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1

GROWTH & DEVELOPMENT

1. INEQUALITY & GROWTH

CONTEXT: Recent findings from the 'Income and Wealth Inequality in India' report reveal alarming trends in income distribution, where the top 1% of Indians now command a larger share of national income than during British colonial rule. This widening income gap underscores significant socio-economic challenges and necessitates effective policy interventions to promote inclusive growth.

Key Highlights of the Report

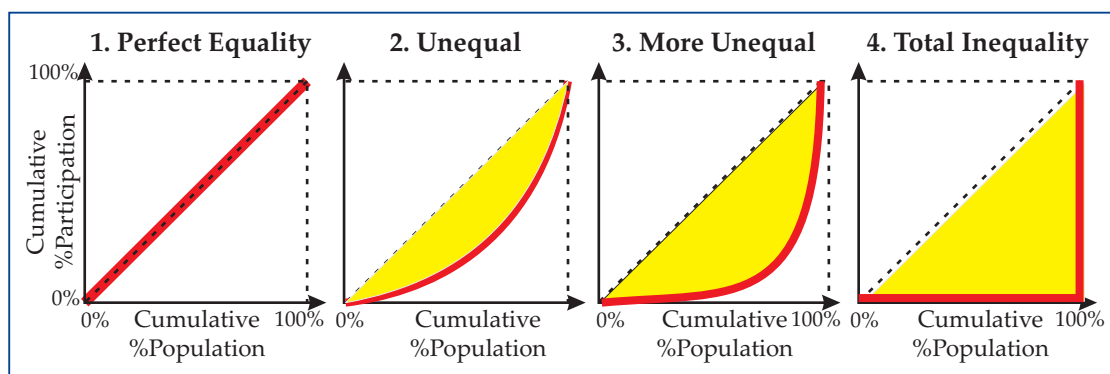
- ▶ **Income Distribution:** The top 1% of Indians saw their income share rise from 11.5% in 1951 to 22.6% in 2022, surpassing colonial-era levels.
 - Income share of the top 10% increased from 36.7% to 57.7% over the same period.
 - Conversely, the bottom 50% and middle 40% witnessed declines in their income shares, exacerbating inequality.
- ▶ **Impact of Liberalization and Post-Liberalization Trends:** Post-liberalization in the 1990s, income disparity between the top 10% and middle 40% widened significantly. The income share of the bottom 50% has steadily declined, indicating deepening socio-economic divides.
- ▶ **Comparative Analysis with Global Economies:** Despite slower income growth compared to peers like China and Vietnam, India's top 1%'s income share exceeds that of many advanced economies.
 - Global trends show rising income inequality, emphasizing the global nature of the challenge.

Required Measures:

- Urgent need for policies promoting equitable economic growth and addressing income disparities.
- Failure to act risks undermining social cohesion and long-term development prospects.
- Effective policy interventions are crucial for achieving sustainable and inclusive economic development.

Gini coefficient

- ◉ It measures the inequality among the values of a frequency distribution, such as the lead Of income
- ◉ 0 = perfect equality , 1= perfect inequality
- ◉ India Gini coefficient degraded from 0.36 (2013) to 0.47 (2023)



PRACTICE QUESTION

Q. Evaluate the effectiveness of existing policy measures in mitigating income inequality in India.

2. DIGITALISATION IN THE INDIAN ECONOMY

CONTEXT: India is the third largest digitalised country in the world, only behind the United States of America (USA) and China, according to the State of India's Digital Economy Report, 2024, by Indian Council for Research on International Economic Relations (ICRIER).

Key-findings:

- The state of digitalisation in India is better than some developed countries including the United Kingdom, Germany and Japan, compared by their aggregate level of digitalisation.
 - ◉ However, at the level of individual users, India is ranked 12th in terms of digitalisation among the G20 countries.
 - ◉ The study is based on 'CHIPS' framework wherein it has scored countries on five pillars - connect, harness, innovate, protect and sustain.
- More than 83 billion UPI transactions took place in India in FY2022-23, the highest volume of real-time digital payments for a country, followed by China and Brazil.
- **Responsible factor:** Rapid adoption of smartphones, enhanced internet connectivity, Government initiatives (Digital India and India Stack)
- **Influencing Sector:** Digital communications, financial services, IT-BPM, agriculture, healthcare, logistics, and manufacturing.
- **Challenges:**
 - ◉ According to IAMAI's internet in India report 2023, at 759 million, 52% Indians have access to the internet. Nearly 48 % of Indians do not access the internet and the quality of fixed line internet services does not match up to other G20 countries.

Top 5 countries in terms of digitalisation of economy			Digitalisation in large state (Top 5)		
Country	CHIPS score		State	CHIPS score	
US	65.3		Karnataka	58.7	
China	62.1		Maharashtra	52.6	
India	39.1		Telangana	50.8	
UK	28.8		Gujarat	49.7	
Germany	23.8		Haryana	48.6	

- India's gender gap in internet connectivity is, at 10%, higher than the world average of 9%, and the rural-urban divide is at 58%, higher than the world average of 49%. While the digital divide along gender is large, it is declining.

PREVIOUS YEAR QUESTION

- Q. What is the status of digitalization in the Indian economy? Examine the problems faced in this regard and suggest improvements. [2023]

PRACTICE QUESTION

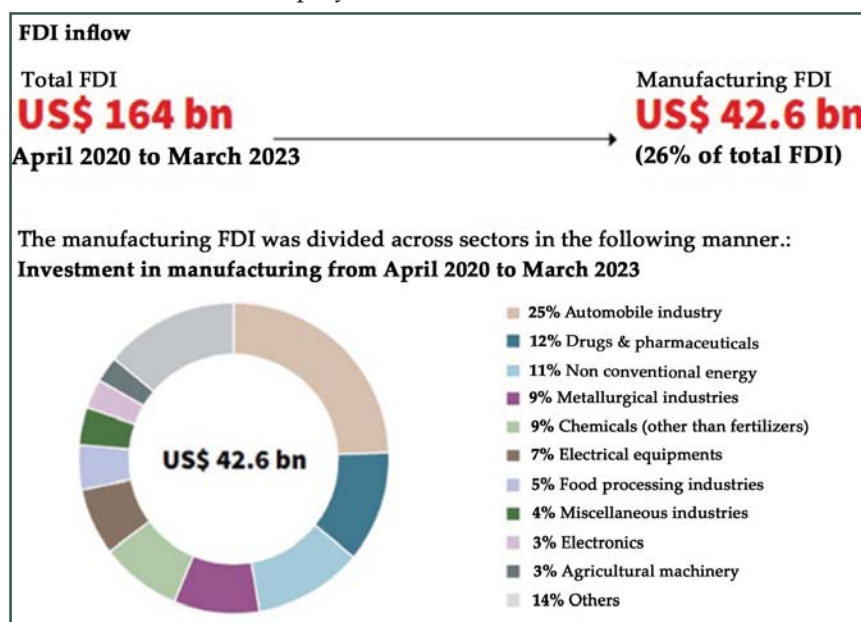
- Q. India has made significant strides in digitalization, yet faces challenges in achieving inclusive connectivity. Discuss the factors contributing to India's digital growth and the persistent hurdles in bridging the digital divide, with reference to recent reports and initiatives.

3. INDIA'S MANUFACTURING LANDSCAPE

CONTEXT: Finance Minister Nirmala Sitharaman emphasized the need for India to enhance its manufacturing sector to boost its share in the global value chain and achieve self-reliance ('Atmanirbhar').

Current Status of India's Manufacturing Sector

- Contributes 17% to GDP and employs 27.3 million workers.



- ▶ Government aims to increase manufacturing's GDP share to 25% by 2025.
- ▶ **Emerging sectors** include electronics, aerospace, defence, and renewable energy, alongside traditional strengths in **textiles, automotive components, and pharmaceuticals**.
- ▶ **Strengths** Dominance in key sectors like **textiles, automotive parts, and pharmaceuticals**. Recent focus on high-potential areas such as electronics and renewable energy.
- ▶ **Initiatives:** Efforts like the Production Linked Incentive (PLI) Schemes, Make in India initiative, and setting up Special Economic Zones (SEZs) demonstrate India's commitment to boosting manufacturing.

❏ Challenges for India

- ▶ **Industrial Infrastructure:** Improvements in industrial parks and economic zones, but logistics and power supply issues persist.
- ▶ **Skill Development:** Shortage of skilled workers, especially in advanced manufacturing.
 - Need for reforms in labour laws and vocational training.
- ▶ **Manufacturing Diversification:** Dependency on labour-intensive methods hampers transition to capital-intensive technologies.
 - Push needed for diversified growth across sectors.
- ▶ **Ease of Doing Business:** Progress made, but reforms needed in labour laws, land acquisition, and bureaucratic processes.
- ▶ **Global Competitiveness:** Facing tough competition from established manufacturing nations like China, South Korea, and Taiwan.

PREVIOUS YEAR QUESTION

- Q. Faster economic growth requires increased share of the manufacturing sector in GDP, particularly of MSMEs. Comment on the present policies of the Government in this regard. (2023)
- Q. Account for the failure of the manufacturing sector in achieving the goal of labour-intensive exports rather than capital-intensive exports. Suggest measures for more labour-intensive rather than capital-intensive exports. (2017)

PRACTICE QUESTION

- Q. Evaluate the impact of skill development initiatives on India's manufacturing sector growth. Discuss the importance of aligning vocational training programs with industry needs.

4. GROSS FIXED CAPITAL FORMATION (GFCF)

CONTEXT: The failure of private investment, as measured by private Gross Fixed Capital Formation (GFCF) as a percentage of gross domestic product (GDP) at current prices, to pick up pace has been one of the major issues plaguing the Indian economy. . From 2011-12 onwards, private investment began to drop and hit a low of 19.6% of the GDP in 2020-21.

❏ Gross Fixed Capital Formation

- ▶ GFCF refers to the growth in the size of fixed capital in an economy. Fixed capital refers to things such as buildings and machinery, for instance, which require investment to be created. So private GFCF can serve as a rough indicator of how much the private sector in an economy is willing to invest. Overall GFCF also includes capital formation as a result of investment by the government.
- ▶ In economic terms, investment specifically refers to Gross Fixed Capital Formation (GFCF), which measures the net increase in a country's stock of fixed assets over a specific period. These assets, known as **fixed capital**, include **buildings, machinery, equipment, infrastructure**, and other structures that contribute to economic productivity.

- ▶ **Significance:** GFCF matters because fixed capital,
 - by helping workers produce a greater amount of goods and services each year
 - helps to boost economic growth
 - improve living standards
- ▶ In other words, fixed capital is **what largely determines the overall output of an economy and hence what consumers can actually purchase in the market.**
- ▶ **Reason behind fall:** Low private consumption expenditure. Strong consumption spending is required to give businesses the confidence that there will be sufficient demand for their output once they decide to invest in building fixed capital.

PREVIOUS YEAR QUESTION

Q. Explain the meaning of investment in an economy in terms of capital formation. Discuss the factors to be considered while designing a concession agreement between a public' entity and a private entity (2020)

PRACTICE QUESTION

Q. Discuss the significance of private Gross Fixed Capital Formation (GFCF) as a determinant of economic growth and the challenges hindering its acceleration in India.

5. INDIA PLANNING GLOBAL TRADE PROMOTION BODY FOR MSME(S)

CONTEXT: The Indian government is considering the establishment of a global trade promotion body (GTPO) aimed at boosting exports from Micro, Small, and Medium Enterprises (MSMEs).

▣ Key-Highlights of the Proposal

- ▶ **Proposal Title:** Global Trade Promotion Organization (GTPO)
- ▶ **Objective:** To enhance MSME exports and address India's rising trade deficit.
- ▶ **Inspiration:** Modelled after the Japan External Trade Organization and the Australian Trade and Investment Commission.
- ▶ **Structure:** The GTPO will have branch offices in major global economies.
- ▶ **Functionality:** It will assist MSMEs with registration, licensing, and certification for exports, and facilitate business opportunities in collaboration with Indian consulates abroad.

▣ Reasons Behind the Initiative

- ▶ **Trade Deficit:** India's increasing trade deficit necessitates a strategic approach to boost exports, particularly from the MSME sector.
- ▶ **Lack of Global Presence:** Current trade promotion bodies in India, including the **India Trade Promotion Organisation (ITPO)**, lack a substantial global presence and primarily operate domestically.
- ▶ **Economic Muscle:** MSMEs often lack the resources to market their products internationally, and a dedicated trade promotion body can bridge this gap.

▣ Expected Benefits for MSMEs

- ▶ **One-Stop Solution:** The GTPO will provide comprehensive support to MSMEs, from export documentation to market access.
- ▶ **Increased Exports:** By facilitating participation in global exhibitions, trade shows, and buyer-seller meets, the GTPO aims to increase MSME exports significantly.
- ▶ **Economic Impact:** Enhanced exports will contribute to reducing the trade deficit and boosting India's GDP, given that MSMEs contribute about 45% to the country's total exports.

FACT BOX

Schemes for MSMEs

- MSMEs contribute approximately 45 percent to India's total exports, 38 percent to manufacturing output, and 27 percent to GDP, employing over 110 million people.
- The **Ministry of Micro, Small and Medium Enterprises** implements various schemes for the growth and development of MSME sector and training and market assistance to MSMEs. The schemes/programmes inter alia include

EXISTING MSME CLASSIFICATION			
CRITICAL INVESTMENT & MACHINERY EQUIPMENT			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment <₹25 lakh	Investment <₹25 crore	Investment <₹10 crore
Service Enterprise	Investment <₹10 lakh	Investment <₹2 crore	Investment <₹5 crore
REVISED MSME CLASSIFICATION			
COMPOSITE CRITERIA INVESTMENT & ANNUAL TURNOVER			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment <₹1 crore & Turnover <₹5 crore	Investment <₹10 crore & Turnover <₹50 crore	Investment <₹20 crore & Turnover <₹100 crore

- Prime Minister's Employment Generation Programme (PMEGP)
- Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE)
- Micro and Small Enterprises-Cluster Development Programme (MSE-CDP)
- Entrepreneurship Skill Development Programme (ESDP)
- Procurement and Marketing Support Scheme (PMS)
- National SC/ST Hub (NSSH)

6. ECONOMIC REDISTRIBUTION IN INDIA

CONTEXT: Recent debates in the election campaign focus on wealth redistribution, coinciding with the Supreme Court's formation of a nine-judge Bench to interpret Directive Principles of State Policy (DPSP) related to ownership and control of material resources.

Balance between Fundamental Rights and DPSP:

- The Constitution aims for social and economic justice through **Parts III (Fundamental Rights)** and **IV (DPSP)**.
- Article 39(b) and (c)** emphasize equitable distribution of material resources and prevention of wealth concentration.

- ▶ Historical evolution saw amendments curtail the right to property to facilitate land reforms and public welfare projects, impacting the balance between rights and DPSP.
- ▶ Wealth and income inequalities in India pose challenges to economic justice.
- ▶ Balancing DPSP with fundamental rights remains critical for addressing social and economic disparities.

❑ Evolution of Economic Policies:

- ▶ Shift from a socialistic model to liberalization, globalization, and privatization in the 1990s aimed to enhance market forces and economic efficiency.
- ▶ Market-oriented reforms included repealing estate duty and wealth tax, aiming for growth and efficiency.

❑ Impact of Market-driven Economy:

- ▶ Market reforms alleviated poverty but also intensified wealth and income disparities.
- ▶ Reports highlight significant inequality despite overall economic growth, necessitating inclusive economic policies.

World Wealth Report 2024

- Released by: Capgemini Research Institute.

- Highlights:

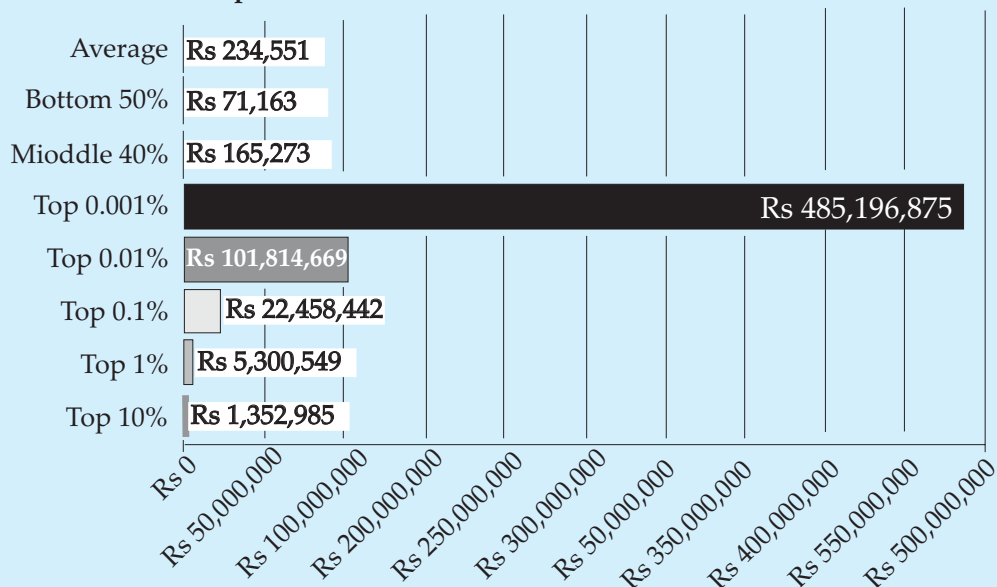
- ▶ **Global high-net-worth individuals (HNWI)** wealth expanded by 4.7% in 2023, reaching \$86.8 trillion. HNWI population increased by 5.1% to 22.8 million globally.
- ▶ HNWI in India increased by 12.2% in 2023 vs 2022, bringing the total number of HNWI population to 3.589 million.

Income inequality in India, 2022-23

The infographic shows the income of different group in India.

■ Average ■ Bottom 50% ■ Mioddle 40% ■ Top 10% ■ Top 0.1% ■ Top 0.01% ■ Top 0.001%

Income Group



- ▶ The financial wealth of India's HNWIs increased by 12.4% in 2023 to \$1,445.7 billion, compared to \$ 1,286.7 billion in 2022.
- ▶ India's unemployment rate decreased to 3.1% in 2023, down from 7% in 2022
- ▶ India's country's market capitalisation increased by 29.0% in 2023, after an increase of 6% in 2022.

World Inequality Report (Towards Tax Justice and Wealth Redistribution in India)

- **Released by:** World Inequality Lab
- Top 1 per cent controls over 40 per cent of India's total wealth, indicating rising inequality.
- 88.4 per cent of billionaire wealth in India is concentrated among upper castes (UCs). Scheduled Tribes (STs), among the most marginalised communities, have no representation among the wealthiest Indians.

PRACTICE QUESTION

- Q. Evaluate the role of Directive Principles of State Policy (DPSP) in shaping India's economic policies. Discuss measures to enhance their effectiveness in promoting social and economic justice.

7. LOW WAGES AND IMPACT ON INDIAN ECONOMY

CONTEXT: Amid economic uncertainties, daily wage workers in India face significant challenges ranging from low wages to precarious employment conditions, highlighting the urgent need for comprehensive interventions to address their vulnerabilities.

▢ Factors behind low wages

- ▶ **Low Capital and Skills:** India's abundant labor and limited capital result in lower productivity and hence lower wages.
- ▶ **Vicious Cycle of Poverty:** Persistently low wages perpetuate cycles of poverty and deprivation among daily wage earners.
- ▶ **Informal Economy Challenges:** Workers in the informal sector endure long hours, low pay, insecure jobs, and lack of social security protections.
- ▶ **Dependency on Agriculture:** Rural jobs are highly vulnerable to extreme weather events like monsoons, affecting income stability.

▢ Impact of Low Wages on Economy

- ▶ **Contribution to Aggregate Demand:** Despite economic growth, declining incomes reduce household purchasing power, impacting economic output.
- ▶ **Poor Standard of Living:** Many laborers live in slums with inadequate access to water, sanitation, and education for their children.
- ▶ **Education and Skill Gaps:** Insecure employment limits opportunities for education and skill development, hindering long-term financial stability.
- ▶ **Vulnerability to Shocks:** Lack of social protections leaves workers highly vulnerable to economic downturns and crises.

▢ Required Measures

- ▶ **Structural Barriers:** Addressing structural inequalities through fair wage policies, improved working conditions, and expanded social protection schemes is essential.

- **Policy Interventions:** Implement measures to ensure fair wages, enhance working conditions, and broaden access to healthcare and unemployment benefits.

FACT BOX

- **Minimum Wage:** India plans to replace its current minimum wage system with a living wage by 2025 to uplift millions out of poverty.
- **Government Schemes/Acts:** Includes Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana, PM-SYM Pension Scheme, One Nation One Ration Card Scheme, and various employment and skill development initiatives under Atmanirbhar Bharat and other schemes.

Current Wage System in India

- **National Floor Level Minimum Wage (NFLMW):** Under the new Code on Wages 2019, the NFLMW is set by the government which mandates the establishments to set the minimum wage not less than the NFW.
- **Flexibility of Minimum Wage Standards:** As per Section 5 of the Code on Wages 2019, no employer can fix the minimum wage below it. However, it's not a mandatory provision, the minimum wage rates can be revised accordingly by the State.
- *Currently, the National Floor Wage is Rs 178 per day.*

PREVIOUS YEAR QUESTION

- Q. 'Despite the implementation of various programmes for eradication of poverty by the government in India, poverty is still existing'. Explain by giving reasons. (2018)
- Q. While we found India's demographic dividend, we ignore the dropping state of employability. What are we missing while doing so? Where will the jobs that India desperately needs come from? Explain (2014)

PRACTICE QUESTION

- Q. Discuss the impact of economic policies on income disparities among vulnerable sections in India. Suggest measures to address these disparities effectively.

8. SOCIAL PROTECTION IN LOW-INCOME NATIONS

CONTEXT: The International Labour Organization (ILO) highlights a critical financial shortfall in achieving universal social protection in low- and middle-income countries, necessitating \$1.4 trillion annually. This includes essential health care, child benefits, disability and old-age pensions, maternity and unemployment benefits.

Key Highlights:

- **Financial Burden:** Low-income countries face the most significant challenge, with a 52.3% GDP gap for social protection.
- **Regional Disparities:** Africa faces the highest gap (17.6% GDP), while Europe and Central Asia the lowest (1.9% GDP).
- **Measures Required:** Countries need to increase spending by 10.6% of annual expenditure, bolstered by progressive taxation and better debt management.

Strategies to Address the Financing Gap:

- **Domestic Resource Mobilization:** Enhance taxation on higher income groups and corporations, expand social security contributions.

- **Climate Crisis Mitigation:** Integrate social protection to mitigate climate impacts through carbon pricing and international climate financing.
- Achieving universal social protection requires substantial fiscal reforms and international cooperation to bridge the financing gap and mitigate climate vulnerabilities.

PREVIOUS YEAR QUESTION

Q. It is argued that the strategy of inclusive growth is intended to meet the objectives of inclusiveness and sustainability together. Comment on this statement. (2019)

PRACTICE QUESTION

Q. Define universal social protection and the significance of achieving it for low- and middle-income countries

9. MINIMUM WAGE VS LIVING WAGE

CONTEXT: India is set to replace the minimum wage with a living wage by 2025, seeking technical assistance from the International Labour Organization (ILO) to develop a framework for estimating and implementing this transition.

Issues in India's Minimum Wage Rate

- **Disparities Among States:** Each Indian state sets its own minimum wage rates, creating challenges for uniformity and compliance, particularly for multinational companies operating across different states.
- **Ineffective Implementation of Acts:** Despite efforts to streamline regulations under the Code on Wages Act since 2019, implementation challenges persist across various labor laws including the Minimum Wages Act, impacting enforcement and compliance.
- **Coverage Gaps in Unorganized Sector:** The vast majority of India's workforce, employed in the unorganized sector, often does not receive even the minimum wage, highlighting gaps in legal protections and enforcement mechanisms.



