be done to achieve this objective. The global crisis did distract attention with every economy trying to get back on their respective growth path.

What are the stumbling blocks to the conclusion of the Doha Round of negotiations? The bone of contention is between the US, Europe and Japan on one hand; and India, China and others, on the other hand not able to arrive at a consensus on the modus operandi of opening the agriculture and industrial sector.

Specifically, what are the issues in agriculture? They are addressed below:

(1) **Special Products (SP)**—it is broadly agreed that there would be a category of agriculture products, of livelihood concerns, over which there would be no reduction in tariffs.

  (a) It is not the category but inclusion of many agricultural goods by India and others which is not agreeable by the developed countries.

  (b) Given the large agrarian base of economies of China, India and Brazil, rollback of tariff lines may have adverse implications.

  (c) India has about 700 tariff lines in agriculture and not more than 2 per cent would be covered as SP. There is a definite need for getting more agricultural goods under SP category.

  (d) While India and others may require hard pushing, but it should also realize that the rollback will be gradual and over a time frame allowing the agricultural sector for sufficient time to adjust to the rollback.

  (e) The other issue is that the present levels of tariffs in India are over 100 per cent. Protection is fine but over-protection gives rise to complacency, leading to high costs of production, not allowing for improvements in productivity.

  (f) India's agricultural sector needs improved productivity, adoption of scientific farming, intensified research and development and protection is merely doing the reverse.

  (g) Further, over-protection has neither resulted in betterment of the millions of farmers, living at subsistence levels. Lowering protection levels cannot make them worse off that what they are presently.

  (h) The policy-makers need greater maturity, a broader picture in mind at the negotiation table, of increased trade in the agricultural sector which will, eventually result in economic betterment.

  (i) If this is resulting in stalemate, a way can be found around by all moving a bit, from their stand. Remaining adamant or stuck is not wisdom and not the way going forward.

Special Safeguards Mechanisms (SSM)—this is a mechanism at the WTO admissible to those countries which are net importers of food, of their ability to block imports in adverse circumstances, as may be decided by the countries.

India wants this mechanism to be also made applicable to it. This provision is for the weak economies and not for countries like India which are not in the same league, with self-sufficiency in food grains and not an importer of food grains except in exceptional circumstances.

(3) **Export Subsidies**—these are the subsidies given for exports of agricultural goods by the developed countries.

There is a broad consensus amongst the developed countries for their phase out over a period of time. It is not an issue with India as there are no export subsidies on goods being exported from India.

(4) **Aggregate Measures of Support (AMS)**—this represents domestic subsidies given to the agricultural sector and is characterized first, by the 'De Minimis rule' which is the total AMS including a specific commodity support only if it equals more than 5 per cent of its value of production.

(a) In addition, included are the various boxes of subsidy such as green box' subsidy given for livelihood and environmental concerns; 'blue box' subsidy, given to limit production of certain crops and 'amber box' subsidy given to expand output of certain crops.

(b) There is a broad consensus on the green box subsidy and on their continuation. However, the problem is in the other subsidies, and the ability of the developed countries to move them over, not allowing for perceptible rollback.

(c) As far as India is concerned, all the subsidies being given are green box subsidies not requiring any rollback. The problem with the developed countries is passing these subsidies in these boxes to avoid their roll back, which is trade distorting in nature.

(d) The problem lies here with the developed countries and this where they will need to forward if they want to break the impasse.

(5) **Sanitary and Phyto Sanitary Conditions (SPS)**—these are the conditions imposed on agricultural goods of adhering to norms of sanitation, hygiene, use of child labour, etc., before entering countries.

(a) These conditions are not transparent and discriminatory in nature affecting trade of such goods.

(b) India's stand is not against SPS conditions *per se,* but that they should be more transparent, uniform and non-discriminatory in nature.

(c) It can thus be seen there are thorny issues in agriculture and why it is difficult to arrive at a consensus on these issues, bur conclusion of the Doha Round may not be possible without consensus on agriculture.

Issues in Non-agriculture Market Access (NAMA)

Non-agriculture market access is slightly less contentious than agriculture, but still there are certain broad areas which require consensus and they are as follows:

(1) **Less Than Full Reciprocity (LTFR)** —this is basically a broad agreement that the rollback of Tariffs on non-agricultural goods, by the developing countries would be lesser than the developed countries and over a longer time frame.

(2) There is absence of consensus on the formula of reduction of tariffs across product lines. The earlier Swiss formula of higher the tariff higher the reduction was not acceptable to the developing countries.

What about trade in services? Broadly, India is agreeable in principle for trade in services addressing the four modes.

Mode 1—neither the service provider nor the service seeker physically moves from their respective countries but services gets rendered. Examples of this are the call centres, BPOs (business process outsourcing), KPOs (knowledge process outsourcing), LPOs (legal processes outsourcing), and MTO (medical transcription outsourcing).

Mode 2—physical movement of the service provider or service seeker for rendering services but not permanent commercial interest. For example, a doctor overseas visiting India for attending a patient or vice versa.

Mode 3—same as Mode 2 except that permanent movement for commercial purposes like foreign university directly setting up a college in India.

