CURRENT AFFAIRS - 2020

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1. NATIONAL LOGISTICS POLICY

Context

Union Minister of Commerce and Industry of the policy reviewed the draft National Logistics Policy and proposed action plan for implementation prepared by the Department of Logistics, Ministry of Commerce and Industry.

About

- The **draft National Logistics Policy** has been prepared in consultation with the **Ministries of Railways, Road Transport and Highways, Shipping and Civil Aviation** and forty-six Partnering Government Agencies (PGAs).
- **Objective:** To streamline rules, address supply-side constraints, lower logistics costs and ensure greater competitiveness for Indian products worldwide.
- **National Logistics e-marketplace:** A National Logistics e-marketplace will be created as a one stop marketplace.
  - It will involve simplification of documentation for exports/imports and drive transparency through digitization of processes involving Customs, PGAs etc. in regulatory, certification and compliance services.
- **Institutional Framework for policy**: For purpose of the new logistics framework, four committees/ councils will be constituted:
  - **National Council for Logistics,** chaired by the Prime Minister.
  - **Apex inter-ministerial Committee**, chaired by the Minister of Commerce and Industry.
  - **India Logistics Forum** chaired by the Commerce Secretary with representation from key industry/ business stakeholders and academia.
  - **Empowered task force** on logistics will be created, as a standing committee chaired by the head of the Logistics Wing.

Need for National Logistics Policy

- **Unregulated and fragmented logistics sector**: India's logistics sector has remained fragmented and unregulated, despite its centrality to economic growth.
- **Complex sector**: The sector is very complex with more than 20 government agencies, 40 PGAs, 37 export promotion councils, 500 certifications, 10000 commodities, 160 billion market sizes along with 12 million employment base.
  - The **national logistics policy will clarify the roles** of the Union government, state governments and key regulators
- **High cost:** The cost of logistics for India is about 14 per cent of its GDP and it is far higher as compared to other countries.
- **Lack of adequate infrastructure:** Almost 25-30% of fruits and vegetables produced in India are wasted due to lack of cold chain infrastructure

The draft National Logistics Policy

- **Optimize modal mix:** The draft policy has sought to optimize the modal mix (road-60%, rail-31%, water-9%) to global benchmarks (road - 25-30%, rail - 50-55%, water - 20-25%) and promote the development of multi-modal infrastructure.
- **Logistics Wing:** The policy recommends setting up a Logistics Wing that will be the nodal agency tasked to **identify key projects for driving first mile and last mile connectivity** and to optimize the modal mix to identify commodity and corridor for the most cost-effective mode of transport.
- **Logistics center of Excellence**: Encourage industry, academia and government to come together to create a logistics Centre of Excellence, and drive innovation in the logistics sector.

Objectives of the Logistics Policy

- Providing an **impetus to trade and hence economic growth** by driving competitiveness in exports.
- **Doubling employment** in the logistics sector by generating additional 10-15 million jobs and focus on **enhancing skills** in the sector and encouraging gender diversity.
- Improve India's ranking in the **Logistics Performance Index**.
- **Strengthening the warehousing sector** in India by improving the quality of storage infrastructure including specialized warehouses across the country.
- **Reducing losses due to agro-wastage** to less than 5% through effective agro-logistics.
- Providing impetus to **MSME sector** in the country through a **cost-effective logistics network**.
- Promoting **cross regional trade on e-commerce platforms** by enabling a seamless flow of goods.
- Encouraging adoption of **green logistics** in the country.

Benefits

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- **Impetus to employment and growth:** The Indian logistics sector provides livelihood to more than 22 million people and improving the sector will facilitate **10% decrease in indirect logistics cost,** leading to a **growth of 5 to 8% in exports.**
- **Growth potential in logistics sector**: Further, it is estimated that the worth of Indian logistics market will be **around $215 billion in the next two years**, compared to about $160 billion at present.

Way Forward

The development of multi-modal logistics parks and rules to do with motor vehicle movement, come under the ambit of state governments. So, there is need of alignment between the Centre and states, for better implementation and coordination of this policy.

2. INDIAN PROTECTIONISM

Context

Recent escalation of protectionist steps between US and China has raised questions about India's policy response.

About

- **After independence in 1947**, India spent decades trying to survive **without international trade.**
- While this **protection** succeeded in creating a **large and highly diversified industrial base**, it also led to **inefficiency in the use of resources**.
- India ditched its model of local production for local consumption following a **currency crisis in early 1990s.** It **open up to foreign investment** and removed trade barriers in exchange of help from
- Since 1991, the tariff policy of India has led to a systemic **reduction in India's weighted effective average tariff.**

- **Decline in average tariff** has coincided with a **sharp rise in GDP** and **higher growth rate**. Lower tariffs offered following few **benefits:**
  - **Rise in exports** and **reduction in poverty** at the fastest pace in India's history.
  - India emerged as a **leader in exports of IT services**, and is now a key player in
  - It also helped India run a **trade surplus** - whereby it sells more than it buys - **in goods and services with US.**
  - Trade liberalization fostered an atmosphere of intense c**ompetition**, leading to better use of inputs and innovation, driving **productivity growth.**
- **Current Scenario:** Recent trade experience has been mixed.
  - **Export growth is slow paced**.
  - The current economic slowdown has led to a **drop in the value of imports**, thus **shrinking the current account deficit.**

India a "tariff King" and growing protectionism

- A few months back, President Donald Trump described India as **"the tariff king",** accusing it of imposing **"tremendously high" tariffs on American products**.
- When higher tariffs are supplemented by **higher current account deficit** and **fall in rupee**, they reinforce a growing **trend of protectionism.**
- **India is among the most heavily protected economies in the world:**
  - Among members of BRICS grouping—Brazil, Russia, India, China, South Africa—India has the **highest effective tariff rates on food items, automobiles and industrial inputs**.
  - Data from the Global Trade Alert (GTA) database shows that India and the US introduced the **most trade restrictions in 2018.**
  - Number of harmful **interventions implemented by India has increased** in last decade.
  - A recent World Bank report accused India of increasingly resorting to trade remedy measures such as **anti-dumping and safeguard actions.**
  - In its latest report on global trade barriers, the US trade department singled out India as having the **highest tariffs "of any major world economy" - averaging 13.8%.**
- While import tariffs may provide the economy with **short-term relief**, growing protectionism **can have long term adverse consequences**.

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Case against growing protectionism

- At a time when other economies are also raising trade barriers, it is easy to fall into the **protectionist trap.**
- **Will undo trade liberalization benefits:** India's trend to protectionism threatens to undo more than two decades of trade liberalization measures that have powered India's growth over the past quarter century, boosting incomes and helping cut poverty levels.
- **Will be hardest hit:** A recent OECD report warned that **India, Australia and China would be the biggest losers in terms of per-capita income** growth if the current wave of trade protectionism escalates and slows down global growth.

Higher tariffs do not aid Make in India

- **Disincentive competition:** There is adequate empirical evidence, including India's experience, that suggests protectionism and tariff barriers act as a disincentive for domestic industries to become competitive.
- **Higher input cost:** A higher tariff on imported inputs result in higher input costs for manufacturers, which could otherwise be **competitive if they could import cheaper inputs**.
- Hence, a comprehensive view of the supply chain must be taken while making any changes to tariff policies.

- **High-level advisory group suggestions:** Amidst US-China trade war, it is possible that higher tariffs might be imposed by other countries on Indian goods and services. It would be **beneficial for India does not retaliate with tariffs.**
- Any move to raise tariffs **must consider the integrated supply chains** and the fact that Indian imports are largely for domestic consumption.

Suggested policy response

- As production takes place through supply chains, India should **integrate with global markets** to **ensure adequate labor-intensive manufacturing jobs.**
- As India has a natural **comparative advantage in labor-intensive economic activities**, such activities should benefit from **provision of adequate infrastructure for manufacturing** and the **elimination or reform of crippling anti-business labor laws.**
- Tariffs can be part of a revenue-raising strategy, but it is b**etter to have a small, uniform (same for all goods) tariff, rather than large tariffs** in seemingly arbitrary sectors.
- This would help avoid the problem of "effective" rate of protection deviating from the nominal rate, and the possible worsening of the problem of tariff inversion.

3. 'THE SIGNIFICANCE OF THE KOLKATA PORT'

Context

In a recent development, Prime Minister Narendra Modi renamed the **Kolkata Port Trust** after Bharatiya Jana Sangh (BJS) founder **Dr Syama Prasad Mookerjee**, at an event to mark its 150th anniversary.

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About Kolkata Port:

- Kolkata Port is the only riverine Major Port in India, situated 232 kilometers up-stream from the Sandheads, having arguably the longest navigational channel amongst Major Ports of India and its navigational channel is one of the longest in the world.
- KoPT is India's oldest operational port and the first among the 12 major ports (government-owned) of India. Kolkata Port System includes three ports:
  - Kolkata
  - Haldia
  - Sagar Island
- The port facility has aided in industrialization, employment generation and major economic activity in the region while serving a vast hinterland as well as landlocked neighbouring countries such as Bhutan and Nepal.
- The river Hooghly, on which it is located, has many sharp bends, and is considered a difficult navigational channel.
- Throughout the year, dredging activities have to be carried out to keep the channel open.
- The **Farakka Barrage**, built in 1975, reduced some of the port's woes as Ganga waters were diverted into the **Bhagirathi-Hooghly system**.

Historical background:

- In the early 16th century, the Portuguese first used the present location of the port to anchor their ships, since they found the upper reaches of the Hooghly river, beyond Kolkata, unsafe for navigation.
- **Job Charnock**, an employee and administrator of the **East India Company**, is believed to have founded a trading post at the site in 1690. Since the area was situated on the river with jungle on three sides, it was considered safe from enemy invasion.

- After the abolition of slavery in the British Empire in 1833, this port was used to ship lakhs of Indians as 'indentured labourers' to far-flung territories throughout the Empire.
- As Kolkata grew in size and importance, merchants in the city demanded the setting up of a port trust in 1863.
- The colonial government formed a **River Trust in 1866**, but it soon failed, and administration was again taken up by the government.
- Finally, in 1870, the **Calcutta Port Act (Act V of 1870)** was passed, creating the offices of Calcutta Port Commissioners.
- In 1869 and 1870, eight jetties were built on the Strand. A wet dock was set up at Khidirpur in 1892. The Khidirpur Dock II was completed in 1902.
- As cargo traffic at the port grew, so did the requirement of more kerosene, leading to the building of a petroleum wharf at Budge Budge in 1896.
- In 1925, the Garden Reach jetty was added to accommodate greater cargo traffic. A new dock, named King George's Dock, was commissioned in 1928 (it was renamed Netaji Subhash Dock in 1973).
- During World War II, the port was bombed by Japanese forces.
- After Independence, the Kolkata Port lost its preeminent position in cargo traffic to ports at Mumbai, Kandla, Chennai, and Visakhapatnam.
- In 1975, the Commissioners of the port ceased to control it after the Major Port Trusts Act, 1963, came into force.

Who was Dr. Shyama Prasad Mookerjee?

- Shyama Prasad Mookerjee was born in Calcutta on 6th July, 1901. He was the youngest (33) ever Vice-Chancellor of Calcutta University and Independent India's first Minister of Industry and Supply.
- After India's independence, Prime Minister Jawaharlal Nehru made Dr. Shyama Prasad Mookerjee Ministry for Industry and Supply in the interim Central Government.
- However he resigned from the Cabinet in 1950 as he was against the 'Nehru-Liaquat Ali Pact'.
- After he formed Bhartiya Jana Sangh on 21st October, 1951 and became its first President.

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1. REVISED BANKING REGULATION ACT

Context

Union Cabinet approved amendments to the Banking Regulation Act to empower the central bank to have greater control over cooperative banks.

About

- Union cabinet cleared changes in Banking Regulation Act to give RBI wider powers.
- **Ambit:** The amendments will apply to all urban co-operative banks and multi-state cooperative banks.
  - They will not be applicable to rural cooperatives.
  - The changes will cover nearly 1,500 cooperative banks and will be implemented in a phased manner.
- **Objective:** This was done in order to prevent malpractices, ensure better regulation and prevent frauds such as the one seen at Punjab and Maharashtra Co-operative Bank Ltd (PMC).
  - Amendment to Banking Regulation Act aims to strengthen cooperative banks and avoid PMC Bank like crisis.
- **PMC scam:** Due to PMC scam lakhs of customers faced difficulties in withdrawing their money due to restrictions imposed by the RBI.
  - Urban cooperative banks reported nearly 1,000 cases of fraud worth more than 220 crore in past five fiscal years.
- **Current regulations:** Cooperative banks are currently under dual control of Registrar of Cooperative Societies and RBI.
  - The role of registrar of cooperative societies includes incorporation, registration, management, audit, supersession of board and liquidation.
  - RBI is responsible for regulatory functions such maintaining cash reserve and capital adequacy, among others.
- **New changes:** The administrative role will continue to be done by the Registrar of Cooperative Societies.

Implications

- **Audit under RBI norms:** Cooperative banks will be brought under the regulation of the RBI. They will be audited according to RBI's norms.
  - Cooperative banks will now be required to meet stricter capital norms.
  - The amendments will now give legislative powers to the central bank.
- **Appointments with permission of RBI:** Appointments of chief executives will also require permission from the banking regulator, as is the case for commercial banks.

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- **RBI takeover in case of stress:** Central bank can supersede the board and take control, in consultation with state government, if any cooperative bank is under stress.
- **Improve financial stability:** To strengthen the Cooperative Banks, amendments to the Banking Regulation Act will help increase professionalism, enable access to capital and improving governance and oversight for sound banking through the RBI.
  - Observing the new changes will help strengthen financial stability.

Additional measures

- **Increased deposit insurance:** In order to ensure that depositors' money is safe, Budget 2020 permitted the Deposit Insurance and Credit Guarantee Corporation (DICGC) to increase deposit insurance coverage for a depositor, which is now Rs 1 lakh, to Rs 5 lakh per depositor.

Facts about Cooperatives

- **Rural cooperatives are under state-policies:** RBI has considerable control over urban cooperative bank but has a limited control over the rural cooperative banks which are guided by state-level policies.
- **Assets of rural cooperatives are higher:** As per RBI's Trends and Progress in Banking Report, as of March-end 2018, rural co-operative banks accounted for 64.7 percent of the total assets of cooperatives.
  - Rural cooperatives are also more in number as compared to urban cooperative banks.

2. REPO RATE

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Context

The Reserve Bank of India (RBI) is considering asking banks to **link loans to an external benchmark such as the repo rate** to improve transmission of policy rates and foster economic growth.

About

- In December 2018, RBI said that banks must set their interest rates for new loans against an external benchmark beginning 1 April.
- The rule was supposed to apply to **all new retail loans and small business loans** with floating rates from that date.
- The proposal, however, **was opposed by bankers** who wrote to the regulator citing their concerns.
- Thus in April, the linking to external benchmarks was postponed and RBI decided to discuss the proposal with the parties concerned before taking a decision on implementing it.
- Currently, banks price their loans based on their marginal cost of **funds-based lending rate (MCLR).**
- **SBI** had been linking the interest rate on its **savings bank accounts as well as short-term loans to RBI's repo rate** since May 2019. Few other banks too have following the suit.

Significance

- Curbing inflation or stimulating growth by raising or lowering the cost of money is the key objective of monetary policy.
- But for a few years now, hikes or reductions in the repo rate by India's Monetary Policy Committee have had only a marginal impact on the economy because of the partial transmission of these cuts by banks.
- Given that banks source only about 1 per cent of their funds from RBI's repo window and the bulk from deposits from the public, they complain that they cannot slash their lending rates unless their deposit rates moderate.

- Linking savings account interest rates to the repo rate partly solves this problem by ensuring that banks' cost of funds fall immediately after every repo rate cut, **enabling lending rates to be pruned.**

Different types of policy rates and lending/deposit rates

- **Repo rate:** It is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation.
- **Reverse repo rate:** It is the rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country. It is a monetary policy instrument which can be used to control the money supply in the country.
- **Marginal standing facility (MSF):** 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.
- **Bank rate:** It is the rate charged by the central bank for lending funds to commercial banks.
- **Base rate:** It is the minimum rate set by the Reserve Bank of India below which banks are not allowed to lend to its customers.

The marginal cost of funds-based lending rate (MCLR):

- It is the minimum interest rate that a bank can lend at. MCLR is a tenor-linked internal benchmark, which means the rate is determined internally by the bank depending on the period left for the repayment of a loan.
- MCLR is closely linked to the actual deposit rates and is calculated based **on four components: the marginal cost of funds, negative carry on account of cash reserve ratio, operating costs and tenor premium.**

3. RBI FOREIGN EXCHANGE RESERVE MANAGEMENT

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About

- Reserve Bank of India's (RBI) bi-annual report on **management of foreign exchange (forex) reserves** is part of its efforts towards enhanced transparency and levels of disclosure.
- Findings of the report:
  - **India's forex reserves** for the week ended 13 December stood at **$454.492 billion** on account of increase in foreign currency assets (FCA).
  - India's forex reserves **increased by 5%** during the second half of the financial year ended September 2019 (H2FY20).
  - As at end-September, 2019, the Reserve Bank held**17 tonnes of gold**, with 325.87 tonnes being held overseas in safe custody with the Bank of England and the Bank for International Settlements, while the remaining gold is held domestically.
  - The foreign exchange reserves **cover of imports stood at 10 months**.
  - The **ratio of short term debt to reserves** which was 26.3% at the end of March 2019 **declined** to 25.5% at the end of June 2019.
  - In dollar terms, the **share of gold in total foreign exchange reserve increased** to 6.1% at the end of September from 5.6% as of March 30.

Objectives of forex reserve management

- Demands placed on foreign exchange reserves may vary widely depending upon a variety of factors including;
  - Exchange rate regime adopted by the country
  - Extent of openness of the economy

- Size of the external sector in a country's GDP
- Nature of markets operating in the country.

Legal Framework and Policies

- The Reserve Bank of India Act, 1934 provides the overarching legal framework for deployment of reserves in different FCA and gold within the broad parameters of; currencies, instruments, issuers and counterparties. The law broadly permits the following investment categories:
  - Deposits with other central banks and the Bank for International Settlements (BIS).
  - Deposits with overseas branches of commercial banks.
  - Debt instruments representing sovereign/sovereign-guaranteed liability with residual maturity for debt papers not exceeding 10 years.
  - Other instruments/institutions as approved by the Central Board of RBI in accordance with provisions of the Act.
  - Dealing in certain types of derivatives.