Significance of the Shift and Multidimensional Approach

- **Integrated Living Standards:** Moving towards a living wage integrates health, education, and overall living conditions into wage calculations, enhancing India's poverty assessment framework with broader socio-economic indicators.
- **Comprehensive Evaluation:** A multidimensional evaluation considering economic, social, and demographic factors is crucial to establish an equitable living wage standard aligned with India's developmental trajectory.
- **Impact on India's Labor Force:** With over 500 million workers, this shift aims to promote socioeconomic equality and sustainable growth, marking a significant policy reform towards enhancing workers' livelihoods.

FACT BOX

- **Living Wage:** Essential for maintaining a decent standard of living, calculated based on regular working hours and tailored to local economic conditions.
- **Minimum Wage:** Baseline compensation set by law, ensuring a minimum payment per hour of work, but varies widely across states.
- **Fair Wage:** Positioned between minimum wage and living wage, reflecting industry capacity to pay above the minimum but below a sustainable living standard.

PRACTICE QUESTION

Q. Evaluate the potential impact of transitioning from minimum wage to living wage on India's labor market and economic growth. What policy measures are necessary to ensure successful implementation and compliance?

10. DIGITAL PUBLIC INFRASTRUCTURE

CONTEXT: Digital Public Infrastructures (DPIs) are projected to drive India towards a \$1 trillion digital economy by 2030, contributing to its goal of becoming an \$8 trillion economy.

■ DPI as Enabler

- **Key Services:** DPIs encompass critical services like Unified Payments Interface (UPI), JAM trinity (Jan Dhan Yojana, Aadhaar, Mobile number), National Health Stack, DIKSHA, NDEAR, Digital Locker, eKYC, e-Sign, and FASTag.
- **Analogous to Physical Infrastructure:** Similar to roads, DPIs form a digital network facilitating access to economic opportunities and social services nationwide.

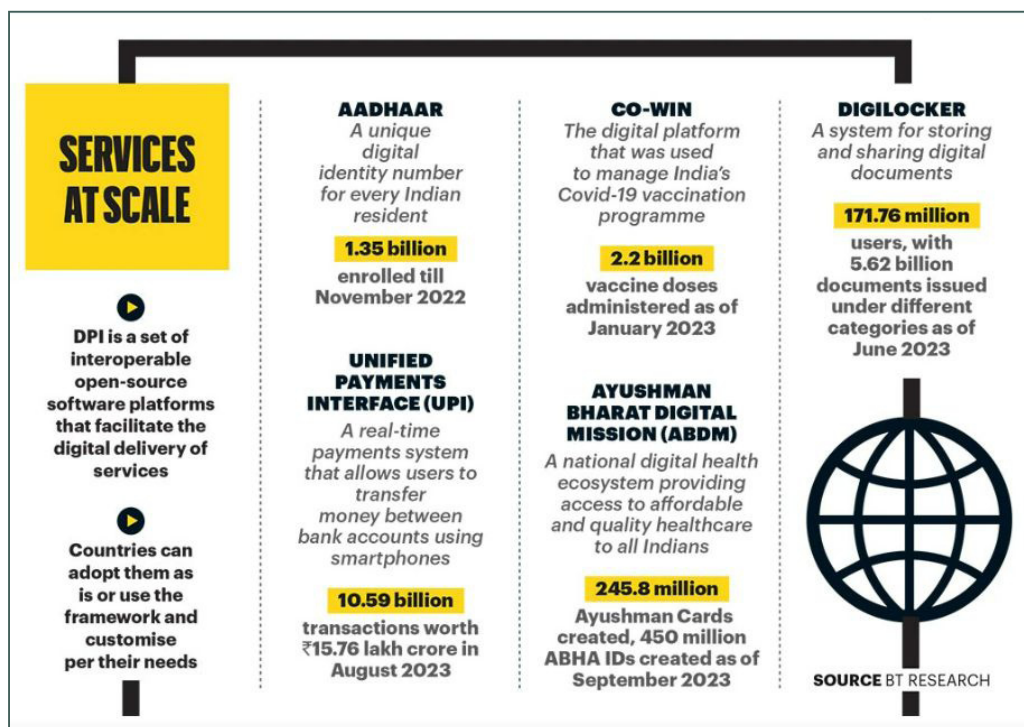
■ India's Unique Approach to DPIs

- **Core Principles:**
 - **Public Interest:** Developed with public welfare at the forefront.
 - **Openness and Interoperability:** Built on open standards for seamless service integration.
 - **Data Privacy and Security:** Emphasizes robust data protection measures.
 - **Innovation and Collaboration:** Encourages public-private collaboration for continuous enhancement.

■ Global Implications

- **Impact on Global Landscape:**
 - **Alternative Model:** India's DPIs present a model contrasting with dominant "big tech" approaches, advocating for public ownership of critical digital infrastructure.
 - **Global Adoption:** Frameworks like MOSIP can be adapted by other nations to bolster their own digital ecosystems.
 - **Development Acceleration:** DPIs accelerate inclusive development by facilitating efficient delivery of public services.
 - **Data Privacy and Security:** Emphasizes robust data protection measures.

- **Innovation and Collaboration:** Encourages public-private collaboration for continuous enhancement.



PRACTICE QUESTION

- Q. Evaluate the role of Digital Public Infrastructures (DPIs) in India's path towards a \$1 trillion digital economy by 2030. How can India leverage its unique approach to DPIs for global leadership in digital transformation?

11. UNIVERSAL BASIC ECONOMY AND INDIA'S POVERTY

CONTEXT: Local experiments with Universal Basic Income (UBI) have yielded predominantly positive results across states, bolstering advocacy for this social policy.

Understanding Universal Basic Income (UBI)

- **Principles of UBI Support:** UBI entails unconditional, periodic cash transfers to individuals, allowing them to spend as per their needs.
- **Addressing Concerns about UBI:** Critics express concerns about market distortions and dependency, while its effectiveness in reducing poverty is under scrutiny.
- **The WorkFREE Pilot:** Implemented in Hyderabad, supporting 1,250 slum residents, this pilot empowers economically and offers insights into UBI's impact.

UBI's Positive Impact on Beneficiaries

- **Diverse Use of UBI:** Beneficiaries allocate cash for food, fuel, education, and health, showcasing its versatility.

- ▶ **Enhancing Economic Activities:** UBI aids in business expansion and asset investment, boosting economic growth in slum areas.
- ▶ **Breaking Generational Poverty Cycle:** UBI acts as a safety net, enabling families to escape entrenched poverty through education and economic opportunities.

▢ **Impact on Society**

- ▶ **Reduction in Inequality:** UBI can mitigate income disparities, providing a safety net for vulnerable populations and fostering social equity.
- ▶ **Enhanced Social Security:** UBI offers a universal safety net, reducing poverty and enhancing overall societal well-being and security.
- ▶ **Economic Empowerment:** UBI stimulates local economies, empowering individuals to invest in education, healthcare, and entrepreneurship.
- ▶ **Freedom to Pursue Passions:** UBI provides individuals the freedom to pursue creative and innovative endeavors without financial constraints.

▢ **Challenges**

- ▶ **Market Distortion:** UBI may discourage work, leading to labor market distortions and reduced productivity.
- ▶ **Dependency Concerns:** UBI might foster dependency on the state, potentially disincentivizing self-reliance and productivity.
- ▶ **Financial Feasibility:** Doubts persist regarding the economic sustainability of large-scale UBI implementation, straining government resources.
- ▶ **Debt and Financial Mismanagement:** Unmonitored spending and debt accumulation may exacerbate financial instability due to UBI.

PRACTICE QUESTION

Q. Discuss the impact of Universal Basic Income (UBI) on economic empowerment and social security in marginalized communities, with reference to a local pilot project.

12. HOUSEHOLD CONSUMPTION EXPENDITURE SURVEY (HCES)

CONTEXT: The government of India has finally conducted and released the Household Consumption Expenditure Survey of 2022-23 after more than a decade. The Household Consumption Expenditure Survey (HCES) is a survey conducted every five years to collect information about the consumption of goods and services by the households.

▢ **Findings regarding rural and urban consumption in the survey**

- ▶ **Rural vs urban MPCE:** The monthly per capita consumption expenditure (MPCE) was Rs. 3,773 for rural areas and Rs.6,459 for urban areas in 2022-23.
 - Compared to the last survey in 2011-12, rural MPCE has increased at a CAGR of 9.2 per cent from Rs.1,430 while the urban MPCE has increased at an annual rate of 8.5 per cent from Rs.2,630.
- ▶ **MPCE on food vs non-food items:** The households are spending less on food than expected. MPCE on food by rural households is just 46 per cent, whereas expenses on non-food items is 54 per cent. For urban households, the food, non-food mix is 39 and 61 per cent.

Reason behind this changing trend

- ▶ The faster growth in rural consumption is a little strange given sluggish growth in rural areas in the recent past.
- ▶ But the **social welfare schemes** could have freed up some money allocated for food, thus increasing overall spends.
- ▶ Rural inflation has also been higher than urban inflation during this period, which would also be reflected in higher expenditure growth for rural households.

What are the findings of the survey regarding 'inequality'?

- ▶ **Narrowing gap:** The consumption gap between urban and rural areas is narrowing but income inequality continues to make spends higher among high-income earners.
 - The difference between rural and urban consumption as a percentage of rural MPCE has fallen from 90.8 per cent in 2004-05 to 71.2 per cent in 2022-23.
- ▶ **Improving income:** This shows that those living in rural areas have seen their incomes improve.

PRACTICE QUESTION

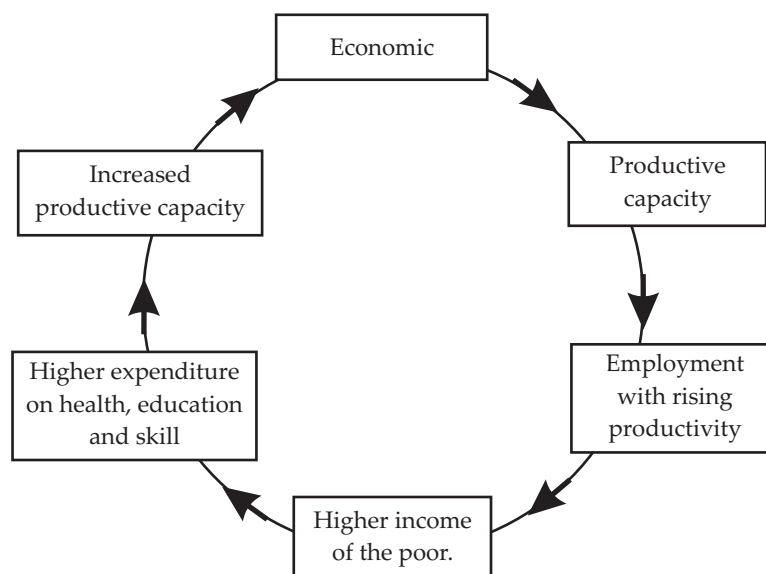
Q. Discuss the findings of the Household Consumption Expenditure Survey (HCES) 2022-23 with regard to rural-urban consumption patterns and income inequality in India.

13. LINK BETWEEN GDP GROWTH & EMPLOYMENT

CONTEXT: A recent report highlights a weakening relationship between India's GDP growth and employment generation over time.

Relationship Between GDP Growth and Employment

- ▶ **Inverse Relationship:** Typically, GDP growth correlates inversely with unemployment rates. Economic expansion prompts businesses to expand, invest, and hire more, lowering unemployment. Conversely, during recessions, GDP contraction leads to job losses.



- ▶ **Lag Effect:** Changes in GDP growth may precede changes in unemployment rates as businesses adjust hiring decisions over time.

Factors Affecting Employment and Growth

- ▶ **Type of Economic Growth:** Extensive (increased inputs like labor and capital) or intensive (improved productivity) growth affects job creation rates differently.
- ▶ **Employment Elasticity:** Varies based on economic growth type, influenced by factors such as labor market institutions, technological advancements, and sector composition.

FACT BOX

GDP Growth

- **Definition:** GDP growth refers to the annual average rate of change in a nation's gross domestic product, measured at constant local currency and prices.
- **Measurement:** Calculated using the least-squares method on logarithmic annual values from data in the United Nations's Systems of National Accounts.

India's GDP growth

- In August 2023, India's GDP grew by 7.8% in the April-June quarter, marking it as one of the fastest-growing major economies globally. This performance was hailed for its strength and boosted confidence in India's economic standing.
- Historically, India's GDP growth was robust at around 9% in the mid-2000s due to high global trade. However, growth slowed to 6% after the 2007-08 financial crisis. From 2012-15, growth was around 4.5%, but a change in GDP calculation method in 2015 increased reported growth without real economic change.

PREVIOUS YEAR QUESTION

- Q. Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments. (2019)**

PRACTICE QUESTION

- Q. Explain the relationship between GDP growth and unemployment in developing economies like India. How can policy interventions influence this relationship?**

14. MEASURING UNEMPLOYMENT IN INDIA

CONTEXT: Measuring unemployment in India is difficult due to the informal nature of jobs. Unlike developed economies, individuals do not hold one job year-round.

Defining unemployment

- ▶ The International Labour Organization (ILO) defines unemployment as being out of a job; being available to take a job; and actively engaged in searching for work. Therefore, an individual who has lost work but does not look for another job is not unemployed.
 - The labour force is defined as the sum of the employed and the unemployed.

Measuring unemployment in India

- ▶ The National Sample Survey Organisation (NSSO) adopts two major measures for classifying the working status of individuals in India —

- ▶ **Usual Principal and Subsidiary Status (UPSS):** The UPSS categorizes an individual's employment status based on their primary activity over the previous year. According to UPSS:
 - An individual is considered employed if they engaged in economic activity, either as a principal worker or in a subsidiary role for a period not less than 30 days.
 - This measure tends to classify individuals as employed even if they were unemployed for a significant part of the year but worked for a minimum duration.

■ **Current Weekly Status (CWS)**

- ▶ Contrastingly, the CWS measures an individual's employment status based on their activities during the week preceding the survey:
 - An individual is classified as employed if they worked for at least one hour on at least one day during the previous week.
 - This measure provides a more immediate snapshot of employment, capturing short-term variations in work availability.

PREVIOUS YEAR QUESTION

Q. Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements. (2023)

PRACTICE QUESTION

Q. Discuss the challenges in measuring unemployment in India, particularly due to the informal nature of jobs. Compare and contrast the Usual Principal and Subsidiary Status (UPSS) and Current Weekly Status (CWS) methods used by the National Sample Survey Organisation (NSSO) for measuring employment.

15. EL NINO AND INDIA'S CLIMATE RISKS

CONTEXT: The intensifying El Niño phenomenon poses significant economic risks to India, particularly affecting food inflation and agricultural productivity.

■ **Impact on India:**

- ▶ Weakens the Indian monsoon, crucial for agriculture and water supply, leading to reduced rainfall, drought conditions, heatwaves, and water shortages.
- ▶ **Economic Implications:** Crop failures result in food price inflation, economic losses for farmers, and strain on water resources.

■ **Current Scenario and Projections**

- ▶ **Oceanic Niño Index (ONI):** Exceeded the El Niño threshold significantly, with predictions indicating further strengthening through the upcoming winter.
- ▶ **Implications:** Severe impact on kharif crops due to insufficient monsoon rains, low food stocks, high retail food inflation (11.5% year-on-year in July), and increased commodity prices (e.g., tomatoes, onions, rice).
- ▶ **Export Challenges:** Export bans on commodities like basmati rice due to supply shortages and rising prices.
- ▶ **Global Factors Exacerbating the Situation**
 - **Weather-related Shocks:** Recent global food inflation exacerbated by weather events in Ukraine and South America impacting sunflower and soybean supplies.
 - **Pandemic Effects:** Disruptions in Malaysia's oil palm production due to pandemic-related labor shortages.
 - **War Impact:** Russo-Ukrainian conflict disrupting global wheat, corn, barley, and sunflower oil exports.
 - **Export Controls:** Initiated by Russia to manage domestic food inflation concerns.

PRACTICE QUESTION

- Q. Evaluate the economic consequences of El Niño on agriculture and food inflation in India, suggesting policy measures to alleviate its effects.

16. INDIA'S AGEING WORKFORCE

CONTEXT: India's workforce is experiencing rapid ageing despite having a predominantly youthful population, according to CMIE's Economic Outlook data.

■ India's Ageing Workforce

- ▶ **Definition:** The workforce is shifting towards older demographics, with a notable increase in the share of individuals aged 45 years and above.
- ▶ **Data Insights:** Over the past seven years, the proportion of workers aged 45 and older has grown significantly, from 37% to 49% of the total workforce.

■ Factors Contributing to Workforce Ageing

- ▶ **Employment Dynamics:** Despite a growing population, youth employment rates are declining, pushing younger workers out of the job market.
- ▶ **Demographic Shift:** Rising shares of older workers reflect changes in employment patterns and demographic trends.

Year	Population (45 years and above)	Employed	Employment Rate (in %)
2016-17	32,20,48,753	15,23,72,914	47
2018-19	34,79,69,222	16,03,52,550	46
2017-18	36,46,50,077	16,25,86,742	45
2019-20	38,66,31,762	17,19,54,109	44
2020-21	40,48,65,203	17,51,15,563	43
2021-22	42,32,04,637	18,94,18,503	45
2022-23	45,10,40,539	19,95,94,541	44

■ Transformation of Demographic Dividend into 'Demographic Curse'

- **Challenges:** Inability to provide employment to the youthful population could reverse the demographic dividend, exacerbating economic and social challenges.
- **Economic Burden:** Persistent unemployment among youth can strain the economy, leading to increased poverty and social issues.

■ Implications of Ageing Population

- ▶ **Economic Challenges:**
 - **Labor Shortages:** Shrinking working-age population may lead to labor shortages and reduced productivity.
 - **Healthcare Costs:** Increased demand for healthcare services among the elderly can strain public budgets.
 - **Pension Pressures:** Growing elderly population poses challenges for pension and social security systems.
- ▶ **Healthcare and Social Services:**
 - **Healthcare Demand:** Older population requires more healthcare services due to chronic conditions.
 - **Long-Term Care:** Demand rises for long-term care facilities and services, impacting caregivers.

► **Policy and Planning:**

- **Infrastructure Needs:** Investments in healthcare infrastructure and geriatric care are essential.
- **Social Programs:** Reforming pension and social programs to ensure sustainability becomes crucial.
- **Labor Market Policies:** Policies needed to support older workers in the workforce or facilitate retirement transitions.

Data from Centre for Monitoring Indian Economy (CMIE)

- The proportion of young workers, aged 15 to 29, has decreased from 25% in 2016-17 to 17% by March 2023. Similarly, the share of workers aged 30 to 44 has declined from 38% to 33% over the same period.
- In contrast, the proportion of workers aged 45 and older has increased significantly, from 37% to 49%. Despite an overall decline in total employment from 41.27 crore to 40.58 crore, the most significant decrease has been among the youth workforce.

PRACTICE QUESTION

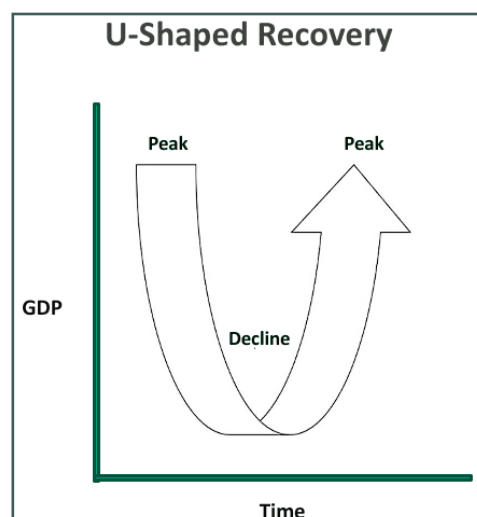
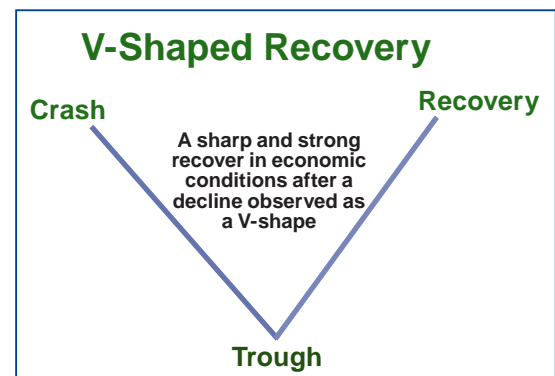
Q. Discuss the impact of demographic changes on India's workforce and economy.

17. ECONOMY RECOVERY

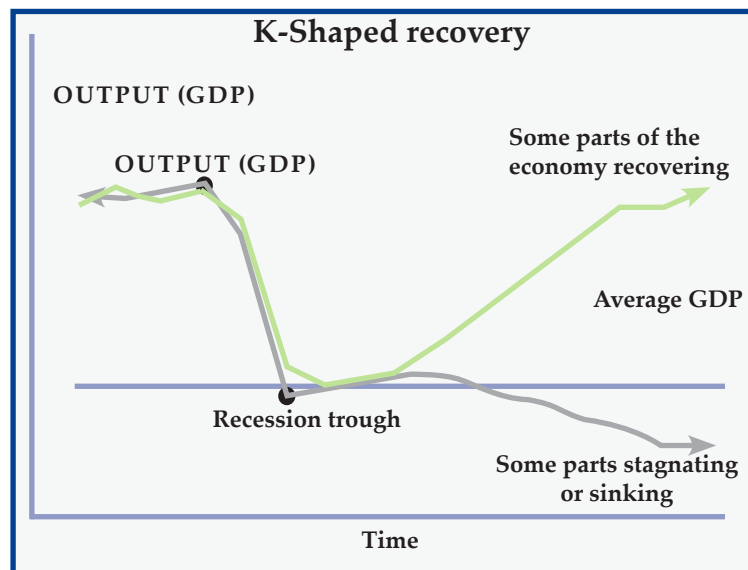
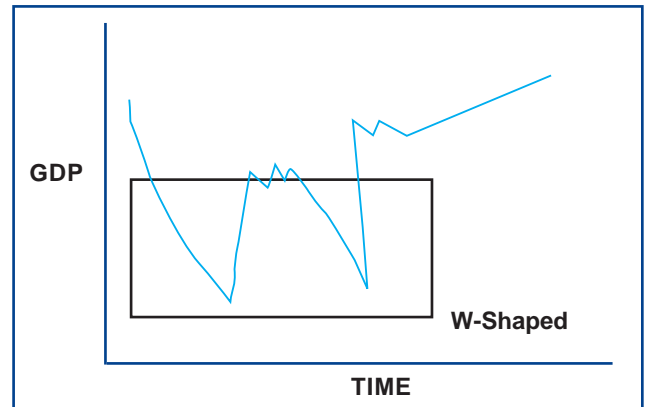
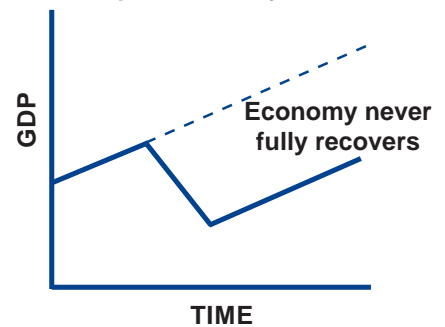
CONTEXT: Economy recovery after a recession can come in five different shapes – V, U, L, W and K

◻ Different Recovery shape

- **V-shaped recovery:** A V-shaped recovery is the best-case scenario, where the economy bounces back immediately after a sharp decline to go back to its pre-recession level in less than a year. The rebound can be bolstered by appropriate fiscal and monetary policies.
- **U-shaped recovery:** In a U-shaped recovery, also described as the 'Nike Swoosh' recovery, the economy experiences stagnation for a significant period of time after declining. It then rises gradually to its previous peak. This means the recession lasts longer, causing job losses and erosion of savings.



- ▶ **L-shaped recovery:** The L-shaped recovery represents the worst-case scenario. Here, the economy fails to regain its peak GDP even after several years. This has the longest recession period among all shapes. The downturn and the slow revival sometimes lasts indefinitely.
- ▶ **W-shaped recovery:** Also called the “double-dip recession”, a W-shaped recovery sees an economy staging a brief comeback only to fall a second time. This scenario breaks consumer confidence and enters the full recovery period that can take up to 2 years. The economy will witness two recessionary periods.
- ▶ **K-shaped recovery:** The K-shaped recovery is a new term that economists have created to describe what is happening with the Covid-19 pandemic. According to one analysis, the Covid recovery path branches into two different directions. Large-cap companies and public-sector enterprises with access to government support and central bank stimulus packages will help some areas of the economy recover faster. The small and medium companies, along with blue-collar workers, are left out of the recovery process. The divergence between these two groups is represented by the two diagonal lines in the letter K. Such a recovery takes place when different parts of the economy recover at vastly different rates.