Mode 4—this is where India's interest lies of free movement of people across geographies for purposes of employment.

The above is how broadly WTO is presently placed or is in a state of 'pause' over the last few years, as forcing a consensus at WTO, before the crisis, was not seen as an imperative especially by the larger economies like the US. However, post-crisis, things have changed and multilateral trade, seen as the only way, to pull out economies from their recessionary phase

A lot would depend how all the countries look at the next round of negotiations? However, definitely it will not be with the earlier eyes. There are quite a few things to learn from the past rounds of negotiations and would be useful in going forward in building the consensus.

- It is a macro platform of negotiations and every country should look at long-term overall benefits rather than a particular sector.
- It should look at the extent of opportunities opened up for trade.
- In the past, 'nothing was agreed till everything was agreed'. This approach makes the process only more cumbersome and requiring longer time frame.
- There is a need to segregate contentious and non-contentious issues, group them and have separate sub-committees to address them.
- The overall approach should not be seen as a bargaining strength for a group but in the larger interests of 'fair for all', helpful in promoting an orderly global multilateral trading platform.

The need for WTO and multilateral trading can never have been more acute, than the present, and it will be a global wisdom to see an early breakthrough and early conclusion of the Doha Round, to enable rebuilding the global economy far stronger with greater integration.

PART
D

INDIAN ECONOMY REVISITED, OUTLOOK AND CHALLENGES

CHAPTER

40

INDIA'S EFFORTS TOWARDS ECONOMIC REFORMS

40.1 ECONOMIC REFORMS ENCAPSULATED

We had seen India in three different perspectives: first—domestic, second—external and third—global perspective. There is a need to integrate all the perspectives to see the Indian outlook in view of the rapidly changing global environment, into the future, tasks ahead and the challenges before the economy . However , first , we also need to take stock of the economic reforms of the last two decades , which have been discussed , but in separate sections , being multi-sectoral in nature.

As we had discussed the global transition, post-independence, the economic reforms of 1991 can be said to be transition towards a newer India, shift in the outlook and a different orientation from the previous inward-looking to outward-looking. It is also a reflection of the mood of the government of greater faith in the market and private players and their larger role in the economy. Here, an attempt is being made to provide a holistic and comprehensive review of the economic reforms initiated since 1991.

Even though it is widely believed that 1991 was the beginning of reforms in India, reforms dare back to previous years. However, these were piece meal, specific and micro-oriented and were witnessed more as changes' rather than reforms. The policy of 1991 marked the character of changes' changing to 'reforms', reflecting a distinct priority and documented as a policy not done earlier.

The other aspect of the reform is that they were largely initiated by the BOP crisis, necessitating pledging of gold by India and the resultant loan from the IMF, which has led to the initiation of economic reforms of 1991. Economic reforms are the process, the commencement of a journey and is a continuous process, shifting gears and moving to next levels in the journey. As an economy , this journey can never end and neither can reform . There can be a slowdown , a pause, but eventually would have to be resumed again.

40.2 FIRST-AND-SECOND GENERATION REFORMS

Though reforms are generic but governments for their own understanding prefer to use terminologies 'first-and-second generation reforms'. First generation reforms are the first level, central government-driven, directed at addressing the cause of the crisis, structural rigidities in different product markets such as industrial, trade and financial sectors of economies. These are also those which can be implemented with relative ease, through an administrative order of the government and quick to deliver results.

The additional reforms conceived and implemented to achieve a faster growth rate and address other economic problems of poverty, unemployment, etc., are called 'Second Generation Reforms'. These reforms run deeper into the economy beyond the product markets, requiring involvement of the state governments and broad level consensus across political parties. These are also time-consuming as they may require amendments and changes in many legislations and various acts. The second generation reforms are development driven. They aim at achieving faster economic development. They are the lasting solution of various economic ills affecting India's economy in the shortest possible time. The pinpointed focus of second generation reforms are on the below mentioned areas:

- Policies to remove poverty and empowerment of the poor and weaker sections of society.
- Policies to enhance employment opportunities and social security for the poor people.
- Social sector reforms to strengthen social infrastructure such as development of knowledge, skills, efficiency through increased emphasis on eduction, health and housing facilities, improvement in water supply and sanitation, etc.
- Further fiscal consolidation, reduction in fiscal deficit through increased tax and non-tax revenues and reduction in expenditure by minimizing unproductive expenditure and cutting down subsidies.
- Reducing fiscal deficit to 3 per cent of GDP for the Central Government and 2 per cent for states.
- Achieving zero revenue deficit.
- Raising capital expenditure on rural infrastructure with a view to stimulating agricultural growth and rural development.
- Continuing and carrying forward programme of disinvestment of loss-making public sector enterprises.
- Abolishing subsidies on all non-merit goods and eliminate hidden subsidies benefiting better off sections of society.
- Reforming labour laws.

The main distinction between the two lies in their priority and ability to implement and deliver with ease. They are not sequential and can be undertaken simultaneously. It depends on how critical they are and the general levels of acceptability within the government and the political system.