Terms related to Foreign exchange

- **Foreign Currency Assets(FCA):** FCA are maintained as a multi-currency portfolio comprising of major currencies, such as, US dollar, Euro, Pound sterling, Japanese yen, etc. and are valued in terms of US dollars. FCA excludes:
  - Investment in bonds issued by India Infrastructure Finance Company (UK)
  - SDR holdings of Reserve Bank, which is included under SDR
  - Amount lent under SAARC Swap Arrangement.
- **Currency Risk:** Currency risk arises due to movements in exchange rates. Forex reserve related decisions are taken on account of long-term exposure to different currencies, depending on their likely movements and other considerations in the medium and long-term.
- **Special Drawing Rights (SDR):** An SDR is an artificial currency instrument created by the IMF in 1969 to supplement the existing money reserves of member countries. It was created in response to concerns about the limitations of gold and dollars as sole means of settling international accounts; SDRs augment international liquidity by supplementing the standard reserve currencies. The IMF uses SDRs for internal accounting purposes. SDRs are allocated by the IMF to its member countries and are backed by their full faith and credit. SDR is built from a basket of important national currencies.
  - US dollar
  - Euro
  - Chinese Yuan
  - Japanese Yen
  - Pond Sterling
- **Reserve Tranche Position (RTP):** The IMF is funded through its members and their quota contributions. A reserve tranche is a portion of the required quota of currency each member country must provide to the International Monetary Fund (IMF) that can be utilized for its own purposes—without a service fee or economic reform conditions.
  - It is basically an emergency account that IMF members can access at any time without agreeing to conditions or paying a service fee.
- **SAARC Swap Arrangement:** A currency swap between the two countries is an agreement or contract to exchange currencies with predetermined terms and conditions. SAARC swap Arrangement entails currency swap between the SAARC countries. It is mostly done to meet short term foreign exchange liquidity requirements or to ensure adequate foreign currency to avoid Balance of Payments (BOP) crisis. SAARC swap Arrangement framework includes:
  - RBI will offer swap arrangement within the overall corpus of USD 2 billion.
  - Swap withdrawals can be made in US dollar, Euro or Indian rupee.
  - The framework provides certain concessions for swap withdrawals in Indian rupee.

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- The facility will be available to all SAARC member countries, subject to their signing of bilateral swap agreements.
- The particular framework is valid from 14th November, 2019 to 13th November, 2022.

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1. THALINOMICS

Context

The Economic Survey 2020 coined a new term called **'Thalinomics'** and the government pitched the term as **"economics for the common man".**

About

- The Economic Survey 2020 made a unique attempt to **quantify the cost incurred** in putting together **one complete home-made meal** — the healthy Indian thali.
- Thali prices represent the total money spent on preparing dishes for a meal in a household.
  - **Thalinomics** captures the **economics of a plate of food in India.**
- **Rise in Affordability:** Despite recent concerns about rising food prices, the Economic Survey has stated that for a worker, a **vegetarian thali is 29% more affordable** since 2006-07. And affordability of a**non-vegetarian thali improved by 18 per cent.**
  - It also looked at an industrial worker's **ability to pay for two thalis a day** for his/her household of **five individuals.**
- **Conclusion:** Basically the survey attempts to calculate the **cost that an average worker incurs based on his actual plate of food in India.**
  - And on calculating that cost, the survey concludes that **works were able to save due to moderation in prices** of items that form part of a regular Indian thali.

Calculations

- The analysis is based on data on prices taken from the Consumer Price Index for Industrial Workers **(CPI IW)** for around 80 centres in **25 States/UTs** from April 2006 to October 2019.
- The survey took into account the prices of **cereals** (rice/ wheat), **sabzi** (vegetables, other ingredients), **dal** (pulses with other ingredients) as well as the **cost of fuel.**
- In a non-vegetarian thali, **pulses are replaced by 60 gm of non-vegetarian components** keeping in mind prices of eggs, fresh fish and goat meat.
- It also took into consideration **prices of ingredients such as spices and condiments** such as mustard oil, coconut oil and groundnut oil, turmeric and chillies.
- For fuel, **cooking gas prices as well as firewood prices** were taken into consideration.

State-wise performance

- **Across the board gains:** Both across India and the four regions– North, South, East and West – we find that the absolute prices of a vegetarian Thali have decreased since 2015-16 though it increased during 2019.
  - **Exception:** Gains are observed across regions, with the exception of **the Northern Region and Eastern Region in 2016-17** in the case of vegetarian Thali.

- **Southern region with highest gains:** The highest gain in any year was in the Southern region for a vegetarian Thali in 2018-19 of around 12 per cent of annual earnings of a worker.
- **Jharkhand thali the cheapest:** Jharkhand emerged as the State with cheapest vegetarian thali during April-October 2019.
  - Two vegetarian thalis for a household of five in Jharkhand **required about 25 per cent of a worker's daily wage.**

Results from Thalinomics

- **Gains:** After 2015-16, an average household of five individuals that eats two vegetarian thalis a day gained around 10,887 on average per year, while a non-vegetarian household gained 11,787 on average per year.
  - Gains here are **spends that households saved** on due to **moderation in the prices** of commodities.
  - A worker who would have spent **70%** of their daily wage on two vegetarian thalis a day for a household of five **in 2006-07**, would only have to spend **50% of their income for the meals in 2019-20.**
- **Fall in prices**: Survey said there was a shift in the dynamics of thali prices from 2015-16. Gains are due to significant **moderation in prices of vegetables and dal** from 2015-16 when compared to the previous trend of increasing prices.
- **Reasons for gains due to reform measures:** Many reform measures were introduced during the period of analysis to enhance the productivity of the agricultural sector as well as **efficiency and effectiveness of agricultural markets** for better and more **transparent price discovery**:
  - PradhanMantriAnnadataAaySanraksHanAbhiyan (PM-AASHA).
  - PradhanMantriKrishiSinchayeeYojana (PMKSY) - Per DropMore Crop.
  - PradhanMantriFasalBimaYojana (PMFBY).
  - Soil Health Card.
  - E-National Agricultural Market (e-NAM).
  - National Food Security Mission (NFSM).
  - National Food Security Act (NFSA).
- **Recent trend is inflationary**: Survey shows that **accelerating food inflation** over the last few months has broken the earlier trend.
  - Workers are now forced to use an increasing share of their wages on food.

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Challenges

- **Small sample size:** The calculations deal with workers engaged in the organised manufacturing sector, which form **only 28% of the total manufacturing workforce.**
  - It excludes workers from the unorganised sector, as well as rural and agricultural workers.
- **Fall in incomes**: While it is true that there was a decline in food prices during most of the period since 2015-16, this is also a p**eriod of stagnant or declining rural wages and highest unemployment.**
  - Low inflation is meaningless when **real wages are falling in rural areas**, as this means that the poor are not able to consume more as their **incomes are falling**.

2. ASSET MONETISATION PROGRAMMES

Context

In Budget 2020, government proposed to use tax sops to nudge overseas investors towards its upcoming asset monetization schemes.

About

- **Overseas investors for asset monetisation programmes:** Government did not make major announcements for the infrastructure sector and, instead, proposed to use tax sops to push overseas investors towards its upcoming asset monetization programmes.
- **Lower allocation to key infra sectors:** A reading of the expenditure budget shows that the government's total allocation to four key infrastructure segments—roads, airports, railways and civil aviation—is nearly 4% lower for FY21 than the revised budget estimates of ?4,64,928 crore spent on these sectors in FY20.
- **Low allocation towards capital spending:** According to ICRA the budgetary allocation towards capital spending for the ministry of road transportation and highways for FY21 was around 18% lower than what was required to fund the government's flagship Bharatmala programme.
  - Even Internal and Extra Budgetary Resources (IEBR), which includes market borrowings and asset monetization, for **National Highways Authority of India (NHAI)**—the nodal agency that builds India's roads— **had a lower budget allocated for FY21,** against in FY20.
- **Focus on capital conservation:** The government seems to be in capital conservation mode and is focusing on implementing existing projects already announced before than taking up any new project.
  - There is thrust on asset monetization.
  - There are plans to privatize more roads and one major port.
- **Upcoming projects**: Government will focus on development of 2,500km of **access-control highways,** 9,000km of **economic corridors**, 2,000km of **coastal and land port roads**, and 2,000km of **strategic highways**.
  - The **Delhi-Mumbai expressway** and two other packages will be completed by 2023 and the **Chennai-Bengaluru Expressway** will also be started.
  - Four station re-development projects.
  - 148km-long Bengaluru Suburban Transport project.
  - Expansion of National Gas Grid.

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Asset Monetisation Programme

- The **Department of Investment and Public Asset Management (DIPAM)** is working on restructuring and **asset monetisation of public sector enterprise**s for better management and competitiveness in the present world.
- **Cabinet has approved procedure and mechanism for Asset Monetization** of Central Public Sector Enterprises (CPSEs)/Public Sector Undertakings (PSUs)/other Government Organizations and Immovable Enemy Properties.
- **Objective:** The objective of the asset monetization programme of the Government of India is to **unlock the value of investment made in public assets which have not yielded appropriate or potential returns so far.**
- **Procedure and Guidelines:** Guidelines for asset monetisation programme include principles and mechanism for capital restructuring of CPSEs regarding **payment of dividend, issue of bonus shares, and buyback of shares by CPSEs.**
  - It shall apply to all corporate bodies where government of India has controlling interest.
  - The focus of these guidelines is on optimum **utilization of funds by CPSEs to spur economic growth.**
- **Asset Monetization** is a way of getting more cash on the balance sheet and reducing the debt-to-capital ratios that are crucial to rating agencies.
  - **Sale proceeds (for example, disinvestment proceeds)** can be used to acquire additional operations, stabilize costs, or revitalize existing properties, retire existing debt to increase revenue production; there are no restrictions on the use of the funds.

Mechanism

- Government is hoping to **get fresh capital back into the system** to develop Greenfield assets.
- The government is offering **tax breaks** to overseas investors, particularly **sovereign wealth funds** and **pension funds**, to invest in domestic infrastructure.
- **Equity support to IIFC and NIIF:** Allocation of 22,000 crore as equity support to India Infrastructure Finance Company Ltd (IIFC) and National Investment and Infrastructure Fund (NIIF) which can leverage this fund infusion 2-3 times to invest in public infrastructure.
- **Means of raising capital from the public market**
  - Privatizing operating infrastructure assets.
  - Toll-operate-transfer agreements with private investors
  - Setting up infrastructure investment trusts (InvITs)
- **Incentives to foreign investors:**
  - 100% tax exemption to the interest, dividend and capital gains income**.**
- **Criticism**: However, experts say that this class of investors **tends to buy operating assets**, leaving under-construction and Greenfield projects devoid of any funding.

3. '2636 EV CHARGING STATIONS SANCTIONED UNDER FAME-II'

Context

In a bid to give a further push to clean mobility in Road Transport Sector, the government has sanctioned 2636 charging stations in 62 cities across 24 States/UTs under FAME India (Faster Adoption and Manufacturing of Electric Vehicles in India) scheme phase II.

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About

What is FAME India Scheme?

- The FAME India (Faster Adoption and Manufacture of (Hybrid and) Electric Vehicles) Scheme, launched in 2015, is an incentive scheme for the promotion of electric and hybrid vehicles in the country.
- The scheme aims to promote electric mobility and the scheme gives financial incentives for enhancing electric vehicle production and creation of electric transportation infrastructure.
- The incentives are provided in the form of subsidies to manufactures of electric vehicles and infrastructure providers of electric vehicles.
- FAME India is a part of the National Electric Mobility Mission Plan. Main thrust of FAME is to encourage electric vehicles by providing subsidies.

Phase-I of the Scheme:

- The Phase-I of this Scheme was initially launched for a period of 2 years, commencing from 1st April 2015, which was subsequently extended from time to time and the last extension was allowed up to 31st March 2019.
- The 1st Phase of FAME India Scheme was implemented through four focus areas namely:
  - Demand Creation
  - Technology Platform
  - Pilot Project
  - Charging Infrastructure
- Market creation through demand incentives was aimed at incentivizing all vehicle segments i.e. 2-Wheelers, 3-Wheelers Auto, Passenger 4-Wheeler vehicles, Light Commercial Vehicles and Buses.

What's new in the second phase?

- FAME II will cover buses with EV technology; electric, plug-in hybrid and strong hybrid four wheelers; electric three-wheelers including e-rickshaws and electric two-wheelers.
- Under the second phase of the Faster Adoption and Manufacturing of Electric Vehicles in India (FAME-II) scheme, 10 lakh registered electric two-wheelers with a maximum ex-factory price will be eligible to avail incentive of Rs 20,000 each.
- It will also support 5 lakh e-rickshaws having ex-factory price of up to Rs 5 lakh with an incentive of Rs 50,000 each.
- FAME-II will offer an incentive of Rs 1.5 lakh each to 35,000 electric four-wheelers with an ex-factory price of up to Rs 15 lakh, and incentive of Rs 13,000 each to 20,000 strong hybrid four-wheelers with ex-factory price of up to Rs 15 lakh.
- It will support 7,090 e-buses with an incentive of up to Rs 50 lakh each having an ex-factory price of up to Rs 2 crore

The current sanction:

- As many as 317 EV charging stations have been allotted in Maharashtra, 266 in Andhra Pradesh, 256 in Tamil Nadu, 228 in Gujarat, 205 in Rajasthan, 207 in Uttar Pradesh, 172 in Karnataka, 159 in Madhya Pradesh, 141 in West Bengal, 138 in Telangana, 131 in Kerala, 72 in Delhi, 70 in Chandigarh, 50 in Haryana, 40 in Meghalaya, 37 in Bihar, 29 in Sikkim, 25 each in Jammu & Kashmir and Chhattisgarh, 20 in Assam, 18 in Odisha and 10 each in Uttarakhand, Puducherry and Himachal Pradesh.

Benefits of using Electric Vehicles:

Though there are numerous benefits of using electric vehicles, the major are divided on the basis of environment and economy:

- **Environment:** Using electric vehicles (EVs) can significantly contribute in achieving the target of "Paris climate agreement". EVs are carbon dioxide neutral as there is no direct emission from the vehicle.
- **Economy:** EVs, more efficiently help in saving money of government, which can be utilized in other productive work. Effective adoption of electric and shared vehicles could help the economy save more than $60 billion in diesel and petrol along with cutting down as much as 1 gigatonne (GT) of carbon emissions, most probably by 2030.

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1. DIVIDEND DISTRIBUTION TAX

Context

- Budget 2020 abolished the Dividend Distribution Tax (DDT).

About

- **Budget 2020** has proposed to make dividend income from shares and mutual funds taxable in the hands of recipients at the applicable income tax slab rates to the individual.
- Called the **dividend Distribution Tax (DDT),** it was hitherto levied on dividend income before distribution by the company or mutual fund house.
- Dividend distribution tax is the tax imposed by the Indian Government on Indian companies **according to the dividend paid to a company's investors**.
- **Dividend** is the **return given by a company to its shareholders out of profits earned by the company** in a particular year.
- Dividend constitutes **income in the hands of the shareholders** which ideally should be subject to income tax.
  - However, the income tax laws in India provide for an exemption of the dividend income received from Indian companies by the investors by levying DDT on the company paying the dividend.
- Previously, in addition to corporate tax, companies had to pay DDT at the time of distributing profits to its shareholders.
  - The effective DDT rate is **56 per cent**.
  - Although the government recently reduced the effective corporate tax rate to 25.17/17.16 per cent, **once DDT was factored in**, the effective tax rate for corporates became 37.93 per cent.

Evolution of DDT

- **System 1:**Historically, the dividend was always **taxable in the hands of shareholders.**
- **System 2:**Concept of **'DDT' was for the first time was introduced** by **Finance Act, 1997**.
  - Dividend that was subjected to DDT was made exempt in the hands of shareholders.
- **System 3: Finance Act, 2002**, **replaced DDT with the earlier system** of taxing dividends in the hands of the shareholder.
- **System 4:** DDT was then **re-introduced** vide **Finance Act, 2003**.
  - Several changes were made to provisions including those that remove the cascading effect of dividends received from subsidiaries, grossing up mechanism, changes in the rate of tax etc.
- **System 5**: In **Finance Act, 2016** dividends earned in excess of Rs 10 lakh from domestic companies was made **taxable in the hands of resident individuals**, **partnership firms, private Trusts, etc**. at 10 per cent(plus surcharge and cess) on a gross basis.

   - The tax treaties entered by India with various countries, largely limit taxation on dividends in India at 10 per cent, and **shareholder have the ability to claim credit in its country of residence for tax deducted in India**.
- **Problems:** Since DDT was levied on the Indian company distributing dividend, it was believed that **tax treaty provisions were ineffective**.
   - Also, shareholders faced challenges in claiming credit for DDT in their home country, which typically resulted in high tax cost for foreign shareholders.
   - Though the existing system **facilitated easy tax collection**, it was viewed to be **regressive in nature**

Changes made in Budget 2020

- Budget 2020 **proposes to abolish DDT**. The proposal is to replace DDT with a classical system of taxation i.e. instead of levying DDT on companies; the **tax should be levied in the hands of shareholders.**
- This will put to an **end to litigation** related to the reduction in the rate of DDT.
- **Foreign tax credit i**n respect of dividend would be available **to non-resident shareholders much easier** than when DDT was payable.
- The proposal suggests **deduction has to be restricted to 20 percent of dividend income**. No other deductions would be allowed.
   - Non-resident shareholders would be able to restrict the tax on the dividend to 5 per cent/10 per cent/15 per cent applying the **beneficial tax treaty provisions**.
   - The beneficial tax treaty provisions would be subje**ct to anti-abuse provisions of the India income-tax law** and provisions of Multilateral Instruments which is effective from 1 April 2020.

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Conclusion

The earlier provisions levied a flat tax rate on distributed profits across the board, irrespective of the marginal rate at which the recipient is otherwise taxed. These provisions, therefore, were regressive. Removal of DDT is a welcome and much-expected move in line with recommendations of the Direct Tax Code Panel which will bring in vertical equity among taxpayers.

2. NORTHEAST GAS GRID PROJECT

Context

Recently, the Cabinet Committee on Economic Affairs, chaired by Prime Minister Narendra Modi, has given its approval for viability Gap Funding/ Capital Grant of 60% of the estimated cost of Rs. 9,265 crore for the Northeast Gas Grid project to Indradhanush Gas Grid Limited (IGGL) who implements it.

About

- The Northeast Gas Grid Project will connect **Guwahati to the major Northeast cities and major load centers. It is 1, 656 km long.**
- The project is being implemented under ambitious **Urja Ganga Gas Pipeline Project.**
- Besides connecting all the state capitals in the region, the pipeline will also connect with the National Gas Grid through Barauni-Guwahati Gas Pipeline, which is being laid by GAIL.
- The pipeline will enable the supply of piped cooking gas to households and CNG to automobiles, besides fuel to industry.
- **Implementing Agency:** The North-East pipeline grid is to be implemented by Indradhanush Gas Grid, a joint venture of state-owned GAIL India, Indian Oil Corp (IOC), Oil and Natural Gas Corp (ONGC), Oil India Ltd (OIL) and Numaligarh Refinery Ltd (NRL).

Objectives of National Gas Grid

- To remove regional imbalance within the country with regard to access for natural gas and provide clean and green fuel throughout the country.
- To connect gas sources to major demand centres and ensure availability of gas to consumers in various sectors.
- Development of City Gas Distribution Networks in various cities for the supply of CNG and PNG.