L-Shaped Recovery


PREVIOUS YEAR QUESTION

Q. Do you agree that Indian economy has recently experienced V-shaped recovery? Give reasons in support of their answer. (2021)

PRACTICE QUESTION

Q. Explain the concept of different shapes of economic recovery (V, U, L, W, K) and their implications for policy makers in managing economic downturns. Illustrate with recent examples from global economic events.

18. PRESTON CURVE

CONTEXT: The Preston Curve illuminates a crucial relationship between life expectancy and per capita income in countries worldwide. Preston's groundbreaking research revealed a pattern where wealthier nations generally enjoy longer life spans compared to their less affluent counterparts. This connection underscores the profound influence of economic prosperity on public health outcomes.

▢ About the Preston Curve:

- **Proposed by:** American sociologist Samuel H. Preston in 1975
- The essence of the Preston Curve lies in its observation that as a **country's per capita income increases**, so does its **average life expectancy**.
- This correlation is attributed to various factors associated with higher income levels, including
 - improved access to healthcare
 - better education
 - cleaner environments
 - enhanced nutrition

▢ Debates and Perspectives:

- Despite the compelling correlation between income levels and development outcomes, experts diverge on the causal relationship between the two.
 - Some economists advocate for prioritizing economic growth as the pathway to improving development indicators, citing examples like India and China's rapid progress.
 - However, others argue that improvements in life expectancy and other indicators are not solely driven by economic growth. Instead, advancements in **medical technology, including life-saving vaccines**, play a significant role in enhancing public health even in low-income settings.

FACT BOX

- **Per Capita Income:** Per capita income measures the average amount of money earned per person in a nation or region. It can also be called income per person in an economic unit.
 - **Calculation:** Per Capita Income = National Income / Population
- **Net National Income (NNI):** NNI serves as an indicator of the total economic activity within a country. It's calculated by subtracting the **depreciation** of fixed capital assets from the gross national income. Fixed capital assets include dwellings, buildings, machinery, transport equipment, and physical infrastructure. Essentially, NNI reflects the nation's income after accounting for the wear and tear and obsolescence of its capital assets.
- **Gross National Product (GNP):** It is the total value of all finished goods and services produced by a country's citizens in a given financial year, irrespective of their location (located domestically or abroad).
 - $GNP = GDP + \text{Net factor income from abroad}$

PRACTICE QUESTION

Q. Discuss the concept of the Preston Curve and its implications for public health and development.

19. GREEDFLATION

CONTEXT: Recent inflation spikes have seen tomato prices surge significantly across multiple Indian cities, prompting speculation about a phenomenon called 'greedflation'.

▢ Greedflation in India

- **Current Status:** While greedflation is prevalent in the United States and the United Kingdom, its impact in India has been limited so far.
- **Potential Entry:** With increasing privatization in Indian industries, there is a risk that greedflation could gain traction unless regulated by the government to protect consumers from excessive price hikes.
 - The concept of greedflation, driven by corporate profit motives rather than economic fundamentals, poses a potential threat to India as it continues to liberalize its economy.

FACT BOX

- **Greedflation:** It refers to inflation driven not by economic factors like demand or supply, but by corporate greed. It occurs when companies increase prices solely to boost their profit margins.
 - **Examples:** Companies raise prices of basic commodities, exploiting market conditions to maximize profits rather than responding to genuine economic factors.
 - **Shrinkflation:** Shrinkflation involves reducing product quantity or quality while maintaining the same retail price. It helps mitigate production cost increases without overtly raising prices, thereby avoiding customer backlash.
 - **Strategy:** E-commerce businesses commonly employ shrinkflation to maintain retail prices amid rising costs, aiming to preserve their brand image.

PRACTICE QUESTION

Q. What do you understand by greedflation? Discuss its impact on consumer confidence and economic stability in India.

20. SHRINKFLATION

CONTEXT: Owing to global crises (war in Ukraine), many businesses are shrinking the size of their products to maintain or increase their profits in a process known as shrinkflation.

▢ What is shrinkflation?

- Shrinkflation, in economics, is the practice of cutting down the size or quantity of a product, while the rate of the item remains the same or slightly increases.



❏ Why is shrinkflation adopted?

- Mostly, the practice of shrinkflation is adopted when there is a surging inflation in the market.
- Rising costs of production, higher raw material cost, price rise in commodities such as oil, coal, and steel, and high labour cost may cause shrinkflation.
- Besides, stiff competition in the marketplace can also cause shrinkflation.

PRACTICE QUESTION

Q. Examine the phenomenon of shrinkflation and its implications of shrinkflation on consumers and the broader economy.

21. DISINFLATION FACING RESISTANCE FROM FOOD INFLATION

CONTEXT: RBI Governor Shaktikanta Das recently addressed inflation trends in India, noting that while overall inflation is easing, food inflation remains a significant challenge.

❏ What is disinflation?

- Disinflation is the term used to describe a period of slowing inflation. In contrast to inflation which refers to price direction, disinflation refers to the rate of inflation change. Disinflation is not problematic, and it is different from deflation.
- **Significance of achieving disinflation:** Achieving disinflation is crucial for economic stability, as it helps maintain purchasing power and encourages investment.

❏ Current Inflation Trends

- **Recent Figures:** Retail inflation in May 2024 was at 4.75%, slightly down from 4.83% in April 2024, and lower than 4.31% in May 2023.
- **Core Inflation:** Stood at 3% in May 2024.
- **Food Inflation:** Remained high at 7.9% in May 2024.

❏ Impact of Food Inflation on Disinflation

- **Resistance to Disinflation:** High food inflation is slowing the disinflation process.
- **Supply-Side Factors:** Weather conditions, including extreme heat, have affected the cultivation of pulses and vegetable production.
- **Average Food Inflation:** Stood at around 8% over the past six to seven months.

PRACTICE QUESTION

Q. Explain the concept of disinflation and discuss its implications for monetary policy in India. How does disinflation differ from deflation?

22. CRITICAL MINERAL AND ECONOMIC SIGNIFICANCE

CONTEXT: India has recently joined the Mineral Security Partnership (MSP), led by the United States, aimed at enhancing global supply chains for critical minerals. India's participation signifies a strategic move to secure its mineral supply chains, reduce dependency risks, and foster sustainable economic growth amid global technological advancements.

▢ Importance and Goals of MSP

- **Strategic Need:** Addresses concerns about China's dominance in rare earth minerals, where it controls processing infrastructure and mines in Africa.
- **Goal:** Facilitates public and private investments across the mineral supply chain to support economic development while maintaining environmental and social standards.

▢ Reasons for India's Participation in MSP

- **Reducing Dependency:** Aims to diversify mineral sourcing away from China, critical for India's energy transition plans including electric vehicles (EVs).
- **Strategic Concerns:** Ensuring India's energy security and reducing economic vulnerabilities due to over-reliance on single-country supplies.

▢ Challenges and Considerations

- **Global Concerns:** Issues include environmental impact, capital-intensive mining processes, and health hazards associated with radioactive elements like thorium.
- **Regulatory Framework:** Recent amendments in mining laws aim to boost mineral production and GDP contribution while ensuring sustainable practices.

▢ Government policies-

- **The National Mineral Policy 2014** outlines guidelines for India's mineral sector, covering 95 minerals including energy and atomic minerals. It aims for sustainable development, minimizing environmental impact, and benefiting local communities.
 - It promotes exploration in non-fuel and non-coal sectors, allows lease transfers, mergers, acquisitions, and grants industry status for tax benefits.
 - It harmonizes taxes, allows **100% FDI in mineral exploration**.
- **The Mines & Minerals (Development & Regulation) Amendment Act 2021** mandates mining leases through auction for 50 years.
 - It establishes the **National Mineral Exploration Trust** funded by companies, and District Mineral Foundations for local welfare.
 - It removes the **captive/non-captive mine distinction**, allows resource use or sale (up to 50%), sets auction deadlines for states, extends leases to government companies, and gives central government oversight on District Mineral Foundation funding.

FACT BOX

Mineral Security Partnership (MSP)

- **Objective:** MSP focuses on ensuring the sustainable production, processing, and recycling of critical minerals like **Cobalt, Nickel, Lithium**, and the **17 rare earth elements (REEs)**.
- **Membership:** Includes countries like **Australia, Canada, Finland, France, Germany, Japan, South Korea, Sweden, UK**, and now **India**, along with the European Commission.

India's position on Critical minerals:

- Though India has 6% of the world's rare earth reserves, it only produces 1% of global output, and meets most of its requirements of such minerals from China.
- In 2018-19, for instance, 92% of rare earth metal imports by value and 97% by quantity were sourced from China. In India, monazite and thorium is the principal source of rare earths.

Critical Minerals in major economies:

- The US has declared 50 minerals critical. The UK considers 18 minerals critical, the European Union has declared 34 minerals critical, and Canada and Japan 31 each. Australia has 26 critical minerals.
- India-Australia Critical Minerals Investment Partnership:** India and Australia recently decided to strengthen their partnership in the field of projects and supply chains for critical minerals. Australia will commit 5.8 million dollars to the three-year India-Australia Critical Minerals Investment Partnership.

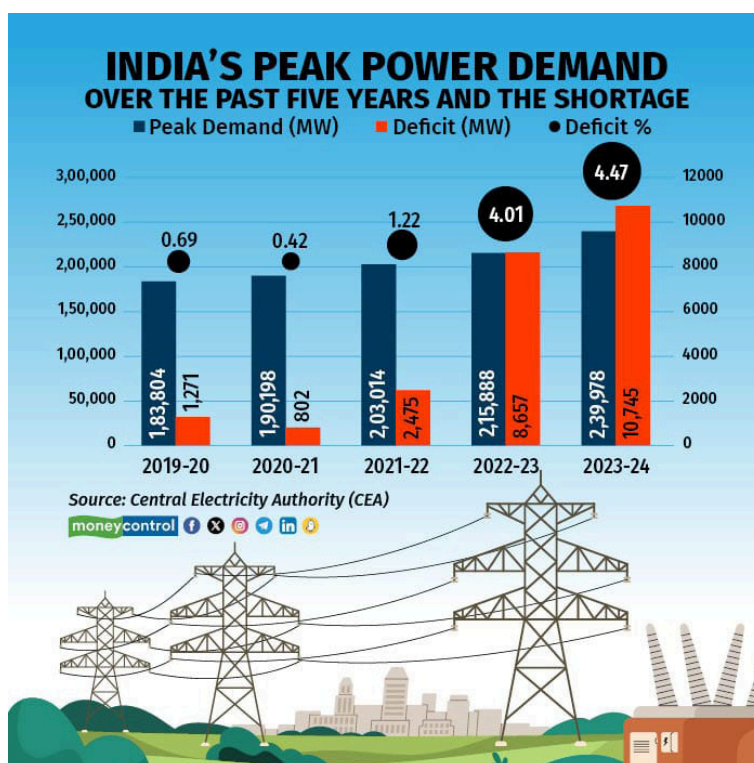
PRACTICE QUESTION

- Q. Discuss the significance of India's membership in the Mineral Security Partnership (MSP) in the context of its energy security and economic development goals.

23. INDIA'S INCREASING POWER DEMAND

CONTEXT: India faces challenges with surging power demand despite rapid growth in solar power, highlighting capacity constraints during non-sunlight hours.

- Impacts of Increased Power Consumption:** India ranks third globally in CO₂ emissions, with significant carbon intensity in its power sector. Air pollution from particulate matter remains a critical issue, causing substantial premature deaths.
- Sources of Power Generation in India**



- ▶ Thermal power dominates, constituting 68% of total electricity generation.
- ▶ Hydro power has reduced slightly, while nuclear power shows modest growth.

▢ Factors Driving Increased Power Demand

- ▶ **Household and Agricultural Demand:** Rising residential consumption, particularly for appliances like air conditioners and washing machines, alongside agricultural needs.
- ▶ **Industrial and Commercial Usage:** More than half of India's electricity consumption stems from industrial and commercial sectors, driven by economic activities.
- ▶ **Weather Variability:** Erratic weather patterns affect power demand, with heatwaves and fluctuations in agricultural activity contributing to seasonal peaks.
- ▶ **Challenges with Renewable Energy:** Solar power, while expanding, faces limitations in meeting high-energy demands due to intermittency and installation costs, particularly for large-scale industrial needs.

▢ Government Initiatives

- ▶ **Policy Measures:** Sovereign green bonds, infrastructure status for energy storage systems, and schemes like **PM-KUSUM** to promote solar energy adoption in agriculture.
- ▶ **Financial Support:** Significant budget allocations support schemes like the **Production Linked Incentive (PLI)** for solar module manufacturing and electrification programs like **DDUGJY, UDAY, and IPDS**.
- ▶ **One Nation One Grid:** Previously, India's electricity grids were divided into five regions (northern, eastern, western, northeastern, and southern). Each region could only sell surplus electricity within its own boundaries. One Nation One Grid aims to unify these five grids into a single national grid. This allows surplus electricity from one region to be transferred to regions with higher demand, ensuring more efficient distribution across the country.
- ▶ **One Sun One World One Grid:** At COP26 in Glasgow, India proposed the concept of One Sun One World One Grid through the International Solar Alliance. This initiative seeks to connect solar energy supply across international borders, facilitating global cooperation in solar power distribution and utilization.
- ▶ **The Electricity Act of 2003** in India governs several critical aspects of the electricity sector: Differentiated Price Slabs under this are
 - **Industrial Use:** Tariffs are set based on the consumption patterns and needs of industrial users.
 - **Household Use:** Residential consumers have their own tariff structure, typically designed to balance affordability and cost recovery for utilities.
 - **Agricultural Use:** Agriculture enjoys lower tariffs as a policy measure to support farmers and agricultural activities.

PRACTICE QUESTION

- Q. Discuss the strategies India can adopt to enhance energy security while mitigating environmental impacts, focusing on the integration of renewable energy sources.**

24.INDIA'S DEMOGRAPHIC ADVANTAGE

CONTEXT: The World Bank's South Asia regional update, "**Jobs for Resilience**," underscores concerns over India's employment growth amidst its demographic dividend.

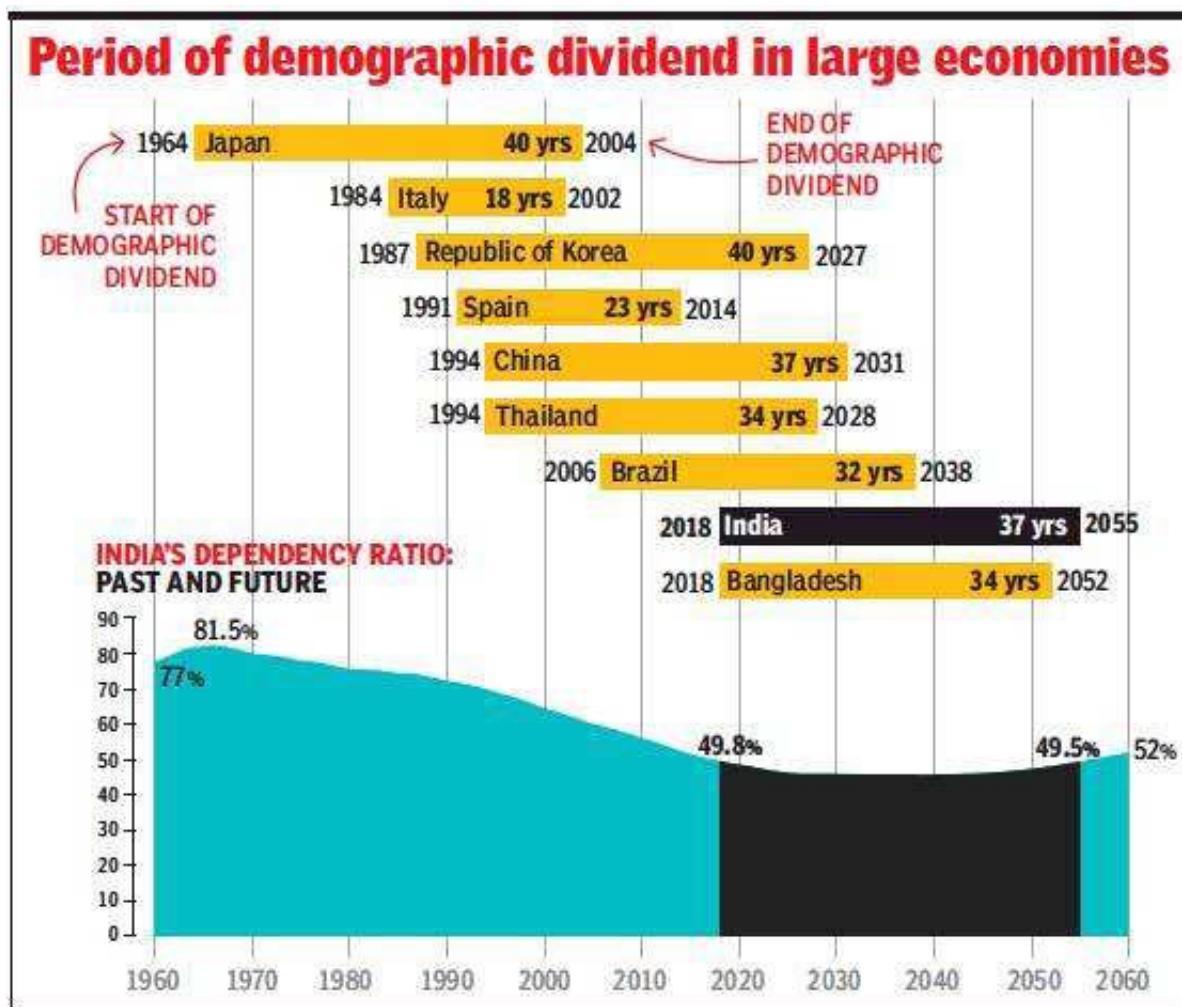
▢ Employment Trends

- ▶ **Slow Job Creation:** India and South Asia struggle to capitalize on their demographic dividend, with job creation lagging behind the growth in the working-age population.

- ▶ **Youth Unemployment:** In 2023, India's youth unemployment rate stood at 45.4%, highlighting significant challenges in absorbing the burgeoning youth population into productive employment.
- ▶ **Low Female Employment:** Female employment ratios in India and other South Asian countries remain among the world's lowest, underscoring gender disparities in workforce participation.

❑ Untapped Benefits from Demographic Dividend

- ▶ **Economic Growth:** A youthful population offers opportunities for enhanced economic activities, industrialization, and urbanization, bolstering overall economic growth.
- ▶ **Policy Framework:** Effective policy implementation is critical to harnessing demographic advantages, necessitating targeted schemes and programs.



- ▶ **Rise in Workforce:** India's expanding labor force, driven by demographic shifts, presents a substantial opportunity for economic advancement through increased productivity and innovation.
- ▶ **Women's Workforce Participation:** Encouraging trends in female workforce participation can accompany declining fertility rates, potentially boosting economic output.

❑ Economic Growth and Employment

- ▶ **Robust Growth Forecast:** Despite employment challenges, India's economy is projected to grow by 7.5% in FY23/24, contributing positively to South Asia's economic trajectory.
- ▶ **Potential for Higher Output:** Aligning employment rates with global standards for **Emerging Market and Developing Economies (EMDEs)** could unlock even greater economic growth in the region.

❑ Approach to Seize Demographic Advantage

- **Education Reform:** Enhancing skilling, vocational training, and education standards nationwide to meet evolving market demands is crucial.
- **Healthcare Investments:** Increased government spending on health, education, and social sectors is vital for optimizing India's demographic dividend.
- **Gender Inclusivity:** Bridging gender gaps in workforce participation through targeted policies like gender budgeting, childcare benefits, and tax incentives for part-time work.
- **Federal Coordination:** Strengthening inter-ministerial collaboration and strategic planning across diverse states to effectively harness demographic opportunities.

FACT BOX

India's Demographic Dividend

- India hosts over 600 million individuals aged 18-35, with 65% of its population under 35 years old.
- The demographic dividend is expected to persist until at least 2055-56, peaking around 2041 with a significant share of the population in the working-age bracket (20-59 years).

Indian Economy – A Review

- The youth workforce participation rate in India increased significantly from **31% in 2017-18 to 40.1% in 2022-23**. This means that an additional 35 million young people have found employment, despite the youth population growing by only 17 million during this period.
- States with a large youth population like **Uttar Pradesh, Bihar, and Madhya Pradesh** have also seen substantial improvements in youth employment.
 - **For instance,** Uttar Pradesh's youth unemployment rate dropped from 16.7% in 2017-18 to 7% in 2022-23, indicating positive trends in job creation and economic opportunities for young people in these regions.

PREVIOUS YEAR QUESTION

- Q. The nature of economic growth in India is described as jobless growth. Do you agree with this view? Give arguments in favour of your answer. (2015)
- Q. While we flaunt India's demographic dividend, we ignore dropping rates of employability. What are we missing doing so? Where will the jobs that India desperately needs come from? Explain. (2014)

PRACTICE QUESTION

- Q. What are the policy measures India should adopt to effectively harness its demographic dividend and address challenges in employment growth, with a focus on integrating women into the workforce?

25. INDIA'S ENERGY SECURITY

CONTEXT: Energy security is a critical aspect influencing economic stability and growth, encompassing dimensions such as sustainability, accessibility, and affordability of energy sources. Achieving energy security is pivotal for reducing vulnerability to external disruptions and ensuring uninterrupted energy availability at reasonable costs. India's pursuit of "Energy Atmanirbharta" by 2040 underscores the strategic importance of securing energy independence.

▣ Strategies for Achieving Strategic Autonomy in Energy

- ▶ **Fossil Fuels Emphasis:** Increasing domestic exploration and production of oil and gas are essential steps to bolster energy security.
- ▶ **Nuclear Power:** Exploiting India's substantial thorium reserves for nuclear power generation can enhance energy independence, as uranium reserves are limited domestically. Developing **thorium-based reactors** is a strategic move towards **self-reliance in nuclear energy**.
- ▶ **Ethanol Blending:** Accelerating ethanol blending in petrol supports energy security goals by reducing dependency on imported oil. Advancing the target to 20% ethanol blending by 2025 enhances fuel self-sufficiency.
- ▶ **Mining and Processing:** Expediting mining and processing of critical minerals like cobalt, nickel, and rare earth metals is vital for building electric vehicles, solar panels, and batteries domestically. This **reduces reliance on international supply chains**, mitigating risks associated with **geopolitical tensions and supply disruptions**.
- ▶ **Infrastructure Development:** Strategic petroleum reserves, transmission grids, and battery storage systems supports scaling up renewable energy sources.
- ▶ **Innovative Financing:** Developing innovative financing mechanisms facilitates investment in green energy infrastructure projects.
- ▶ **Energy Diplomacy:** Enhancing energy diplomacy efforts ensures **diversified and secure energy supply chains**.
- ▶ **Focus on Non-Fossil Fuels:** Solar Energy, Green Hydrogen, Wind Power

▣ Threats to Energy Security

- ▶ Political instability in energy-producing countries
- ▶ Manipulation and competition over energy supplies
- ▶ Vulnerability to supply infrastructure attacks, accidents, natural disasters, terrorism
- ▶ Reliance on foreign oil and gas imports

PRACTICE QUESTION

- Q. Analyzing India's approach to achieving energy security through domestic resource utilization and infrastructure development, discuss the challenges and opportunities in light of global energy dynamics.



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2

SECTORS OF ECONOMY

1. COASTAL ECONOMY OF INDIA

CONTEXT: India's coastal economy presents significant potential amidst global discussions on maritime security and geopolitical dynamics. Prioritizing economic development through the Blue Economy (BE) is crucial.