40.3 REVIEW OF ECONOMIC REFORMS IN INDIA

Most of the reforms in India since 1991 are broadly first-generation reforms, across various sectors, except some which could be characterized as second-generation, but more focused on first-generation reforms. They have been central government-driven in their area of domain. They have been discussed sector-wise in the previous sections, but are being revisited, co facilitate a greater cohesive comprehension.

Industrial sector reforms are as follows:

(1) The industrial policy of 1991 also known as the policy of liberalization marked the dismantling of the industrial licensing system, larger role for the private sector and move towards a competitive environment.

(2) This has allowed the expansion of the private sector, greater maturity and their presence in all sectors of the economy including core industries such as oil, power and other critical industries.
(3) (here has been diversification of the industrial base with a large number of industrial goods being produced.
(4) The public and private sector are now operating in a competitive environment bringing out the mixed economy character very clearly.
(5) The private sector post-reforms have helped to increase the industrial growth and lifted the overall plane of economic growth.
(6) The private sector has gone aggressively for global acquisitions helping them to emerge as global players in the international market. For example, Tata-Corus Jaguar, TCS, Videocon, ONGC, etc.
(7) Public sector also has been given greater autonomy for operational flexibility in the competitive environment.

It has led to establishing India as a market economy with pricing of most industrial goods as market-determined, except for certain petro goods.

The increased production of private sector and their growth in the last two decades has been impressive leading to higher growth and also increased overall investments in the economy which will make a 10 per cent overall growth, a reality, in the not too distant future.

Financial Sector Reforms

The financial sector reforms in the banking sector was largely driven by the 'Narasimham Committee' recommendations which allowed for liberal entry of private and foreign banks letting for greater competition, diversified products and vastly improved services. Major areas of reform in the banking sector were as follows:

(1) Liberal entry of private sector and foreign banks. It is as part of the reforms that today there arc also private sector banks operating along with the public sector banks.
(2) Public sector was given greater autonomy to function in a competitive environment and frame-independent policies based on broad framework provided by RBI.
(3) Interest rates both the deposits as well as advances were deregulated and each bank was free to decide on the interest rates it chose to offer.
(4) Similarly, in respect of lending rates while banks were free to decide on the interest rate they would charge, they had to publish the lowest rate of interest. They would charge to their best clients known as the benchmarked prime lending rate (BPLR).

More recently during 2010, RBI has asked the banks to adopt the base rate of interest, and that no lending would be done by banks below their respective published base rate of interest.
(5) Banking was made more transparent, stress on full disclosure of both the good as well as bad assets.
(6) There was standardization and uniform income recognition, asset classification and provisioning norms for the banking sector.

For the first time, a uniform definition was given to non-performing assets (NPAs) known as the 90 days norms. Thus, interest on loans given if not received within the stipulated time period would need to be classified as an NPA.

(7) Realizing that banking is risky business having normal risks in lending and to safeguard interest banks were required to adhere to ‘capital adequacy’ norms in terms of international best practices (more about this later in this section).

The overall objective was to bring in greater competition in the banking sector by allowing for better products and improved services and fine-tuned interest rates to support the financial needs of a growing economy like India and enable bigger banks in India to emerge as global banks. Insurance-sector reforms were driven by the ‘Malhotra Committee’ recommendations which, for the first time opened the insurance sector, even though partially, to the private sector, from the complete government-dominated insurance sector.

The insurance sector has been opened up 100 per cent for the private sector but restricted to 26 per cent equity participation for foreign insurance companies. Post-reforms a large number of insurance companies in the private sector have become operational in the country.

Tax Reforms

One of the major aspects of reforms has been in the areas of taxation of moving to a Value-added Tax (VAT) system and conversion of the sales tax regime into homogenized state VAT. A still far ambitious reform which will provide for an efficient indirect tax regime is moving to a uniform goods and services tax (GST). Similarly, the direct tax code once made operational would considerably simplify the direct tax system providing for far greater tax compliance.

Trade Sector Reforms

However, the most profound impact has been through the trade sector reforms, an integral part of economic reforms much wider in nature.

(a) These reforms has given the clear signal of opening the economy and larger role for exports, capital flows and a competitive, efficient and productive domestic economy.
(b) More specifically, reforms covered moving towards a market-determined exchange rate, replacing FERA with FEMA, current account convertibility and fairly open capital account and liberalized external commercial borrowings by the private sector.
(c) It also liberalized the foreign investment policy to attract foreign investment and eased restrictions on capital inflows.
(d) These measures have been largely responsible for increasing exports and increased share in global trade of goods and services.
(e) The external transactions arc now over 100 per cent of the GDP, built-up foreign exchange reserves providing an import cover of over 7 months as against barely seven days during 1991.

However, the most notable aspect of reforms has been the fact, that not only India got out of the crisis, not only repaid but prepaid its liabilities to the IMF and has turned as a ‘lender from a borrower’ to the IMF. It has earned the status of an emerging economy, changed the global perspective of India and now having a larger say in global matters. It has emerged as the second fastest growing economy of the world after China, in a short time of just about two decades.

Labour Reforms.