Significance

- The funding support to the project is actually a leg of a broader goal of the government to raise the share of natural gas in the country's energy mix to 15% by 2030 from current 6.2%.
- The government has envisaged developing the National Gas Grid. At present, about 16,788 km natural gas pipeline is operational and about 14,239 km gas pipelines are being developed to increase the availability of natural gas across the country .
- **Socio-Economic and Environmental Benefits**
  - Development of industrial climate in eight states of the north-eastern region i.e. Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura will help in reduction in the usage of kerosene, wood, etc. due to increased usage of environment friendly fuel natural gas thereby improving the environment in the region.
  - Improvement in the standard of living of peoples living in the region.
  - It will boost Exploration & Production activities and connect regional gas sources with pipeline network for early monetisation of natural resources in the region.

3. 'FIRST SILK PROCESSING PLANT IN GUJARAT'

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Context

In a historic initiative taken by Khadi and Village Industries Commission (KVIC), a first Silk Processing Plant has been inaugurated at Surendranagar in Gujarat.

About

Key-details of the plant:

- The plant has been set up by a khadi institution at a cost of Rs 75 lack in which KVIC has contributed Rs 60 lakh.
- The unit has employed 90 local women, 70 of which belong to the Muslim community.
- The plant would help cut down the cost of production of silk yarn drastically and increase the sale and availability of raw material for Gujarati Patola Sarees locally.
- Surendranagar district is a backward district in Gujarat where KVIC has invested Rs. 60 Lakhs to build the Silk Processing Plant, in order to generate livelihood and boost sales of Patola Sarees by making silk more ready available at a low cost, for the Patola Saree manufacturers in the nearby area.

What was the need to setup plant in Gujarat?

- Reason being the raw material silk yarn is purchased from Karnataka or West Bengal, where silk processing units are situated, thus increasing the cost of the fabric manifolds.
- Now, cocoons will be brought from Karnataka and West Bengal and Silk yarn will be processed in house.
- It will reduce the cost of production and give a major boost to the sale of famous Gujarati Patola Sarees.

Patola Sarees:

- Patola, the trademark Saree of Gujarat, is considered to be very costly and worn only by the Royals or the Aristocrat.
- Traditionally, every region in India has had its own unique weave for the Silk Saree.
- It is quite notable that Patola Silk Saree is amongst the top five silk weaves which are desired in every Indian Saree Lover's wardrobe.
- Given is the list of famous silk sarees found in different state of India:

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1. WASHINGTON CONSENSUS

Context

Lately economists have cautioned that the Washington Consensus is losing its hold over institutions.

About

- **Washington Consensus:** The Washington Consensus is a set of 10 economic policy prescriptions by Washington, D.C.-based institutions such as the **International Monetary Fund (IMF), World Bank and United States Department of the Treasury.**
  - It constitutes the "standard" reform package promoted for crisis-stricken developing countries.
  - The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and expansion of market forces within the domestic economy.
- **10 Policy prescriptions:**
  - **Fiscal policy discipline,** with avoidance of large fiscal deficits relative to GDP.
  - **Redirection of public spending from subsidies** (especially indiscriminate subsidies) toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment.
  - **Tax reform**, broadening the tax base and adopting moderate marginal tax rates.
  - **Interest rates that are market determined** and positive (but moderate) in real terms.
  - **Competitive exchange rates.**
  - **Trade liberalization:** Liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs.
  - **Liberalization** of inward foreign direct investment.
  - **Privatization of state enterprises.**
  - **Deregulation:** Abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions.
  - **Legal security for property rights.**

Criticism

- Most criticism for Washington Consensus has been focused on **trade liberalization and the elimination of subsidies**, especially in the agriculture sector.
- In nations with substantial natural resources, the focus of criticism is on **privatization of industries exploiting these resources**.

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Is the Washington consensus still relevant?

- **Changing IMF stance:** It has been argued that IMF might be moving away from the Washington Consensus world view of freely floating exchange rates and opposition to capital controls that dominated its thinking for decades.
- **China factor:** When Renminbi was just included in the basket of currencies that make up the Special Drawing Rights (SDR), economic concerns led to a massive capital flight that saw China's foreign exchange reserves go down by a trillion.
  - China imposed drastic capital controls to avoid currency crash so soon after its SDR inclusion. And it worked, unlike Washington consensus prescription.
- **Rethinking on the 'capital account fundamentalism'**: The term denotes a belief that free flow of capital provides the greatest possible equity and prosperity, and that any interference with the market process decreases social well-being.
  - However, empirical example suggests, it has not been the case.
  - Free capital flow destabilized emerging economies after the crisis of 2009. Easy monetary policies in the developed world encouraged "carry trade"—cross-border investment in search of higher yields. Capital flooded into emerging economies with higher domestic interest rates. But when Federal Reserve Bank (Fed) tapering started, capital flows reversed, leaving emerging economies very unstable.
- **A possible repetition of 2009:** If the US economy stumbles into a recession, which presently seems like a possibility, Fed would be left with no choice but to further expand its quantitative easing. And this could once again have consequences on emerging economies.
  - A similar distress can be caused by the actions of European Central Bank which is easy on printing currency and buying bonds that carry negative interest rates.

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2. NATIONAL INFRASTRUCTURE PIPELINE

Context

Finance Minister has released Report of the Task Force on National Infrastructure Pipeline for 2019-2025.

About

- It is estimated that India would need to spend $4.5 trillion on infrastructure by 2030 to sustain its growth rate.
- The endeavor of the National Infrastructure Pipeline (NIP) is to make this happen in an efficient manner.
- These projects are on top of Rs 51 lakh crore spent by the Centre and the states during the last six years and the new pipeline consists of 39 per cent projects each by the Centre and states and the balance by 22 per cent by private sector.

Benefits of National Infrastructure Pipeline

- Well-planned NIP will enable more infra projects, grow businesses, creates job, improve ease of living and provide equitable access to infrastructure for all, making growth more inclusive.
- Well- developed infrastructure enhances level of economic activity, creates additional fiscal space by improving revenue base of the government, and ensures quality of expenditure focused in productive areas.
- Provides better view of project supply, provides time to be better prepared for project bidding, reduces aggressive bids/failure in project delivery, ensures enhanced access to sources of finance as a result of increased investor confidence.

Features of National Infrastructure Pipeline

- To achieve this objective, a Task Force has been constituted to draw up the National Infrastructure Pipeline (NIP) for each of the years from FY 2019-20 to FY 2024-25 with the approval of the Finance Minister.
- The Task Force is chaired by Secretary, DEA with CEO (NITI Aayog), Secretary (Expenditure), Secretary of the Administrative Ministries, and Additional Secretary (Investments), DEA as members and Joint Secretary (IPF), DEA as Member Secretary.
- Total project capital expenditure in infrastructure sectors in India during the fiscals 2020 to 2025 is projected at over Rs 102 lakh crore.

Sector-wise:

- According to the Task Force, Government has planned to increase participation of private sector in freight traffic. It will add 30% of net cargo by 2025 and will increase private trains to 500.
- Irrigation and rural infrastructure projects would account for 7 lakh crore each. ?3.07 lakh crore would be spent on industrial infrastructure. Agriculture and social infrastructure would account for the rest.
- Road projects will account for 63 lakh crore while another 13.68 lakh crore would be for railway projects.
- Port projects would see spending of 1 lakh crore and airports another 43 lakh crore. 16.29 lakh crore would be spent on urban infrastructure and 3.2 lakh crore in telecom projects.
- According to the sector-wise break-up of projects made available by the Finance Ministry, 54 lakh crore investment will flow in the energy sector, and of that ?11.7 lakh crore would be in just the power sector.
- 42 lakh crore NIP projects which are in the implementation stage now include expressways, national gas grid and PMAY-G.

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3. 'EBKRAY' - ONLINE AUCTION PLATFORM FOR ASSETS ATTACHED BY BANKS

Context

- **eBkray is an e-auction platform to enable online auction of attached assets by banks.**

About

- The eBkray platform provides navigational links to all **PSB e-auction sites**, property search feature and presents single-window access to information on properties up for e-auction, comparison of similar properties, and also contains videos and photographs of the uploaded properties.
- Buyers can use IBAPI portal to search and get properties details and participate in the auction process. Presently 21 banks are onboard on this portal
- Currently, there are 2,457 residential, 576 commercial, 333 industrial and 18 agricultural properties are available on eBkray platform among others.
- PSBs have attached assets worth over Rs 2.3 lakh crore in the last three fiscal years.

Objectives of eBkray

- To enhance user experience through seamless access to information by the search based on the type and location of the property put up for e-auction by the banks in India.
- To enable online auction of attached assets transparently and cleanly for the improved realization of value by banks.

- It will provide navigational links to all Public Sector Banks (PSBs) e-auction sites, property search feature and will present single-window access to information on properties up for e-auction, comparison of similar properties, as well as contains videos and photographs of uploaded properties.
- The platform also helps the buyer to easily navigate to the bank e-auction site after a notified property is selected. It also helps the user to search property using State-wise, District-wise and bank-wise details.

Need

- There has been information asymmetry when bank attached assets are auctioned which will come to an end with the launch eBkray.
- Simplify auction process

Conclusion

The e-auction platform is now linked on Indian Banks Auctions Mortgaged Properties Information (IBAPI) portal and guidelines have been made available which will help banks in the release of cash trapped in mortgaged assets. It will also bring transparency in the process.

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1. MIDDLE INCOME TRAP

Context

Many economists have cautioned that India runs the risk of getting caught in the middle-income trap.

About

- **Middle income trap:** The middle income trap is a theoretical economic development situation in which a country that attains a certain income (due to given advantages) gets stuck at that level. The Middle income countries are not able to move up to the Higher income status due to operation of several adverse factors:
  - A country in the middle income trap has lost its competitive edge in the export of manufactured goods because of rising wages.
  - Also, it is unable to keep up with more developed economies in the high-value-added market.
  - There is failure to build institutional, human and technological capital.
- **Middle-income range:** World Bank defines a middle-income country as one with a gross national income (GNI) per capita of $1,000-12,000 at constant 2011 prices.

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Case of different countries:

- **Countries that escaped it:** Japan, South Korea, Portugal, Poland and Latvia are success stories of transformation to high-income status.
- **South Africa and Brazil:** Newly industrialised economies such as South Africa and Brazil have not, for decades, left what the World Bank defines as the 'middle-income range'. They suffer from low investment, slow growth in secondary industry, limited industrial diversification and poor labour market conditions.
- **Africa, Egypt, Thailand and Turkey** also tried to develop but could not transition to the high-income level. These countries failed to develop and remain stuck below their potential.
- **Argentina, Mexico, and Russia** have been trapped in the upper middle-income category for a long time.
- **China**, with a GNI per capita of around $9,800, is most likely on its way out of the middle-income trap—unless it stumbles.

Case of India

- **Lower middle income country:** In 1960, India had a per capita income of $1,033 (in 2011 purchasing power parity terms). This was equivalent to 6% of per capita income of US. India attained lower middle-income status in 2008. By 2017-18, India's per capita income was $6,538—or 12% of US per capita income.
- **Critics:** Critics have cautioned that India runs the risk of getting caught in the middle-income trap. It has been argued that India's growth has mostly been driven by demand generated by few. India does

not have broad income base, and this narrow demand base/market size could act as a growth barrier, resulting in India slipping into a middle-income trap.

 - Even if India reaches $5 trillion in GDP by 2024-25 — Government of India's objective — it will still be a lower middle-income country.

- **Factors that can hurt India's growth:** The 2017 Economic Survey warned that four factors could hurt India:
  - Hyper-globalization repudiation.
  - Thwarted/impeded structural transformation.
  - Human capital regression due to technological progress.
  - Climate change-induced agricultural stress.

How to avoid Middle income trap?

- **New process and markets:** Avoiding the middle income trap entails identifying strategies to introduce new processes and find new markets to maintain export growth.
- **Domestic demand:** Ramping up domestic demand is also important—an expanding middle class can use its increasing purchasing power to buy high-quality, innovative products and help drive growth.
  - Inequality is a barrier to the broadening of the demand base in an economy.
- **Innovation:** The biggest challenge is moving from resource-driven growth that is dependent on cheap labour and capital to growth based on high productivity and innovation.
  - This requires investments in infrastructure and education—building a high-quality education system that encourages creativity and supports breakthroughs in science and technology that can be applied back into the economy.

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2. GLOBAL VALUE CHAINS

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Context

Global Value Chains (GVCs) have often been in news. It is important to understand their role in trade and growth.

About

- Earlier, companies used to make things primarily in one country. Today, a single finished product often results from **manufacturing and assembly in multiple countries,** with each step in the process adding value to the end product.
- **Through GVCs, countries trade more than products**; they trade know-how, and make things together. Imports of goods and services matter as much as exports to successful GVCs.
- **GVCs integrate the know-how of lead firms and suppliers of key components** along stages of production and in multiple offshore locations.
  - The international, inter-firm flow of know-how is the key distinguishing feature of GVCs.
- How countries engage with GVCs determines how much they benefit from them.
- **Example:** iPhone is a good example to understand GVCs. The US prepares the iPhone design, Taiwan and South Korea produce critical inputs such as processors. Final assembly takes place in China from where they are marketed all over.

Advantages of GVC

- **Promote productivity and growth:** According to WTO report, a 1% increase in GVC participation is estimated to boost per capita income levels by more than 1%—about twice as much as standard trade.

- In Ethiopia, firms participating in GVC are more than twice as productive as similar firms that participate in standard trade.
- **Reduce poverty:** Since gains in growth from GVC are larger than from trade in final products, their impact on poverty reduction is also larger.
  - Regions in Mexico and Vietnam that participated more intensively in GVCs experienced greater reductions in poverty.
- **Deliver better jobs:** Firms in GVC draw people into more productive manufacturing and services activities and tend to employ more women, supporting structural transformation in developing countries.
- **Important for growth:** GVCs are a powerful driver of productivity growth, job creation, and increased living standards. Countries that embrace them grow faster, import skills and technology, and boost employment.
  - With GVC-driven development, countries generate growth by moving to higher-value-added tasks and by embedding more technology and know-how in all their agriculture, manufacturing, and services production.
  - GVCs provide countries the opportunity to leap-frog their development process.

3. H1-B VISAS

Context

United States government has said that it is planning to curb the distribution of H-1B visa to Indians. While the final decision is yet to be taken, Government of India has expressed concerns to the US over the proposal.

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About

- The US government had recently said that it is planning to **curb the distribution of H-1B visa to Indians.** Hence, at the **2+2 dialogue** with the US, **India pitched** its stand for H-1B visa holders.
- **Objective:** The reason H-1B visas may see changes is **to better protect US workers and wages,** and **save them from competition** from workers arriving from outside countries like India and China.
- **H-1B visa:** The H-1B is a United States visa under the Immigration and Nationality Act. It has roots in the earlier issued H-1 visa which was later split between H-1A (for nurses) and H-1B. H-1B is one of the most popular visas for foreigners visiting the US for business or trade purpose.
  - It is a **non-immigrant visa** that allows US companies to employ foreign workers in speciality occupations that require **theoretical or technical expertise.**
  - Speciality occupations include specialized fields like IT, finance, accounting, architecture, engineering, mathematics, science, medicine, etc. which usually require a **bachelor's degree or higher**.
  - US employers wishing to bring in staff for long-term assignment prefer H1B visa because its application is **quicker than applying for a US Green Card.**
  - H-1B visa has its **roots in the H1 visa** of the Immigration and Nationality Act; which **split between H-1A (for nurses) and H-1B** in 1990.
- **Who will be worst hit:** Worst hit by the new H1B bill will be Indian companies such as Infosys, TCS, and Wipro, as well as US tech giants like Apple, Facebook and Google, who use the H1B visa to fill positions that cannot be filled by American workers.

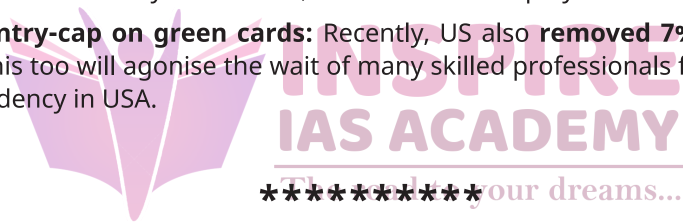
How is H-1B visa important to India?

- **Majority H-1B visa holder:** India has been the only country that takes **70 per cent** of the 85,000 H-1B visas applied annually. The H-1B visa is crucial for the IT sector in India.

- **IT professionals:** The technology companies of US depend on it to hire tens of thousands of employees each year from countries like India and China. Hence, a cancellation of H-1B visas will most adversely affect Indian IT professionals.
- **Talent flow**: The US should not obstruct the flow of talent from India as it is an important part of the **economic cooperation** and almost acts as a strategic bridge between the two countries, and is important for the bilateral ties.

Problems that Indians face with current H-1B rules

- **Recent changes in H-1B visa rules:** Recently, US proposed **revision of "specialty occupations" definition** for the H1B visa. H1B visas will be issued to only the most-skilled foreigners or highest-paid beneficiaries.
  - USCIS **can reject** H1B applications that do not provide the necessary required information when submitted.
  - New rules require H-1B petitioners to **first electronically register with USCIS**.
  - US can initiate **deportation** of expired H1-B holders.
  - US Department of Homeland Security (DHS) is also **considering ban on work authorization for spouses** of H-1B visa holders.
- **Problem in job switch:** H-1B visa holders in the US face problems in switching jobs even if the new job requires the exact same skill set as before. The US citizenship and Immigration Services (USCIS) has denied several applications by new employers citing that the new position does not constitute a 'specialty occupation'.
  - If the H-1B holder starts working elsewhere and the transfer is denied, the person could be 'out of status' with a bar on entry into the US, unless the old employer is willing to take him/her back.
- **Removing country-cap on green cards:** Recently, US also **removed 7% country-cap** on issue of Green Cards. This too will agonise the wait of many skilled professionals from India who had sought permanent residency in USA.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1. TRIPURA GETS ITS FIRST SEZ

Context

- The Ministry of Commerce and Industry has notified the setting up of the first ever Special Economic Zone (SEZ) in Tripura.
- It will be developed by *Tripura Industrial Development Corporation (TIDC) Ltd.*

About

- The SEZ is being set-up at Paschim Jalefa, Sabroom, South Tripura District, which is 130 km away from Agartala.
- It will be a Sector Specific Economic Zone for Agro-Based Food Processing.
- The estimated investment in the project will be around 1550 Crore.
- The SEZ is estimated to generate 12,000 skilled jobs.
- Rubber based industries, textile and Apparel Industries, bamboo and Agri-food Processing Industries will be set-up in the SEZ.
- Setting up of the SEZ in Sabroom will open up new avenues to attract private investment considering the proximity of the Chittagong Port and construction of the bridge across Feni River in South Tripura which is underway.
- After it is set up, 100 percent Income Tax exemption will be provided on export income for SEZ units under Section 10AA of the Income Tax Act for the first 5 years.
- Also 50 percent exemption will be provided for the next 5 years and 50 percent of the ploughed back export profit for another 5 years.