▣ Contribution of Blue Economy to Economy:

- ▶ India, with a 7,517 km coastline and 1,382 islands, is the **world's second-largest fish-producing nation**.
- ▶ Coastal regions are home to nearly **250 million Indians** and contribute substantially to maritime industries like trade, shipbuilding, and cruise tourism.
- ▶ These industries employ approximately 4 million people and handle **95% of India's trade by volume through ports**.
- ▶ Despite challenges, India's blue economy accounts for about **4% of GDP**.

▣ India's Measures to Strengthen Blue Economy:

- ▶ **Draft National Policy for Blue Economy (2021)** aims at sustainable marine biodiversity and enhancing GDP contribution from ocean resources.
- ▶ **Deep Ocean Mission (2021)** focuses on extracting living and non-living resources from deep sea areas using advanced technology.
- ▶ **Maritime India Vision 2030** emphasizes sustainable growth in the maritime sector, including green ports and infrastructure.
- ▶ **Indo-Norway Integrated Ocean Initiative** and initiatives like **O-SMART** promote sustainable marine resource management.

❑ Challenges Faced by Blue Economy:

- **Environmental Pressures:** Issues like climate change, pollution, and overfishing pose significant challenges.
- **Natural Disasters** exacerbated by climate change.
- **Global Supply disruption** (Israel-Hamas, Russia-Ukraine war)

PRACTICE QUESTION

Q. How can India balance economic growth and environmental sustainability in harnessing its Blue Economy potential? Discuss with reference to policy initiatives and global best practices.

2. INDIA'S GAMING SECTOR

CONTEXT: India's gaming sector is witnessing rapid development, catering to local preferences and cultural sensibilities, thereby emerging as a significant player in the global gaming landscape.

❑ Mobile Gaming Dominance:

- India has surpassed China as the largest consumer of mobile games globally.
- The Indian market is 2.5 times larger than China and three times larger than the United States.
- Factors driving this growth include high smartphone penetration, affordable mobile data, and a young demographic favoring games with shorter learning curves.

❑ Market Size and Growth:

- The Indian gaming market is projected to grow from USD 3.49 billion in 2024 to USD 7.24 billion by 2029, driven by a young population, evolving IT infrastructure, and increasing adoption of mobile devices and high-speed internet.
- Integration of technologies like **Virtual Reality (VR)**, **Augmented Reality (AR)**, and the **metaverse** further accelerates industry growth.

❑ Impact on Economy:

- **Positive Impact:** Significant revenue generation, boost in startups post-pandemic, career opportunities, skill development, and employment generation.
- **Negative Impact:** Concerns about Internet Gaming Disorder, societal impacts, tax evasion issues (many apps operate from outside India), lack of regulatory framework.

❑ Measures to Shape Trajectory:

- **Digital India Initiative:** Government initiative promoting digital infrastructure has bolstered the gaming industry.
 - ❶ **Inter-Ministerial Task Force (IMTF):** Tasked with recommending national-level legislation for online gaming regulation.
 - ❷ **Affordable Mobile Data:** India's competitive pricing for mobile data supports widespread gaming accessibility.

PRACTICE QUESTION

Q. What measures should India adopt to regulate its gaming industry effectively, balancing economic growth with societal concerns? Discuss with reference to current initiatives and global best practices.

3. OVERHAUL OF INDIAN RAILWAYS

CONTEXT: Indian Railways, as India's largest national transport network, remains a focal point for policymakers striving to enhance efficiency and modernize infrastructure. Over successive governments, challenges and opportunities have shaped efforts to transform this vast system.

▢ Challenges in Enhancing Efficiency:

- **Human Resource Complexity:** Managing a large workforce presents complexities in implementing swift changes, including training and deployment.
- **Safety Concerns:** Despite advancements like the Kavach anti-collision system, safety remains a priority to prevent accidents and ensure passenger and employee safety.
- **Infrastructure Complexities:** Upgrading infrastructure while minimizing disruptions to services poses significant challenges.

▢ Progress and Achievements:

- **Vande Bharat Trains:** Symbolizing a shift with high-speed services, these trains reflect India's manufacturing prowess and enhance passenger experience.
- **High-Speed Train Corridors:** Projects like the Mumbai-Ahmedabad bullet train aim to boost connectivity and reduce travel time.
- **Infrastructure Development:** Record investments have modernized tracks, electrification, and maintenance, crucial for operational efficiency.

▢ Existing Problems with Indian Railways:

- **Decline in Freight Traffic Share:** Since 1950-51, the modal share of railways in surface freight transportation has declined sharply from 86.2% to 33% by 2015. This decline is primarily due to capacity constraints and lack of price competitiveness.
- **Under-Investment:** Expenditure on Indian Railways as a percentage of overall transport expenditure decreased from 56% in 1985-90 to 30% in 2007-12. This under-investment has severely impacted operational capabilities and hindered capacity augmentation efforts.
 - Insufficient funding has led to delays in modernization, upgrading infrastructure, and adopting new technologies, thereby affecting service reliability and efficiency.

▢ Suggestions for Improvement:

- **Enhance Freight Transport Competitiveness:** Address capacity constraints and improve operational efficiency to make freight transport via railways more attractive and competitive.
 - Rationalize freight tariffs to align with market dynamics while ensuring affordability and competitiveness compared to road transport.
- **Increase Investment in Infrastructure:** Allocate adequate funds for infrastructure development, including track modernization, electrification, and signaling systems.
- **Promote Public-Private Partnerships (PPP):** PPPs are crucial for infrastructural projects due to their ability to attract private capital, enhance efficiency, share risks, and drive innovation.
 - In India, PPPs are pivotal in the redevelopment of railway stations. They involve private firms upgrading facilities, improving services, and developing commercial spaces.
 - This model accelerates **project execution, ensures quality, and boosts revenue generation** through enhanced passenger amenities and commercial activities.
 - Examples like **Habibganj and Gandhinagar stations** highlight PPPs' role in transforming railway infrastructure

- ▶ **Technological Upgradation:** Embrace digitalization and modern technologies such as Internet of Things (IoT), artificial intelligence (AI), and big data analytics to optimize operations, maintenance, and passenger services.
- ▶ **Financial Restructuring:** There is need to review the fare structure to ensure sustainable revenue generation without compromising service accessibility.

PREVIOUS YEAR QUESTION

Q. Why is Public Private Partnership (PPP) required in infrastructural projects? Examine the role of PPP model in the redevelopment of Railway Stations in India. (2022)

PRACTICE QUESTION

Q. “Indian Railways stands at the crossroads of modernization, balancing speed with safety.” Discuss.

4. INDIA’S STEEL IMPORTS

CONTEXT: The Indian steel industry faces significant challenges, particularly highlighted by its transition from a net exporter to a net importer in recent years, despite aspirations of achieving self-reliance (Atmanirbharta).

▣ Reasons behind the Surge:

- ▶ **Predatory Imports:** Threats from predatory imports undermine domestic steel production, impacting investments and economic growth.
- ▶ **Ease of Availability:** Foreign steel products gain popularity due to their easy availability and diverse specifications, appealing across various price points.
- ▶ **Export Taxes Impact:** Introduction of export taxes reduced India’s steel exports to 6.5%, impacting global competitiveness.
- ▶ **Red Sea Crisis:** Disruptions in the Red Sea escalated logistics costs for Indian steel exporters, affecting competitiveness.

▣ Required Measures:

- ▶ **Arresting Predatory Imports:** Urgent trade remedial actions are necessary to curb inbound steel shipments threatening domestic market stability.
- ▶ **Increasing Import Duties:** Adjusting import duties can mitigate the advantage enjoyed by importers and steel-surplus countries, supporting India’s capacity expansion efforts.

FACT BOX

- India witnessed a 38% increase in finished steel imports, reaching 8.319 million tonnes in 2023-24.
- Predatory imports from China pose a significant challenge to India’s goal of achieving self-sufficiency in steel production.
- The National Steel Policy aims to enhance India’s steel production capacity to 300 million tonnes by 2030, emphasizing domestic demand fulfilment.

PRACTICE QUESTION

Q. “What are the key challenges hindering India’s goal of achieving self-reliance (Atmanirbharta) in the steel sector? Discuss potential measures to promote domestic production and reduce dependency on imports.”

5. PINK ECONOMY

CONTEXT: The term “pink economy” refers to the economic impact of India’s LGBTQ+ community, estimated at 135 million individuals, or about 10% of the population. Despite societal challenges, this demographic holds significant potential to influence and contribute to India’s economic growth.

▢ Challenges and Opportunities:

- **Economic Influence:** The LGBTQ+ community in India represents a sizable demographic capable of influencing economic trends, despite facing widespread stigma and discrimination.
- **Impact of Societal Attitudes:** Negative societal attitudes hinder economic participation, affecting education, employment, and overall economic productivity.
- **Discrimination in Education and Employment:** Discriminatory practices limit access to education and formal employment, leading to high dropout rates and hindering economic development.

▢ Economic Implications and Imperatives:

- **Economic Impact:** Homophobia costs India between 0.1% to 1.7% of GDP annually, resulting in significant economic losses.
- **Socio-economic Challenges:** Stigma reduces productivity and contributes to higher poverty rates, mental health issues, and suicide rates within the LGBTQ+ community.
- **Importance of Inclusive Policies:** Addressing discrimination and promoting inclusive economic policies are crucial for achieving sustainable economic growth and development.

▢ Corporate Inclusion and Economic Growth:

- **Corporate Engagement:** Increasingly, corporations recognize LGBTQ+ inclusion as not only a social responsibility but also a strategic advantage for business growth.
- **Societal Shift:** Corporate inclusivity mirrors a broader societal shift towards acceptance and diversity, fostering a more inclusive and economically dynamic environment.

PRACTICE QUESTION

Q. How can India leverage the economic potential of its LGBTQ+ community to foster inclusive economic growth? Discuss the challenges and strategic imperatives in this regard, with reference to societal attitudes and policy interventions.

6. CARE ECONOMY

CONTEXT: Care giving economy not only helps in economic growth but also address several social issues like gender inequality and care for children and elderly in the society.

- **Care giving work** is broadly defined as looking after the physical, psychological, emotional and developmental needs of one or more other people. The care economy is growing as the demand for childcare and care for the elderly is increasing in all regions. It will thus create a great number of jobs in the coming years.

▢ Need for care economy:

- **Unemployment rate in India** reached a 45-year high of 6.1% in 2017-18, as per the recent NSS estimates. Care economy will help to reduce unemployment by giving care jobs in the sectors such as nurses, home care takers, child caring person and elderly cares.

- ▶ **Gender equality in labour force-** The lack of a comprehensive care economy policy is the single-most significant reason for the falling rate of female labour force participation. If we want to reap the demographic dividend before it vanishes, designing a comprehensive care economy policy in India should be the strategy.
- ▶ **To achieve silver economy-** the silver economy is the term for caregiving to the elders and old age persons in the country.
- ▶ **Child care-** Child care services came to picture after female or mothers started participating in formal and informal jobs for helping the family income.

■ **Benefit for the Indian economy**

- ▶ **Providing decent work for all-** care economy is not only for growth in economy, it includes providing decent work status to every individual in the society.
- ▶ **Half of the population in India is occupied by Females,** and rest for children and elders. Such policy which gives adequate working for their services in the society will benefit Indian economy to generate revenue and increase labour force participation.
- ▶ **Extending social security for women and elderly-** social security benefits such as pension schemes will be extended to the women and elderly via such policy for care givers. It will also enable them to access paid family leave.
- ▶ **Gender role balancing-** gender biased formal sector can be targeted by such policy and more female participation with equal wages can be seen.
- ▶ **Reduce burden for Informal work-** care services if get formalised, then informal works with high risks associated such as work in factories, industries and far locations for women and children will be reduced.
- ▶ **Health benefits-** Women and child health policies fail to provide proper financial assistance to them and this care giving policy can be an umbrella scheme for health benefits to the vulnerable section of the society.

PREVIOUS YEAR QUESTION

Q. Distinguish between 'care economy' and 'monetized economy'. How can care economy be brought into monetized economy through women empowerment? (2023)

PRACTICE QUESTION

Q. "Care giving economy is a major step for India to achieve women empowerment". Comment

7. GIG ECONOMY

CONTEXT: The gig economy in India is reshaping the traditional work landscape, driven by factors like technological advancements, demographic advantages, and shifting preferences among millennials and Gen Z for flexible work arrangements.

■ **Current Landscape and Trends:**

- ▶ **Job Market Dynamics:** Companies are expanding geographically to tap into diverse talent pools and form strategic partnerships, emphasizing skills in emerging technologies.
- ▶ **Tier 2/3 Cities:** Growing prominence of smaller cities for innovation and talent acquisition, reflecting untapped potential beyond metropolitan hubs.
- ▶ **Industry Transformation:** Tech firms are shifting towards remote work and adapting to evolving workspace dynamics, highlighting a move away from traditional office setups.

■ Significance and Impact in India:

- **Employment Boost:** Significant role in expanding job opportunities, especially in medium and high-skilled roles, catering to a diverse skill set.
- **Demographic Advantage:** Leverages India's youthful population, with millennials and tech-savvy youth opting for gig roles due to flexibility and work-life balance.
- **Inclusive Growth:** Empowers female labor force participation, supports post-retirement work options, and democratizes job opportunities through low-entry barriers.
- **Technological Advancements:** Advances in AI, robotics, and telecommunications drive productivity and enhance living standards for gig workers.

FACT BOX

- The gig economy encompasses freelance and contract work facilitated through digital platforms across sectors like e-commerce, technology, and services.
- Gig workforce is expected to expand to 23.5 million workers by 2029-30 up from 7 million in 2021. (Nasscom Aon report)
- **Worker Classification:**
 - Platform-based workers (e.g., food delivery)
 - Non-platform workers engaged in casual or contract roles.
- **Benefits:** Provides flexibility, autonomy, income opportunities, and skill development for workers; enables access to diverse talent pools and scalability for employers; offers choice and convenience for customers.
- **NITI Aayog:** Gig economy employed 77 lakh workers in FY21. The continuing high demand for such services and job flexibility is boosting entry-level job creation in tier-2 and tier-3 cities.

PREVIOUS YEAR QUESTION

Q. Examine the role of 'Gig Economy' in the process of empowerment of women in India. (2021)

PRACTICE QUESTION

Q. What are the socio-economic implications of the gig economy in India? Discuss the opportunities and challenges associated with its growth, emphasizing its role in employment generation and technological integration.

8. INDIA'S EVOLVING SPACE ECONOMY

CONTEXT: India's space sector is rapidly evolving, driven by significant private investment, strategic reforms, and ambitious projects aimed at enhancing capabilities and global competitiveness.

- According to a recent report (*Space: The \$1.8 Trillion Opportunity for Global Economic Growth*) from the World Economic Forum (WEF), the global space economy will reach a value of \$1.8 trillion by 2035, nearly identical to the scale of the world semiconductor industry.

■ Current Landscape:

- **Global Recognition:** India is globally renowned for cost-effective satellite manufacturing and peaceful use of outer space through ISRO, which ranks among the top space agencies.

- ▶ **Private Sector Growth:** Over 400 private space companies contribute to India's space economy, attracting substantial investments exceeding Rs. 1,000 crore.
- ▶ **Recent Initiatives:** Establishment of the **Defence Space Agency**, expansion of satellite manufacturing capabilities, and initiatives like SAMVAD for student outreach highlight recent advancements.

■ **Key drivers include**

- ▶ Strategic initiatives like the **Indian Space Policy 2023**
- ▶ a tenfold decrease in satellite and rocket launch costs over the past two decades
- ▶ an anticipated 10% drop in data and connectivity prices by 2035 amidst a 60% increase in demand
- ▶ advancements like enhanced **Earth-observation technology resolution**, which lowers access costs to these technologies
- ▶ IndSpaceX and establishment of Defense Space Agency (DSA) and Defense Space Research Organisation (DSRO)

■ **Composition of Space Economy:**

- ▶ The **Indian space economy** is estimated at approximately **\$8.4 billion USD**.
- ▶ Around **80% of this economy** comes from downstream services such as communication and data applications, largely driven by the private sector.
- ▶ The upstream market, involving satellite and launch operations, is primarily handled by the government, with private companies contributing through subsystem/component manufacturing.
- ▶ **Growth Metrics:** The number of space startups in India has grown significantly, from 1 in 2014 to 189 in 2023, with investments reaching \$124.7 million in 2023.
- ▶ **Role of Private Sector:** Foreign Direct Investment (FDI) norms have been liberalized, allowing up to **100% investment** under the automatic route for manufacturing components and subsystems. Up to 74% FDI is allowed for manufacturing and operating entire satellites.

■ **Challenges and Strategic Reforms:**

- ▶ **Challenges:** Lack of commercialization regulations, escalating space debris, and global competition, particularly from China, pose challenges to India's space ambitions.
- ▶ **Strategic Reforms:** PM Modi's reforms have spurred the growth of space startups, transforming India's space landscape and enhancing its economic contributions.

■ **Government Initiatives Towards Space Liberalisation:**

- ▶ Department of Space (DoS) established the Indian National Space Promotion and Authorisation Centre (IN-SPACe) for all space sector activities of NGEs.
- ▶ NewSpace India Limited (NSIL) helps NGEs commercialise their space technologies and platforms.
- ▶ **Indian Space Policy 2023:** The policy emphasizes R&D leadership, efficient public-private collaboration, privatization of space activities, democratization of data, and human spaceflight capabilities.
- ▶ The government opened the space sector to **100% Foreign direct investment (FDI)**.

PRACTICE QUESTION

Q. Discuss the evolution of India's space sector, highlighting its economic impact, challenges, and the strategic reforms needed to maintain global competitiveness.

9. SPACE TOURISM

CONTEXT: Gopi Thotakura, an entrepreneur and pilot, became the first Indian space tourist on Blue Origin's NS-25 mission, led by Jeff Bezos. He's the first Indian citizen to experience space tourism, but officially the second Indian astronaut after Wing Commander Rakesh Sharma in 1984.

▣ What is Space Travel?

- ▶ Space travel starts around 100 km above Earth's surface, crossing the Karman line, which marks the boundary between Earth's atmosphere and outer space.
- ▶ Anything flying below this line is considered an aircraft, while anything crossing it is a

▣ Private Space Tourism:

- ▶ Private space tourism became active in 2021 with companies like Virgin Galactic, Blue Origin, and SpaceX offering missions.
- ▶ These missions opened space tourism to anyone willing to pay.
- ▶ Different missions require different levels of training. Sub-orbital flights, like Thotakura's, require minimal training usually included in the ticket price.
- ▶ **Accessibility:** Space tourism is currently only affordable for the super-rich. Some more affordable options, like high-altitude balloon rides, are emerging. These take passengers up to 100,000 feet for about \$50,000. While they don't offer weightlessness, passengers can see the curvature of the Earth.

PRACTICE QUESTION

Q. Discuss the emergence of private space tourism and its implications for global space exploration

10. FINTECH SECTOR

CONTEXT: The Reserve Bank of India (RBI) is preparing to introduce a Self-Regulatory Organisation (SRO) framework for the fintech sector within a year. This move aims to enhance governance and promote responsible practices among financial technology companies.

▣ What is an SRO?

- ▶ A Self-Regulatory Organisation is a non-governmental body that establishes and enforces rules within an industry to safeguard consumers and uphold professional standards. It collaborates with stakeholders to set regulations and ensure compliance.

▣ Functions of an SRO:

- ▶ **Regulatory Interface:** Acts as a liaison between its members and the RBI, facilitating regulatory compliance and communication.
- ▶ **Standardization:** Sets minimum standards to promote ethical conduct and professionalism among members.
- ▶ **Capacity Building:** Provides training and conducts awareness programs to enhance skills and market conduct.
- ▶ **Grievance Redressal:** Implements a unified framework for resolving disputes and addressing consumer complaints.

▢ Importance of the Fintech Industry:

- Fintech, short for financial technology, integrates digital advancements to offer financial services in a more efficient and innovative manner.
- **Financial Inclusion:** Enables broader access to banking, lending, and investment services through digital platforms.
- **Innovation and Efficiency:** Introduces new products and models using technologies like AI and blockchain, improving operational efficiency.
- **Enhanced Customer Experience:** Focuses on user-centric design and personalized financial solutions.
- **Alternative Funding:** Provides avenues like peer-to-peer lending for small businesses to access capital.
- **Data Utilization:** Uses advanced analytics to offer personalized financial insights and advice.

▢ Challenges (Parliamentary Standing Committee's Report)

- **Dominance of Foreign-owned Fintech Companies:** Foreign entities such as Walmart-backed PhonePe and Google-backed Google Pay dominate India's fintech sector.
- **Low Adoption of Indian Fintech Apps:** Indian fintech apps, including NPCI's BHIM UPI, have low market share in terms of transaction volume, standing at just 0.22%.
- **Misuse for Money Laundering:** Instances of scamsters using fintech apps like Abu Dhabi-based Pyppl, operated by Chinese investment scamsters, for money laundering in India have been reported.
- **Regulatory Challenges for Local vs. Foreign Apps:** Regulatory bodies like RBI and NPCI find it more challenging to regulate local fintech apps compared to foreign apps that operate across multiple jurisdictions.

Status of Fintechs in India

- India ranks as the **world's third-largest FinTech ecosystem** after US and UK. As of December 2021, 17 Indian FinTech companies have achieved '**Unicorn Status**'.
- India boasts the highest Fintech adoption rate globally, standing at 87%. This surpasses the global average adoption rate of approximately 64%.
- India's fintech sector is projected to reach \$6.2 Tn by 2025.
- **Technologies are shaping the future of fintech:** Artificial intelligence (AI), Blockchain, Cloud computing, Internet of Things (IoT), Open-source software, serverless architecture, and software as a service (SaaS), No- and low-code development platforms, Hyper-automation.
- **Government initiatives** such as the JAM trinity (Jan Dhan-Aadhaar-Mobile), India Stack, Open Network for Digital Commerce (ONDC), Unified Payments Interface (UPI), and Central Bank Digital Currency (CBDC) have significantly propelled the growth of Fintechs in India.

PRACTICE QUESTION

- Q. Discuss the role of the proposed Self-Regulatory Organisation (SRO) framework by RBI in fostering responsible practices and governance in the fintech sector. How can such regulatory measures benefit both consumers and industry stakeholders?

11. INDIA'S LITHIUM INDUSTRY

CONTEXT: India recently discovered significant lithium reserves in Karnataka and Jammu & Kashmir. These reserves are crucial for expanding lithium production, essential for sectors like semiconductors, batteries, and electronics.

- ❑ **Significance of Lithium:** Lithium is a non-ferrous metal vital for **electric vehicle (EV) batteries** due to its lightweight nature and high energy density.
 - **Growing Demand in EVs:** Lithium is integral to EV batteries, which are pivotal for India's shift towards electric mobility in major cities.
 - **Strategic Importance:** It plays a strategic role in national security and technological advancement, used in sectors like **telecommunications, space, and defense**.
 - **Management and Exploration:** The **Atomic Minerals Directorate and Geological Survey of India** oversee lithium exploration and classification under international guidelines. Government initiatives like the **PLI scheme** aim to boost local manufacturing of advanced chemistry cells.
 - **Challenges and Opportunities:** India aims to reduce dependency on lithium imports, particularly from China, by developing domestic resources. This move is critical as EV adoption accelerates globally.
 - **Government Initiatives:** The Production Linked Incentive scheme supports indigenous production of advanced chemistry cells, positioning India in the global lithium supply chain.

Lithium (Li)

- Lithium (Li), also known as 'White gold' due to its high demand for rechargeable batteries, is a soft, silvery-white metal.
- **Extraction:** Lithium extraction methods vary based on deposit type, commonly through solar evaporation of brine pools or hard-rock ore extraction.
- Uses:
 - Essential in batteries for EVs, laptops, and mobile devices.
 - Utilized in thermonuclear reactions.
 - Forms alloys with aluminum and magnesium, enhancing strength and reducing weight:
 - Magnesium-lithium alloy: used in armor plating.
 - Aluminum-lithium alloys: employed in aircraft, bicycle frames, and high-speed trains.
- **Major Global Lithium Reserves:** Chile > Australia > Argentina hold significant lithium reserves. The 'Lithium Triangle' includes Chile, Argentina, and Bolivia.
- **Lithium Reserves in India:** Estimated lithium reserves of 14,100 tonnes identified in Southern Karnataka's Mandya district. Potential reserves also exist in:
 - **Mica belts:** Rajasthan, Bihar, Andhra Pradesh.
 - **Pegmatite belts:** Odisha, Chhattisgarh.
 - A small discovery of lithium resources was made at a site in **Mandya, Karnataka**. Now, Lithium inferred resources have been found in the **Reasi District of Jammu & Kashmir (UT)**.
- **Current Lithium Demand Fulfillment in India:** India currently relies on imports for lithium cells and batteries.
- India is entering the lithium value chain amidst a significant disruption in the EV sector, with advancements expected in Li-ion battery technology in 2023.