Along with bringing transparency and accountability in enforcement of Labour Laws, the Government has taken various initiatives to realize and establish the dignity of every worker through provision of social security, enhancing the avenues and quality of employment along with industrial development. Recent major reforms are:

Introduction of Labour Codes: In line with recommendations of Second National Commission on Labour, the Government has taken steps for formulating of four Labour Codes on (i) Wages; (ii) Industrial Relations; (iii) Social Security & Welfare; and (iv) Occupational Safety, Health and Working Conditions by amalgamating, simplifying, and rationalizing the relevant provisions of the existing Central Labour Laws.

Launching of Shram Suvidha Portal: The Government has developed a unified Web Portal 'Shram Suvidha Portal', to bring transparency and accountability in enforcement of labour laws and ease complexity of compliance.

Maternity Benefit (Amendment) Act, 2017 which came into force from 1st April 2017: Increased paid maternity leave from 12 weeks to 26 weeks and has benefited 18 Lakh women employees. Recently Government proposed to bear 7 weeks of salary to motivate employers. 'This policy will be finalised after approval by the competent forum.

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'The Payment of Gratuity (Amendment) Bill, 2018 passed by Lok Sabha on 15th March, 2018 and by the Rajya Sabha on 22nd March, 2018, has been brought in force on 29th March, 2018. The present upper ceiling on gratuity amount under the Act has been raised from Rs. 10 Lakh, to Rs. 20 Lakhs.

Atal BimitVyakti Kalyan Yojana: Considering the change in employment pattern and the current scenario of employment in India which has transformed from a long term employment to short term engagement in form of contract and temping, the ESI Corporation has approved a Scheme named "ATAL BIMITVYAKTI KALYAN YOJANA" for Insured Persons (IPs) covered under the Employees' State Insurance Act, 1948. This scheme is a relief payable in cash directly to their Bank Account in case of unemployment and while they search for new engagement.

"UMANG: ESIC - Chinta Se Mukti" Mobile App: IP centric information services are now made available through 'ESIC - Chinta Se Mukti ' mobile app launched through UMANG (Unified Mobile Application for New-age Governance) platform.

Where the Economic Reforms Have Not Delivered?

What we have just covered is the positive side of the reforms, however, it also has shades of grey areas which is a matter of concern.

(1) The overall growth even though higher from the past and also in relation to other economies, has been fairly uneven, or exclusive but not inclusive.
(2) The benefits of growth have been confined to few not broad-based to benefit the masses.
(3) It is not led to the desired degree of expansion in employment opportunities, normally associated with, high levels of growth. Employment in the manufacturing sector has stagnated.
(4) The growth has been highly skewed, accentuating inter-state and intra-state inequalities. It has virtually left the (Bihar, MP, Assam, Rajasthan, Uttar Pradesh) states untouched.
(5) The 'license Raj' has been abolished but replaced by a bigger hindrance of the 'inspector Raj'.
(6) Bureaucratic control has solely changed its face has moved from direct to indirect such as pollution control boards, environmental clearances, etc.
(7) Levy and collection of excise duties is still complex.
(8) The earlier nexus between the politics and business, despite the reform process, has only got stronger.

The above has not happened essentially because the government has virtually pressed the 'pause' button of economic reforms with a large unfinished agenda of:

(1) The government could be said to have gone 'soft' on bolder reforms. Labour market reform, which is not even being considered by the government, despite it being fundamental, in the changed circumstances and to provide the much needed link between growth and employment opportunities.
(2) Further, unshackling the private sector from the myriads of indirect interface with the government.
(3) Bringing on board the state governments to share the passion of driving the reforms deeper across states.
(4) Pushing through to make the NCLT functional at the earliest as it is one of the components of an exit policy, seen as a facilitator to the process of liberalization.
(5) Privatization has virtually been put on the back burner with only disinvestment in public sector being considered. This is a retrograde step and at least a platform should be created for building a broad-based consensus.
(6) Loss-making public sector continues to act as a drain and no efforts made to see how they can be integrated in a liberalized market economy.
(7) The banking sector despite reforms is largely dominated by the public sector and no efforts at their consolidation or privatization for their long-term sustainability.
(8) Efforts at reforms in the insurance sector have been half-hearted, with the dominance of the government, despite the fact that insurance in market is fairly under developed and lacking penetration.
(9) The FDI policy still has a number of structural issues and potential road blocks to foreign investment. FDI in organized retail, raising sectoral caps for insurance business by foreign companies are key aspects of reforms.

40.4 UNFINISHED AGENDA OF ECONOMIC REFORMS

The government has a fairly long list of the unfinished agenda in economic reforms, which is not presently considered as a priority but would become critical in driving the reforms not only deeper but sustainable in the future as the economy steps into the global environment. It has political compulsions in a democratic framework and gets limited by the lack of consensus on many bolder reforms.

It is not to say that it should coercively drive bolder reforms, but at least do those which fall in its domain, less controversial, and for the bolder reforms, flag them, create appropriate platforms for discussions and over a period of time, with consensus implement them. At a still broader level, reforms other than economic also influence economies such as police, judicial, bureaucracy and many such smaller reforms can have a profound impact, by spreading positive sentiments of growth and welfare in the economy.

