

Economics Class 14

6th August, 2023 at 1:00 PM

REVISION OF THE PREVIOUS CLASS (01:05 PM)

ACHIEVEMENTS AND CRITICISM OF FIVE -YEAR PLANS (01:08 PM)

- Over-emphasis on industry ignoring agriculture.
- According to the statistics, agriculture can better handle poverty.
- Though we were able to achieve growth it was not inclusive.
- The efficiency of the Government scheme was a question mark.
- Failure of trickle-down theory.
- Lack of penetration of social security.
- Lack of financial penetration.
- Our growth model was capital-intensive.
- Capital-intensive growth has led to jobless growth.
- Jobless growth was also due to over-tertiarisation.
- Self-sufficiency in basic and capital goods industries and also the consumer goods industry.
- Increase in economic growth, savings and investment, and per capita income.
- Progress in industry and industrial growth.
- Development in the field of science and technology.
- Improvement in social indicators like literacy, IMR, MMR, etc.
- Development of economic infrastructure particularly in the field of transport, irrigation, and telecommunication.
- **Criticism:**
- Politicisation of the planning process.
- Failure to eliminate poverty.
- The concentration of economic poverty. (failure of land reforms etc.).
- Failure to check the growth of black money.
- Regional imbalances.
- The centralised nature of planning that is plans were program driven rather than demand driven.
- excessive emphasis on PSUs.
- Agriculture is overshadowed by the industries in the planning process.
- Lack of inclusive growth.
- Failure of trickle down, lack of financial inclusion, capital intensive growth model, jobless growth, over tertiaryisation of Indian economy, informalisation of Indian economy.
- Lack of **social security benefits**.
- Marketisation of basic services like primary health care and primary education.

PLANNING COMMISSION AND NITI AAYOG (01:36 PM)

- The Planning Commission was replaced by the NITI Aayog after the key announcement made by the PM on the independence day and NITI Aayog came into action on 1st Jan 2015.
- The Planning Commission was established on 15th March 1950 with the primary motive of making five-year plans in accordance with the USSR.
- NITI Aayog is deemed to be an advisory institution that can advise both states and the centre on Important policy matters.
- The Chairperson of the committee is the Prime Minister and the Governing Council consists of CMs of the state and lieutenant Governors of the UTs.
- Regional Councils are set up to address specific issues.

- It comprises CMs of states and lieutenant Governors of the UTs of the concerned region.
- The whole staff of the NITI Aayog is divided into two hubs:
- **1. Knowledge and innovation hub:**
- It has 12-14 verticals that deal with different sectors and build NITI's think tank capabilities.
- **2. Team India hub:**
- It works as an interface between the central and the state Government.
- **Niti Aayog and Planning Commission:**
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NITI Aayog	Planning Commission
It is basically an advisory body that cannot mandate or impose policies.	It had the power to impose policies on the states.
It cannot allocate funds. These powers still remain with the Finance Ministry.	It enjoyed the power to allocate funds to ministries and state Governments.
State Governments play a proactive role when it comes to NITI Aayog.	Decisions were more centralised under this commission.
It has a provision for part-time members	No provision for part-time members.
The bottom-up approach is followed.	
It has a Governing Council with CMs of states and lieutenant Governors of UTs as members.	Top top-down approach is followed.

WTO (02:02 PM)

- **Structure of the topic:**
- **Prebisch Singer Hypothesis;**
- **GATT vs WTO;**
- **Why WTO?;**
- **The preamble of WTO;**
- **Different agreements under WTO:**
- TRIPS;
- GATS;
- TRIMS;
- AoA;
- Plurilateral Agreement;
- **Structure of WTO;**
- **Different Ministerial Conferences:**
- Sing-1;
- Doha-2001;
- Bali-2009;
- Nairobi-2015;
- Geneva-2022;
- **Do you think, India needs WTO?.**
- **Prebisch Singer Hypothesis:**