PRACTICE QUESTION

- Q. Discuss the strategic significance of India's emerging lithium reserves. How can the development of these reserves enhance India's manufacturing capabilities and energy security?

12. INDIA'S UNORGANISED SECTOR

CONTEXT: Recent findings from the National Sample Survey Organisation's Annual Survey of Unincorporated Sector Enterprises (ASUSE) for 2021-22 and 2022-23 have shed light on India's informal sector, crucial for policy formulation and economic planning.

▢ Key Findings from ASUSE:

- ▶ **Employment Trends:** The informal sector in India, represented by unincorporated enterprises, employed 109.6 million workers as of **October 2022-September 2023**. This figure, although an increase from pandemic lows, remains below pre-pandemic levels.
- ▶ **Enterprise Statistics:** The number of unincorporated enterprises grew to 65.04 million by October 2022-September 2023, up from approximately 63 million in the previous period (July 2015-June 2016).
 - Economic shocks such as **demonetisation, GST implementation, and COVID-19** have hindered sector growth and employment recovery.
- ▶ **Economic Inequality:** Despite employing two-thirds of the workforce, this sector contributes only **one-fourth of India's GVA**.
- ▶ **Economic Resilience and Growth:** Despite challenges, the gross value added (GVA) by these enterprises increased to Rs 15.42 trillion during October 2022-September 2023, up from Rs 13.4 trillion in April 2021-March 2022.

▢ Challenges:

- ▶ **Data Deficiency:** Outdated data has hindered effective economic planning and policy formulation.
- ▶ **Economic Inequality:** Despite its size, the sector faces income disparity and contributes less to economic output.
- ▶ **Resilience and Growth:** GVA of these enterprises rose to Rs 15.42 trillion, showing resilience despite economic shocks like demonetisation and GST implementation.

PRACTICE QUESTION

- Q. Discuss the significance of the informal sector in India's economy based on recent ASUSE findings. What steps should be taken to enhance the sector's contribution to economic growth and address its challenges effectively?

3

MONEY & BANKING

1. RBI'S SURPLUS TRANSFER

CONTEXT: The Reserve Bank of India (RBI) has approved transferring Rs 2.11 lakh crores as surplus to the government for the fiscal year 2023-24, marking the highest ever yearly transfer. This surplus is primarily attributed to increased income from forex holdings and other sources.

▣ About RBI's Surplus Transfer:

- ▶ RBI transfers surplus funds to the government annually, following the Economic Capital Framework (ECF) set by the Bimal Jalan committee. The surplus helps bolster government liquidity and supports expenditure needs, including salaries, pensions, and public programs.

▣ Use of Surplus by Government:

- ▶ **Economic Stimulus:** The surplus reduces planned borrowings, keeping interest rates low and facilitating private sector access to capital markets.
- ▶ **Fiscal Deficit Management:** It can potentially lower the fiscal deficit if revenue targets are met, aiding overall economic stability.
- ▶ **Public Spending:** Funds may be allocated to specific projects to stimulate economic activity in targeted sectors.
- ▶ **Challenges and Policy Implications:** The informal sector, despite employing a large workforce, contributes disproportionately to India's Gross Value Added (GVA). Challenges include data deficiency and income inequality, necessitating transparent data release and inclusive policy consultations for effective economic planning.

Generation of Surplus by RBI	RBI's Expenditure
<ul style="list-style-type: none"> Operations in financial markets (buying or selling foreign exchange) Income from government securities it holds Returns from foreign currency assets Deposits with other central banks Lending to banks Management commissions RBI buys financial assets against its fixed liabilities (like currency held by the public) 	<ul style="list-style-type: none"> Printing currency notes Staff salaries Commissions to banks

PRACTICE QUESTION

Q. Discuss the significance of RBI's surplus transfer to the government in enhancing fiscal stability. How can the management of informal sector challenges contribute to broader economic resilience and growth?

2. RBI'S GOLD RESERVE

CONTEXT: In fiscal year 2023-24, the Reserve Bank of India (RBI) undertook a significant transfer of 100 metric tonnes of gold from foreign to domestic vaults, marking a notable shift since 1991. As of March 2024, India's total gold reserves stand at 822.10 metric tonnes, with over 408 metric tonnes now held domestically.

▢ Purpose and Importance of Gold Reserves:

- **Economic Stability:** Gold is valued for its stability and reliability, offering confidence during economic uncertainties.
- **Currency Support:** While not tied to the gold standard, gold reserves bolster currency stability and diversify India's asset portfolio.
- **Global Standing:** India ranks 9th globally in gold reserves, enhancing its international creditworthiness and trade capabilities.

▢ Strategic Benefits:

- **Diversification:** Gold serves as a hedge against market fluctuations and currency devaluation.
- **Historical Significance:** Reflecting cultural affinity, gold plays a crucial role in India's economic planning and risk management strategies.

PRACTICE QUESTION

Q. Discuss the significance of RBI's decision to transfer a substantial portion of its gold reserves domestically. How does this decision align with India's economic resilience strategy amidst global uncertainties?

3. CRYPTOCURRENCY REGULATION

CONTEXT: Cryptocurrencies have emerged as a disruptive force in global finance, posing challenges to traditional monetary systems. Their rapid adoption raises concerns about liquidity management, interest rates, and financial stability, prompting regulatory scrutiny from institutions like the Reserve Bank of India (RBI) and the International Monetary Fund (IMF). Reserve Bank of India is concerned about crypto's unregulated, borderless, and volatile nature.

▢ Regulatory Concerns:

- **Financial Stability:** Unregulated cryptocurrencies could destabilize economies by circumventing traditional banking oversight, risking monetary control and stability.
- **Risk of Misuse:** There is a significant concern about cryptocurrencies being exploited for illicit activities such as money laundering and terrorism financing due to the anonymity they provide.

▢ Indian Regulatory Landscape:

- India is deliberating the **Cryptocurrency and Regulation of Official Digital Currency Bill, 2021**, aimed at establishing a regulatory framework for digital currencies.
- The RBI has also initiated projects like the digital rupee to modernize the payments system while ensuring regulatory control.
- **Impact on Economy:** Cryptocurrencies offer benefits like faster transactions and lower costs but also pose risks without proper regulation. The introduction of digital currencies like the digital rupee aims to complement existing financial systems, providing additional payment options while safeguarding financial stability.

▢ Positive and Negative Impacts of Cryptocurrency on the Global Economy:

- **Positive Impacts:**
 - **Decentralisation:** Cryptocurrencies offer financial independence, especially beneficial in developing nations where access to traditional financial services is limited.
 - **Faster and More Affordable Transactions:** Transactions using cryptocurrencies are quick and cost-effective compared to traditional banking systems, enhancing efficiency for businesses and individuals.
 - **Transparency:** Cryptocurrency transactions are recorded on a public ledger, reducing fraud and corruption while increasing trust in financial systems.
 - **Investment Opportunities:** Cryptocurrencies like Bitcoin and Ethereum provide new investment avenues globally, attracting a diverse range of investors due to their potential for significant value appreciation.

▢ Negative Impacts:

- **Volatility:** Cryptocurrencies are highly volatile, experiencing rapid price fluctuations that pose risks for businesses and investors alike, hindering their adoption as stable payment methods.
- **Lack of Regulation:** The decentralized nature of cryptocurrencies means they are not regulated by governments, raising concerns about their potential use in illegal activities such as money laundering and terrorism financing.
- **Environmental Issues:** Cryptocurrency mining, which requires substantial energy consumption, predominantly from fossil fuels, raises environmental concerns due to its carbon footprint.
- **Adoption Challenges:** Despite existing for over a decade, cryptocurrencies face challenges in widespread acceptance by businesses and individuals, limiting their potential impact on the global economy and daily use.

PYQ

Q. What is Cryptocurrency? How does it affect global society? Has it been affecting Indian society also? (2021)

PRACTICE QUESTION

Q. Discuss the regulatory challenges posed by cryptocurrencies in India. How can the adoption of digital currencies under regulatory frameworks enhance financial inclusion and stability?

4. DISINVESTMENT

CONTEXT: Geopolitical tensions have exacerbated global uncertainties, impacting investor sentiments and prompting significant capital outflows from emerging markets like India. Amidst these challenges, the Government of India's disinvestment plans for 2023-2024 faced substantial hurdles.

- ▶ The Finance Ministry has publicly acknowledged the numerous challenges it is facing in its efforts to privatise public sector enterprises (PSEs) and raise funds through minority stake sales.
 - The ministry had reduced the government's disinvestment target for 2023-24 to a nine-year low of ₹51,000 crore.

■ Evolution of Disinvestment in India

- ▶ Disinvestment in India began in 1991-92 with the disinvestment of 31 selected Public Sector Undertakings (PSUs) for Rs. 3,038 crores. The term 'disinvestment' was first introduced in the Interim Budget of 1991.
- ▶ In 1993, the Rangarajan Committee highlighted the necessity for substantial disinvestment. The policy gained momentum with the establishment of a new Department of Disinvestment in 1999, which was elevated to a full ministry in 2001.
- ▶ However, in 2004, the Ministry of Disinvestment was dissolved and merged into the Ministry of Finance as an independent department.
- ▶ In 2016, the Department of Disinvestment was renamed the Department of Investment and Public Asset Management (DIPAM). Today, DIPAM serves as the nodal department for disinvestment.
- ▶ **Objectives of Disinvestment:** The primary objective is to alleviate fiscal burdens and bridge revenue shortfalls. It involves three main approaches:
 - minority disinvestment (retaining majority control)
 - majority disinvestment (handing over control while retaining some stake)
 - complete privatization (100% transfer of ownership)
- ▶ **Department of Investment and Public Asset Management (DIPAM)** oversees these processes.
- ▶ **Reasons for Disinvestment:** Disinvestment proceeds are crucial for financing fiscal deficits, investing in economic growth, funding development programs, and retiring government debt. Moreover, disinvestment promotes private ownership, market competition, efficiency, and reduces monopoly-like enterprises in non-core sectors.
- ▶ **Benefits of Disinvestment:** Improving public finances, financing infrastructure development, stimulating economic growth, and funding social programs. It also enhances market efficiency, reduces governmental interference in non-essential sectors, and boosts market confidence.

- ▶ **Challenges to Disinvestment:** Disinvestment faces criticism for
 - selling profitable enterprises
 - potentially weakening the public sector
 - diverting attention from economic slowdowns
 - creation of private monopolies
 - faulty model for fiscal management

PRACTICE QUESTION

Q. Critically analyze the role of disinvestment in India's economic strategy.

5. THE PROBLEM OF BAD LOANS

CONTEXT: India's public sector banks have faced significant challenges with bad loans and non-performing assets (NPAs) over the past decade. Between FY2015 and FY2023, these banks wrote off loans amounting to Rs 10.42 lakh crore, with recovery efforts yielding only 15.5% of this amount. The use of loan write-offs as a strategy to manage NPAs has been a contentious issue, prompting debates on financial prudence and accountability.

▢ What is a Non-Performing Asset (NPA)?

- ▶ A Non-Performing Asset (NPA) refers to loans or advances that are in default or in arrears on scheduled payments of principal or interest. Typically, a debt is classified as non-performing when loan payments have not been made for a minimum period of 90 days.

▢ Types of Non-Performing Assets:

- ▶ **Gross Non-Performing Assets (GNPA):** This is the total sum of all the loans that have been defaulted by borrowers. It reflects the overall quality of the loans provided by the financial institution.
- ▶ **Net Non-Performing Assets (NNPA):** This is the amount remaining after deducting the provision amount from the gross non-performing assets. It provides a clearer picture of the actual loss the financial institution may face after accounting for provisions made to cover potential losses.
- ▶ **Understanding Bad Loans and NPAs:** Bad loans refer to loans that borrowers fail to service over a specified period, resulting in default. These loans are categorized as NPAs when principal or interest payments are overdue for a specified period.
 - NPAs are further classified into sub-categories such as **sub-standard, doubtful, and loss assets** based on the likelihood of recovery.
- ▶ **Impact and Management of NPAs:** It diminishes profitability, reduces capital adequacy, and restricts fresh credit creation, thereby affecting economic growth.

▢ Corrective Measures:

- ▶ **Reserve Bank of India (RBI)** implemented measures like the **Insolvency and Bankruptcy Code (IBC)** and capital infusions to mitigate NPAs and foster healthy credit practices.
- ▶ **National Asset Reconstruction Company Ltd. (NARCL)** aim to resolve stressed loans, signaling a proactive approach to managing NPAs.
- ▶ **Challenges:** Delays in legal proceedings under the IBC framework and the need for stricter credit risk management practices by banks.

PRACTICE QUESTION

- Q. Discuss the impact of non-performing assets (NPAs) on India's banking sector and economy. Analyze the effectiveness of government measures such as the Insolvency and Bankruptcy Code (IBC) in addressing the issue of NPAs.

6. RBI'S LIQUIDITY MANAGEMENT SYSTEM

CONTEXT: Recent data from the Reserve Bank of India (RBI) indicates a significant decline of 42.9% in surplus liquidity in the banking system due to advance tax payments. This development underscores the dynamics of liquidity management, a critical aspect for financial stability and economic growth.

▢ Surplus Liquidity:

- ▶ Surplus liquidity refers to the **excess cash available** within the banking system, where banks become net lenders to the RBI under the **Liquidity Adjustment Facility (LAF)**. This surplus arises when deposits exceed incremental credit, impacting market interest rates and economic activities.
- ▶ The central bank follows a **"corridor" liquidity management system** – with a ceiling and a floor rate – where the repo rate--the rate at which the **RBI injects liquidity**--is the policy rate which acts as the ceiling for the corridor, while the reverse repo rate works as the floor of the corridor.
- ▶ **Benefits of Surplus Liquidity:** Commercial banks manage surplus liquidity by holding excess funds in central bank accounts or utilizing deposit facilities.
 - Lower market interest rates resulting from surplus liquidity encourage borrowing for investments, thus stimulating economic recovery and supporting liquidity buffers within the banking sector.
- ▶ **Consequences and Management:** While surplus liquidity facilitates cheaper borrowing, maintaining excessively low interest rates over time can pose challenges such as asset price inflation or speculative activities. The RBI utilizes tools like the LAF to absorb or inject liquidity as needed to maintain stability and inflation control.
- ▶ **Challenges and Economic Impact:** The decline in surplus liquidity due to advance tax payments highlights the volatile nature of liquidity conditions. Fluctuations can affect monetary policy effectiveness, influencing credit availability and economic growth. Effective liquidity management is crucial for balancing growth with inflation control.

PRACTICE QUESTION

- Q. "Liquidity management remains a pivotal function of central banks to ensure financial stability and support economic growth". Comment

7. RBI @ 90

CONTEXT: The Reserve Bank of India (RBI) celebrates its 90th anniversary, prompting reflections on its evolution and challenges ahead.

▢ Evolution

- ▶ Established in 1935, the RBI is among the oldest central banks in developing countries, witnessing India's transition from **pre- to post-independence eras** and navigating various economic shifts.

- ▶ Over its existence, the RBI has adeptly **managed transitions** from **planned economies to market-oriented structures** and now towards an **increasingly digital economy**, learning from past experiences and adapting to new challenges.
- ▶ **Tackling Economic Disruptions:** Throughout its history, the RBI has confronted significant economic disruptions, including the global financial crisis, demonetization, and the COVID-19 pandemic, while also addressing issues like the banking sector's **bad loan crisis**.

Recent Achievements and Future Challenges:

- ▶ **Resolution of Bad Loans:** With proactive measures like the **Insolvency and Bankruptcy Code (IBC) framework** and capital infusion, the RBI has successfully tackled the problem of bad loans, reducing the **non-performing asset (NPA) ratio** significantly and fostering healthy credit growth.
- ▶ **Adoption of Inflation Targeting:** The formal adoption of inflation targeting by the RBI has helped in keeping inflation in check and anchoring inflation expectations, despite occasional disruptions due to external factors like the pandemic.
- ▶ **Technological Innovations:** Embracing technological advancements, the RBI has revolutionized the payments ecosystem through initiatives like the **Unified Payments Interface (UPI)**, laying the groundwork for further digital transformation and innovation.

Transition from Planned Economy:

- India followed a **mixed economy approach** after gaining independence in 1947, with elements of both **socialism and capitalism**.
- **Characteristics of Planned economy:**
 - ▶ Five-Year Plans
 - ▶ Strong emphasis on state control over key sectors (heavy industries)
- **Shift towards Market Economy:** Starting from the early 1990s, India embarked on economic reforms aimed at liberalizing the economy.
- **Significant reforms included**
 - ▶ Liberalization of industrial licensing
 - ▶ Reduction of tariffs
 - ▶ Deregulation of markets
 - ▶ Encouragement of foreign direct investment (FDI)

Economic Structure	Description	Examples
Traditional Economy	<ul style="list-style-type: none"> ◦ Based on customs, traditions, and cultural beliefs. ◦ Production methods are primitive ◦ Little specialization or division of labor. 	Remote rural communities, indigenous societies
Market Economy	<ul style="list-style-type: none"> ◦ Driven by private individuals and businesses. ◦ Allocation of resources determined by supply and demand ◦ Minimal government intervention 	United States, United Kingdom, Western European countries

Economic Structure	Description	Examples
Command Economy	<ul style="list-style-type: none"> Combines elements of market and command economies. Private ownership with government intervention to promote welfare and regulate sectors 	Former Soviet Union, China (before reforms), Cuba
Mixed Economy	<ul style="list-style-type: none"> Economic decisions centrally planned by government. Government owns factors of production. Prices set by government 	India, Brazil, Canada, Australia
Emerging Market Economy	<ul style="list-style-type: none"> Rapid industrialization and economic growth. Transitioning from low-income to middle-income status Focus on infrastructure and integration 	BRIC countries (Brazil, Russia, India, China), many in Asia, Africa, Latin America

PRACTICE QUESTION

Q. Discuss India's shift from Planned Economy towards Market Economy.

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4

AGRICULTURE

1. INDIA'S AGRICULTURAL SUBSIDIES

CONTEXT: India's agricultural subsidies have recently come under scrutiny at the World Trade Organization (WTO) due to a substantial increase, particularly in support to low-income and resource-poor farmers. This has sparked debates over fairness in global trade policies, highlighting the challenges faced by developing countries in sustaining their agriculture sectors.

▢ Overview of India's Agricultural Subsidies:

- ▶ In the fiscal year 2022-23, India's subsidies for low-income farmers surged by 50% to \$48.1 billion.
 - These subsidies encompass various critical inputs such as seeds, fertilizers, irrigation, and electricity, which are essential for enhancing agricultural productivity and ensuring food security across the country.
 - Programs like **Pradhan Mantri Krishi Sinchai Yojana (PMKSY)**, **Sub Mission on Agricultural Mechanization (SMAM)** are pivotal in implementing these subsidies effectively.

▢ WTO Scrutiny and Developing Countries' Perspective:

- ▶ Developed countries within the WTO have raised concerns regarding India's increased subsidies, advocating for reductions in India's entitlements under the **WTO's Agreement on Agriculture (AoA)**.
 - This agreement aims to promote fair competition in global agricultural markets by limiting the support provided to domestic farmers.
 - However, developing countries argue that such support is indispensable for their millions of small and marginal farmers who form the backbone of their agricultural economies.
 - **Disparity in Domestic Support:** Developed countries often exceed their entitlements under the Aggregate Measurement of Support (AMS), whereas developing countries face constraints that

limit their policy flexibility. This imbalance perpetuates unequal trade practices and hinders the development of agriculture in poorer nations.

■ Impact on Indian Agriculture and Economy

- ▶ India's agricultural subsidies play a crucial role in alleviating rural poverty, enhancing farmer incomes, and ensuring national food security.
- ▶ The subsidies enable farmers to adopt modern agricultural practices, improve crop yields, and mitigate risks associated with farming.
- ▶ Any reduction in these subsidies could adversely affect the livelihoods of millions of farmers and jeopardize food security efforts.

Subsidy

- A subsidy is defined as financial assistance granted by the state, public bodies, or other entities to lower the prices of commodities and support or develop specific sectors. Subsidies influence the economy by reducing the relative price of the subsidized commodity, which in turn increases its demand.
- **Types of Subsidies**
 - ▶ **Direct Subsidies:** Direct subsidies are provided in the form of cash grants, interest-free loans, and direct benefits.
 - ▶ **Example:** Direct farm subsidies involve direct cash payments to farmers to make their products more competitive in global markets. These subsidies enhance the purchasing power of farmers and significantly improve the living standards of the rural poor.
 - ▶ **Indirect Subsidies:** Indirect subsidies are offered through mechanisms such as tax breaks, insurance, low-interest loans, depreciation write-offs, and rent rebates.
 - ▶ **Example:** Indirect farm subsidies include cheaper credit facilities, farm loan waivers, reduced irrigation and electricity bills, and subsidies on fertilizers, seeds, and pesticides. Additionally, investments in agricultural research, environmental assistance, and farmer training are also considered indirect subsidies.

PYQ

- Q. What are the direct and indirect subsidies provided to farm sector in India? Discuss the issues raised by the World Trade Organization (WTO) in relation to agricultural subsidies. [2023]
- Q. WTO is an important international institution where decisions taken affect countries in a profound manner. What is the mandate of WTO and how binding are their decisions? Critically analyse India's stand on the latest round of talks on Food security. [2014]

PRACTICE QUESTION

- Q. Critically analyze the impact of India's agricultural subsidies on its economy and farmers. Discuss the challenges faced by India at the WTO regarding these subsidies and the implications for global agricultural trade.

2. CLIMATE CHANGE AND IMPACT ON AGRICULTURAL OUTPUT

CONTEXT: India's agricultural sector faces significant challenges due to climate change, impacting crop yields, food security, and farmer livelihoods. Climate change has led to a reduction in long-term Monsoon rains by 10%, accompanied by increased variability. Extreme events such as heatwaves, droughts, and floods have become more frequent and severe, exacerbating agricultural challenges.

❏ Impact of Climate Change on Agriculture:

- Climate change projections indicate substantial reductions in crop yields by 2050 and 2080 if adaptation measures are not adopted.
- These changes threaten food production and nutritional quality, particularly affecting vulnerable farmers.
- Rice and wheat, major staples accounting for 85% of total annual grain production, are highly sensitive to these climate impacts, **affecting food security and rural livelihoods**.
- Further temperature rise is most likely to reduce traditional rainfed as well as irrigated cash crops like **Jowar, Bajra, Pulses, Sugarcane, Onion, Maize**, etc.
- Agriculture remains crucial to India's economy, contributing **18% to GDP** and employing over **40% of the labor force**. Any disruptions in agricultural productivity have far-reaching implications at both macro and micro levels.
- **Crop reduction:**
 - **Rainfed Rice Yields:** Projected to reduce by 20% in 2050 and 47% in 2080 if adaptation measures are not adopted.
 - **Irrigated Rice Yields:** Expected to decrease by 3.5% in 2050 and 5% in 2080.
 - **Wheat Yields:** Predicted to decline by 19.3% in 2050 and 40% in 2080, with significant spatial and temporal variations.
 - **Kharif Maize Yields:** Anticipated to drop by 18% in 2050 and 23% in 2080.
 - Government Initiatives for Climate Resilience
- The National Mission for Sustainable Agriculture (NMSA) and the National Innovations in Climate Resilient Agriculture (NICRA) are pivotal initiatives under the National Action Plan on Climate Change (NAPCC).
- **Challenges and Future Directions:** Despite progress, challenges persist in scaling up climate resilient practices and technologies nationwide. Effective implementation, adoption by farmers, and integration with policy frameworks remain crucial. Long-term sustainability and funding for climate resilient agriculture initiatives also require continuous attention.
- **Role of Technology and Adaptation:** Technological interventions such as climate-resilient crop varieties, efficient water management practices, and weather forecasting tools are critical for mitigating climate risks in agriculture.