It can be said, all these reforms economic or otherwise are centred 'around' the government but what about the government itself? It is also a candidate for reform itself. The speed of decision-making, better inter-ministerial coordination, leaner government structure, technology-enabled, proactive and not reactive character, are all relatively simple to implement and send positive signals in the economy.

It is in these, not able to implement 1000 of smaller reforms, it can be said that reforms in India have slowed down, if not paused by the government and not because of its in ability to push through bolder norms. It is not the ability to push bolder reforms which is being questioned, but as mentioned previously, in their ability to flag them and provide a platform for a broad-based consensus, which is being questioned. The other is government-reforming itself, which is relatively easy but still difficult requires a strong will and still more important a decisive discipline and a consciousness of their larger responsibilities towards the national interests rather than party interests.

40.5 BIG BANG ECONOMIC REFORMS CENTRED AT ECONOMIC GROWTH

During 2014, after the UPA-government historic mandate Narendra Modi, took over as India's Prime Minister with the promise of good days (achhe din) for all. India's agenda on the so-called big bang economic reforms were listed and discussed across forums from day 1 of the Modi-government. These were categorized as GST, land acquisition, labour, banking, investment liberalization and subsidy reforms.

During last two years the government is right on track of reforms front not through big bang reforms, but several small, baby-steps. Most notably, the government has set economic wheel in motion by kicking off the process in the area of subsidy reforms. It has done so by promoting Aadhaar-bank account linkage for the roll out of Direct Benefit Transfer (DBT). The LPG subsidy roll our through DBT was indeed a great move by this government to curtail leakage and diversion of government funds—something that distorted the system for long.

In the next three years, the government should enhance the reform task to food, fertilizer and other government benefits to the poor. The passage of Aadhaar Bill is a great enabler. The whole subsidy reforms process, which was first kicked off by the UPA-regime, is built on the DBT channel, based on the unique identity number, or Aadhaar card provided to each citizen. It holds particular importance for the current government, and the success of its financial inclusion push under the JAM (Jan Dhan, Aadhaar and Mobile) trinity. With 99.21 crore Aadhaar cards already been issued to almost 97 percent of the country's adult population, taking ahead the subsidy reforms process using this channel is a logical step for India.

Liberalization of Foreign Direct Investment (FDI) norms and 'Modi shows' in numerous foreign trips, have led to the spike in inward fund flows. The FDI inflows has grown by 29% to USD 40 billion in the fiscal year ending March 2016. But, the absence of revival in private investment cycle is still acting as a drag on the economy on multiple fronts. New projects are yet to happen in a major way and the existing stock of stalled projects continues to be a pain.. The chunk of stalled projects has gone up to Rs 11.4 lakh crore in the fourth quarter of fiscal year 2016.

The absence of fresh private investments becomes even a greater problem seen in the backdrop of bank funding drying up to industries. Huge NPAs on bank balance sheets have forced banks to shut funding channels . Also, severe capital scarcity in the case of stare-run banks has further constrained banks' ability to fund the economic growth. Thus the big task by government would be to convince the private investors to finance India's infrastructure projects something essential to fire up an aspiring economy.

When it comes to banking sector reforms, the passage of the bankruptcy law is a major step in the process of overhauling the country's Rs 101 lakh crorc banking sector, even though implementation is key. Bankruptcy code passage also helped the UPA government to break the reforms jinx in successive parliament sessions battered by controversies and political blame games.

The reforms task is half-done yet. If the ongoing spike in bank NPAs continue for another few quarters, state-run banks will face a crisis situation if the government fails to bail out these entities. Averting a banking sector crisis will be one of the key tasks that will be used to judge the finished agenda in economic reforms. The Reserve Bank of India (RBI) beginning the clean-up exercise has shown the actual depth of the trouble on the books of Indian banks (hidden bad loans), especially state-run lenders.

In the March-quarter, PSU banks have reported record level of bad Ioans resulting in cumulative losses of over Rs 14,000 crore in the quarter. While the clean-up exercise should be done sooner than later. A crisis in the banking sector can upset the calculations. In the long-term, the biggest reform banking sector need is privatisation since government cannot keep on feeding banks. So, it is high time now to undertake radical reform measures in the banking industry.

The issue of land reforms is more or less off the table now. Since land acquisition is more or less is a state-specific affair now, there isn't much the central government can do about.

The government has taken up a catalytic reform agenda across multiple domains since assuming charge whether it is legislative as in the Bankruptcy Act, procedural as in direct benefits transfer, or systemic like transparent auction of resources. The power sector reforms for coal supply, financial health of discoms under the UDAY scheme and bold innovative GST as biggest tax reform, thereby fulfilled the promise to significantly push up the GDP by 1.5%-2% going ahead.

CHAPTER

INDIAN ECONOMY-OUTLOOK AND CHALLENGES 41

This is the concluding section, addressing the outlook for the Indian Economy after discussing at all the facets and perspectives of the domestic economy, the world economy and the economic reforms. The outlook would also have its own set of challenges which would have to be overcome.