- The traditional theory of free trade proposed by **Adam Smith** stated that it should result in higher profits for all the nations engaged that is it is virtually impossible for any nation to produce all their consumption requirements themselves at least possible cause.
- A particular country will find it profitable to produce commodities on comparative advantage.
- It should export such commodities and import other commodities on the basis of this economic principle.
- Developed countries often argue to promote free trade through organisations like WTO but the conclusions of the above theory can change when we look at empirical evidence with respect to the LDCs.
- For most of the LDCs, their comparative advantage lies in the production of agriculture and other primary products such as cotton, coffee, sugar, etc.
- It has been empirically proved that the income elasticity of demand is lower for these products in contrast to income elasticity for manufacturing goods is higher.
- These two effects result in a decline in the relative price of primary products.
- This decline does not lead to a significant rise in demand.
- These two phenomena together make the export earnings of the LDCs highly unstable.
- Thus, making free trade harmful for them.
- The above finding is popularly known as the **Prebisch-Singer Hypothesis**.
- This finding is the issue of conflict between developed and developing countries on aspects related to international trade.
- Apart from this, developed countries are protecting their agricultural markets by giving huge subsidies that are adversely affecting developing countries' markets.
- **Origin of the WTO:**
- It can be traced back to the economic situation immediately after the Second World War.
- International economic cooperation was a necessity and to achieve this goal, a number of international organisations were formed under the **Bretton Woods Conference**.
- Apart from the formation of the World Bank and IMF, an organisation called ITO was also proposed to tackle trade barriers and other issues related to trade.
- Although ITO was never formed due to a lack of consensus.
- Another agreement called GATT (General Agreement on Trade and Tariff) was signed by 23 countries in Geneva.
- GATT came into force on 1st Jan 1948 and till the formation of the WTO in 1995.
- GATT was the only **multilateral agreement** governing international trade.
- Totally eight multilateral negotiations(MTNs) were held under GATT.
- MTNs tried to tackle some of the basic issues related to international trade like tariffs and non-tariff barriers.
- However, within 40 years of the operation of GATT, its members felt that the system was inefficient in handling problems of the globalising world economy.
- These issues came to the forefront during the eighth MTN of GATT in **URUGUAY**.
- During the Uruguay round, talks took place on many new areas of the trading system like trade and services, IPRs, etc.
- Apart from the emergence of these new issues, differences also arose among member countries on issues like agricultural subsidies.
- To tackle this issue, the DG of GATT proposed a Dunkel draft.
- On the basis of this draft, an act was signed by 123 nations including India in 1994 at Marrakesh.
- As a result of this agreement, WTO came into existence on 1st Jan, 1995 with its headquarters at Geneva.
- Currently, WTO has 164 members with its current head **Ngozi-Onkonjo-Iweala**.
- **Principles of WTO:**

- **1. Trade without discrimination:**
- It includes two concepts:
- National Treatment;
- Most Favoured Nations (MFN).
- **National Treatment:**
- **Treating foreign entities and locals equally.**
- It only applies to services or items of intellectual property that have entered the domestic market.
- Therefore, charging customs duty on imports is not a violation of **national treatment**.
- Even if locally produced products are not charged an equivalent tax.
- **MFN:**
- In international economic relations and international politics, MFN is the status or level of treatment accorded by one state to another in international trade.
- The term means the country that is the recipient of this treatment must nominally receive equal trade advantages as the most favoured nation by the country granting such treatment.
- In a nutshell, MFN is a non-discriminatory trade policy as it is to ensure equal trading among all the WTO member nations.
- **Exceptions:**
- Free trade agreements, regional trade blocs like RCEP, EU, etc.
- **2. Fair competition:**
- Though the WTO is described as a free trade institution, the system allows tariffs in limited circumstances.
- It also allows other forms of protection in spite of rules like non-discrimination.
- The fair competition aims at reducing dumping, predatory pricing, excessive non-tariff barriers, etc.
- **3. Free trade or improved market access:**
- Lowering trade barriers is one of the most obvious means of encouraging trade.
- The barriers concerned include custom duties or tariffs, and measures such as import bans or quotas (quantitative restriction) that restrict quantities selectively.
- Free trade focuses on converting non-tariff barriers into tariff barriers and reducing tariff barriers progressively.
- **4. Predictability of trade rules.**
- **The topic to be discussed tomorrow- TRIPS**