PYQ

Q. Discuss the consequences of climate change on the food security in tropical countries. (2023)

PRACTICE QUESTION

Q. Discuss the impact of climate change on Indian agriculture and the government's initiatives to promote climate resilient agriculture. Evaluate the effectiveness of schemes like NICRA in enhancing agricultural productivity and sustainability. What are the challenges and future prospects for climate resilient agriculture in India?

3. PUNJAB AND HARYANA'S ROLE IN NATIONAL FOOD SECURITY

CONTEXT: Punjab and Haryana, historically known as the breadbaskets of India, play a critical role in ensuring the country's food security, particularly through wheat procurement. Recent agricultural dynamics and climate challenges have underscored their significance in the national food supply chain.

❑ Wheat Procurement Dynamics:

- ▶ Until the mid-2000s, Punjab and Haryana together contributed 90% of the wheat for the public distribution system (PDS) and other government programs. However, in the current marketing season, these two states account for 75.5% of the total wheat procured for central foodgrain storage.
 - Traditionally, these states have been pivotal in feeding the Public Distribution System (PDS) and other government welfare programs.
 - Despite a decline in their share in the early 2010s, recent setbacks in other states due to climate shocks have reinforced their importance.

❑ Factors Contributing to Higher Production:

- ▶ Favorable climatic conditions and infrastructure
- ▶ Green Revolution transformed Indian agriculture by introducing modern methods and technologies such as high-yielding variety (HYV) seeds, mechanization, and irrigation facilities.
- ▶ **Climate Impact on Wheat Production:** Climate variability, including **unseasonal temperature surges and erratic rainfall patterns**, poses significant challenges to wheat production in India. Recent instances of **warmer-than-usual winters** and **delayed rains** have adversely affected wheat yields, particularly in central India. These climate shocks highlight the vulnerability of agriculture to changing weather patterns.
- ▶ **Role in National Food Security Programs:** Government schemes like the National Food Security Act (NFSA) heavily rely on wheat procurement from Punjab and Haryana to meet public distribution requirements. Despite shifts in crop acreage to accommodate diversification, these states remain indispensable for ensuring food security due to their consistent high yields and reliable supply.

PRACTICE QUESTION

Q. Discuss the significance of Punjab and Haryana in ensuring India's food security through wheat procurement.

4. INNOVATION IN TRADITIONAL PRACTICES OF AGRICULTURE

CONTEXT: Rajasthan's Shekhawati region, known for its arid climate and erratic rainfall patterns, has witnessed a transformative shift in agricultural practices. Facing challenges such as declining groundwater levels and unpredictable weather conditions, farmers in this region have embraced innovative techniques and technologies to make their lands profitable.

❑ Adopted Techniques and Innovations:

Farmers in Shekhawati have adopted a range of innovative practices to mitigate water scarcity and enhance productivity:

- ▶ **Drip Irrigation with Solar Power:** Utilizing solar panels to power pumps and slim polyethylene hoses for drip irrigation, farmers efficiently manage water resources.
- ▶ **Agroforestry and Rainwater Harvesting:** Techniques like dryland agroforestry, pioneered by farmers like Sundaram Verma, help in conserving water and improving soil health through tree plantation and vermicomposting.
- ▶ **Climate-Controlled Polyhouses:** Implementing climate-controlled greenhouses for vegetable cultivation allows farmers to control environmental factors and optimize crop yields.
- ▶ **Use of Technology:** Integration of sensor data for smart farming, GPS technology for precision agriculture, and drones for monitoring crops have revolutionized agricultural practices, enhancing efficiency and yield.

- **Benefits to Farmers:** Improved agricultural practices have increased farmers income and enabled them to expand their sowing areas for both traditional crops like mustard and millets, as well as high-value vegetables grown in polyhouses.

■ Government Initiatives and Support

- **AgriStack and Digital Agriculture Mission:** to provide digital agriculture services, advisory support, and access to quality inputs using technologies such as AI, blockchain, and remote sensing.
- **Sub-Mission on Agricultural Mechanization (SMAM):** Offering subsidies for agricultural machinery.
- **Digital Platforms:** Platforms like Kisan Call Centres, Kisan Suvidha App, and Agri Market App facilitate access to information, market prices, and advisory services for farmers.

■ Various sustainable farming practices:

Advanced Agricultural Techniques	
Precision Farming	<ul style="list-style-type: none"> ◦ Precision agriculture is an umbrella term for using modern data-driven technologies for growing crops. <ul style="list-style-type: none"> ► Utilizing GPS to precisely place seeds at optimal intervals and depths ► Employing sensors and automated systems to deliver the right amount of water ► Applying fertilizers, pesticides, and herbicides in targeted amounts and locations based on real-time data, minimizing waste and environmental impact.
Hydroponics and Aquaponics	<ul style="list-style-type: none"> ◦ Hydroponics: Growing plants in nutrient-rich water without soil, allowing for precise control of nutrient levels and environmental conditions. ◦ Aquaponics: Combining aquaculture (fish farming) with hydroponics, using nutrient-rich water from fish tanks to fertilize plants, creating a symbiotic relationship between fish and crops.
Greenhouse Farming	<ul style="list-style-type: none"> ◦ Controlled Environment Agriculture: Using greenhouses or other structures to control temperature, humidity, and light, enabling year-round cultivation and protection from external elements. ◦ Vertical Farming: Growing crops in stacked layers or vertically inclined surfaces, maximizing space utilization.
Sustainable Agricultural Practices	
Organic Farming	<ul style="list-style-type: none"> ◦ Crop Rotation: Alternating the types of crops grown in a particular field over time to improve soil fertility and reduce the risk of pests and diseases. ◦ Composting: Using organic materials such as crop residues and manure to create compost, enhancing soil structure and providing nutrients to crops. ◦ Biological Pest Control: Introducing natural predators or using pest-resistant crop varieties to control pests without relying on synthetic chemicals.
Conservation Agriculture	<ul style="list-style-type: none"> ◦ No-Till Farming: Avoiding traditional plowing to minimize soil disturbance, reduce erosion, and enhance water retention in the soil. ◦ Cover Cropping: Planting cover crops during off-seasons to protect the soil, prevent erosion, and improve nutrient levels. ◦ Contour Ploughing: Ploughing along the contour lines of the land to reduce water runoff and soil erosion on sloping terrain.

Agroforestry	<ul style="list-style-type: none"> ◦ Integrating Trees with Crops: Planting trees alongside crops to provide shade, windbreaks, and additional income sources through timber or fruit production. ◦ Alley Cropping: Alternating rows of trees with rows of crops, optimizing land use and promoting biodiversity.
Integrated Approaches	
Integrated Pest Management (IPM)	<ul style="list-style-type: none"> ◦ Biological Control: Introducing or encouraging natural predators, parasites, or pathogens to control pest populations. ◦ Crop Rotation: Disrupting pest life cycles by changing the type of crops grown in a specific area.
Agroecology	<ul style="list-style-type: none"> ◦ Diversification: Promoting biodiversity within agricultural systems to enhance resilience and sustainability. ◦ Polyculture: Growing multiple crops in the same area simultaneously, mimicking natural ecosystems and reducing the risk of crop failure.
Technological Innovations	
Remote Sensing and Data Analytics	<ul style="list-style-type: none"> ◦ Satellite Imagery: Using satellite data to monitor crop health, detect diseases, and assess overall farm conditions. ◦ Data-Driven Decision Making: Analyzing large datasets to make informed decisions regarding planting, irrigation, and resource allocation.

PRACTICE QUESTION

Q. Discuss the role of agricultural innovations and technological interventions in enhancing agricultural productivity and sustainability.

5. AGRICULTURE'S LABOUR DEPENDENCY

CONTEXT: India's persistent reliance on agriculture as a significant employer reflects a broader challenge in transitioning its workforce to non-agricultural sectors. This issue has been underscored by recent findings indicating that India lags behind its South Asian neighbors in shifting its working-age population away from farm-related work.

- **Key Findings** According to the World Bank's April South Asia Development Update report covering the period from 2000 to 2023:
 - India has shown a slower rate of transitioning its workforce away from agriculture compared to Bangladesh, Bhutan, Sri Lanka, and Nepal.
 - The share of working-age Indians employed in agriculture decreased from 63.9% in 2000 to 53.8% in 2019, indicating a gradual but insufficient shift.
 - Men's employment in agriculture declined by 9.6 percentage points, while women's increased marginally by 1.4 percentage points, driven partly by economic distress.

Concerns and Implications

- **Economic Growth Challenges:** The slower transition from agriculture poses challenges for sustainable economic growth and inclusive development. Dependency on low-productivity agricultural jobs limits overall productivity gains and economic diversification.

- ▶ **Employment Quality:** Workers transitioning out of agriculture often move to low-paying and informal sectors such as petty retailing, domestic help, and sanitation. This shift contributes to income disparities and perpetuates the cycle of poverty.
- ▶ **Gender Disparities:** While women's participation in non-agricultural sectors has slightly increased, gender disparities persist in terms of job quality, earnings, and access to opportunities. Targeted interventions are needed to empower women economically.
- ▶ **Required Measures:** Investment in Infrastructure and Human Capital; Reforms in labor laws, social security frameworks, and direct benefit transfers; Initiatives (Startup India)
- ▶ **Government Initiatives:** Skill India Mission, Rural Employment Scheme (MGNREGA), Pradhan Mantri Gram Sadak Yojana (PMGSY)

PYQ

- Q. "Economic growth in the recent past has been led by increase in labour productivity." Explain this statement. Suggest the growth pattern that will lead to creation of more jobs without compromising labour productivity. (UPSC 2022)
- Q. Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis industry in the country? Can India become a developed country without a strong industrial base? (UPSC 2014)

PRACTICE QUESTION

- Q. India's slower transition of its workforce from agriculture to non-agricultural sectors poses significant challenges for sustainable economic growth and inclusive development. Discuss the reasons for this phenomenon, its implications, and suggest measures to accelerate this transition.

6. GREEN REVOLUTION

CONTEXT: Mankombu Sambasivan Swaminathan (M.S. Swaminathan), passed away recently at the age of 98, leaving behind a legacy deeply intertwined with India's agricultural transformation, particularly through the Green Revolution.

▢ Role in the Green Revolution:

- ▶ In the 1960s, India faced the looming threat of famine due to stagnant agricultural productivity. M.S. Swaminathan, in collaboration with other scientists like **Norman Borlaug**, played a pivotal role in conceptualizing and implementing the Green Revolution.
- ▶ This revolutionized agriculture by introducing **high-yielding varieties (HYVs)** of crops such as wheat and rice.
- ▶ These varieties were disease-resistant and significantly increased crop yields, transforming states like **Punjab and Haryana into the country's breadbaskets**.

▢ Key Contributions and Innovations

- ▶ **Development of HYVs:** M.S. Swaminathan's research focused on developing HYVs of wheat and rice tailored to Indian conditions. Notable examples include the introduction of **IR8 rice**, known as the "miracle rice," and the promotion of wheat varieties like *Kalyan Sona* and *Sonalika*. These varieties were crucial in boosting agricultural productivity and ensuring food self-sufficiency.
- ▶ **Advocacy for Sustainable Agriculture:** Beyond immediate productivity gains, Swaminathan advocated for sustainable agricultural practices under what he termed the "evergreen revolution."
- ▶ **Policy Influence:** Swaminathan's collaborations with policymakers were instrumental in formulating policies that supported agricultural research, extension services, and the dissemination of new farming technologies across India.

❏ Impacts of the Green Revolution

- ▶ **Increased Food Production:** With new high-yielding crop varieties like dwarf wheat and rice, India's grain output surged to 131 million tonnes, making it one of the world's largest agricultural producers in 1978–1979.
- ▶ **Reduced Food-Grain Imports:** India shifted from being a food grain importer to a net exporter of wheat, rice, and other grains. In 2020-21, India exported 18.5 million tonnes of rice, the highest ever in a year, and 2.1 million tonnes of wheat, the highest in six years.
- ▶ **Poverty Alleviation:** The rural poverty ratio in India fell from 50.1% in 1993-94 to 25.7% in 2011-12, partly due to the Green Revolution. It led to investments in rural infrastructure (roads, electrification, irrigation, and communication networks).
- ▶ **Technological Advancements:** The Green Revolution introduced improved seeds, fertilizers, pesticides, and mechanized tools like tractors and harvesters, which continue to enhance agricultural efficiency and sustainability. This also increased genetic crop diversity, making them more resilient to pests and climate change.
- ▶ **Reduction in Land Conversion:** By significantly increasing crop yields, the need to convert forests and natural habitats into farmland was reduced, helping to preserve biodiversity and reduce deforestation.

❏ Legacy and Criticisms:

- ▶ While the Green Revolution successfully averted famines and elevated India to food sufficiency, it has been criticized for exacerbating disparities, benefiting wealthier farmers in regions with better irrigation and infrastructure. Critics argue that small and marginal farmers, particularly in rainfed areas, did not reap equal benefits from the technological advancements introduced during this period.

PRACTICE QUESTION

Q. Discuss the role of M.S. Swaminathan in India's Green Revolution. Evaluate the impact of the Green Revolution on agricultural productivity, food security, and socio-economic disparities in India.

7. MSP & REQUIRED REVISION

CONTEXT: The Minimum Support Price (MSP) mechanism in India has once again become a focal point amidst ongoing farmer protests, highlighting its critical role in ensuring income security and market stability for farmers. The debate over legal guarantees for MSP has brought forth complex economic, social, and political dimensions that warrant careful consideration.

- ❏ **About MSP:** MSP is the minimum price set by the government at which it procures agricultural produce from farmers, particularly when market prices fall below this level. It acts as a **safety net**, shielding farmers from price volatility and ensuring a minimum income for their efforts.

❏ Significance of MSP

- ▶ **Income Security:** MSP guarantees farmers a minimum income, encouraging investment in agriculture without fear of losses.
- ▶ **Market Stability:** By setting a floor price, MSP prevents drastic price fluctuations, benefiting both farmers and consumers.
- ▶ **Food Security:** MSP incentivizes farmers to grow essential crops, ensuring adequate food production and supply.

❏ Issues and challenges pertaining to MSP

- **Market Distortions:** MSP influences farmers' crop choices and can lead to overproduction of certain crops, affecting market dynamics and agricultural sustainability.
- **Government Expenditure:** Significant expenditure, exceeding **Rs 1.7 trillion for paddy and wheat** alone in recent years, raises concerns about fiscal sustainability and market distortions. Farmers demand legal guarantees for MSP to ensure procurement at fair prices and prevent distress sales during market downturns.
- **WTO Dispute:** India's MSP system has faced criticism at the WTO for potential market distortion. Despite this, it remains integral to addressing farmer welfare, especially in light of farmer suicides and agricultural crises exacerbated by climate change.

FACT BOX

About CACP

- **Established in:** 1965
- Commission for Agricultural Costs & Prices (CACP) is an attached office of the **Ministry of Agriculture and Farmers Welfare, Government of India**
- CACP recommends MSPs of 23 commodities, which comprise
 - **7 cereals** (paddy, wheat, maize, sorghum, pearl millet, barley and ragi)
 - **5 pulses** (gram, tur, moong, urad, lentil)
 - **7 oilseeds** (groundnut, rapeseed-mustard, soyabean, seasmum, sunflower, safflower, nigerseed)
 - **4 commercial crops** (copra, sugarcane, cotton and raw jute)
- **Types of Crops:** India's agriculture is broadly divided into two seasons: Kharif and Rabi.
 - **Kharif Crops:** These are sown in the monsoon season (June to September) and harvested in autumn. Examples include paddy, ragi, bajra, jowar, maize, and cotton.
 - **Rabi Crops:** These are sown in winter (October to March) and harvested in spring. Examples include wheat, barley, gram, and mustard.

PYQ

- Q. What do you mean by Minimum Support Price (MSP)? How will MSP rescue the farmers from the low-income trap? (2018)

PRACTICE QUESTION

- Q. Discuss the significance of Minimum Support Price (MSP) in ensuring income security and market stability for farmers in India. What are the challenges associated with legalizing MSP, and how can these challenges be addressed to strengthen agricultural policies?

8. INDIA'S SUGAR PRODUCTION AND IMPACT ON GROUNDWATER

CONTEXT: India, the world's largest producer and consumer of sugar, faces challenges linked to excessive sugarcane cultivation, including groundwater depletion.

❏ Current Situation in India's Sugar Industry

- In 2021-2022, India became the world's largest sugar producer, reaching a record production of 359 lakh tonnes. However, this achievement comes with concerns about sustainability.

- ▶ The resources required for such high production levels are depleting rapidly, posing a significant risk to India's sugar market in the coming decades.
- ▶ **Reasons for Excess Sugar Production in India:** India is the world's largest consumer of sugar, leading to high domestic demand.

▢ Government Policies and Measures:

- ▶ **Fair and Remunerative Price (FRP):** The central government sets a minimum price for sugarcane, ensuring farmers receive fair compensation.
- ▶ **Mandatory Minimum Price:** Sugar mills are required to pay farmers a minimum price for sugarcane procurement.
- ▶ **Subsidies and Incentives:** State governments provide heavy subsidies and incentives to support sugarcane cultivation.
- ▶ **Impact on Exports:** The surplus sugar production has resulted in increased exports, reaching a record 110 lakh tonnes in 2021-2022.
- ▶ **International Trade Disputes:** Brazil, Australia, and Guatemala filed a complaint against India at the World Trade Organisation (WTO), alleging excessive export subsidies and domestic support to farmers. The WTO ruled against India, and India lost its appeal, highlighting international concerns over fair trade practices in the global sugar market.

▢ Drivers of Excessive Sugarcane Cultivation

- ▶ **High Domestic Demand:** India's status as a top producer and consumer of sugar necessitates high levels of sugarcane production to meet domestic needs.
- ▶ **Government Subsidies:** The Fair and Remunerative Price (FRP) scheme ensures minimum prices for sugarcane, coupled with state subsidies that incentivize farmers to cultivate sugarcane extensively.
- ▶ **Export Competitiveness:** Subsidies have fueled surplus production, leading to increased exports and global competitiveness. However, this has also attracted criticism and trade disputes under WTO rules.

▢ Impact on Groundwater Depletion

- ▶ **Resource-Intensive Crop:** Sugarcane is highly water-intensive, requiring significant irrigation. On average, it consumes about 2 lakh liters of water per ton of sugarcane produced.
- ▶ **Regional Concentration:** Maharashtra, Uttar Pradesh, and Karnataka, major sugarcane-growing states, face groundwater stress and drought conditions. They rely heavily on groundwater for irrigation due to inadequate rainfall.
- ▶ **Aquifer Depletion:** Over-extraction has led to the depletion of groundwater aquifers, exacerbating water scarcity and impacting the environment irreversibly.

▢ Environmental Consequences of Groundwater Depletion

- ▶ **Land Subsidence:** Excessive extraction causes land above aquifers to sink, resulting in infrastructure damage and increased flood vulnerability in coastal regions.
- ▶ **Water Quality Issues:** Declining water tables increase the concentration of contaminants like fluoride and arsenic, posing health risks to populations dependent on groundwater.
- ▶ **Agricultural Impacts:** Reduced water availability threatens crop yields, agricultural productivity, and food security, affecting rural livelihoods and economic stability.
- ▶ **Measures for Sustainable Groundwater Management:** Implementing pricing mechanisms to discourage over-exploitation; Rainwater Harvesting; Pollution Control, Sustainable Agricultural Practices (sprinkler irrigation, crop diversification, and efficient water management under schemes like PM Krishi Sinchayi Yojana)

PRACTICE QUESTION

- Q. Excessive sugarcane cultivation in India has exacerbated groundwater depletion, posing significant environmental and socio-economic challenges. Discuss the causes and consequences of groundwater depletion due to sugarcane cultivation. What measures should India adopt to ensure sustainable groundwater management in the context of agricultural practices?

9. PRIMARY AGRICULTURAL SOCIETIES

CONTEXT: The Union Government has set a target to establish Primary Agricultural Credit Societies (PACS) in every village by 2027. PACS, integral to the cooperative credit structure, aim to enhance agricultural financing and rural economic empowerment.

- ▣ **Overview of PACS:** PACS are grassroots level cooperative credit societies that facilitate agricultural credit delivery directly to farmers.
 - They operate under the supervision of District Central Cooperative Banks (DCCBs), which in turn are linked with State Cooperative Banks (SCBs).
 - Currently, India has approximately 65,000 active PACS out of 95,000, with plans to expand their coverage to every Panchayat.
- ▣ **Significance of PACS:**
 - **Financial Inclusion:** PACS ensure farmers, especially small and marginal ones, access affordable credit for agricultural inputs like seeds, fertilizers, and pesticides. The interest subsidy scheme reduces the cost of credit significantly, making crop loans accessible at 2% interest.
 - **Empowerment through Cooperatives:** PACS operate on a cooperative model where farmers are members and elect office-bearers internally. This fosters community participation and democratic decision-making in rural financial management.
 - **Role in Rural Development:** Beyond credit, PACS facilitate the supply of agricultural machinery, inputs, and marketing of farm produce. They play a crucial role in alleviating poverty, empowering women through dairy and farming activities, and enhancing overall agricultural productivity.
 - **Digital Transformation:** While strides have been made in computerizing PACS operations, uniform adoption of Core Banking Software (CBS) remains a challenge. States like Maharashtra have initiated digital integration efforts, which need scaling up for nationwide impact.
 - **Challenges:** Despite their critical role, PACS face challenges such as inadequate digital infrastructure and financial weaknesses in some DCCBs. Strengthening PACS involves enhancing their digital connectivity, improving governance and transparency, and expanding their role in allied sectors like animal husbandry.
- ▣ **Way Forward for Primary Agricultural Credit Societies (PACS)**
 - **Policy Push and Integration:** Position PACS within the vision of Atmanirbhar Bharat and Vocal for Local initiatives of the Government of India. Recognize their potential as foundational elements of a self-reliant village economy.
 - **Enhanced Role and Functionality:** Strengthen the role of PACS in the rural financial sector, emphasizing their historical significance and potential for greater impact in the future.
 - **Improving Efficiency and Sustainability:** Implement measures to enhance the efficiency and financial sustainability of PACS. This includes improving operational processes, financial management practices, and technological integration.
 - **Accessibility to Farmers:** Ensure PACS are easily accessible to farmers across rural areas. This may involve expanding their reach, improving outreach programs, and leveraging digital platforms for broader coverage.
 - **Regulatory Strengthening:** Enhance the regulatory framework governing PACS to ensure effective governance and oversight. This will help in maintaining transparency, accountability, and alignment with farmer-centric objectives.

PRACTICE QUESTION

- Q. Discuss the role of Primary Agricultural Credit Societies (PACS) in promoting rural financial inclusion and agricultural development in India. What measures are needed to enhance their effectiveness and reach?

10. E-TECHNOLOGY IN AGRICULTURE

CONTEXT: Digital technologies are increasingly transforming Indian agriculture, enhancing productivity, sustainability, and farmer incomes. The government's initiatives and adoption of advanced technologies are pivotal in this paradigm shift.

▣ Importance of Agricultural Technology:

- Agriculture in India is crucial for food security, nutrition, and poverty alleviation, with small and marginal farmers playing a significant role. Technology adoption is essential for sustainable agricultural growth by increasing productivity while minimizing resource use.

▣ Role of Digital Innovations:

- **Agricultural Sensors:** These sensors monitor moisture and nutrient levels, enabling precise irrigation and fertilization schedules. This reduces water and fertilizer use, curbing environmental impact.
- **Weather Tracking:** Drones, sensors, and satellites provide real-time weather data, aiding farmers in proactive crop management against adverse weather conditions like frost and hail.
- **Satellite Imaging:** Allows for remote crop monitoring and yield prediction, optimizing farm management decisions without physical presence.
- **Automation:** Robotics and autonomous vehicles improve efficiency in planting, harvesting, and pest management, ensuring accurate and timely agricultural operations.