41.1 GLOBAL PERSPECTIVE—INDIA AND CHINA

First, the outlook from a global perspective, India clearly is one of the fastest growing emerging economies of the world, next to China, having the potential to overtake China in the medium-term. Though in recent times there has been a sharp deceleration in growth of India but these are for domestic reasons rather than global compulsions. Some of the distinct advantages which India has over China are:

(1) India is the largest democracy in the world, elected government, participative and collective wisdom within the government moving up the economic ladder slowly but consensus-driven and with long-term sustainability.

(2) India with its young population would contribute to the global workforce.

(3) It has the largest number of English-speaking workforce outside the US.

(4) Annually, India produces 6 lakh engineers, some world-class from the IIT and some mediocre. Even if 25 per cent of them are world-class it would mean one lakh engineers a year which is impressive by any global standards.

(5) India is a way ahead of China in respect of market-determined exchange rate, fairly open capital account besides already having current account convertibility.

(6) India's financial sector is fairly liberalized, transparent accounting practices, standardized income recognition, asset classification norms, with high levels of capital than that prescribed by the international standards.

    (a) Indian banks were the first, amongst emerging economies to have already implemented the Basel II accord.

(7) There is a freedom of speech, freedom to express opinions on important issues besides relatively a free media. This provides for internal checks and balances and also testing of policies and consensus building on sensitive economic issues.

(8) In recent times, China with its high growth earlier has started showing signs of an overheated economy with infrastructural constraints surfacing, increase in unemployment and the pinch of inflationary pressures.

India on the other hand, is better placed in these areas as inflationary pressures have already peaked and have begun their down-turn.

However, these latent advantages have to be leveraged by India to reap the benefits of double digit fastest growing economy.

41.2 DOMESTIC OUTLOOK

(1) The government will have to relook at the unfinished agenda of economic reforms and pursue with the right vigour as that displayed during 1991.
(2) It will have to reshape itself becoming more professional in its approach from a 'driver' of growth to 'management' of growth, which is allowing growth itself to grow with its own momentum, by playing the role of a facilitator.
(3) This would require the government to create an enabling environment, within which the growth not only increases but is allowed to spread more evenly across the economy.
(4) It has to embrace electronic governance, provide for technology and innovation intensive investment, aimed at newer technologies, at affordable prices, benefiting the masses.
(5) It has to look at newer ways of'3 Es' Envisioning, Empowerment and their smooth and seamless Execution.
(6) It cannot lose sight of the problems of poverty and malnourishment of a vast section of population.
(7) It also has to ensure that growth rates in future should be more broad-based in nature and benefit masses.
(8) Skill formation has to be given priorities by strengthening the institutional framework and that sufficient skills are available to meet the growing output of the economy.
(9) It will require a better understanding of its role changing to creating an enabling environment for all the sectors to deliver.

Finally, from a financial perspective, the role of RBI and its responsibilities would have to radically change as India enters a globalized world.

41.3 OUTLOOK FOR RESERVE BANK OF INDIA (RBI)

The RBI would have to play the role of ensuring seamless transition of the Indian banks to the internationally prescribed Basel III norms. It would have to build better risk assessment capabilities, risk appetite and sufficiency of capital, in the Indian banking system, in the wake of the global financial fallout . The government has set up an apex level financial stability development council (FSDC) for addressing issues of financial stability , inter - regulatory coordination, financial literacy and financial inclusion.

Though this council is still at a nascent stage but RBI would be required to play a major role with other regulators providing inputs. Its role should not be that of excessive regulations but to provide a domestic oversight mechanism to financial and other sectors and a conduit to pass on global financial developments. RBI would also need to understand that while credit contraction or expansion by banks lies within its purview, it is not answerable for any deceleration in industrial growth, arising out of credit contraction.

This is what the council should do to provide the interface and not earn the status of a ‘super regulator" in the economy. It should only be a platform for providing interface with other regulators of the economy. Neither should the council allow emergence of a super regulator in the economy. As a super regulatory would only make the other regulators in the economy meaningless and ineffective, defeating the very purpose of a regulator.

It should also have to take critical decisions especially in respect of exchange rates in determining the levels and timing of its intervention to manage exchange rates. Another aspect would be managing the capital inflows. We had previously discussed about the ‘impossible trinity’ of being able to manage any two, between exchange rate, open capital account and an independent monetary policy. This would be the biggest challenge for the RBI in future.

Overall, the Indian Economy has a bright outlook, from all the angles, but still requires first, conversion of advantages as opportunities and then their encashment. It places great responsibilities on the shoulders of the government and RBI of leading from the front, and make India a front runner amongst the emerging economies in the future.

41.4 INDIAN OUTLOOK—CHALLENGES AHEAD

While India is a global prospect, full of opportunities, a potentially fastest growing economy and larger global presence it has some inherent stiff challenges. The first challenge, as outlined previously of the ability of converting advantages into opportunities and subsequent encashment or translation into increased investment, output and income. The second being, the global outlook still has many question marks and uncertainties of the following:

(1) Recovery of large economies post-crisis.
(2) Fears of double-dip recession.
(3) Uncertain future of Euro and Eurozone.
(4) Smaller economic ability to destabilize global economy.
(5) Implications of growing sovereign debt of large economies, Implications of a different international reserve currency other than USD.

These uncertainties impose greater challenge for countries such as India and China for lifting global output.