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SEZs-

- A special economic zone (SEZ) is an area in which the business and trade laws are different from the rest of the country.
- SEZs are located within a country's national borders, and their aims include increased trade balance, employment, increased investment, job creation and effective administration.
- To encourage businesses to set up in the zone, financial policies are introduced. These policies typically encompass investing, taxation, trading, quotas, customsand labour regulations.
- Additionally, companies may be offered tax holidays, where upon establishing themselves in a zone, they are granted a period of lower taxation.
- The benefits a company gains by being in a special economic zone may mean that it can produce and trade goodsat a lower price, aimed at being globally competitive.

Special Economic Zones in India-

- India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965.

- The second EPZ, SEEPZ (Santa Cruz Electronics Export processing Zone) was set up in Maharashtra in 1974.
- In April 2000, the Government of India adopted a new policy framework titled 'Export and Import Policy 2000' for the establishment of public, private or joint public-private SEZs.
- India witnessed remarkable growth in number of formal, notified and operational approvals post enactment of SEZ Act in 2005. The spread of SEZs within the States is to achieve balanced growth across all regions of the country.
- The sector wise distribution of SEZ's clearly shows that majority of the formal approvals granted have been in IT/ITES sector which comprises nearly 64% of the total formal approvals granted till date.
- The SEZ scheme in India has shown a tremendous growth in infrastructure investment, employment and exports.

Conclusion

SEZs policy in India with respect to frequent changes in the policy environment is one of the major reasons of slackening the confidence of investors to continue and make fresh investments in SEZs. Therefore, to build a strong confidence amongst the potential/existing investors, it is imperative to frame a stable, favorable and highly transparent SEZs policy with long term perspectives.

2. OPERATION TWIST

Context

The Central Bank announced that it will conduct simultaneous sale and purchase of 10,000 crore of government securities of varying tenor. This move is on the lines of US Federal Reserve's Operation Twist

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About

The Reserve Bank of India (RBI) announced **simultaneous sale and purchase of government bonds**. RBI will sell short-term bonds of 10,000 crore, it will also purchase long-term securities of the same value.

- **Operation Twist of United States:** RBI's move resembles the 2011 Operation Twist of the US Federal Reserve Bank. It was intended to make long-term borrowing cheaper and spur bank lending. The Fed had swapped short-term bonds for longer-term debt.
- **Difference with the US version:** US version of the Operation Twist had started mid-2011 and lasted till late-2012. In case of RBI it is not clear if this is a one-time exercise or part of continuing operations.
- **Aim:** The hope is that with yields coming down, banks will cut lending rates given that lending to the government is deemed to be the safest, and if that comes down, so should the remaining rates as well.

How does Operation Twist get its name?

- The **US Federal Reserve was the first central bank** that attempted such an exercise of buying and selling government securities at the same time. This happened in 1961.
- At that time, **the "twist" was a new dance craze sparked by singer Chubby Checker**. Since then the name for such an exercise carried out by a central bank has stuck.
- **Used as a measure in the financial crisis:** Much later, Operation Twist was tried in the US in the aftermath of the financial crisis. In this case, the Federal Reserve purchased government securities with maturities varying from six years to 30 years and sold government securities with maturities of three years or less.
- **The idea is to twist the yield curve:** The yield curve is a graph that plots the yields of government securities (or other financial securities) of different maturities.
  - The yield is the per-year return an investor can earn on a financial security by staying invested in it till maturity.

- When a central bank buys government securities, the prices go up. At a higher price, the yields or the returns come down as the interest paid on the securities stays the same.
- Vice versa, when the bank sells government securities, the prices fall and the return or the yield on the security goes up.
- This creates a visual effect of a twist in the yield curve.

Why did long term yields increase?

- **No response to monetary easing:** Over the past few months, long-term bonds failed to respond to RBI monetary easing. In fact, the long term 10-year premium widened against the repo rate to 140-150 basis points (bps).
- **Widening yield gap:** While the term premium for long term bonds touched around 150 bps, the short term yields had fallen below RBI's benchmark repo rate of 5.15%, making the yield curve steeper.
- **Fears of fiscal slippage**: There have been fears of fiscal slippage. There are concerns that the government's borrowing programme will be exceeded because there are problems on the fiscal side; i.e. it might borrow more to meet its fiscal deficit target.
- **Pause on rate cuts**: After lowering its repo rate by 135bps in five consecutive rate cuts in 2019, the central bank's monetary policy committee (MPC) decided to keep rates on hold for the meanwhile.
  - The MPC wants to wait for further government measures in the forthcoming budget and take a note of the effects of future policy actions before taking a decision to cut rates.

Benefits of RBI's Operation Twist

- **Yield anomaly corrected**: With RBI's Operation Twist the net liquidity in the system will remain unchanged, but the anomaly between the yields of short and long-term bonds will be corrected.
  - As RBI will buy long-term bonds, its demand will go up and yields will go down and the opposite will happen when it sells bonds.
  - Through this, the central bank is narrowing out the differential between the short- and long-term yields, and will flatten the yield curve.
- **Spur private borrowing:** The simultaneous sale and purchase of government bonds may aid governments borrowing plan by making it cheaper. It is expected to dampen term premium to stimulate private sector borrowing.
  - With the long-term yields coming down, government will be able to borrow money cheaper against its bonds, as well as induce demand for private sector loans.

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Will money supply increase because of RBI's move?

- If the central bank buys government securities a few times, it will increase the money supply in the economy, which is likely to lead to higher inflation, with a greater amount of money chasing the same amount of goods and services.
- But by selling securities worth a similar amount, RBI will not end up increasing the money supply because of this operation.

How can this be made to have an effective impact?

- **A one-off operation will not help:** The idea is to drive down the yields on 10-year government securities. This can happen if the government continues with Operation Twist. A one-off operation will not help and yields will climb back soon.

3. HDI 2019 REPORT

Context

Recently, Human Development Report 2019 says that India is home to 28% of world's poor.

About

- The annual HDI 2019 report, ranked India at the 129th position, one rank above last year's ranking, out of a total 189 countries.
- India remains the home to 28 percent of global poor. About 41 per cent of the world's poor live in South Asia.
- Between 1990 and 2018, India's HDI value increased by 50 per cent (from 0.431 to 0.647), which places it above the average for countries in the medium human development group (0.634) and above the average for other South Asian countries (0.642).
- This means that in the last three decades, life expectancy at birth in India increased by 11.6 years, whereas the average number of schooling years increased by 3.5 years. Per capita incomes increased 250 times.
- The report finds that despite progress, group-based inequalities persist on the Indian subcontinent, especially affecting women and girls.
- While Singapore has the region's lowest incidence of intimate partner violence against women, the report states that a staggering 31 per cent of women in South Asia have experienced intimate partner violence.
- India is only marginally better than the South Asian average on the Gender Development Index (0.829 vs 0.828), and ranks at a low 122 (of 162) countries on the 2018 Gender Inequality Index.
- The report states that as the number of people coming out of poverty is increasing, the world is veering towards another type of poverty. The old inequalities were based on access to health services and education whereas the next generation of poverty is based on technology, education and climate, according to the report.
- The report ranked countries after analysing reduction in absolute poverty, gains in life expectancy, education, and access to health care.
- India has both types of poverty. Even as Indians continue to face a lack of access to healthcare and education, many others are becoming poor based on the new criteria.

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What is HDI?

- The underlying principle of the HDI, considered path breaking in 1990, (created by Pakistani economist Mahbub ul Haq) is elegantly simple: National development should be measured not only by income per capita, but also by health and education achievements.
- The HDI is the composite measure of every country's attainment in three basic dimensions:
  - Standard of living measured by the gross national income (GNI) per capita.
  - Health measured by the life expectancy at birth.
  - Education levels calculated by mean years of education among the adult population and the expected years of schooling for children.
- This index makes it possible to follow changes in development levels over time and to compare the development levels of different countries.
- Additional indices have been developed to capture other dimensions of human development to identify groups falling behind in human progress and to monitor the distribution of human development.
- In 2010 three indices were launched to monitor poverty, inequality and gender empowerment across multiple human development dimensions
  - The Multidimensional Poverty Index (MPI),
  - The Inequality-adjusted Human Development Index (IHDI)
  - The Gender Inequality Index (GII).

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1. THE INDUSTRIAL RELATIONS CODE, 2019

Context

Recently, Ministry of Labour and Employment introduced the Industrial Relations Code, 2019 in Lok Sabha.

About

Salient features of the bill are:

- The Industrial Relations Code, 2019 seeks to replace three labour laws: (i) the Industrial Disputes Act, 1947, (ii) the Trade Unions Act, 1926, and (iii) the Industrial Employment (Standing Orders) Act, 1946.
- **Trade unions:** Under the Code, seven or more members of a trade union can apply to register it. Trade unions that have a membership of at least 10% of the workers or 100 workers, whichever is less, will be registered. Further, a registered trade union must always have at least seven workers who are employed in the establishment or the connected industry, as its members. The central or state government may recognise a trade union or a federation of trade unions as Central or State Trade Unions respectively.
- **Negotiating unions:** The Code provides for a negotiation union in an industrial establishment for negotiating with the employer. If there is only one trade union in an industrial establishment, then the employer is required to recognise such trade union as the sole negotiating union of the workers. In case of multiple trade unions, the trade union with support of at least 75% of workers will be recognised as the negotiating union by the central or state government.
- **Unfair labour practices:** The Code prohibits employers, workers, and trade unions from committing any unfair labour practices listed in a Schedule to the Code. These include: (i) restricting workers from forming trade unions, (ii) establishing employer sponsored trade union of workers, and (iii) coercing workers to join trade unions.
- **Standing orders:** All industrial establishments with at least 100 workers must prepare standing orders on matters listed in a Schedule to the Code. The central government will prepare model standing orders on such matters, based on which industrial establishments are required to prepare their standing orders. These matters relate to: (i) classification of workers, (ii) manner of informing workers about hours of work, holidays, paydays, and wage rates, (iii) termination of employment, (iv) suspension for misconduct, and (v) grievance redressal mechanisms for workers
- **Notice of change:** Employers who propose changes in the conditions of service are required to give a notice to the workers. The conditions of service for which a notice is required to be given are listed in a Schedule to the Code and include wages, contribution, and leave.
- **Lay-off and retrenchment:** The Code defines lay-off as the inability of an employer, due to shortage of coal, power, or breakdown of machinery, from giving employment to a worker. It also provides for employers to terminate the services of a worker, i.e., retrenchment. Employers of industrial establishments such as mines, factories and plantations with at least 100 workers are required to take prior permission of the central or state government before lay-off, retrenchment or closure. The

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central or state government can modify this threshold number of workers by notification. Any person who contravenes this provision is punishable with a fine between one lakh rupees and Rs 10 lakh.

- **Industrial establishments,** in which 50 to 100 workers are employed, are required to: (i) pay 50% of basic wages and dearness allowance to a worker who has been laid off, and (ii) give one month's notice and wages for such period to a worker who has been retrenched. Any person who contravenes this provision is punishable with a fine between Rs 50,000 and two lakh rupees. Further, if an employer proposes to re-employ retrenched workers, such workers will have preference over other persons.
- **Voluntary arbitration:**The Code allows for industrial disputes to be voluntarily referred to arbitration by the employer and workers. The parties to the dispute must sign a written agreement referring the dispute to an arbitrator. After investigating the dispute, the arbitrator will submit the arbitration award to the government.
- **Resolution of industrial disputes:**The central or state governments may appoint conciliation officers to mediate and promote settlement of industrial disputes. These officers will investigate the dispute and hold conciliation proceedings to arrive at a fair and amicable settlement of the dispute. If no settlement is arrived at, then any party to the dispute can make an application to the Industrial Tribunal.
- **Industrial Tribunals:**The Code provides for the constitution of Industrial Tribunals for the settlement of industrial disputes. An Industrial Tribunal will consist of two members: (i) a Judicial Member, who is a High Court Judge or has served as a District Judge or an Additional District Judge for a minimum of three years; and (ii) an Administrative Member, who has over 20 years of experience in the fields of economics, business, law, and labour relations.
- The central government may also constitute National Industrial Tribunals for settlement of industrial disputes which: (i) involve questions of national importance, or (ii) could impact industrial establishments situated in more than one state. Members of the National Industrial Tribunal will include: (i) a Judicial Member, who has been a High Court Judge, and (ii) an Administrative Member, who has been a Secretary in the central government.

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Significance

- The Indian economy grew at 5% in the June quarter, a six-year low, while the country's factory output shrank for the second straight month at 4.3% in September, recording its worst show since the present series was launched in April 2012. The ease of compliance of labour laws will promote the setting up of more enterprises, thus catalysing the creation of employment opportunities in the country.

2. NATIONAL MILK DAY 2019

Context

November 26this celebrated as National Milk Day in India. This isn't the same as World Milk Day, which is marked on June 1st, and was established by the Food and Agricultural Organisation.

About

- India celebrates National Milk Day on 26th November in memory of Dr Verghese Kurien, fondly known as the Father of White Revolution.
- In 2014, all the dairy majors of the country, along with the Indian Dairy Association, resolved to observe Dr Kurien's birth anniversary on 26th November as National Milk Day.
- National Milk Day is celebrated to promote benefits related to milk and milk industry and to create awareness among people about the importance of milk and milk products.
- India is celebrating 98th birth anniversary of Dr. Kurien this year.

History: Operation Flood and the White Revolution

- In the year 1970, 'Operation Flood' was launched as a National Dairy Development Board (NDDB) project.

- It transformed India from a milk-deficient nation into the world's largest milk producer, surpassing the US in 1998.
- It created a national milk grid linking producers throughout India with consumers in over 700 towns and cities, reducing seasonal and regional price variations while ensuring that the producer gets a major share of the price consumers pay, by cutting out middlemen.
- All this was achieved not merely by mass production, but by production by the masses; the process has been called the white revolution. This is known as his 'billion-litre idea'.

Significance of National Milk Day in 2019

- India is world leader in milk production since last 15 years and the credit goes to small producers.
- India has 108.7 million buffaloes, which makes 57% of the world buffalo population.
- India is number one in bovine population with 18% of the world population and contributes 20% of the total milk produced in the world.
- Indigenous breeds are tolerant to heat and resistant to diseases.
- The indigenous breeds of cows are known to produce A2 type milk which protects us from various chronic health problems such as cardiovascular diseases, diabetes and neurological disorders.

Why there is a need of New White Revolution?

- Surplus production in India: From a chronic milk deficit country in 1950-51, with a production of 19 Million Ton per year (MMT), the production has increased to 176 MMT in 2017, and per capita availability of Milk has reached 375 grams per day. As Indian milk production has continued to grow rapidly, growth in Milk production has outstripped population growth.
- Negligence of development of recognized Indian breeds: In White Revolution, the focus was on introduction of exotic cattle breeds like HF and jersey and producing their cross bred. Therefore the developments of recognized Indian breeds were largely neglected.
- Adulteration of milk and rising demand for organic milk:
- About 68 per cent of the milk produced in India is found to have adulterants like detergent, starch, urea and white paint.
- Consumers are becoming more health conscious day by day which is fuelling growth for organic and natural milk products instead of milk from animals that are injected with growth hormones for more milk production and are full of antibiotics.

Therefore there is a need to have a re-look at the whole policy for Dairy sector and to take steps so that the interests of the Indian farmers and consumers are protected.

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3. LEAKED NSSO DATA

Context

Leaked findings from the 2017-18 Consumer Expenditure Survey (CES) show that inflation-adjusted average monthly per capita expenditure (MPCE) declined by 3.7% in between 2011-12 and 2017-18. Government has debunked the report and decided not to release it siting 'data quality issues'.

About

- Inflation-adjusted average monthly per capita expenditure **(MPCE) declined by 3.7%** in the country between 2011-12 and 2017-18, first time in four decades.
- The decline came **because of an 8.8% decline in rural MPCE** even as **urban MPCE increased by 2%.**
- The CES is a flagship **survey of the National Statistical Office (NSO),** formerly known as the National Sample Survey Office (NSSO), and is conducted **every five years**.

- The CES, in addition to being a source of **information on consumption spending and inequality**, is also used extensively in other statistical processes including revision of base years for calculation of GDP and the composition of the inflation basket.
- The 2017-18 CES was scheduled for release in June 2019. The **previous CES was conducted in 2011-12.**
- MOSPI has withheld the report and is examining the feasibility of conducting the **next CES in 2020-2021 and 2021-22** after incorporating all data quality refinements in the survey process.
- CES 2017-18 is the second major NSO report to run into **controversy**. Earlier publication of the NSSO Periodic Labour Force Survey (PLFS) for 2017-18 was also in controversy. 75th round (Consumer Expenditure), 76th round (Drinking water, Sanitation, Hygiene, and Housing Conditions) survey results were also deemed controversial.
- Leaked PLFS findings showed **the unemployment rate in the country to be 6.1%**, a four-decade high.
  - Data for 2017-18 shows Kerala has the most number of jobless people at 11.4 per cent. It is followed by Haryana (8.6 per cent), Assam (8.1 per cent) and Punjab (7.8 per cent).
  - At 3.3 per cent, Chhattisgarh had the least unemployment in 2017-18. Madhya Pradesh (4.5 per cent) and West Bengal (4.6 per cent) were at second and third places.
  - The joblessness rate rose the quickest in Gujarat — from 0.5 per cent in 2011-12 to 4.8 per cent in 2017-18.

Impact of not releasing CES report

- The decision of not releasing CES 2017-18 will have **important policy implications** given its widespread **use in calculating GDP** and **measuring inflation**.
- GDP **base year revisions coincide with the period of CES surveys**.
- The **base year for GDP** and **Index of Industrial Production (IIP)** was due to be revised to 2017-18. The **base year of Consumer Price Index (CPI),** India's benchmark inflation measure, was to be changed to 2018.
- But by delaying the CES to 2020-21, the GDP **base year revision will have to be postponed** to at least 2025 because the survey results will not be available until 2023.
- CES surveys are also essential in **calculating the contribution of the informal sector to the GDP** and deciding **weight of various items in the CPI basket.**

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Concluding arguments

Previous CES rounds have also been subject to other kinds of controversy but never has data been withheld, and a report was junked. The best way to resolve such controversies is to release the data transparently and let everybody who is familiar with such numbers, look at it. Otherwise it gives the impression that only statistics which are acceptable will be released and it is dangerous for the credibility of our statistical system.

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1. EXCHANGE TRADED FUND

Context

Edelweiss AMC recently got the government's permission to launch India's first bond ETF (exchange traded fund) which will invest in central public sector undertakings.