▣ Emerging Technologies:

- **Minichromosomal Technology:** Enables genetic enhancement of plants without altering original chromosomes, enhancing crop resilience and productivity.
- **RFID Technology:** Tracks agricultural yields from farm to market, improving traceability and quality assurance.
- **Blockchain:** Facilitates transparent and secure record-keeping of agricultural transactions, ensuring trust and authenticity across the supply chain.
- **Internet of Things (IoT):** IoT-based smart farming integrates sensor data for real-time monitoring of crop health, soil conditions, and automated irrigation.
- **Government Initiatives:** AgriStack, e-Choupal, Digital Agriculture Mission, Sub-Mission on Agricultural Mechanization (SMAM), Kisan Call Centres, Kisan Suvidha App, National Agriculture Market (NAM), Agri Market App, and Soil Health Card (SHC) Portal promote farmer-centric digital solutions.
- **Challenges:** Digital literacy among farmers, infrastructure gaps, and cost barriers need addressing.

PRACTICE QUESTION

- Q. Discuss the transformative role of digital technologies in enhancing agricultural productivity and sustainability in India. What are the challenges hindering their widespread adoption, and how can they be overcome?

11. BALANCED FERTILISATION

CONTEXT: An increasingly important policy goal for the government is balanced fertilization, which tries to discourage farmers from using excessive amounts of urea, di-ammonium phosphate (DAP), and muriate of potash (MOP). Optimizing nutrient usage in agriculture is still an issue, despite initiatives like neem coating and nutrient-based subsidy (NBS) schemes.

▢ Implications of uneven fertilization

- **Soil health:** Improper or excessive fertilizer application can upset the soil's natural nutrient balance, resulting in nutrient imbalances and poor soil quality.
- **Water contamination:** Because inorganic fertilizers are soluble, there is a greater chance that they will seep into groundwater. Nitrates, a type of nitrogen, are especially dangerous since they can contaminate supplies of drinking water.
- **Greenhouse Gases:** Nitrous oxide (N₂O) emissions can be caused by inorganic fertilizers, especially those that contain urea or ammonium.

▢ Challenges in controlling excessive usage

- **Constant growth:** Urea consumption surged to a record 35.8 million tonnes (mt) in the fiscal year ending in March 2024, representing a 16.9% increase from 2013–14 levels. The use of urea is increasing despite interventions like neem coating, raising questions about sustainability.
- **Issues with Nutrient-Based Subsidies:** The 2010 implementation of the NBS system linked subsidies to nutrient content in an effort to promote balanced fertilization. Despite being successful at first, the removal of urea from NBS reduced its efficacy, which over time caused urea consumption to rise again.
- **Issues with Fertilizer Pricing:** In recent times, price limitations on fertilizers other than urea have been imposed, which has made nutrient imbalances in the agriculture sector worse. Price differences, especially for DAP and MOP, have encouraged overapplication, which has a negative impact on crop productivity and health.

FACT BOX

Fertilizer consumption in India

- India is among the world's largest buyers of fertiliser, besides China, Brazil, and the US.
- India imports four types of fertilisers:
 - Urea
 - Diammonium phosphate (DAP)
 - Muriate of potash (MOP)
 - Nitrogen-phosphorous-potassium (NPK)
 - **State-sponsored Projects**
- The **National Mission on Soil Health Card** aims to encourage the balanced and prudent application of fertilizers based on soil tests.
- **Mission Organic Value Chain Development for North East Region (MOVCD-NER)** and **Parampragat Krishi Vikas Yojana (PKVY)** both aim to encourage organic farming.

- For training, Krishi Vigyan Kendras (KVKs)

All-India Consumption of Fertiliser Products (in lakh tonnes)					
	Urea	DAP	MOP*	NPKS	SSP
2003-04	197.67	56.25	18.41	47.57	25.44
2009-10	266.73	104.92	46.34	80.25	26.51
2011-12	295.65	101.91	30.29	103.95	47.46
2013-14	306.00	73.57	22.80	72.64	38.79
2014-15	306.10	76.26	28.53	82.78	39.89
2015-16	306.35	91.07	24.67	88.21	42.53
2016-17	296.14	89.64	28.63	84.14	37.57
2017-18	298.94	92.94	31.58	85.96	34.39
2018-19	314.18	92.11	29.57	90.28	35.79
2019-20	336.95	101.00	27.87	98.57	44.03
2020-21	350.43	119.11	34.25	118.11	44.89
2021-22	341.80	92.72	24.56	114.79	56.81
2022-23	357.25	104.18	16.32	100.74	50.17
2023-24	357.80	108.12	16.45	110.73	45.44

PRACTICE QUESTION

Q. Discuss the challenges associated with excessive fertilization in Indian agriculture

5

INVESTMENT

1. DECLINE IN FOREIGN INVESTMENT

CONTEXT: India has witnessed a notable decline in Foreign Direct Investment (FDI) inflows, reflecting broader global economic uncertainties and specific domestic challenges. Understanding these dynamics is crucial for assessing its impact on economic growth and development strategies.

- ❑ **Slowdown in FDI Flows:** India experienced a 22% drop in FDI equity inflows in 2022-23, amounting to USD 46 billion, amidst a global trend where FDI to developing countries decreased by 9%. This decline underscores the impact of economic uncertainties and higher interest rates globally.
- ❑ **Global Risks and Market Conditions:** Global FDI flows rose marginally by 3% in 2023, buoyed by stabilizing inflation and borrowing costs in major markets. However, significant risks such as geopolitical tensions and high debt levels across countries continue to pose challenges for sustained FDI inflows globally.
- ❑ **Importance of FDI for Indian Economy:** FDI plays a pivotal role in fostering long-term economic growth in India through:
 - **Technology Transfer:** Multinational corporations (MNCs) bring advanced technologies that enhance productivity and competitiveness of domestic industries.
 - **Employment and Income Generation:** Increased investments lead to job creation, higher per capita income, and improved consumption levels.
 - **GDP Growth:** FDI contributes to GDP growth directly through investments and indirectly by boosting exports and improving the balance of payments.
 - **Major sectors attracting FDI:** Services, pharmaceuticals, construction (infrastructure), and non-conventional energy.

- ▶ **Key sources of FDI:** Netherlands, Singapore, Japan, USA, and Mauritius
- ▶ **Policy Framework and Routes for FDI:** India's FDI policy offers two routes:
 - Automatic routes (No need of Reserve Bank or Government approval)
 - government approval routes

Category	Foreign Direct Investment (FDI)	Foreign Portfolio Investment (FPI)
Definition	Investment into the economy of a country by individuals or entities from another country, typically involving a long-term relationship and significant control.	Investment by foreign individuals or entities in financial assets such as stocks, bonds, and other securities, without acquiring significant control.
Regulatory Authority	Ministry of Commerce and Industry, Government of India	SEBI (Securities and Exchange Board of India)
Purpose	Typically aimed at establishing business operations or acquiring substantial ownership in an Indian entity.	Primarily aimed at investing in financial markets for short to medium-term gains.
Impact on Economy	Contributes to economic growth, job creation, technology transfer, and infrastructure development.	Can influence stock market liquidity, foreign exchange reserves, and market sentiment.

PYQ

- Q. Justify the need for FDI for the development of the Indian economy. Why is there a gap between MOUs signed and actual FDIs? Suggest remedial steps to be taken for increasing actual FDIs in India. (2016)

PRACTICE QUESTION

- Q. Discuss the implications of declining FDI inflows in India amidst global economic uncertainties. What measures should India undertake to revive and sustain FDI for fostering economic growth?

2. INDIA'S STOCK MARKET & INFLUENCING FACTORS

CONTEXT: The 2024 Lok Sabha election results triggered a significant downturn in the Indian stock market, underscoring its sensitivity to both domestic and global factors.

Impact of Global Indices:

- ▶ **GIFT Nifty:** The transition to GIFT Nifty from SGX Nifty enhances derivatives trading regulation and integrates real-time price reactions with NSE Nifty, potentially boosting trading activity and market benchmarking capabilities.
- ▶ **Indian VIX:** Known as the Fear Index, Indian VIX measures market uncertainty, influencing investor sentiment and trading strategies in response to perceived risk levels.
- ▶ **NASDAQ and FTSE 100:** Changes in NASDAQ and FTSE 100 indices influence global investor confidence and indirectly affect Indian equities, especially in sectors aligned with tech and growth opportunities amid global economic shifts.

- ▶ **Brent Crude Oil:** Fluctuations in Brent Crude prices impact Indian markets, affecting investor confidence and company profitability, particularly in energy-dependent sectors.

▢ Working of Indian Stock Market:

- ▶ **Market Participants:** Comprising publicly listed companies, investors, stock exchanges (NSE, BSE), and regulated by SEBI, the Indian stock market facilitates capital raising, ownership trading, and regulatory oversight.
- ▶ **Mechanics:** From IPOs to daily trading, price determination based on supply-demand dynamics dictates stock valuations, while market indices like Nifty 50 and Sensex gauge overall market performance.

▢ Market Dynamics and Risks:

- ▶ **Volatility:** Market volatility, influenced by global economic trends, geopolitical events, and domestic policy changes, affects investor behavior and stock price fluctuations.
- ▶ **Investment Climate:** Factors such as interest rates, inflation, and regulatory reforms shape investor confidence and market stability, impacting long-term investment strategies.

Law	Description
Securities and Exchange Board of India Act, 1992 (SEBI Act)	Empowers SEBI to protect investor interests, develop the capital market, and regulate it. Establishes SEBI's functions, powers, structure, and management.
Securities Contracts (Regulation) Act, 1956 (SCRA)	Regulates securities contracts in India, covering listing, trading, registration of stockbrokers, sub-brokers, and prohibiting insider trading.
Companies Act, 2013	Governs incorporation, management, governance of companies in India. Specifies rules for issue, transfer of securities by companies.
Depositories Act, 1996	Regulates depositories in India, governing dematerialization, transfer of securities held in electronic form.
Insider Trading Regulations, 2015	Prohibits insider trading in securities listed on Indian exchanges. Prescribes codes of conduct for insiders, disclosure procedures, and penalties for violations.

MAINS QUESTION

- Q. Discuss the interplay of global indices and commodities on the Indian stock market. How can regulatory reforms and strategic sectoral focus mitigate risks and enhance market stability in India?

3. CLEAN ENERGY INVESTMENT

CONTEXT: India is witnessing an emerging market for clean-energy assets, driven by increased interest from businesses and investors in renewable power projects. However, challenges such as oversupply, valuation issues, and the need for a robust carbon market to support clean energy transitions are critical for achieving climate goals.

❑ Current Scenario in the Clean Energy Market:

- **Buyers' Market for Clean Energy:** An oversupply of clean energy assets, such as those from Siemens Energy, Shell, and Renew, is resulting in weaker valuations. Investor interest in greenfield projects indicates a capacity addition of 69GW in 2023-24, surpassing the annual 50GW target for 2030 goals.
- **Financial Risks:** The oversupply and lack of secondary demand for renewable assets pose financial risks, potentially leading to unsustainable investments without significant market interest.

❑ Challenges in the Power Sector:

- **Mismatch Between Capacity and Demand:** Despite a total installed capacity of 418GW, with a significant portion from thermal and renewable sources, India faces power shortages during peak demand due to over-reliance on coal and inefficiencies in integrating renewable energy.
- **Infrastructure and Policy Issues:** The existing power infrastructure, compounded by state-run distributors' inability to charge profitable rates, hinders effective power supply. Political factors and inadequate pricing signals further exacerbate the issue.

❑ Solutions and Policy Implications:

- **Need for a Carbon Market:** To bridge the cost gap between renewable and carbon-heavy power plants, establishing a carbon market is essential. Carbon pricing can incentivize private investments in clean energy, promoting a shift away from emissions.
- **Role of Government:** The government must play a significant role in funding and directly investing in clean energy projects. Enhanced subsidies and state mandates are necessary to attract private investment and support the transition to a sustainable energy infrastructure.

MAINS QUESTIONS:

- Q. Discuss the challenges and opportunities in integrating renewable energy sources into India's existing power grid. How can a carbon market support this transition?

6

EXTERNAL ECONOMY

1. DE-DOLLARISATION AND GLOBAL ECONOMIC DYNAMICS

CONTEXT: The dominance of the United States dollar (USD) in international trade and finance has been a cornerstone of global economic stability since World War II. Despite various challenges and predictions of decline, the USD continues to hold sway as the primary reserve currency.

▣ Factors Contributing to USD Dominance:

- **Economic Strength:** The size and stability of the U.S. economy, coupled with deep and liquid financial markets, reinforce trust in the USD globally.
- **Global Acceptance:** The USD is widely accepted in international trade and finance, facilitating ease of transactions and reducing currency risk for businesses and countries.
- **Financial Infrastructure:** Institutions like SWIFT ensure the USD's role as a dominant medium for cross-border payments, enhancing its utility and reliability.
- **Historical Precedence:** Long-standing use and familiarity with the USD have entrenched its position as a preferred store of value and medium of exchange globally.

▣ Challenges to USD Hegemony:

- **Geopolitical Shifts:** Countries like **Russia and China** are actively promoting alternatives to the USD in bilateral and multilateral trade, aiming to reduce dependency.
- **Technological Innovations:** Blockchain and digital currencies offer new avenues for cross-border transactions, potentially circumventing traditional USD-dominated channels.

▢ Implications of De-dollarisation:

- ▶ **Economic Diversification:** Countries may achieve greater economic autonomy and reduce vulnerability to external shocks by conducting more trade in local currencies.
- ▶ **Increased Transaction Costs:** Transitioning away from the USD could initially lead to higher transaction costs and operational challenges for businesses and financial institutions.
- ▶ **Global Economic Balancing:** A multipolar currency system could emerge, offering more equitable distribution of economic power and reducing dominance by any single currency.
- ▶ **India's De-dollarisation Strategy:** India, as a prominent example, is exploring de-dollarisation through increased **use of the Indian Rupee in international trade.**

Global effort

- **BRICS's New Development Bank** promotes trade and investment in national currencies by disbursing up to 50% of its loans in local currencies since 2015.
- **Asian central banks** have established over USD 400 billion in local currency swap lines, facilitating trade among themselves.
- Russian banks have adopted **China's Cross-Border Interbank Payment System** for global transactions, supplementing their exclusion from the SWIFT system.
- **India's Reserve Bank of India (RBI)** launched a rupee settlement system for international trade in July 2022, allowing special vostro accounts in designated Indian banks to facilitate the internationalisation of the rupee.
- **Bilateral currency swaps among ASEAN countries**, China, Japan, and South Korea exceed USD 380 billion, supporting regional financial stability.
- **China's Renminbi**, developed in 2015, facilitates clearing and settlement services for cross-border yuan payments and trade transactions.

PRACTICE QUESTION

- Q. Discuss the factors contributing to the continued dominance of the U.S. dollar as the global reserve currency. How do initiatives towards de-dollarisation by emerging economies like India impact global economic dynamics?

2. GLOBAL DEBT CRISIS

CONTEXT: The world is grappling with a monumental debt crisis, exacerbated by the COVID-19 pandemic, which threatens progress towards achieving the Sustainable Development Goals (SDGs) by 2030.

- ▶ As of 2024, global debt has surged to **USD 315 trillion**, three times the **global GDP**, posing significant challenges to economic stability and development.

▢ Magnitude and Types of Debt:

- ▶ Global debt is categorized into **household, business, and public sectors**, with figures reaching unprecedented levels akin to historical peaks such as those seen during major conflicts. Household debt stands at **USD 59.1 trillion**, business debt at **USD 164.5 trillion**, and public debt at **USD 91.4 trillion**. This immense burden translates to approximately USD 39,000 per person globally.

▢ Impacts on Development:

- ▶ **Budget Constraints:** High debt servicing costs, particularly interest payments, consume substantial portions of national revenues, **diverting funds** away from crucial sectors like **health, education, and infrastructure.**

- ▶ **Risk of Default:** Many countries, especially in **Africa and other developing regions**, face the risk of default. This could lead to **severe budget cuts** in essential development programs.
- ▶ **SDGs Impediment:** The escalating debt crisis severely hampers efforts to achieve the SDGs by diverting resources that could otherwise be allocated to sustainable development initiatives. Developing countries, which shoulder a disproportionate burden of debt growth, are particularly vulnerable.

▢ **Recommended Strategies:**

- ▶ **Reforming Financial Governance:** Enhancing the representation of developing countries in global financial institutions is crucial to ensure their interests are better safeguarded and policies are more equitable.
- ▶ **Debt Management Mechanisms:** Implementing effective mechanisms to manage debt costs and prevent countries from spiraling into unsustainable debt is imperative. This includes renegotiating terms, debt restructuring, and promoting transparency in lending practices.
- ▶ **Enhancing Liquidity:** Providing adequate contingency finance to bolster financial stability during crises can mitigate the need for excessive borrowing and reduce vulnerability to economic shocks.
- ▶ **Expanding Financing Options:** Mobilizing resources from multilateral development banks and private sectors to provide affordable, long-term financing options is essential for sustainable development financing.

PRACTICE QUESTION

- Q. Discuss the impacts of the global debt crisis on sustainable development efforts, particularly in developing countries. What measures should be undertaken at the international level to mitigate these challenges and promote financial stability while advancing the Sustainable Development Goals (SDGs)?

3. GOVERNMENT EXPENDITURE VS RECEIPTS

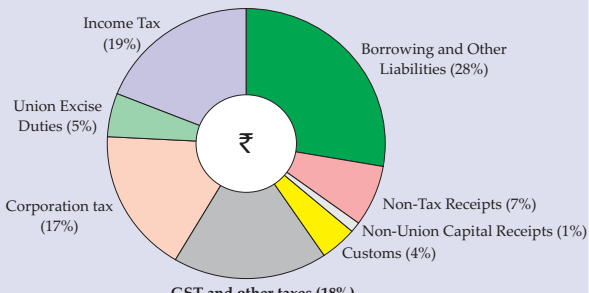
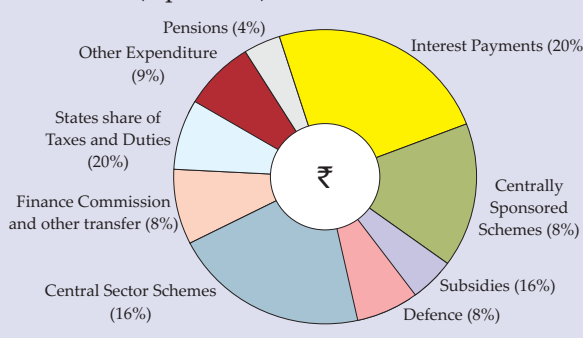
CONTEXT: India's Finance Ministry presented the country's interim budget for 2024 at a time when the overall economic landscape appears stable, backed by strong macroeconomic data. The budget outlines a multi-pronged economic management strategy, including infrastructure development, digital public infrastructure, and tax reforms. Given that 2024 is an election year, the Vote on Account or Interim Budget would merely be an interim approval to spend money, without any major tax or policy changes expected. Noting that India's economy will see an "unprecedented" development, four major areas of focus for the government have been highlighted:

Poverty, Youth, Women and Farmers

▢ **Important Estimation (key numbers):**

- ▶ **Fiscal Consolidation:** FY24 fiscal deficit is estimated at 5.8% of GDP, below the budgeted 5.9%. The government pegged the FY25 target at 5.1%, with an aim to reduce it to 4.5% by FY26.
- ▶ **Capital expenditure:** It will rise by 11.1% to 11.11 trillion rupees (\$133.9 billion) in fiscal year 2025, while tax revenue for the year would be 38.31 trillion rupees (\$461.7 billion).
- ▶ **Borrowings:** The administration aims to borrow Rs 14.13 trillion (\$170 billion) in the fiscal year starting April 1.
- ▶ **Revenue Receipts:** The revenue receipts for the current fiscal at Rs 30.03 lakh crore are expected to be higher than the Budget Estimate, reflecting strong growth momentum and formalisation in the economy.
- ▶ **Infrastructure:** The outlay for infrastructure has been increased by 17% to Rs 11.11 lakh crore, or 3.4% of GDP, over the revised estimate of Rs 9.5 lakh crore in FY24.

Below is the breakup of where the government gets its money and from where it spends it-

Where Does Rupee Come From? (Receipts)	Where Does Rupee Go To? (Expenditure)
<p>The Budget stated that</p> <ul style="list-style-type: none"> ◦ Borrowings and other liabilities constitute the highest income procured by the Centre, 28 per cent of the total income. <ul style="list-style-type: none"> ➤ Income Tax (18 per cent) ➤ GST (18 per cent) ➤ Corporation Tax (17 per cent) ◦ Non-tax receipts like rent, penalties and fines comprised 7 per cent of the total income. ◦ Union Excise Duties (5 per cent), Customs (4 per cent) and Non-Debt Capital Receipts (1per cent). 	<ul style="list-style-type: none"> ◦ The highest amount goes towards paying interest and the money given to the states in the form of taxes and duties, accounting for 20 per cent each of the total expenditure. ◦ Allocation towards the central sector schemes is the next expense comprising 16 per cent of the total expenditure. ◦ Other Expenditures (9 per cent), ◦ Defence, Central Sponsored Schemes and Finance Commission and other transfers (at 8 per cent each) ◦ Subsidies (6 per cent) 

PRACTICE QUESTION

Q. Examine the components of the Indian government's receipts and expenditures. How do these components reflect the fiscal priorities and challenges faced by the government? Discuss with examples.

4. INDIA'S FOREX RESERVE

CONTEXT: India's foreign exchange reserves jumped by USD 10.47 billion to USD 636.1 billion, as per the latest data by the Reserve Bank of India (RBI).

◦ Impact of Indian Forex Reserves on the Economy:

- Positive Impact:
 - **Currency Stabilization:** Forex reserves stabilize the Indian rupee by facilitating government intervention in the foreign exchange market.
 - **Enhanced Creditworthiness:** Large reserves bolster India's credit rating, attracting foreign investments and ensuring financial stability.
- Negative Impact:
 - **Opportunity Cost:** Holding significant reserves entails opportunity costs, as funds could be invested for higher returns elsewhere.

- **Inflationary Pressures:** Excessive reserves may lead to inflationary pressures due to increased liquidity in the economy.

▢ **Reasons for Surge in Forex Reserves:**

- Increased foreign direct investments.
- Growth in exports, particularly in IT and services sectors.
- Effective implementation of prudent economic policies by the Indian government and RBI.

Components of Forex Reserve	
Foreign Currency	<ul style="list-style-type: none"> ◦ Major Currencies Held: USD, EUR, GBP ◦ Purpose: Facilitate international trade, provide liquidity ◦ Impact on Indian Forex Reserves: Maintains the value of the local currency and ensuring that the country can meet its foreign obligations.
Gold	<ul style="list-style-type: none"> ◦ Gold is a hedge against inflation and provides a safety net during economic uncertainties. ◦ Purpose: Hedge against inflation and safety during economic downturns ◦ Impact on Indian Forex Reserves: An extra layer of protection and value, reflecting the traditional importance of gold in the Indian economy.
Special Drawing Rights (SDRs)	<ul style="list-style-type: none"> ◦ They are international reserve assets the IMF has created. They supplement the foreign exchange reserves of the member countries. ◦ Purpose: Supplement foreign exchange reserves ◦ Impact on Indian Forex Reserves: Enhances international liquidity
Reserve portion in the IMF	<ul style="list-style-type: none"> ◦ The reserve portion in the IMF represents India's quota in the International Monetary Fund. It reflects India's position and voting power within this global financial institution. ◦ Purpose: Reflects India's position in the IMF ◦ Impact on Indian Forex Reserves: Strengthens international standing

PRACTICE QUESTION

- Q. Discuss the significance of India's foreign exchange reserves for economic stability and the factors contributing to their recent surge. (250 words)

5. DUMPING AND PROTECTIONISM IN INTERNATIONAL TRADE

CONTEXT: The recent announcement of new tariffs on Chinese imports (EVs, solar cells, semiconductors and advanced batteries) has raised concerns about escalating tensions between the two countries. The development is concerning for India as escalation of a trade war between the US and China may push Beijing to dump goods in the Indian markets.