The changing global axis towards the emerging economies is seen as a welcome feature of the new world order. There are two aspects to understand in this shift, one of the axis being ‘pulled" towards the emerging economies, and the other, of the axis being pushed" towards the emerging economies. Which is happening ‘pulled or pushed?"

The global crisis is pushing the axis towards emerging economics as the only way going forward. It is not that something dramatic has happened in these emerging economies, especially India. As we have seen previously, the unfinished agenda before the government the pause on economic reforms only re-affirm the aspect of being pushed rather than being pulled.

Thus, the larger question of countries such as India is it 'prepared' for such structural shift of the global economy? Capital inflows into these economies was seen as good for them, but large surge inflows recently, has been seen as potentially destabilizing, and has triggered currency war situations. Most economies have resultantly imposed restrictions of such inflows. India has restrained so far but for how long?

These inflows are coming because of quantitative easing by the US and not due to any particular positive feature of the emerging economies like India. 'It is absence of an alternate window which is causing this surge in inflows.' However, such can also seep into real estate, commodities, besides the stock market and also corporate and sovereign debt market creating 'asset bubbles', which by definition, will burst when the economy is least prepared.

An equally greater challenge for countries like India would be how to manage outflows, asset bubbles bursting, if they happen, once an alternate window is available? Another belief of the new world order is the likelihood of increased penetration of countries, for example, India in the global economy with larger share of exports of goods and services.

Given the market imperfections in India, can it be globally competitive to achieve penetration? India's export sector continues to lack maturity of understanding the importance of moving up the value chain, rather than, exchange rate movements, as more fundamental, to achieve the levels of penetration. The integrated global economy would definitely open opportunities, but penetration, will largely rest on ability of countries like India to emerge as globally competitive.

Yet another aspect is that India and China by virtue of their large population are being seen as potential markets but do these markets have income or purchasing power to actually become market as widely believed? That is, besides the above challenges; it will also have a larger set of domestic challenges. They are as follows:

(1) The major challenge of an impoverished India, home to largest number of people living below USD 1 per day, of absolute poverty, malnourished and a large social sector outside the mainstream of development.

    (a) The challenge will be of drawing the vast lot of such people, larger than population of many countries, into mainstream of development.

(2) A larger challenge as expressed by the eleventh five-year plan and would also get echoed in the twelfth five-year plan, of not increasing rates of growth, but of providing greater inclusive growth.

    (a) The challenge is thus not growth but how to ensure they are evenly spread to provide broad-based benefits to masses?

(3) Then the issue of a stagnant, traditional and livelihood agriculture. Is the agricultural sector capable and prepared to meet the needs of a growing economy with rising income levels?

(4) Despite all the talk about India as a new economy, India continues to be a country of villages; the soul of India is in the 6 lakh villages.

It is not about converting villages into towns. Villages are an essential fabric of the Indian economy, but how to make them self-contained in terms of basic amenities and also provide people in the villages, with a source of income?

We have seen earlier, the huge investment deficit especially in infrastructure sector like power. From where does one raise the huge resources required for bridging this deficit?

This is not to talk about rural infrastructure, which is already crumbling, requiring not only re-building but also fresh investment.

(5) Even die industrial and financial sectors where reforms have been centred, there is still a large presence of the public sector.

Will they be competitive and continue to be profitable, as a public sector, in the absence of their privatization, in a rapidly transforming market economy of India?

(6) India's growing dependence on imported crude petroleum will only increase with increased growth.

However, how does India insulate itself from sharp volatility in international crude petroleum prices?

How does one build energy security in India? Are we concerned of our structural problems in the energy sector?

(7) In the recent past the government has been accused of a 'policy paralysis' but in reality it is more of 'policy uncertainties', absence of 'policy continuity' and fears of policy reversal'. These are far more critical, influencing the entire economy than policy paralysis. The biggest difference is that policy paralysis can be shrugged off, while others require restoration of faith and that is the challenge of restoration of faith in the government.

An attempt has been made here to highlight the challenges as India prepares to go into the future. These challenges are not insurmountable, but need to be overcome. However, it will require sustained efforts, desire to overcome, collective political will and above all a realization, on the part of the government, of their criticality and fundamental in reshaping the Indian economy.

To reiterate, India has the advantage over other economies but the ability to harness them as opportunities and taping them, whether global or internal, is in the hands of India only. The fate of the Indian Economy in future is within our own hands, collectively and to shake up the government to make India realize its full potential, if not beyond usher in a new India, and restoring India to its past glory and stature, presently confined as leaves of history.

41.5 INDIA 2020: TOP 7 CHALLENGES.

Though India may already be the worlds third-largest economy on purchasing power parity, it ranks only 58th out of 140 countries in the World Economic Forums Global Competitiveness Index of 2018. With high inflation, slow growth and lowering investor confidence, India faces seven key challenges while looking at 2020 and beyond.