About

- Soon, **Bond ETFs** will be another investment vehicle available to retail investors providing **access to bonds of state-run enterprises.**
- Bond ETFs are similar to how **equity ETFs** invest in line with indices covering specific baskets like the **Nifty50, Nifty Next 50 and Nifty Quality 30,** among others
- While bond ETFs are **not new in India**, they have not been very popular. At present, only three **GSec ETFs** are available, all with miniscule assets and **poor trading volumes.**
- The entry of newer bond ETFs comes **at a time when** traditional bond funds are only just emerging from a painful period of multiple **credit defaults**. **Investors are wary.**
- Bond ETFs claim to be different from traditional bond funds by **offering high liquidity, transparency and lower costs.**
- The cost angle is the most distinguishing facet of bond ETFs. Being **passively managed** products, these charge a **much lower fee** than actively managed bond funds. Sometimes even less than 0.5%.
- In the debt segment, there is not much the fund manager can do to **enhance returns**. Any strategy that can optimise costs is the need of the hour.
- **Globally,** Bond ETFs have reported a **healthy growth** over the last decade. The size of Global Bond ETFs now accounts for over **$1 trillion** assets under management (AUM) out of total $4 trillion AUM across various ETFs.
- The **key objectives of launching Bond ETF** are:
- To suffice borrowing needs of CPSEs
- To increase retail participation
- To deepen the bond market and increase liquidity

What are ETFs?

- An exchange-traded fund (ETF) is a **marketable security**, meaning it has an **associated price that allows it to be easily bought and sold.**
- ETFs are in many ways similar to mutual funds; however, they are listed on exchanges and **ETF shares trade throughout the day** just like ordinary stock.
- ETFs offer **low expense ratios and fewer broker commissions** than buying the stocks individually.
- ETFs can **contain all types of investments** including stocks, commodities, or bonds; some offer domestic holdings only, while others are international.

What are Bond ETFs?

- Bond ETFs are a type of ETF that **exclusively invests in bonds.** Bond ETFs **invest in various fixed-income securities** such as corporate bonds, treasuries, municipal, international, high-yield, etc.
- Bond ETFs are passively managed and trade, **much like stock ETFs** on major stock exchanges. This helps **promote market stability by adding liquidity and transparency** during times of stress.
- Bond ETFs allow ordinary investors to gain **passive exposure to benchmark bond indices** in an inexpensive way.
- Investors of bond ETFs are exposed to the **risk of interest rate changes**.
- Bond ETFs are typically of **two types:** They either track a specific maturity bucket like short, medium or long term or they track a target maturity where they invest in bonds with similar maturity as the product.
- **Target Maturity Bond ETFs:** They provide predictable returns like Fixed Maturity Plans (FMPs), if they are held till maturity.

Other type of ETFS

- **Market ETFs:** Designed to track a particular index like the NIFTY.
- **Sector and industry ETFs**: Designed to provide exposure to a particular industry, such as oil, pharmaceuticals, or high technology.
- **Commodity ETFs:** Designed to track the price of a commodity, such as gold, oil, or corn.
- **Style ETFs:** Designed to track an investment style or market capitalization focus, such as large-cap value or small-cap growth.
- **Foreign market ETFs:** Designed to track non-Indian markets, such as US's Dollar 30 or Dow Jones Industrial Average (DJIA).
- **Inverse ETFs:** Designed to profit from a decline in the underlying market or index.
- **Actively managed ETFs:** Designed to outperform an index, unlike most ETFs, which are designed to track an index.
- **Exchange-traded notes:** In essence, debt securities backed by the creditworthiness of the issuing bank; created to provide access to illiquid markets and have the added benefit of generating virtually no short-term capital gains taxes.
- **Alternative investment ETFs:** Innovative structures, such as ETFs that allow investors to trade volatility or gain exposure to a particular investment strategy, such as currency carry or covered call writing.

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Benefits

- **Lower Costs:** An investor who buys an ETF doesn't have to pay an advisory/management fee to the fund manager and taxes are relatively lower in ETFs.
- **Lower Holding Costs:** As commodity ETFs are widely traded in, there isn't any physical delivery of commodity. The investor is just provided with an ETF certificate, similar to a stock certificate.
- **Exposure to debt market:** Bond ETFs are a cost-effective way for investors to take debt-market exposure.
- **Tax considerations:** ETFs tend to be very tax efficient and ideal for holding in taxable accounts. Since ETFs don't sell shares very often and their portfolio turnover is very low, it is very rare for them to generate a taxable distribution for their shareholders.
- IETFs also have the option of making an "in-kind" distribution to shareholders if they want to sell themselves and want the cash.
- However, if the ETF's portfolio generates dividend income, this income is taxable.
- **Transparency:** The entire portfolio held by the bond ETF is disclosed on a daily basis to investors**.**
- This is unlike conventional bond funds which disclose portfolios at the end of every month.
- Further, since bond ETFs are listed on exchanges, they provide live price updates after every trade.

- **Liquid:** Being listed on the exchanges, bond ETFs also claim to offer liquidity—ability to buy and sell units instantly—for the investor.
- The liquidity in bond ETFs will depend on how actively market makers buy and sell units on the exchange in bulk.
- This will allow the investor to fetch a purchase or sale price closer to the fair value of the ETF, as indicated by its net asset value (NAV).
- **Increasing participation:** In India, retail participation in corporate bond market is shallow due to structural challenges like poor accessibility, lack of transparency and awareness. Bond ETFs can address these challenges and can play an important role in increasing retail investor participation in corporate bond market.

Disadvantages

- Several ETFs in India are plagued by **crippling illiquidity**. In the **absence of trading volumes,** investors often end up buying or selling at a steep premium, or discount to the prevailing NAV.
- While lower cost enhances the return potential of ETFs, **absence of liquidity can effectively wipe out cost benefits.** Conventional bond funds do not face these issues.
- If evidence is to go by, the initial liquidity in these products will be low, restricting investor's ability to move in and out at a desired price.
- If the ETFs are not able to amass a decent corpus size, poor liquidity will continue. C
- Bond ETFs **cannot assure return to investors any more than conventional bond funds**, except certain categories of bond ETFs such as target maturity bond ETFs which have a defined maturity date.
- Unlike actively managed bond funds, bond ETFs will **not be in a position to gain from** opportunities emerging from **movements in interest rates or credit spreads.**

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Conclusion

To conclude, ETFs offer both tax efficiency as well as lower transaction and management costs. Bond ETFs combine the best of both bonds and debt funds. Indians invest a substantial portion of their savings in fixed income instruments such as small savings schemes, fixed deposits, bonds and various types of fixed income mutual funds. If liquidity is sufficiently high, bond ETFs may be a good first stop for those looking to move from bank fixed deposits.

2. DISINVESTMENT IN FIVE PSE

Context

Recently, Cabinet approves strategic sale of BPCL and 4 other PSUs.

About

- The Cabinet Committee on Economic Affairs approved the strategic disinvestment in Bharat Petroleum Corporation Limited, Shipping Corporation of India, Container Corporation of India, THDC India Limited, and North Eastern Electric Power Corporation (NEERCO) while giving up management control in these companies.
- It also gave an in-principle approval for the government to reduce stake in certain state-owned companies to below 51 per cent in some while retaining majority stake management control.
- These major divestment decisions were taken even as the government races against time to meet its highest ever divestment target of Rs 1.05 trillion for 2019-20. The Centre hopes that disinvestment proceeds will make up for some of the revenue shortfall that is expected this year.
- Privatisation of BPCL will be without the company's equity shareholding of 61.65 per cent in Numaligarh Refinery in Assam.

- The Numaligarh Refinery will be carved out of BCPL and will be taken over by another state-owned company
- Numaligarh Refinery is the largest producer of paraffin wax in the country. The GRM of NRL during FY19 was seen at $11.8 a barrel. The remaining 38.35 per cent stake is held by the Assam government (12.35 per cent) and Oil India (26 per cent).
- Of the total 249.4 million tonne per annum (MTPA) refining capacity in India, BPCL has around 15 per cent or 38.3 MTPA. BPCL also has 15,177 retail outlets in India.
- The major reason why Numaligarh was kept out of the strategic disinvestment was because of its importance being part of the Assam Accord of 1985 signed between All Assam Students' Union and the Centre following the anti-immigrant agitation.

Significance

- It will provide revenue to the government which is faced with massive shortfall in revenue and capital receipts.
- It will hand over management of the non-performing PSE to the private management which will make them profitable in the longer run

Criticism

- BPCL is a profitable refinery and oil marketing company that has consistently paid a healthy dividend. It has also made investments in energy resources and holds interests in overseas hydrocarbon blocks. Privatization of BPCL and saving its stakes in Numaligarh is a clear sign that politics taking precedence over any economic interest.
- The Centre has very less time to realize these strategic sale proposals to make available the money for the current fiscal.

3. National grid of ports

The road to your dreams...

Context

Government plans to develop a National Grid for Ports based on the synergy between the major and minor ports in the country.

About

- During the **17th** Meeting of **Maritime states Development Council (MSDC)—**the apex advisory body for the development of the maritime sector—government announced a plan to develop a **National Grid for Ports.**
- Out of the 204 minor ports in the country, only 44 are functional; the National Grid for Ports (NGP) **will connect the major and minor ports.**
- Ports have been centres of India's maritime activity in the past; the **objective** is to once again **revive ports as important centres of sea trade.**
- The objective is also to **improve infrastructure** and to reduce and finally **eliminate human interface.**
- Ministry of shipping is planning a **wider expansion of port capacity** across the country.
- The study on NGP will be different than 'Sagarmala' study.

How will NGP be developed?

- The plan will be carried through **cooperation between the Centre and State.**
- The Centre will **share findings with the States** so that the non-functional minor ports can be developed and made functional.
- Port capacity will be expanded by implementing well-conceived **infrastructure development projects.**

- A host of measures will be undertaken to **cut time and cost, digitization of processes**, and to strongly address **environment-related concerns**.
- Specific **cargo linked to the ports and the downstream industry** will be identified for the revival of each port.
- Over 100 minor ports in India could be renewed and integrated with major ports in a new system.
- States also run barges along the coastal route. All **States will implement a set of common rules** to ease movement of barges across the coastal route.
- States will be free to develop it themselves or through **public-private partnership ports**.
- Government is considering giving **deep sea vessels to fishermen.**
- There are two layers of port security – one is to scan containers that are handled and second is to track the ships that enter and exit the ports. Government is planning to implement **international standards of security** in major and non-major ports.

Benefits

- The coastal shipping and inland waterways sector are poised to play a vital role in the development of the country.
- The cost-effective and pollution-free water transport can **reduce logistics costs** in the country, making **Indian goods more competitive** in the global markets.
- NGP will help increasing the **efficiency** of port operations
- Developing connectivity between the major and minor ports can bring **port-led development into the country**.
- A NGP will ensure that cargo or agricultural produce located near the non-major ports can be shipped to major ports.

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Conclusion

- Given other seminal initiatives such as the Regional (Air) Connectivity Scheme, national plans for development of transportation & logistics infrastructure and the consequent progress, the proposed national grid of ports is an idea with potential. It, however, needs careful consideration, planning and phased implementation, most importantly through extensive engagement with the trade/ stakeholders.

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1. FALLING INDEX OF INDUSTRIAL PRODUCTION

Context

Recently the Index of Industrial Production (IIP) reached to a low of –4.3% (September 2019). It was exacerbated by a manufacturing slowdown of –1.4%. This is the deepest negative growth in the 2011-12 series; more than seen in the previous 2004-05 IIP series.

About

- There is sharp **contraction in the IIP (factory output**), to an eight-year low of a **negative 4.3%** year-on-year (y-o-y).
- In terms of industries, **17 out of the 23 groups** in the manufacturing sector
- **Core sector** data measuring the eight infrastructure sectors **contracted**2%, worst in 14 years. **Core sector constitutes 40% of industrial production.**
- **All components of industrial output—mining, manufacturing and electricity—fell** during the month, pointing towards a deepening economic downturn.
- The top negative contributors to negative IIP were mining, bars and rods of alloys and stainless steel, auto parts, commercial vehicles and two-wheelers.
- **Demand is clearly weaker** than perceived and **consumer confidence is severely dented. Business confidence has slipped** to lowest level in past two years.
- Signalling a continuing slump in consumption demand, **both consumer durables and consumer non-durables also contracted**.
- There is **contraction also in capital goods segment** (driven largely by commercial vehicles (CVs)) indicating that **investment demand in the economy is shrinking**, and that companies are **not adding capacity.**
- The pace of **growth of intermediate goods** such as cotton yarn, plywood and steel pipes **halved** to 7%.
- The IHS Markit's purchasing managers' index (PMI), based on a survey of 400 producers, also fell. **Job creation fell** to a six-month low, while companies were reluctant to hold excess stock and **lowered input buying.**
- **Auto manufacturers have been producing less** in order to reduce inventories that piled up earlier.
- The **infrastructure and construction sectors have been sluggish** for a long time now.
- Key sectors such as **defence have attracted little FDI.**
- Highest positive contributors to IIP were basic metals (driven largely by mild steel slabs), fragrance and oil essentials, hot-rolled coils, electric heaters and medicinal formulations.
- MS Slabs are used in the hydraulic press and machinery industry. This explains the growth in the intermediate goods user industry segment, which some analysts say will contribute to imminent recovery of IIP.

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Reasons for fall in IIP

- **Tight credit conditions** are making it hard for all, except for top-rated borrowers, to access loans at affordable rates. This is hurting demand and business.
- After the **NBFC crisis,** companies and individuals have been finding it harder to get affordable loans; disbursements by NBFCs and HFCs fell 32% y-o-y in Q2FY20. Overall loan growth seems to have slumped to 6%.
- One can't blame **lenders for being risk-averse**, since it is a fact that credit profiles of most companies are far from robust and, in many cases, are deteriorating.
- The sharp IIP de-growth was, in large part, due to a persistent **negative growth in capital goods.**
- IMF and other agencies have downgraded India's growth forecast, which is emanating mostly from **slowdown in manufacturing segment**. Sectors in manufacturing segment where growth contracted were mining, electricity generation, petroleum and consumer durables.
  - Growth in **mining** contracted due to the excess, **prolonged rains** in the mining belts.
  - Negative growth in **petroleum** refining might have been due to some maintenance related **refinery closures.**
  - Weaknesses in **consumer non-durables** (FMCG) are representative of **squeezed purchasing power**, and hence, demand weakness.
  - Contraction in **electricity** generation has been led by multiple factors, including **weaker demand from industry**, curtailed production schedules, low domestic demand and farm off-take related to higher than normal rainfall.
- **Global economy is also suffering from low growth conditions**, and its affect gets amplified for emerging markets like India.
- **Diesel consumption has sharply decelerated** and a continuing vehicle sales slowdown will inevitably impact transport activity in an adverse way.
- The **late withdrawal of the monsoon** is likely to have **dampened construction activity** in various states, contributing to the contraction in the output of infrastructure/construction goods.
- Seven out of the eight core industries showed a contraction. **Coal was the worst performer** on account of an extended monsoon, a **surge in renewable energy supply and labour issues** at state-run Coal India Ltd. Coal accounts for a substantial share of the freight moved by the Indian Railways and the country's power generation capacity. Of India's installed capacity of 360 GW, 54% is coal-fuelled.
- **Slowdown in growth of intermediate goods** stands out as the biggest contributor to the sequential slippage in IIP growth.
- **Weakening demand had a domino effect** on the manufacturing industry, knocking down production, employment and business sentiment.

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Solutions to revive IIP

- Without an **investment revival**, there is little hope of the economy clocking more than 6%.
- Even as the government works on longer-term measures to revive the economy, it must find a way for businesses and individuals to be able to **access loans** and, at the same time, speed up payments so **cash flows back into the economy**.
- The onus is on the government to spend more; **schemes such as the Rs. 25,000 crore funds for the real estate sector** to complete stalled housing projects will boost cement and steel sectors and will go some way in reviving demand.
- However, over the longer term, government must **ensure that regulation is unbiased**; else, we will see wealth destruction of a colossal magnitude as we have seen in telecom.
- The Reserve Bank of India has **slashed its policy rates** for the fifth time this year (as of November 2019) to support growth.
- There is **need to design an optimal mix of policies** to reverse this deceleration. The scope for a strong monetary policy response is limited.

- The administration has given a **cut in the corporate tax rate**. This too will prompt companies to invest more.

Conclusion

The Indian economy is battling a severe demand slowdown and a liquidity crunch, which together resulted in the GDP growth rate and growth in private consumption expenditure falling. The slowdown in the economy is likely to have an adverse bearing on policymakers' goal of doubling the size of the economy to $5 trillion by 2024. Hence, it is important to arrest the falling industrial production at the earliest, in order to revive growth.

2. OECD TAX PROPOSAL (BEPS 2.0)

Context

OECD has proposed a new multilateral framework on taxation of new-age companies such as Netflix, Uber, Google and Facebook, which have a large customer base in developing countries like India as well as the EU.

About

- The **OECD tax proposal** aims to prevent digital Multinational Enterprises **(MNEs)** artificially **showing profits in low-tax countries instead of where deal happens**.
- The proposal requires them to pay tax wherever they have significant **consumer-facing activities (market)** and **where they generate their profits**, and **not based on** jurisdiction of their **physical presence.**
- The new OECD proposal brings together common elements of three competing proposals from member countries:
  - A user participation proposal;
  - A marketing intangibles proposal and;
  - A significant economic presence proposal (as proposed by India).
- **OECD tax proposal:** The proposal would re-allocate some profits and corresponding taxing rights to countries and jurisdictions **where MNCs have their markets**. It would ensure that MNEs conducting significant business in places where they do not have a physical presence, are taxed as per the following new unified rules:
  - Where tax should be paid ("nexus" rules; which are largely dependent on sales)
  - What portion of profits should be taxed ("profit allocation" rules)
- The proposal **is based on the work of OECD/G20** Inclusive Framework on Base Erosion and Profit Sharing **(BEPS).**
- Discussions on the new proposal are in pipeline (as of November 2019) and all countries must agree for the rules to be enforced.

Objectives of the new OECD tax proposal

- The idea of the proposal is to address the tax challenges arising from digitalisation of the economy and the rise of complex, global corporate tax structures.
- Changing nature of work, including automation, artificial intelligence and the rise of the gig economy, can erode tax revenues so severely that it may difficult to provide essential state services by 2040.
- The initiative aims to advance toward a consensus-based solution to overhaul the rules-based international tax system by 2020.
- The ultimate goal is to ensure that all MNEs pay their fair share of tax.
- The proposal aims to balance adherence to the arm's-length principle with formula based solutions.

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- Failure to reach agreement by 2020 would greatly increase the risk that countries will act unilaterally, with negative consequences on an already fragile global economy.
- The proposal is part of wider efforts to restore stability and certainty in the international tax system, address possible overlaps with existing rules and mitigate the risks of double taxation.
- Beyond the specific elements on reallocating taxing rights, a second pillar of the work aims to resolve remaining BEPS issues, ensuring a minimum corporate income tax on MNE profits.
- Together, the OECD anticipates that these proposals will lead to a significant increase in global tax revenues.

Why is India's take on the OECD tax proposal?

- India had sought changes in the proposal on digital taxation, saying it would deny the country its proper share of taxes from multinationals such as **and Netflix,** which generate substantial revenues locally.
- The proposed OECD formulation meant India getting little revenue despite the large digital and business presence of companies. This is because only "residual profit" will be apportioned among the countries where a company has its markets.
- Government is of the view that MNEs derive large revenues from countries such as India via their digital presence, without having a physical one, and has questioned the distinction between **"routine profits"—** which accrue due to physical presence — and **"residual profits".**
- For example, a cab aggregator (like Uber) operating via a mobile app has its core technology base in one country and software base in another but makes money in countries such as India. Hence the **Indian method focuses on place of revenue generation.**
- 28 developing nations backed India on its objection to the OECD tax proposal.
- Grouping believes new global rules to tax tech giants give **undue taxation rights to United States.**
- India's draft report on profit attribution gives **weightage to sales and users** as a factor for profit attribution. If finalised, it would result in higher revenues for countries like **India** having a **large user base but a very low share in the value chain**. This would be a vastly increased tax base.
- Most importantly the scope of the new proposal **extends now from just digital business to all consumer-facing business**. This is a very significant expansion as market is an important component and deserves to be a factor for profit allocation.

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3. Steel Scrap Recycling Policy

Context

The government released Steel Scrap Recycling Policy that aims to reduce imports, conserve resources and save energy.

About

- **The Steel Scrap Policy will ensure processing and recycling of products in an organized, safe and environment friendly manner.**
- It will **evolve a responsive ecosystem to produce high quality ferrous scrap for quality steel production minimizing the dependency on imports.**
- It envisages a framework to facilitate and **promote establishment of metal scrapping centers** in India that will boost steel production.
- It also aims to **decongest the Indian cities from reuse of ferrous scrap**, besides creating a mechanism for treating waste streams and residues produced from dismantling and shredding facilities.
- **The country's steel scrap imports were valued at Rs 24,500 crore in 2017-18, while the deficit was to the tune of 7 MT.**

- The policy is based on "**6Rs principles of Reduce, Reuse, Recycle, Recover, Redesign and Remanufacture** through scientific handling, processing and disposal of all types of recyclable scraps including non-ferrous scraps, through authorized centers / facility".
- The gap between demand and supply of scrap can be reduced in the future and the country may be self-sufficient by 2030.
- **National Steel Policy 2017** aims to develop a globally competitive steel industry by **creating 300 MT per annum steel productioncapacity by 2030** with a contribution of 35-40 per cent from EAF/IF (Electric Arc Furnace/Induction Furnace) route.

Significance

- **The scrapping policy ensures that quality scrap is made available for the steel industry.** Scrap is an important input for the electric furnaces. If quality scrap is provided as the charge to the electric furnaces, then the furnaces can produce high grade steel. High grade steel scrap shall not have the impurities if processing is done with the scrap processing centers and by shredders etc.
- **It will minimize the cost of production and will lead to costlier steel.**
- **Conservation of environment, energy and Natural resources:** There is a worldwide trend to increase steel production using scrap as the main raw material as recycling of scrap helps in conservation of vital natural resources besides other numerous benefits. The use of every tonne of scrap shall save 1.1 tonne of iron ore, 630 kg of coking coal and 55 kg of limestone. There shall be considerable saving in specific energy consumption also.
- The availability of scrap is a major issue in India and in 2017 the deficit was to the tune of 7 MT which gives us an opportunity to exploit it. This was imported at the cost of more than Rs 24,500 crore in 2017-18.
- The current supply of scrap is 25 MT from the domestic unorganized scrap industry and 7 MT from import of scrap. There is potential to harness this huge quantity scarp for steel production.
- It is in tune with the National Steel Policy that aims to develop a globally competitive steel industry by **creating 300 MT per annum steel productioncapacity by 2030** with a contribution of 35-40 per cent from EAF/IF (Electric Arc Furnace/Induction Furnace) route.
- It will reduce India's dependence on steel imports.

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1. STAGES OF ECONOMIC INTEGRATION

Context

The Regional Comprehensive Economic Partnership (RCEP) is a proposed FTA of which India rejects to join. The BREXIT proposal has also created pressure on India to form FTAs with the UK. In this context it is important to consider the meaning of FTA, and various other stages of economic integration.

About

Independent Economy

- In order to implement the **principle of economic self-sufficiency**, one must build an independent national economy.
- If an independent national economy is to be built, the economy must be developed in a **diversified and integral manner**. It requires development of **heavy industry and light industry and agriculture simultaneously.**
- It is necessary to establish reliable and independent sources of **raw materials and fuel. Technical independence** is also necessary.
- An independent economy is opposed to foreign economic domination and subjugation; but it **does not rule out international economic cooperation.**

Preferential Trade Area

- A preferential trade area/agreement (PTA) is a trading bloc that gives **preferential access to certain products from the participating countries**.
- This is done by **reducing tariffs** but not by abolishing them completely. A PTA can be established through a trade pact. It is the first stage of economic integration.
- Today simple PTA has evolved into **bilateral PTAs** and **Mega-PTAs**. Mega-PTA is wide regional trade agreements, such as the Transatlantic Trade and Investment Partnership **(TTIP)** or Trans Pacific Partnership **(TPP).**
- These tariff preferences create **departures from the normal trade relations principle**.

Free Trade Area

- A Free Trade Area (FTA) is a group of countries who have mutually agreed to **limit or eliminate trade barriers** - tariffs or quotas - among them.
- FTAs tend to **promote free trade and the international division of labor**, allowing countries to increase specialization in their respective comparative advantages.
- To develop a FTA, participating nations must **develop rules for how the new FTA** will operate and decide upon the following:
  - Customs procedures that each country will follow

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- Tariffs, if any, that will be allowed and their costs
- Trade despite resolution mechanism
- Transportation of goods
- Intellectual property rights protection and management

- FTA rules decide the scope and degree of **how "free" trade will actually be.**
- **Advantages:** FTAs can benefit consumers, who get increased access to less expensive and/or higher quality foreign goods. Population may also see increased living standards.
- **Disadvantages:** Producers can struggle with increased competition, but they might also acquire a greatly expanded market of potential customers or suppliers.
  - Some **jobs may be lost** as production moves to areas with comparative advantage.
  - Outcomes of FTA may represent the influence of pressure groups, and **rent-seeking** behaviors may increase.
  - FTAs may actually **distort patterns of international specialization and division of labor** by biasing and limiting trade toward trade blocs, as opposed to allowing natural market forces to determine patterns of production and trade across countries.

Customs Union

- A Customs Union (CU) involves the **removal of tariff barriers between members**, and acceptance of **a common (unified) external tariff against non-members.**
- Countries that are part of a CU only need to make a single payment (duty), once the goods have passed through the border. Once inside the union goods can move freely without additional tariffs. **Tariff revenue is then shared** between members.
- **Advantage**: A common external tariff effectively removes the possibility of arbitrage and is one of the fundamental building blocks of economic integration.
- **Disadvantage: CU members are not free to negotiate individual trade deals with non-members.** For example, if a member wishes to protect a declining or infant industry it cannot do so through imposing its own tariffs.

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Common Market

- A common (or single) market is the most significant step towards full economic integration.
- A common market is the **extension of free trade** from just tangible goods, **to include all economic resources.** This means that **all barriers are eliminated** to allow the **free movement of goods, services, capital, and labour.**
- **Tariffs and all non-tariff barriers are also reduced** and eliminated.
- For a common market to be successful there must also be a significant level of **harmonisation of micro-economic policies**, and **common rules regarding product standards, monopoly power and other anti-competitive practices**.
- There may also be common policies affecting key industries, such as the Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP)

Economic Union

- An Economic Union is a type of trade bloc which is composed of a **common market with a customs union**. It has **common trade policy towards non-members**, although members are free to pursue **independent macro-economic policies.**
- The member countries have common policies on product regulation, freedom of movement of goods, services and factors of production (capital and labour) and a common external trade policy.
- The **European Union (EU)** is the best known Economic union, and came into force on November 1st 1993, following the signing of the Maastricht Treaty (formally called the Treaty on European Union.)

Monetary Union

- Monetary union is the first major step towards macro-economic integration, and enables economies to converge even more closely.

- In monetary union, **members adopt a single, shared currency**, such as the Euro for the Euro-17 countries, and the East Caribbean Dollar for 11 islands in the East Caribbean.
- This means that there is a common exchange rate, a common monetary policy, including interest rates and the regulation of the quantity of money, and a single central bank, such as the **European Central Bank or the East Caribbean Central Bank.**

Fiscal Union

- A fiscal union is an agreement to **harmonise tax rates, to establish common levels of public sector spending and borrowing, and jointly agree national budget deficits or surpluses.**
- The majority of EU states agreed a fiscal compact in 2012. Though it is a less binding version of a full fiscal union.

Economic and Monetary Union

- Economic and Monetary Union (EMU) is a key stage towards compete integration, and involves a **single economic market, a common trade policy, a single currency and a common monetary policy.**
- **Complete Economic Integration**
- Complete economic integration involves a **single economic market, a common trade policy, a single currency, a common monetary policy, together with a single fiscal policy**, including common tax and benefit rates – in short, complete harmonisation of all policies, rates, and economic trade rules.

2. ELECTORAL BOND SCHEME

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Context

Recently, the union government notifies Electoral Bonds due to Delhi Legislative Elections.

About

- A bond is a debt security which borrowers issue to raise money from investors, who are willing to lend them a sum for a certain amount of time.
- **Electoral bonds** are bearer instrument in the **nature of a Promissory Note** that is payable to the bearer on demand.
- Bond can be purchased by an Indian citizen or a company incorporated or established in India.
- Only political parties registered under **Section 29A of the Representation of the Peoples Act, 1951**, which have secured **no less than 1% votes** in the last Lok Sabha elections, are eligible to receive electoral bonds.
- These bonds can be bought from selected branches of **State Bank of India only.**
- Political parties are allotted a **verified account by the Election Commission** and all the electoral bond transactions are done through this account only.
- The donors can buy these electoral bonds and transfer them into the accounts of the political parties as a donation.
- The electoral bonds are available in denominations from **Rs 1,000 to Rs 1 crore.**
- Electoral bonds will be **valid for 15 days** from the date of purchase.
- **No interest** will be given by the banks on these bonds.
- Donations will be **tax deductible**, and the benefitting political party will get a **tax exemption** for the amount received.
- They can be bought by a donor with a **KYC-compliant Names of the donors** are kept **confidential.**
- Bonds can be purchased in **January, April, July and October months of each year.**

Previous System of funding

- Before the budget of 2017, if a political party got a donation of **less than Rs. 20,000** from a donor, then it **was not mandatory to reveal the source of fund.**
- This rule was misused and near about all the political parties said that they received 90% of their political fund in the denomination of less than Rs. 20000.
- So a huge amount of black money was generated and used in the election campaigning.
- On the basis of the recommendation of the Election Commission, in Budget 2017 the government **reduced the limit of anonymous donation to Rs. 2000** only.
- The concept of Electoral bonds was introduced in the **Finance Bill 2017**, and was facilitated through multiple amendments in the Finance Act 2017.

Examples from around the world

- While there have been electoral trusts in India, the concept of electoral bonds is new for India and the world.
- **United States** has **Political Action Committees** which receives money from individual and corporate donors, and manages them. They do not have any scheme that allows the citizen to directly purchase a bond and donate the same to a political party.

Criticism

- The Communist Party of India (Marxist) and the NGO Association for Democratic Reforms (ADR) had moved to the Supreme Court against the electoral bonds.
- They argued, ordinary citizens will not know who is donating how much to which political party, and it would add to the woes of the Indian democracy.
- It may also **tilt the balance** in favour of one political party. For example, in FY 2018, the ruling party received **95% of the total bonds**
- Private corporate interests may take precedence over the needs and rights of the people of the State in policy considerations.

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Supreme Court's stand

- According to SC, if the **identity of the buyers** of electoral bonds is not known, the efforts of the government to curtail black money in elections would be **"futile".**
- It has directed the Finance Ministry to reduce window of purchasing electoral bonds.
- It has directed all political parties **to furnish receipts of funding** received through electoral bonds and **details of identity of donors** in a sealed cover to the Election Commission.

Central Governments stand

- Electoral Bond Scheme is an alternative to cash donations to ensure **transparency** in political funding, and **check the use of black money** for funding elections.
- Political party have to **file returns before the EC** as to how much money has come through electoral bonds, which will provide
- The right of the buyer to purchase bonds without having to disclose his preference of political party is in furtherance of his **right to privacy.**
- Keeping the identity of the donor anonymous is also an extension to his **right to vote** in secret ballot.
- Allegations that nobody would know about the donors is wrong, as the **Income Tax department will have access** to this information.

Conclusion

- It can be said that the release of electoral bonds will restrict the generation of black money up to some extent. But the rule that identity of the donors will be kept confidential may make futile the exercise to eliminate black money, as it **may just end up making Black money White.**

3. MARGINAL COST OF FUNDS-BASED LENDING RATE (MCLR)

Context

Public sector lender, Bank of Baroda (BoB) has reduced marginal cost of funds based lending rate (MCLR) on one-year tenor by 10 basis points (bps).

About

- The **marginal cost of funds-based lending rate (MCLR) is the minimum interest rate that a bank can lend at.**
- MCLR is **determined internally by the bank depending on the period left for the repayment of a loan.**
- The **RBI introduced the MCLR methodology for fixing interest rates from 1 April 2016**. It **replaced the base rate structure**, which had been in place since July 2010.
- It is calculated **based on four components**:
  - **The marginal cost of funds is the** cost which one has to bear to raise new (incremental) fund. Suppose I have funds of average interest rate of 10% per annum. I raise some new fund bearing interest rate of 8% per annum then marginal cost of my fund is 8%.
  - **The tenor premium** is not borrower-specific and is uniform for all types of loans.
  - **Operational expenses** include the cost of raising funds, barring the costs recovered separately through service charges. It is, therefore, connected to providing the loan product as such.
  - **Negative carry on the CRR (Cash Reserve Ratio)** takes place when the return on the CRR balance is zero. Negative carry arises when the actual return is less than the cost of the funds. This will impact the mandatory Statutory Liquidity Ratio Balance (SLR) – reserve every commercial bank must maintain.
- Under the MCLR regime, banks are free to offer all categories of loans on fixed or floating interest rates.
- After the implementation of MCLR, the interest rates are determined as per the relative risk factor of individual customers. Previously, when RBI reduced the repo rate, banks took a long time to reflect it in the lending rates for the borrowers. Under the MCLR regime, banks must adjust their interest rates as soon as the repo rate changes.

How is MCLR different from Base Rate?

- MCLR is an improved version of the base rate. It is a risk-based approach to determine the final lending rate for borrowers. It considers unique factors like the marginal cost of funds instead of the overall cost of funds. The marginal cost takes into account the repo rate, which did not form part of the base rate.
- When calculating the MCLR, banks are required to incorporate all kinds of interest rates which they incur in mobilizing the funds. Earlier, the loan tenure was not taken into account when determining the base rate. In the case of MCLR, the banks are now required to include a tenor premium. This will allow banks to charge a higher rate of interest for loans with long-term horizons.

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1. GIG ECONOMY

Context

In India, recently the Gig Economy is continuously rising as lot of companies like Paytm, Uber, Ola Cabs etc are indulged in it.

About

Gig Economy

- In a gig economy, temporary, flexible jobs are commonplace and companies tend toward hiring independent contractors and freelancers instead of full-time employees.
- A gig economy undermines the traditional economy of full-time workers who rarely change positions and instead focus on a lifetime career.
- The gig economy can benefit workers, businesses, and consumers by making work more adaptable to the needs of the moment and demand for flexible lifestyles.
- At the same time, the gig economy can have downsides due to the erosion of traditional economic relationships between workers, businesses, and clients.
- Gig-economy work and zero-hour contracts have similarities. Both treat workers as contractors and offer no guarantee of pay, but gig economy roles are normally paid per piece — such as a set rate to deliver a package or drive a fare to a location — while zero-hours contracts are paid hourly, but with no set minimum. Both are the result of companies trying to cut or limit staffing costs, and can leave workers unsure how much they'll earn.

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2. OPEN ACREAGE LICENSING POLICY (OALP)

Context

The ministry of petroleum and natural gas has launched the third bidding round under the *Open Acreage Licensing Policy (OALP)*, offering 23 hydrocarbon blocks covering over 31,000 sq km for exploration.

About

- Open Acreage Licensing Policy (OALP) gives an option to a company looking for exploring hydrocarbons to select the exploration blocks on its own, without waiting for the formal bid round from the Government.
- Under Open Acreage Licensing Policy (OALP), a bidder intending to explore hydrocarbons like oil and gas, coal-bed methane, gas hydrate, etc., may apply to the Government seeking exploration of any new block (not already covered by exploration).

- The Government will examine the Expression of Interest and justification. If it is suitable for the award, Govt. will call for competitive bids after obtaining necessary environmental and other clearances.
- OALP was introduced vide a Cabinet decision of the Government as part of the new fiscal regime in the exploration sector called HELP or Hydrocarbon Exploration and Licensing Policy, to enable a faster survey and coverage of the available geographical area which has potential for oil and gas discovery.
- What distinguishes OALP from New Exploration and Licensing Policy (NELP) is that under OALP, oil and gas acreages will be available round the year instead of cyclic bidding rounds as in NELP. Potential investors need not have to wait for the bidding rounds to claim acreages.
- Setting up of National Data Repository is one of the milestones achieved for Open Acreage Licensing Policy. To make India a favorable destination globally for the Exploration of Crude Oil and Natural Gas, the Government plans to move to the OALP regime soon.
- It is well acknowledged that there is a need for a faster vehicle of awarding blocks to bring more areas under exploration.
- As India has vast unexplored sedimentary basins, a strategy that facilitates a time-bound full coverage has become a necessity. Moreover, even the OALP pre-supposes offering of data to the interested companies for them to submit their bids/ interest. Hence, the availability of data is no longer an option, but a pre-condition.

3. MUDRA LOAN

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Context

The Reserve Bank of India (RBI) has expressed concern over rising bad loans from Pradhan Mantri MUDRA Yojana (PMMY).

About

- A survey by the Labour Ministry, yet to be made public, has found just **one out of five beneficiaries (20.6 per cent)** from the sample survey **availed of Mudra loan** for setting up a new establishment, **the rest used the funds for expanding their existing business.**
- It has found **that 1.12 crore additional jobs** were created during April 2015-December 2017, **the first 33 months following the rollout of the scheme**.
- Of this, 51.06 **lakh were self-employed or working owners** which also included unpaid family members **while 60.94 lakh were employees or hired workers**.
- A total of Rs 5.71 lakh crore in loans was sanctioned under three categories of **Mudra — Shishu, Kishor and Tarun —** through 12.27 crore loan accounts during the first three years. The average ticket size of a loan was Rs 46,536.