1. **Education and skills.** Though India is housing more than 400 million workers, more than two-thirds of Indian employers report that they are unable to find workers with the right skills to meet their workforce demand. This contrast indicates to clear opportunities ahead, while posing serious challenges with regard to education and skill development. The World Bank launched its first Human Capital Index (HCI) in Bali, Indonesia on October 11, 2018, as part of the World Development Report 2019. The index ranks countries based on their success in developing human capital. India ranks 115 in World Bank human capital index.That's much below its Asian peers, including China ranked 46, Indonesia (87), Malaysia (55). Singapore was ranked number one in the world followed by Japan, Hong Kong and Finland.
2. **Urbanization.** More than one-third of Indians live in cities. It is estimated that, by 2050, as many as 900 million people will be living in urban areas, Meeting their needs while safeguarding the environment will require innovative and sustained models of urban development in the years ahead.
3. **Health.** On health front, India faces the double burden of infectious diseases and dramatic rise in non-communicable diseases. Apart from causing individual tragedies, these diseases are also posing major economic threats.
4. **Sanitation.** Many health challenges are linked to sanitation. Linking a clean environment to human capital productivity is an issue that should be looked at as an investment and not a cost. The challenge is to identify and implement the right way to every Indians a clean environment.
5. **Gender.** The gender gap prevents economic development all around the world. There is an urgent need for India to actively address the issue of violence and gender discrimination. This is another challenge before India while trying to reap the full potentials.
6. **Water scarcity.** Growing population places a severe strain on its natural resources. Since the most of the water sources are contaminated by sewage, industrial wastage and agricultural run-off, ensuring adequate water supply will remain a challenge.
7. **Transparency.** Transparency issue dampens the whole economy. It hampers competitiveness, growth and overall development of the country. India has to urgently address this challenge as well.

Diverse challenges of this complexity and magnitude cannot be expected to be solved by government interventions alone. There is a requirement for collaborative approach with active involvement from various stake holders.

THE IGNITERS:
THOUGHT PROVOKING QUESTIONS

1. The nature of economic growth in India is described as jobless growth. Do you agree with this view? Give arguments in favour of your answer.
2. 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.
3. Discuss in brief the importance of Niti Aayog in developing plans and policies for continous growth and development of India.
4. 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?
5. Livestock rearing has a big potential for providing non-farm employment and income in rural areas. Discuss suggesting suitable reasons in support of your comments.
6. In view of the declining average size of land holdings in India which has made agriculture non-viable for a majority of farmers, should contract farming and land leasing be promoted in agriculture? Critically evaluate the outcomes of this action at the rural front.
7. What is water-use efficiency? Describe the role of micro-irrigation in increasing the water-use efficiency.
8. Discuss the role of land reforms in agricultural development. Identify the factors that were responsible for the success of land reforms in India.
9. Given the vulnerability of Indian agriculture to vagaries of nature, discuss the need for crop insurance and bring out the salient features of the Pradhan Mantri Fasal Bima Yojana (PMFBY).
10. 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?
11. 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.
12. India needs to strenghten measures to promote the pink revolution in food industry for ensuring better nutrition and health. Do you agree with the statement? Justify.

13. There is also a point of view that agriculture produce market committees (APMCs) set up under the state acts have not only impeded the development of agriculture but also have been the cause of food inflation in India. Critically examine.
14. "In the villages itself no form of credit organisation will be suitable except the cooperative society." - All Indian rural credit survey. Discuss this statement in the background of agriculture finance in India.
15. In what way could replacement of price subsidy with Direct Benefit Transfer (DBT) change the scenario of subsidies in India? Substantiate
16. 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 poor section of the Indian society? Give arguments to justify your opinion.
17. 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.
18. The demonetisation policy have led to a surge in transparent and corruption free business practices at the same time resulted in pressure on growth and development of indian industry and service sector In view of this, examine the impact of the demonetisation policy.
19. "Trade diversion occurs when tariff preferences offered under an FTA causes a shift of imports from firms in non-FTA member countries to less efficient firms within the trade bloc, which now become competitive due to tariff reliefs". Discuss the impact of FTA on Indian Trade in the light of above statement.
20. What are 'Smart Cities'? Examine their relevance for urban development in India. Will it increase rural-urban differences?
21. How can the 'Digital India' programme help farmers to improve farm productivity and income? What steps has the Government taken in this regards?
22. What are the impediments in marketing and supply chain management in industry in India? Can e-commerce help in overcoming these bottlenecks?
23. "Success of 'Make in India' programme depends on the success of 'Skill India' programme and radical labour reforms." Discuss with logical arguments.
24. What is JAM trinity? Critically examine the relevance of JAM trinity in growth and development of Indian economy.
25. "The rules of doing business in India have been simplified with the introduction of information technology to make governance more effective and efficient". Do you agree with the statement? Give suitable reasons in support of your answer.
26. How the merger of rail budget, a 92 year old tradition with the general budget is going to affect the fiscal policy of Government of India? Substantiate your comments with suitable reasons.

27. There is a clear acknowledement that Special Economic Zones (SEZs) are a tool of industrial development , manufacturing and exports . Recognizing this potential , the whole instrumentality of SEZs requires augmentation . Discuss the issues plaguing the success of SEZs with respect to taxation, governing laws and administration.

28. 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?

29. 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.

30. Foreign direct investment in the defence sector is now said to be liberalized. What influence this is expected to have on Indian defence and economy in the short and long run?