Pradhan Mantri MUDRA Yojana (PMMY)

- Pradhan Mantri Mudra Yojana (PMMY) is a flagship scheme of Government of India to "fund the unfunded" by bringing such enterprises to the formal financial system and extending affordable credit to them.
- It enables a small borrower to borrow from all Public Sector Banks such as PSU Banks, Regional Rural Banks and Cooperative Banks, Private Sector Banks, Foreign Banks, Micro Finance Institutions (MFI) and Non-Banking Finance Companies (NBFC) for loans upto Rs 10 lakhs for non-farm income generating activities.
- The scheme was launched on 8th April, 2015 by the Hon'ble Prime Minister.

Eligibility

- Any Indian Citizen who has a business plan **for a non-farm sector** income generating activity such as manufacturing, processing, trading or service sector and whose credit need is less than Rs 10 lakh.

- The citizen can approach **either a Bank, MFI, or NBFC** for availing of Micro Units Development & Refinance Agency Ltd. (MUDRA) loans under Pradhan Mantri Mudra Yojana (PMMY).

Types of loans provided

Under the aegis of Pradhan Mantri MUDRA Yojana, MUDRA has already created the following products / schemes.

- Shishu : covering loans upto 50,000/-
- Kishor : covering loans above 50,000/- and upto 5 lakh
- Tarun : covering loans above 5 lakh and upto 10 lakh. The interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth to look forward to.
- It would be ensured that **at least 60% of the credit flows to Shishu Category Units and the balance to Kishor and Tarun Categories**.
- There is **no subsidy for the loan given under PMMY**. However, if the loan proposal is linked some Government scheme, wherein the Government is providing capital subsidy, it will be eligible under PMMY also.

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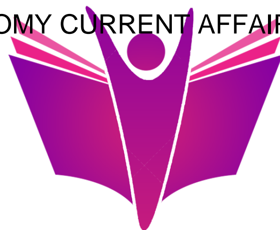

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1. THALINOMICS

Context

The Economic Survey 2020 coined a new term called **'Thalinomics'** and the government pitched the term as **"economics for the common man".**

About

- The Economic Survey 2020 made a unique attempt to **quantify the cost incurred** in putting together **one complete home-made meal** — the healthy Indian thali.
- Thali prices represent the total money spent on preparing dishes for a meal in a household.
  - **Thalinomics** captures the **economics of a plate of food in India.**
- **Rise in Affordability:** Despite recent concerns about rising food prices, the Economic Survey has stated that for a worker, a **vegetarian thali is 29% more affordable** since 2006-07. And affordability of a**non-vegetarian thali improved by 18 per cent.**
  - It also looked at an industrial worker's **ability to pay for two thalis a day** for his/her household of **five individuals.**
- **Conclusion:** Basically the survey attempts to calculate the **cost that an average worker incurs based on his actual plate of food in India.**
  - And on calculating that cost, the survey concludes that **works were able to save due to moderation in prices** of items that form part of a regular Indian thali.

Food inflation trends

Food inflation based on CPI declined to a low of 0.1% in 2018-19 against 1.8% in 2017-18, 4.2% in 2016-17 and 4.9% in 2015-16. However, the government revised the inflation projection from 3.5-3.7% in the second half of 2019-20 to 4.7-5.1%.

Calculations

- The analysis is based on data on prices taken from the Consumer Price Index for Industrial Workers **(CPI IW)** for around 80 centres in **25 States/UTs** from April 2006 to October 2019.
- The survey took into account the prices of **cereals** (rice/ wheat), **sabzi** (vegetables, other ingredients), **dal** (pulses with other ingredients) as well as the **cost of fuel.**
- In a non-vegetarian thali, **pulses are replaced by 60 gm of non-vegetarian components** keeping in mind prices of eggs, fresh fish and goat meat.
- It also took into consideration **prices of ingredients such as spices and condiments** such as mustard oil, coconut oil and groundnut oil, turmeric and chillies.
- For fuel, **cooking gas prices as well as firewood prices** were taken into consideration.

State-wise performance

- **Across the board gains:** Both across India and the four regions– North, South, East and West – we find that the absolute prices of a vegetarian Thali have decreased since 2015-16 though it increased during 2019.
  - **Exception:** Gains are observed across regions, with the exception of **the Northern Region and Eastern Region in 2016-17** in the case of vegetarian Thali.
- **Southern region with highest gains:** The highest gain in any year was in the Southern region for a vegetarian Thali in 2018-19 of around 12 per cent of annual earnings of a worker.
- **Jharkhand thali the cheapest:** Jharkhand emerged as the State with cheapest vegetarian thali during April-October 2019.
  - Two vegetarian thalis for a household of five in Jharkhand **required about 25 per cent of a worker's daily wage.**

Results from Thalinomics

- **Gains:** After 2015-16, an average household of five individuals that eats two vegetarian thalis a day gained around ?10,887 on average per year, while a non-vegetarian household gained ?11,787 on average per year.
  - Gains here are **spends that households saved** on due to **moderation in the prices** of commodities.
  - A worker who would have spent **70%** of their daily wage on two vegetarian thalis a day for a household of five **in 2006-07**, would only have to spend **50% of their income for the meals in 2019-20.**
- **Fall in prices**: Survey said there was a shift in the dynamics of thali prices from 2015-16. Gains are due to significant **moderation in prices of vegetables and dal** from 2015-16 when compared to the previous trend of increasing prices.

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- **Reasons for gains due to reform measures:** Many reform measures were introduced during the period of analysis to enhance the productivity of the agricultural sector as well as **efficiency and effectiveness of agricultural markets** for better and more **transparent price discovery**:
  - Pradhan Mantri Annadata Aay Sanraks Han Abhiyan (PM-AASHA).
  - PradhanMantriKrishiSinchayeeYojana (PMKSY) - Per DropMore Crop.
  - PradhanMantriFasalBimaYojana(PMFBY).
  - Soil Health Card.
  - E-National Agricultural Market(e-NAM).
  - National Food Security Mission(NFSM).
  - National Food Security Act(NFSA).
- **Recent trend is inflationary**: Survey shows that **accelerating food inflation** over the last few months has broken the earlier trend.
  - Workers are now forced to use an increasing share of their wages on food.

Challenges

- **Small sample size:** The calculations deal with workers engaged in the organised manufacturing sector, which form **only 28% of the total manufacturing workforce.**
  - It excludes workers from the unorganised sector, as well as rural and agricultural workers.
- **Fall in incomes**: While it is true that there was a decline in food prices during most of the period since 2015-16, this is also a p**eriod of stagnant or declining rural wages and highest unemployment.**
  - Low inflation is meaningless when **real wages are falling in rural areas**, as this means that the poor are not able to consume more as their **incomes are falling**.

2. REMISSION OF DUTIES OR TAXES ON EXPORT PRODUCT

Context

Recently, government launched a new scheme called Remission of Duties and Taxes on Export Product (RoDTEP).

About

- **Remission of Duties and Taxes on Export Product (RoDTEP):** RoDTEP is a Rs 50,000-crore exports programme which is supposed to **replace Merchandise Exports From India Scheme (MEIS).**
- **Operation delayed:** The operation of RoDTEP was recently delayed. MEIS would remain in force till March 31, 2020.
  - RoDTEP was first set to roll-out from 1st January 2020, but recently its roll-out was delayed to next fiscal.
  - This delay was done at the behest of **exporters' request to grant them more time** to prepare for a transition from MEIS to the new scheme, given the **operational challenges.**
  - The next **foreign trade policy** will contain the broad contours of RoDTEP.

MEIS was WTO-incompatible

- **MEIS** was introduced in the Foreign Trade Policy (FTP) 2015-20 w.e.f. 1st April 2015.
- **Objective**: Its objective was to offset infrastructural inefficiencies and associated costs involved in exporting goods which are manufactured in India, including products manufactured by the MSME Sector.
- **WTO-incompatible**: World Trade Organisation (WTO) panel had determined that India's export subsidies are inconsistent with WTO requirements.
  - The ruling of WTO's **Disputes Settlement Body (DSB)** in favour of US against India's export "subsidies" is still pending.
  - US claims that India offers **illegal export subsidies** and thousands of Indian companies benefit from it.
- **India's argument:** India rejects claims made by the US
  - The entire allocation or potential revenue forgone on account of various such schemes (including MEIS) **doesn't qualify as export subsidies.**
  - They are meant to only soften the blow of costly input imports that exporters have been forced to bear due to a **complicated tax structure**.
  - Exports are in sync with the best global practices.

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RoDTEP scheme

- **Reimburse input taxes and duties:** RoDTEP is expected to adequately incentivize exporters by reducing duties paid on exports and will initiate the refund of various taxes to exporters.
- **WTO compliant:** The new scheme is supposed to reimburse all taxes and duties paid on inputs consumed in exports in sync with the WTO norms.
  - The MEIS, exporters have persistently complained, doesn't offset all the taxes, so the new scheme will be beneficial to them when it's implemented.
- **Automatic refund-route:** The new scheme will have a fully automated route for Input Tax Credit (ITC) in the GST to help increase exports in India.
- **Avoid double taxation:** ITC is provided to set off tax paid on the purchase of raw materials, consumables, goods or services that were used in the manufacturing of goods or services. This helps in avoiding double taxation and the cascading effect of taxes

- **Attempt to reverse export fall:** It is expected to adequately incentivize exporters by reducing duties paid on exports and will initiate the refund of various taxes to exporters. Measures in the new scheme include:
  - Easier priority-sector lending norms for exports
  - Greater insurance cover under ECGC
  - Lower premium for MSMEs to avail of such cover
- **Costly to the government:** Since potential revenue forgone in the current MEIS is around Rs 40,000 crore a year, RoDTEP is expected to cost the government an additional Rs 10,000 crore annually.

Additional benefits of MEIS and RoDTEP

- Both MEIS and RoDTEP seek to free up working capital of exporters.
- An electronic refund module will be set up to automatically to refund input tax credits.
- The move will increase bank credit to exporters under the Export Credit Insurance Scheme.
- Exporters will receive a higher insurance cover from banks that offer capital loans

3. INDIAN PROTECTIONISM

Context

Recent escalation of protectionist steps between US and China has raised questions about India's policy response.

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About

- **After independence in 1947**, India spent decades trying to survive **without international trade.**
- While this **protection** succeeded in creating a **large and highly diversified industrial base**, it also led to **inefficiency in the use of resources**.
- India ditched its model of local production for local consumption following a **currency crisis in early 1990s.** It **open up to foreign investment** and removed trade barriers in exchange of help from
- Since 1991, the tariff policy of India has led to a systemic **reduction in India's weighted effective average tariff.**
- **Decline in average tariff** has coincided with a **sharp rise in GDP** and **higher growth rate**. Lower tariffs offered following few **benefits:**
  - **Rise in exports** and **reduction in poverty** at the fastest pace in India's history.
  - India emerged as a **leader in exports of IT services**, and is now a key player in
  - It also helped India run a **trade surplus** - whereby it sells more than it buys - **in goods and services with US.**
  - Trade liberalization fostered an atmosphere of intense c**ompetition**, leading to better use of inputs and innovation, driving **productivity growth.**
- **Current Scenario:** Recent trade experience has been mixed.
  - **Export growth is slow paced**.
  - The current economic slowdown has led to a **drop in the value of imports**, thus **shrinking the current account deficit.**

"Infant industry" argument

Protecting 'infant' domestic industries: The argument in favour of high tariffs or import substitution is that in developing countries, industries are yet to develop and, therefore, need to be protected from international trade.

Import substitution policy: Government uses trade tariffs as a policy instrument to encourage domestic industry, the idea being to substitute imports with domestic goods.

The "infant industry" argument was often cited to justify the policy of tariffs, licences and quotas that predated the 1991 reforms.

India a "tariff King" and growing protectionism

- A few months back, President Donald Trump described India as "the tariff king", accusing it of imposing "tremendously high" tariffs on American products.
- When higher tariffs are supplemented by **higher current account deficit** and **fall in rupee**, they reinforce a growing **trend of protectionism.**
- **India is among the most heavily protected economies in the world:**
  - Among members of BRICS grouping—Brazil, Russia, India, China, South Africa—India has the **highest effective tariff rates on food items, automobiles and industrial inputs**.
  - Data from the Global Trade Alert (GTA) database shows that India and the US introduced the **most trade restrictions in 2018.**
  - Number of harmful **interventions implemented by India has increased** in last decade.
  - A recent World Bank report accused India of increasingly resorting to trade remedy measures such as **anti-dumping and safeguard actions.**
  - In its latest report on global trade barriers, the US trade department singled out India as having the **highest tariffs "of any major world economy" - averaging 13.8%.**
- While import tariffs may provide the economy with **short-term relief**, growing protectionism **can have long term adverse consequences**.

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Case against growing protectionism

- At a time when other economies are also raising trade barriers, it is easy to fall into the **protectionist trap.**
- **Will undo trade liberalisation benefits:** India's trend to protectionism threatens to undo more than two decades of trade liberalization measures that have powered India's growth over the past quarter century, boosting incomes and helping cut poverty levels.
- **Will be hardest hit:** A recent OECD report warned that **India, Australia and China would be the biggest losers in terms of per-capita income** growth if the current wave of trade protectionism escalates and slows down global growth.

Higher tariffs do not aid Make in India

- **Disincentive competition:** There is adequate empirical evidence, including India's experience, that suggests protectionism and tariff barriers act as a disincentive for domestic industries to become competitive.
- **Higher input cost:** A higher tariff on imported inputs result in higher input costs for manufacturers, which could otherwise be **competitive if they could import cheaper inputs**.
- Hence, a comprehensive view of the supply chain must be taken while making any changes to tariff policies.
- **High-level advisory group suggestions:** Amidst US-China trade war, it is possible that higher tariffs might be imposed by other countries on Indian goods and services. It would be **beneficial for India does not retaliate with tariffs.**
- Any move to raise tariffs **must consider the integrated supply chains** and the fact that Indian imports are largely for domestic consumption.

Suggested policy response

- As production takes place through supply chains, India should **integrate with global markets** to **ensure adequate labour-intensive manufacturing jobs.**

- As India has a natural **comparative advantage in labour-intensive economic activities**, such activities should benefit from **provision of adequate infrastructure for manufacturing** and the **elimination or reform of crippling anti-business labour laws.**
- Tariffs can be part of a revenue-raising strategy, but it is b**etter to have a small, uniform (same for all goods) tariff, rather than large tariffs** in seemingly arbitrary sectors.
- This would help avoid the problem of "effective" rate of protection deviating from the nominal rate, and the possible worsening of the problem of tariff inversion.

Effective rate of protection (ERP): In economics, ERP is a measure of total effect of the entire tariff structure on the value added per unit of output in each industry, when both intermediate and final goods are imported.

Nominal rate of protection (NRP): NRP is the percentage tariff imposed on a product as it enters the country.

Tariff inversion: It is a case where tariffs on intermediate inputs are higher than tariffs on final goods, making domestic production inefficient.

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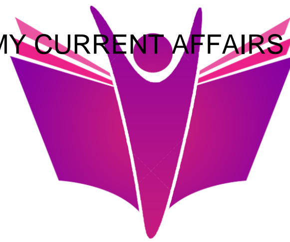

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1. ASSET MONETISATION PROGRAMMES

Context

It Budget 2020, government proposed to use tax sops to nudge overseas investors towards its upcoming asset monetization schemes.

About

- **Overseas investors for asset monetisation programmes:**Government did not make major announcements for the infrastructure sector and, instead, proposed to use tax sops to push overseas investors towards its upcoming asset monetization programmes.
- **Lower allocation to key infra sectors:**A reading of the expenditure budget shows that the government's total allocation to four key infrastructure segments—roads, airports, railways and civil aviation—is nearly 4% lower for FY21 than the revised budget estimates of ?4,64,928 crore spent on these sectors in FY20.
- **Low allocation towards capital spending:**According to ICRA the budgetary allocation towards capital spending for the ministry of road transportation and highways for FY21 was around 18% lower than what was required to fund the government's flagship Bharatmala programme.
  - Even Internal and Extra Budgetary Resources (IEBR), which includes market borrowings and asset monetization, for **National Highways Authority of India (NHAI)**—the nodal agency that builds India's roads— **had a lower budget allocated for FY21,** against in FY20.
- **Focus on capital conservation:** The government seems to be in capital conservation mode and is focusing on implementing existing projects already announced before than taking up any new project.
  - There is thrust on asset monetization.
  - There are plans to privatize more roads and one major port.
- **Upcoming projects**: Government will focus on development of 2,500km of **access-control highways,** 9,000km of **economic corridors**, 2,000km of **coastal and land port roads**, and 2,000km of **strategic highways**.
  - The **Delhi-Mumbai expressway** and two other packages will be completed by 2023 and the **Chennai-Bengaluru Expressway** will also be started.
  - Four station re-development projects.
  - 148km-long Bengaluru Suburban Transport project.
  - Expansion of National Gas Grid.

Asset Monetisation Programme

- The **Department of Investment and Public Asset Management (DIPAM)** is working on restructuring and **asset monetisation of public sector enterprise**s for better management and competitiveness in the present world.

- **Cabinet has approved procedure and mechanism for Asset Monetization** of Central Public Sector Enterprises (CPSEs)/Public Sector Undertakings (PSUs)/other Government Organizations and Immovable Enemy Properties.
- **Objective:** The objective of the asset monetization programme of the Government of India is to **unlock the value of investment made in public assetswhich have not yielded appropriate or potential returns so far.**
- **Procedure and Guidelines:** Guidelines for asset monetisation programme include principles and mechanism for capital restructuring of CPSEs regarding **payment of dividend, issue of bonus shares, and buyback of shares by CPSEs.**
  - It shall apply to all corporate bodies where government of India has controlling interest.
  - The focus of these guidelines is on optimum **utilization of funds by CPSEs to spur economic growth.**
- **Asset Monetization** is a way of getting more cash on the balance sheet and reducing the debt-to-capital ratios that are crucial to rating agencies.
  - **Sale proceeds (for example, disinvestment proceeds)** can be used to acquire additional operations, stabilize costs, or revitalize existing properties, retire existing debt to increase revenue production; there are no restrictions on the use of the funds.

Mechanism

- Government is hoping to **get fresh capital back into the system** to develop Greenfield assets.
- The government is offering **tax breaks** to overseas investors, particularly **sovereign wealth funds** and **pension funds**, to invest in domestic infrastructure.
- **Equity support to IIFC and NIIF:** Allocation of ?22,000 crore as equity support to India Infrastructure Finance Company Ltd (IIFC) and National Investment and Infrastructure Fund (NIIF) which can leverage this fund infusion 2-3 times to invest in public infrastructure.
- **Means of raising capital from the public market**
  - Privatizing operating infrastructure assets.
  - Toll-operate-transfer agreements with private investors
  - Setting up infrastructure investment trusts (InvITs)
- **Incentives to foreign investors:**
  - 100% tax exemption to the interest, dividend and capital gains income.
- **Criticism**: However, experts say that this class of investors **tends to buy operating assets**, leaving under-construction and Greenfield projects devoid of any funding.

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Greenfield and brownfield investments

Greenfield and brownfield investments are two types of foreign direct investment.

With Greenfield investing, a company will build its own, brand new facilities from the ground up.

Brownfield investment happens when a company purchases or leases an existing facility.

2. REVISED BANKING REGULATION ACT

Context

Recently, Union Cabinet approved amendments to the Banking Regulation Act to empower the central bank to have greater control over cooperative banks.

About

- Union cabinet cleared**changes in Banking Regulation Act** to give **RBI wider powers.**

- **Ambit:** The amendments will apply to all **urban co-operative banks** and **multi-state cooperative banks.**
  - They will **not be applicable to rural cooperatives.**
  - The changes **will cover nearly 1,500 cooperative banks** and will be implemented in a phased manner.
- **Objective:** This was done in order to **prevent malpractices, ensure better regulation and prevent frauds** such as the one seen at Punjab and Maharashtra Co-operative Bank Ltd (PMC).
  - Amendment to Banking Regulation Act **aims to strengthen cooperative banks** and avoid PMC Bank like crisis.
- **PMC scam:** Due to PMC scam lakhs of customers faced difficulties in withdrawing their money due to restrictions imposed by the RBI.
  - Urban cooperative banks reported nearly 1,000 cases of fraud worth more than ?220 crore in past five fiscal years.
- **Current regulations:** Cooperative banks are currently under dual control of Registrar of Cooperative Societies and RBI.
- The **role of registrar of cooperative societies includes incorporation, registration,** management, audit, supersession of board and liquidation.
- **RBI is responsible for regulatory functions** such maintaining cash reserve and capital adequacy, among others.
  - **New changes:** The administrative role will continue to be done by the Registrar of Cooperative Societies.

Implications

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- **Audit under RBI norms:** Cooperative banks will be brought under the regulation of the RBI. They will be audited according to RBI's norms.
  - Cooperative banks will now be required to meet **stricter capital norms**.
  - The amendments will now give **legislative powers to the central bank.**
- **Appointments with permission of RBI:** Appointments of chief executives will also require permission from the banking regulator, as is the case for commercial banks.
- **RBI takeover in case of stress:** Central bank can supersede the board and take control, in consultation with state government, if any cooperative bank is under stress.
- **Improve financial stability**: To strengthen the Cooperative Banks, amendments to the Banking Regulation Act will help increase professionalism, enable access to capital and improving governance and oversight for sound banking through the RBI.
  - Observingthe new changes will help strengthen financial stability.

Additional measures

- **Increased deposit insurance**: In order to ensure that depositors' money is safe, Budget 2020 permitted the Deposit Insurance and Credit Guarantee Corporation (DICGC) to increase deposit insurance coverage for a depositor, which is now Rs 1 lakh, to Rs 5 lakh per depositor.

Facts about Cooperatives

- **Rural cooperatives are under state-policies:** RBI has considerable control over urban cooperative bank but has a limited control over the rural cooperative banks which are guided by state-level policies.
- **Assets of rural cooperatives are higher:** As per RBI's Trends and Progress in Banking Report, as of March-end 2018, rural co-operative banks accounted for 64.7 percent of the total assets of cooperatives.
  - **Rural cooperatives are also more in number** as compared to urban cooperative banks.

Banking Regulation Act, 1949

- Banking Regulation Act, 1949 is legislation in India that regulates all banking firms.
- Initially, this act was passed as Banking Companies Act, 1949 and it was applicable to whole of India except Jammu & Kashmir. It became applicable to Jammu and Kashmir from 1956.
  - Initially, the law was applicable only to banking companies.
  - But, 1965 it was amended to make it applicable to cooperative banks and to introduce other changes.
  - Primary Agricultural Credit Society and cooperative land mortgage banks are excluded from the Banking Regulation Act 1949.
- RBI control: RBI regulates and supervises the banking functions of State Cooperative Banks (StCBs)/District Central Cooperative Banks (DCCB)/Urban Cooperative Banks (UCBs) under the various provisions of the Banking Regulation Act, 1949.
- Section 56:In 1965, the Act was amended to include cooperative banks under its purview by adding the Section 56. Cooperative banks, which operate only in one state, are formed and run by the state government.
- RBI deals with NPAs:In 2017, government amended the Banking Regulation Act, 1949 by adding provisions for handling cases related to stressed assets or non-performing assets (NPAs) of banks, by initiating insolvency resolution process under the Insolvency and Bankruptcy Code, 2016.
- Section 35A:Section 35A of the Banking Regulation Act, 1949 vests power in the RBI to give directions to banks and can take action, "to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company".

3. ‘2636 EV Charging Stations sanctioned under FAME-II’

Context

In a bid to give a further push to clean mobility in Road Transport Sector, the government has sanctioned 2636 charging stations in 62 cities across 24 States/UTs under FAME India (Faster Adoption and Manufacturing of Electric Vehicles in India) scheme phase II.

About

What is FAME India Scheme?

- The FAME India (Faster Adoption and Manufacture of (Hybrid and) Electric Vehicles) Scheme, launched in 2015, is an incentive scheme for the promotion of electric and hybrid vehicles in the country.
- The scheme aims to promote electric mobility and the scheme gives financial incentives for enhancing electric vehicle production and creation of electric transportation infrastructure.
- The incentives are provided in the form of subsidies to manufactures of electric vehicles and infrastructure providers of electric vehicles.
- FAME India is a part of the National Electric Mobility Mission Plan. Main thrust of FAME is to encourage electric vehicles by providing subsidies.

Phase-I of the Scheme:

- The Phase-I of this Scheme was initially launched for a period of 2 years, commencing from 1st April 2015, which was subsequently extended from time to time and the last extension was allowed up to 31st March 2019.

- The 1st Phase of FAME India Scheme was implemented through four focus areas namely:
  - Demand Creation
  - Technology Platform
  - Pilot Project
  - Charging Infrastructure
- Market creation through demand incentives was aimed at incentivizing all vehicle segments i.e. 2-Wheelers, 3-Wheelers Auto, Passenger 4-Wheeler vehicles, Light Commercial Vehicles and Buses.

What's new in the second phase?

- FAME II will cover buses with EV technology; electric, plug-in hybrid and strong hybrid four wheelers; electric three-wheelers including e-rickshaws and electric two-wheelers.
- Under the second phase of the Faster Adoption and Manufacturing of Electric Vehicles in India (FAME-II) scheme, 10 lakh registered electric two-wheelers with a maximum ex-factory price will be eligible to avail incentive of Rs 20,000 each.
- It will also support 5 lakh e-rickshaws having ex-factory price of up to Rs 5 lakh with an incentive of Rs 50,000 each.
- FAME-II will offer an incentive of Rs 1.5 lakh each to 35,000 electric four-wheelers with an ex-factory price of up to Rs 15 lakh, and incentive of Rs 13,000 each to 20,000 strong hybrid four-wheelers with ex-factory price of up to Rs 15 lakh.
- It will support 7,090 e-buses with an incentive of up to Rs 50 lakh each having an ex-factory price of up to Rs 2 crore

The current sanction:

- As many as 317 EV charging stations have been allotted in Maharashtra, 266 in Andhra Pradesh, 256 in Tamil Nadu, 228 in Gujarat, 205 in Rajasthan, 207 in Uttar Pradesh, 172 in Karnataka, 159 in Madhya Pradesh, 141 in West Bengal, 138 in Telangana, 131 in Kerala, 72 in Delhi, 70 in Chandigarh, 50 in Haryana, 40 in Meghalaya, 37 in Bihar, 29 in Sikkim, 25 each in Jammu & Kashmir and Chhattisgarh, 20 in Assam, 18 in Odisha and 10 each in Uttarakhand, Puducherry and Himachal Pradesh.

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Benefits of using Electric Vehicles:

Though there are numerous benefits of using electric vehicles, the major are divided on the basis of environment and economy:

- Environment: Using electric vehicles (EVs) can significantly contribute in achieving the target of "Paris climate agreement". EVs are carbon dioxide neutral as there is no direct emission from the vehicle.
- Economy: EVs, more efficiently help in saving money of government, which can be utilized in other productive work. Effective adoption of electric and shared vehicles could help the economy save more than $60 billion in diesel and petrol along with cutting down as much as 1 gigatonne (GT) of carbon emissions, most probably by 2030.

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1. ECONOMIC IMPACT OF CORONAVIRUS

Context

Oxford Economics warned that the spread of Coronavirus to regions outside Asia could cost the global economy 1.3% off global growth in 2020, the equivalent of $1.1tn in lost income.

About

Coronavirus (CoV): CoV also known as CoVID-19 are a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV).

A novel Coronavirus (nCoV) is a new strain that has not been previously identified in humans.

Means of transfer: Coronaviruses are zoonotic, meaning they are transmitted between animals and people.

Several known Coronaviruses are circulating in animals that have not yet infected humans.

Originated in China: On 31 December 2019, the WHO China Country Office was informed of cases of pneumonia of unknown aetiology (unknown cause) detected in Wuhan City, Hubei Province of China.

- A novel Coronavirus (2019-nCoV) was identified as the causative virus by Chinese authorities on 7 January.
- Symptoms: Common signs of infection include respiratory symptoms, fever, cough, and shortness of breath and breathing difficulties.
- In more severe cases, the infection can cause pneumonia, severe acute respiratory syndrome, kidney failure, and even death.
- Health impact: As of 22nd February 2020, 77,816 cases of Coronavirus have been registered around the world. It has resulted in 2,360 deaths.
- Currently, COVID-19 is affecting 32 countries and territories around the world and 1 international conveyance (the "Diamond Princess" cruise ship harboured in Yokohama, Japan).
- COVID-19 has already reached Europe, the USA, and the Middle East.
- Africa does not yet have any confirmed cases.
- Coronavirus has reached India and infected patients were reported from Italy, China etc.
- Economic consequences: The disease has now turned into a pandemic and as it spreads to different countries, economic damages around the world are mounting. The maximum impact will be on China, but other countries are not immune to the effects because most economies are now globally integrated.
- The outbreak has the potential to cause severe economic and market dislocation.

The economic impact of Coronavirus

- Chinese economy: China has become an indispensable part of the global business. Due to the spread of Coronavirus, various economic activities in China have taken a hit. Businesses are dealing with lost

revenue and disrupted supply chains due to China's factory shutdowns. Travel to and from China has also been restricted.

- According to a Reuter's poll of economists, China's economic growth expected to slow to 4.5% in the first quarter of 2020 – the slowest pace since the financial crisis.
- Countries most hit: Based on the value of its exports to mainland China and Hong Kong relative to GDP, **Taiwan is likely to be the hardest hit**, followed by **Vietnam, Malaysia, and South Korea.**
- Trade and commerce: Chinese economy accounts for 16% of global output. China has grown into the world's factory, churning out products such as iPhone, cars, luxury products and driving demand for commodities like **oil and copper**.
- Factory shutdowns are causing a shortage of products and parts from China, affecting companies around the world, including Apple and Nissan.
- Unavailability of workers: Factories delayed opening after the Lunar New Year as workers stayed home to help reduce the spread of the virus.
- Electronics, consumer goods, chemicals, auto components and pharmaceuticals are seen as the most vulnerable sectors.
- Pharmaceuticals: Prices of some bulk drugs have already risen.
- Global supply chains: There is a threat to global supply chains (GVCs). Qualcomm (**QCOM**), the world's biggest maker of smartphone chips, warned of **uncertainty around demand for smart-phones**, and supplies needed to produce them.
- Auto parts shortages have forced Hyundai (**HYMTF)**to **close plants in South Korea** and caused **Fiat Chrysler (FCAU**) to make **contingency plans for plants in Europe.**
- Automobile sector: Car plants across China have been ordered to remain closed, preventing global automakers Volkswagen, Toyota (TM), Daimler (DDAIF), General Motors (GM), Renault (RNLSY), Honda (HMC) and Hyundai (HYMTF) from resuming operations in **world's largest car market.**
- Oil industry: The petrochemical sector serves as the backbone for various other manufacturing and non-manufacturing sectors such as infrastructure, automobile, textiles and consumer durables. China is the world's biggest oil importer. With Coronavirus hitting manufacturing and travel, the International Energy Agency (IEA) has predicted **the first drop in global oil demand in a decade, causing a drop in oil prices.**
- The oil market is currently facing a situation called **'contango',** wherein spot prices are lower than futures contracts.
- Industries are realigning their strategy amid energy demand forecasts.
- Crude-dependent sectors: Sectors such as aviation, shipping, road and rail transportation are likely to gain from a sudden drop in crude oil prices.
- Benefit to oil-importing nations: Major oil importers such as India will get a better bargain with reduced oil prices.
- Case of India: India is the world's third-largest oil importer and fourth-largest buyer of liquefied natural gas (LNG). New oil dynamics can help India contain its current account deficit; maintain a stable exchange regime; and consequently inflation. This could be a good time for Indian airlines to make up for losses.
- Travel industry: Chinese tourist numbers are now falling sharply as China bars its citizens from group tours abroad, and many countries refuse or restrict the entry of Chinese.
- Many trade shows and **sporting events** in China and across Asia have been **cancelled or postponed.**
- Popular Chinese destination to lose: Judging by the size of Chinese visitors' expenditures relative to GDP, popular destinations such as **Thailand, Vietnam, and Singapore** will take the hardest hit. **Japan** will also be adversely affected especially with **Summer Olympic Games** being scheduled to start in **Tokyo** on July 24.
- Case of India: India recently announced the temporary suspension of the e-visa facility for Chinese travellers and foreigners residing in China. Since air travel between India and China had grown significantly owing to increased business activities, business travel segment will take a hit.

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- Financial sector: As infections increase, especially in Asian financial hubs such as Hong Kong and Singapore, financial deals could be disrupted. It can disrupt economic activities due to supply-side constraints, which will result in market volatility.
- Gold prices: Due to fear and uncertainty in markets about the scale and impact of the virus outbreak, gold prices have risen as the commodity is considered a haven.
- India's Trade: India imports a bulk of its raw materials from China. Scarcity of some raw materials will lead to higher prices. India must leverage the lower oil prices and increase its exports amidst a shortage of Chinese exports to the world market.
- Rupee value: Exchange rate (rupee against the dollar) is rising, which is also leading to higher costs.

Economic measures initiated:

- China: People's Bank of China cut a key interest rate and injected huge amounts of cash into markets to help take the pressure off banks and borrowers. New tax breaks and subsidies have been announced to help consumers.
- Central banks in neighbouring countries including Sri Lanka, Malaysia, Thailand and the Philippines have cut interest rates

2. NATIONAL LOGISTICS POLICY

Context

Union Minister of Commerce and Industry of the policy reviewed the draft National Logistics Policy and proposed action plan for implementation prepared by the Department of Logistics, Ministry of Commerce and Industry.

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About

- The **draft National Logistics Policy** has been prepared in consultation with the **Ministries of Railways, Road Transport and Highways, Shipping and Civil Aviation** and forty-six Partnering Government Agencies (PGAs).
- **Objective:** To streamline rules, address supply-side constraints, lower logistics costs and ensure greater competitiveness for Indian products worldwide.
- **National Logistics e-marketplace:** A National Logistics e-marketplace will be created as a one-stop marketplace.
- It will involve simplification of documentation for exports/imports and drive transparency through digitization of processes involving Customs, PGAs etc in regulatory, certification and compliance services.
- **Institutional Framework for policy**: For the new logistics framework, four committees/councils will be constituted:
- **National Council for Logistics,** chaired by the Prime Minister.
- **Apex inter-ministerial Committee**, chaired by the Minister of Commerce and Industry.
- **India Logistics Forum** chaired by the Commerce Secretary with representation from key industry/ business stakeholders and academia.
- **Empowered task force** on logistics will be created, as a standing committee chaired by the head of the Logistics Wing.

Need for National Logistics Policy

- **Unregulated and fragmented logistics sector**: India's logistics sector has remained fragmented and unregulated, despite its centrality to economic growth.
- **Complex sector**: The sector is very complex with more than 20 government agencies, 40 PGAs, 37 export promotion councils, 500 certifications, 10000 commodities, 160 billion market sizes along with 12 million employment base.

- The **national logistics policy will clarify the roles** of the Union government, state governments and key regulators.
- **High cost:** The cost of logistics for India is about 14 per cent of its GDP and it is far higher as compared to other countries.
- **Lack of adequate infrastructure:** Almost 25-30% of fruits and vegetables produced in India are wasted due to lack of cold chain infrastructure.

The draft National Logistics Policy

- **Optimise modal mix:** The draft policy has sought to optimize the modal mix (road-60%, rail-31%, water-9%) to global benchmarks (road - 25-30%, rail - 50-55%, water - 20-25%) and promote the development of multi-modal infrastructure.
- **Logistics Wing:** The policy recommends setting up a Logistics Wing that will be the nodal agency tasked to **identify key projects for driving first mile and last mile connectivity** and to optimize the modal mix to identify commodity and corridor for the most cost-effective mode of transport.
- **Logistics centre of Excellence**: Encourage industry, academia and government to come together to create a logistics Centre of Excellence, and drive innovation in the logistics sector.

Objectives of the Logistics Policy

- Providing an **impetus to trade and hence economic growth** by driving competitiveness in exports.
- **Doubling employment** in the logistics sector by generating additional 10-15 million jobs and focus on **enhancing skills** in the sector and encouraging gender diversity.
- Improve India's ranking in the **Logistics Performance Index**.
- **Strengthening the warehousing sector** in India by improving the quality of storage infrastructure including specialized warehouses across the country.
- **Reducing losses due to agro-wastage** to less than 5% through effective agro-logistics.
- Providing impetus to the **MSME sector** in the country through a **cost-effective logistics network**.
- Promoting **cross-regional trade on e-commerce platforms** by enabling a seamless flow of goods.
- Encouraging the adoption of **green logistics** in the country.

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3. Washington Consensus

Context

Lately, economists have cautioned that the Washington Consensus is losing its hold over institutions.

About

- **Washington Consensus:** The Washington Consensus is a set of 10 economic policy prescriptions by Washington, D.C.-based institutions such as the **International Monetary Fund (IMF), World Bank and the United States Department of the Treasury.**
- It constitutes the "standard" reform package promoted for crisis-stricken developing countries.
- The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening concerning both trade and investment, and expansion of market forces within the domestic economy.
- 10 Policy prescriptions:
  - **Fiscal policy discipline,** with avoidance of large fiscal deficits relative to GDP.
  - **Redirection of public spending from subsidies** (especially indiscriminate subsidies) toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment.

- **Tax reform**, broadening the tax base and adopting moderate marginal tax rates.
- **Interest rates that are market determined** and positive (but moderate) in real terms.
- **Competitive exchange rates.**
- **Trade liberalization:** Liberalization of imports, with particular emphasis on the elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs.
- **Liberalization** of inward foreign direct investment.
- **Privatization of state enterprises.**
- **Deregulation:** Abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions.
- **Legal security for property rights.**

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