- ▢ **Dumping:** Dumping is a trade practice where a company exports goods to another country at a price lower than what it charges domestically. This practice can disrupt local markets by undercutting prices and harming domestic industries.

▢ Forms of Dumping:

- **Predatory Dumping:** Selling products at consistently low prices abroad to eliminate competition and gain market dominance.
- **Sporadic Dumping:** Exporting surplus inventory to foreign markets where demand is low.
- **Persistent Dumping:** Continuously offering products at lower prices due to sustained demand in foreign markets.
- **Reverse Dumping:** Selling products at higher prices domestically while pricing them lower in foreign markets during low demand periods.

▢ Impact of Dumping on International Trade:

- **Distortion of Trade:** Dumping distorts fair competition and can lead to retaliatory measures between countries.
- **Local Industry Impact:** It can harm local industries in importing countries by driving them out of business through unfair pricing strategies.

▢ Responses to Dumping:

- **Tariffs and Import Duties:** Countries may impose tariffs to raise the cost of dumped goods and protect local industries.
- **Non-Tariff Barriers:** These include quotas, licensing requirements, and technical regulations to restrict imports.
- **Domestic Procurement Policies:** Prioritizing local companies for government contracts to boost domestic industry.
- **Subsidies and Incentives:** Providing financial support to domestic industries to enhance their competitiveness.
- **Trade Remedies:** Anti-dumping duties and countervailing duties to counteract unfair trade practices.

▢ India's Protectionism Strategy:

- **Tariffs and Import Duties:** Used to increase the price of imported goods and shield domestic markets.
- **Non-Tariff Barriers:** Imposed to regulate and limit imports through quotas and regulatory requirements.
- **Domestic Procurement Policies:** Favoring local companies in government tenders and projects.
- **Subsidies and Incentives:** Providing financial support to promote growth and competitiveness among local industries.
- **Trade Remedies:** Implementing anti-dumping and countervailing duties to mitigate the effects of unfair trade practices.

PRACTICE QUESTION:

- Q. Explain the concept of dumping in international trade. Discuss India's strategies, including tariffs, non-tariff barriers, and trade remedies, to protect its domestic industries from the adverse effects of dumping practices.

6. PROTECTIONISM & IMPACT ON INDIAN ECONOMY

CONTEXT: The Centre's move to progressively hike customs duties, especially the more recent offensive targeted at imports of Chinese components and inputs, needs to be reviewed, as it can threaten the domestic economy. The blockade targeting Chinese imports gained traction across Central ministries and departments in the aftermath of the Galwan border clash since 2020.

- ▶ **Protectionism** refers to government policies that limit international commerce in order to benefit home companies and stimulate domestic investment in a particular industry. Protectionist policies are typically intended to boost domestic economic activity, but they can also be enacted to address safety or quality problems.
- ▶ **Tools of Protectionism:** Tariffs, Quotas, Subsidies, Anti-dumping duties

Data Box: The trade numbers

- India-China trade continues to remain high despite bilateral tensions as the total trade last year climbed to a record **USD 136.2 billion** with India's trade deficit mounting to USD 99.2 billion, a tad lower than last year.
- **China's exports to India** stood at USD 117.7 billion, a bit lower compared to USD 118.5 billion last year, according to the annual trade data covering the period from January to December 2023 released by Chinese customs last month.
 - ▶ **India imports from China:** Electrical machinery and equipment, fertilizer, antibiotics and organic compounds.
- **China's imports from India** totalled USD 18.5 billion slightly higher last year compared to the 2022 figure of USD 17.48 billion.
 - ▶ **India's top exports to China:** Diamonds, cotton yarn, iron ore, copper and organic chemicals.

■ Protectionist policies followed by India:

- ▶ Increase in tariffs
- ▶ Anti-Dumping duty
- ▶ Food protectionism
- ▶ Vaccine nationalization
- ▶ Opting out from RCEP

■ Impacts of such blockade

- ▶ **Impact on important sectors:** The blockade targeting Chinese imports is now seen to be impacting sectors such as **electronics and pharmaceuticals**.
- ▶ **Loss in domestic output:** The roadblocks to imports in these sectors is leading to a loss of domestic output.
- ▶ **Restriction on necessary input material:** To check cheap quality imports from China, India imposed **Quality Control Orders (QCOs)** that restrict MSMEs from getting necessary input material.
- ▶ **Loss of competitive advantage:** It is leading to a loss of competitive advantage for Indian manufacturing.
- ▶ **Threatened supply chain:** India's high tariffs pose a disincentive to de-risking supply chains beyond China. As a result, countries such as **Vietnam, Thailand and Mexico** are offering lower tariffs on components to grab the space vacated by China.

■ Significance of India's trade with China

- ▶ **Top source of imports:** India's trade with China is important because, for the last 15 years, China has been India's top source of imports.
- ▶ **Double share:** To put these numbers in perspective, in these two years, the second biggest source of imports for India was the UAE, with an import share of 6.7 per cent in 2020-21 and 7.31 per cent in 2021-22. These numbers indicate that China is not only India's biggest source of imports, but its share in total Indian imports is also more than **double that of the UAE**.
- ▶ **Dominance in non-oil merchandise imports:** In total non-oil merchandise imports, China's dominance is even more pronounced. As oil imports account for 25-30 per cent of India's total imports, India's dependence on China for non-oil imports can be as high as 25 per cent or more.

- **Export Market:** China is a big market for Indian exports, as well. China has been among the top four export markets for India in the last few years. After Covid, India's exports to China have gone up.

Benefits	Disadvantages
<ul style="list-style-type: none"> ◦ More Growth Opportunities ◦ Lower Imports ◦ More Jobs ◦ Higher GDP ◦ Benefits for local producers 	<ul style="list-style-type: none"> ◦ Restricting the trade flow ◦ Stagnation in technological advancement ◦ Limited choices for consumers ◦ Inflationary effect ◦ Economic isolation ◦ Uncompetitive domestic industries ◦ Against WTO norms

PYQ

- Q. Q: How would the recent phenomena of protectionism and currency manipulations in world trade affect macroeconomic stability of India? [2018]

PRACTICE QUESTION

- Q. Discuss the implications of India's recent protectionist measures, particularly towards Chinese imports, on its economy.

7. MIDDLE-EAST CONFLICT AND IMPACT ON INDIAN ECONOMY

CONTEXT: The escalating tensions between Israel and Iran have significant implications for India, impacting both economic stability and strategic relations with the Middle East.

▢ Impact on Macroeconomic Stability

- **Expensive Oil:** India, heavily reliant on crude oil imports (over 85%), faces inflationary pressures with disrupted supply chains.
- **Vulnerable Sectors:** Industries like automobiles, aviation, and chemicals are particularly vulnerable to higher transportation costs and reduced margins.
- **Threatened Routes:** Closure of the Strait of Hormuz could disrupt global oil supply routes, affecting India indirectly.
- **Inflation Trajectory:** Wholesale Price Index (WPI) is more susceptible to oil price fluctuations than Consumer Price Index (CPI), affecting overall inflation forecasts.
- **Impact on Growth:** Increased oil prices may dampen GDP growth by curbing consumption and squeezing corporate margins.
- **Current Account Deficit:** Rise in crude prices can widen the deficit, impacting foreign investments and remittances from the Middle East.

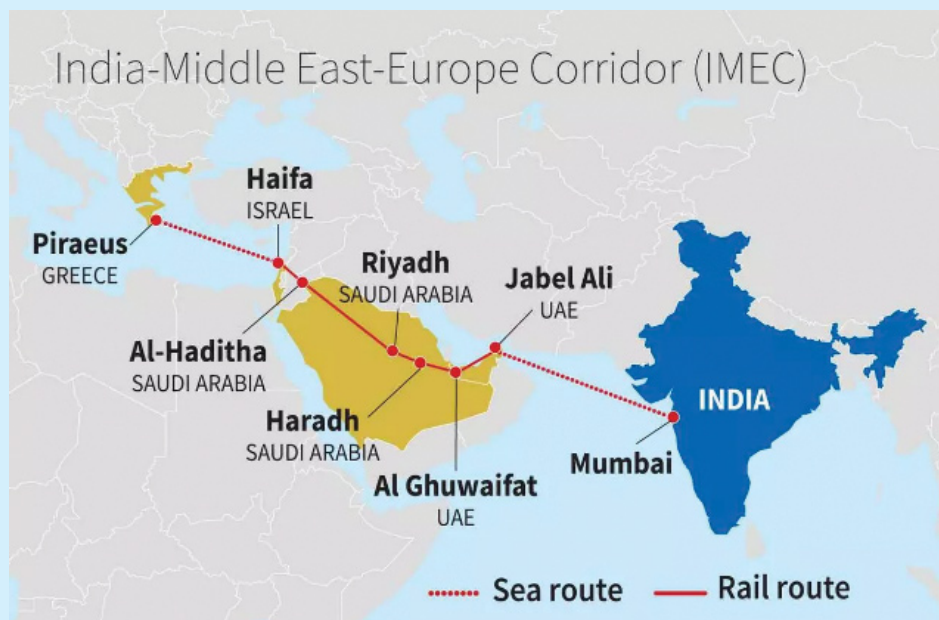
▢ Growing Proximity between India and the Middle East

- **IMEC Project:** India's engagement in the India-Middle East-Europe economic corridor aims to enhance economic ties and diversify trade partnerships.

- ▶ **Shift in Gulf Economies:** Transitioning Gulf economies away from oil dependency creates opportunities for India in non-oil sectors.
- ▶ **Investment in Agriculture:** Gulf countries' investments in Indian agriculture strengthen bilateral ties and ensure food security.
- ▶ **Non-Oil Trade:** Enhanced trade agreements, like the India-UAE Comprehensive Economic Partnership Agreement, boost economic cooperation beyond oil.

IMEC

- India-Middle East-Europe Economic Corridor (IMEC)
 - ▶ IMEC is a transnational rail and shipping route spread across two continents.
 - ▶ This transformative initiative is aimed at establishing a seamless transit network connecting **Asia, the Middle East, and Europe**. This project spans across rail and shipping routes, facilitating efficient trade and connectivity.
 - ▶ **Key Benefits:** Estimated to reduce journey time from India to Europe by 40% and cut transit costs by 30%, enhancing competitiveness and economic efficiency along the corridor.
- **Corridor Components**
 - ▶ **Eastern Corridor:** Links India to the Arabian Gulf, encompassing railways, ship-to-rail networks, and road transport routes.
 - ▶ **Northern Corridor:** Connects the Arabian Gulf region to Europe, incorporating similar transportation infrastructures including rail, ship-to-rail links, and road networks.
- **Ports Involved**
 - ▶ **India:** Ports in Mundra, Kandla, and Jawaharlal Nehru Port Trust (Navi Mumbai).
 - ▶ **Middle East:** Includes ports in Fujairah, Jebel Ali, and Abu Dhabi (UAE), as well as Dammam and Ras Al Khair (Saudi Arabia).



- ▶ **Israel:** Haifa port serves as a key node linking the Middle East to Europe.
- ▶ **Europe:** Ports such as Piraeus (Greece), Messina (Italy), and Marseille (France) are integral parts of the corridor.
- **Railway Line:** The railway line spans from Fujairah (UAE) through Saudi Arabia (Ghuwaifat and Haradh), Jordan, and terminates at Haifa port (Israel), facilitating seamless transportation connectivity across continents.

Conflict	Description
Arab-Israeli Conflict	Began with the establishment of Israel in 1948 and the displacement of Palestinians. Key issues: borders, Jerusalem's status, Palestinian refugees, Israel's security.
Israeli-Palestinian Conflict	Focuses on territorial disputes between Israel and Palestine. Key issues: Palestinian statehood, Jerusalem's status, West Bank settlements, Palestinian refugee rights.
Syrian Civil War	Started in 2011 as an uprising against President Bashar al-Assad, escalated into a complex conflict with various rebel groups, jihadist organizations, and regional powers like Russia, Iran, and Turkey.
Iraq War	Began with a U.S.-led invasion to topple Saddam Hussein, leading to instability, sectarian violence, and insurgency in Iraq. Highlighted ethnic and sectarian tensions.
Yemeni Civil War	Started in 2014 when Houthi rebels seized control of the government. Escalated into a multi-sided conflict involving Saudi Arabia, Iran, and others. Resulted in a severe humanitarian crisis.
Iran-Saudi Arabia Rivalry	Rivalry driven by political, religious, and geopolitical differences. Influences conflicts in Yemen, Syria, and Lebanon.
ISIS and Extremist Groups	Rise of ISIS in 2014 led to significant violence and instability in Iraq and Syria. Although its territorial control has decreased, it remains a threat.
Kurdish Conflict	Kurds seek greater autonomy and independence across Iraq, Syria, Turkey, and Iran, creating regional tension.
Lebanese Civil War and Hezbollah	Lebanon's civil war (1975-1990) left a legacy, including Hezbollah's influence on Lebanese politics and regional dynamics.
Gulf States' Disputes	Tensions among Gulf Cooperation Council (GCC) states, such as the Qatar diplomatic crisis, highlight differences in regional policies.

PYQ

Q. "India's relations with Israel have, of late, acquired a depth and diversity, which cannot be rolled back". Discuss. (2018)

PRACTICE QUESTION

Q. Discuss the economic implications of escalating tensions between Israel and Iran on India. How can India leverage its strategic relations with the Middle East to navigate through these challenges and foster long-term economic stability?

8. RED SEA CRISIS

CONTEXT: The global supply chain turmoil, prompted by the prolonged Red Sea crisis, underscores the urgency of exploring alternative trade routes like the India-Middle East-Europe Economic Corridor (IMEC) introduced during the 2023 G-20 summit.

Significance of Red Sea route:

India's share

- India's trade with **European and North African countries** flows entirely through the Red Sea route which is almost 24% of its exports and 14% of its imports.
- In the year 2022-23, India's bilateral trade with Europe and North Africa stood at \$189 billion and \$15 billion respectively.

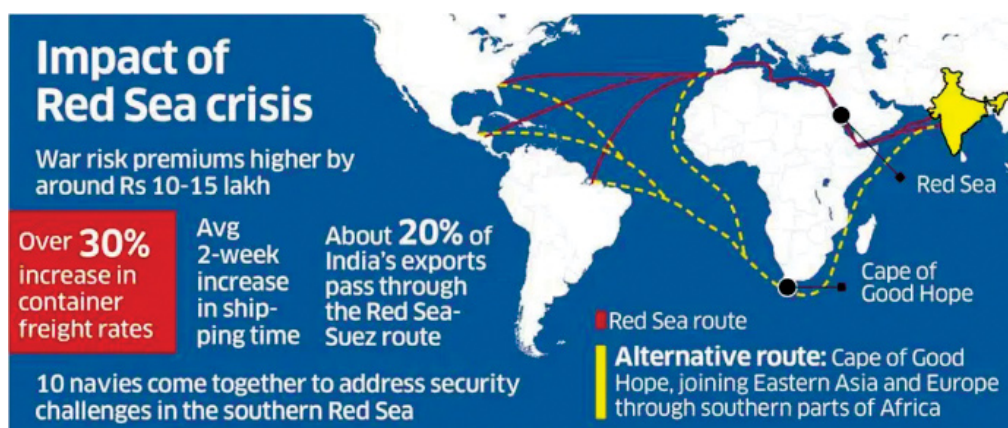
- **Global trade:** The Red Sea owes its strategic importance for global trade to the **Bab el-Mandab Strait** which lies between **Yemen and Djibouti**.
- **Busiest route:** It is one of the world's busiest cargo and oil transit points with almost 12% of international merchandise trade passing through it.



- ▶ **Impact of re-routing:** An immediate consequence of the Red Sea conflict has been that major container and oil carriers have been forced to re-route shipments via the **Cape of Good Hope**. The re-routing has led to
 - rising ocean freight
 - inflated insurance costs
- ▶ longer voyage times leading to delays and shortage of products
- ▶ increased transportation costs
- ▶ higher shipping costs leading to increased commodity prices

■ How has this turmoil affected India?

- ▶ **Drop in shipment:** The rising fears among traders have already seen a drop in Indian shipments.
 - Rising threats have prompted Indian exporters to hold back around 25% of their cargo ships transitioning through the **Red Sea**.
- ▶ **Opportunity for China to promote BRI:** As global supply chains are battling delayed shipments and rising costs, China is actively projecting **China-Europe freight trains**, which are part of the **Belt and Road Initiative (BRI)**, as an alternate route.
- ▶ **Why IMEC is not receiving attention?**
- ▶ The **India-Middle East-Europe Economic Corridor (IMEC)**, which was announced during the G-20 summit in 2023, is another alternative which is not receiving much attention.



- ▶ **Lack of investment:** Part of the problem is that apart from the MoUs, there have not been any investments or operations regarding the corridor.
- ▶ **Israel-Palestine conflict:** Furthermore, the Israel-Palestine conflict has put a pause on the normalisation of Arab-Israel relations which is a key element of the multi-nation initiative.
- ▶ **Vulnerability:** Another major challenge is the vulnerability of the Strait of Hormuz. The entire trade of the IMEC architecture flows through the Strait of Hormuz and with Iran's proximity and control over the strait, the risk of disruptions remain very high.

Red Sea Route

- **Geographical Location:** The Red Sea is located between **northeastern Africa (mainly Egypt, Sudan, and Eritrea)** and the **Arabian Peninsula (Saudi Arabia and Yemen)**.
- It connects to the **Mediterranean Sea via the Suez Canal** to the north and the **Indian Ocean via the Bab el-Mandeb strait** to the south.
- **Strategic Importance:** The Red Sea is a vital maritime route for international trade, linking Europe and Asia.
 - ▶ It serves as a key transit route for shipping between the **Mediterranean Sea** and the Indian Ocean, including the Suez Canal, which facilitates one of the shortest sea routes between Asia and Europe.

PRACTICE QUESTION

Q. Discuss the implications of the Red Sea crisis on India's maritime trade and the efficacy of alternative routes.

9. STATUS OF INDIA'S FREE TRADE AGREEMENTS

CONTEXT: In recent developments, India has been actively engaged in negotiating Free Trade Agreements (FTAs) with various countries and regions, reflecting its strategic shift towards enhancing economic ties globally. These agreements not only aim to reduce tariffs but also seek to facilitate smoother trade flows and bolster economic cooperation.

▢ Current FTAs and Negotiations

FTAs and Negotiations	Partners	Status	Highlights
India-EFTA FTA	Iceland, Norway, Liechtenstein, Switzerland	Completed, awaiting implementation	Investment promotion, no data exclusivity on pharmaceuticals, emphasis on human rights and sustainable development
India-UK FTA	United Kingdom	Progress made, pending finalization	Pending due to domestic political developments in both countries
India-Eurasian Economic Union (EAEU)	Russia, Belarus, and other post-Soviet states	Discussions underway	Potential for enhancing trade ties with Eurasian nations
India-Oman FTA	Oman	Finalization expected soon, pending announcement	Enhancing bilateral trade relations post-elections
India-Gulf Cooperation Council (GCC)	Gulf Cooperation Council countries	Delayed, potential merger with India-UAE FTA	Consideration for a comprehensive Gulf-India trade agreement
India-European Union (EU) BTIA	European Union	Resumed after suspension, advanced negotiations	Focus on addressing trade barriers and intellectual property rights
India-Canada FTA	Canada	Talks temporarily suspended, awaiting further dialogue	Bilateral issues impacting progress towards a comprehensive FTA

▢ Benefits of FTAs

- ▶ **Tariff Reduction:** Facilitates easier market access and competitive pricing.
- ▶ **Supply Chain Reliability:** Builds robust and reliable supply chains.
- ▶ **Trade Volume Increase:** Facilitates growth in exports and imports, enhancing economic activity.

❏ Challenges and Stumbling Blocks:

- **Historical Mistrust:** Post-2014, India suspended many FTA negotiations and bilateral investment treaties.
- **Atmanirbhar Bharat Policy:** Emphasis on self-reliance and protectionism challenges comprehensive FTAs.
- **Agricultural Concerns:** India's protective stance on agriculture often excludes this sector from FTAs.
- **Rules of Origin:** Concerns about Chinese goods and ensuring strict rules to prevent circumvention.
- **Intellectual Property Rights:** Balancing international standards with domestic priorities in R&D and pharmaceuticals.
- **Geopolitical Considerations:** Democratic freedoms, human rights, and transnational operations influence negotiations.

PRACTICE QUESTION

Q. Discuss the significance of India's recent Free Trade Agreements (FTAs) with various countries and regions. Analyze the challenges and opportunities these FTAs present for India's economic diplomacy and global trade relations.

10. INDIA INKS FTA WITH 4 EUROPEAN NATIONS

CONTEXT: India has signed a free trade agreement (FTA) with a group of four European countries that are not members of the European Union.

❏ Significance of the deal for India

- **Investment opportunity:** The deal with the European Free Trade Association (EFTA) will see investments in India of USD 100bn (£77.8bn). The investments do not cover foreign portfolio investment.
- **Major range of investment:** Under this deal, India will lift most import tariffs on industrial goods from the four countries in return for investments over 15 years. The investments are expected to be made across a range of industries, including pharmaceuticals, machinery and manufacturing.
- **Better market access:** The agreement enhances market access and simplifies customs procedures making it easier for Indian and EFTA businesses to expand their operations in the respective markets.
- **Boost to Make in India:** The agreement will give a boost to Make in India and provide opportunities to young & talented workforce. The FTA will provide a window to Indian exporters to access large European and global markets.
- **A show for UK:** The announcement comes as the UK and India have been holding negotiations over an FTA for the last two years. In the last two years, India has signed trade deals with Australia and the United Arab Emirates.

❏ Major Takeaways

- For the first ever time in the history of FTAs, a legal commitment is being made about promoting target-oriented investment and creation of jobs.
- EFTA is offering 2% of its tariff lines which covers 99.6% of India's exports. The EFTA's market access offer covers 100% of non-agri products and tariff concession on Processed Agricultural Products (PAP).
- India is offering 7% of its tariff lines which covers 95.3% of EFTA exports of which more than 80% import is Gold. The effective duty on Gold remains untouched. Sensitivity related to PLI in sectors such as pharma, medical devices & processed food etc. have been taken while extending offers. Sectors such as dairy, soya, coal and sensitive agricultural products are kept in exclusion list.

FACT BOX

EFTA

- EFTA is an inter-governmental organization set up in 1960 for the promotion of free trade and economic integration for the benefit of its four Member States.
- The EFTA is made up of Norway, Switzerland, Iceland and Liechtenstein.
- EFTA is one important economic block out of the three (other two - EU & UK) in Europe. Among EFTA countries, Switzerland is the largest trading partner of India followed by Norway.

PRACTICE QUESTION

- Q. Discuss the strategic implications of India's free trade agreement with the European Free Trade Association (EFTA) for its economy and international trade relations.

11. INDIA-JAPAN FREE TRADE DEAL

CONTEXT: India's 2011 free trade deal (FTA) with Japan is likely to be reviewed in the coming months, with New Delhi keen to minimize the trade deficit with Tokyo, according to sources familiar with the matter.

- ▶ India and Japan entered into a CEPA in 2011 extending duty free/low duty market access for most items, with both sides hoping to gain substantially from it.
 - Japan's exports to India almost doubled to \$16.49 billion in 2022-23 from \$8.62 billion in 2010-11
 - India's exports to Japan remained static at \$5.46 billion in 2022-23 from \$5.09 billion in 2010-11.

▢ Need for Review

- ▶ **Trade Imbalance:** Despite the 2011 Comprehensive Economic Partnership Agreement (Cepa) between India and Japan, the trade balance has been largely in favor of Japan, resulting in a significant trade deficit for India. Initiating a review of the deal is aimed at addressing this imbalance and ensuring more equitable trade relations between the two countries.
- ▶ **Demand for Equitable Terms:** India has long pursued the demand for a review of the FTA with Japan, emphasizing the need for more balanced and fair terms that benefit both nations. This includes revisiting non-tariff measures that have posed challenges for Indian companies and **Micro, Small, and Medium Enterprises (MSMEs)** in accessing the Japanese market.
- ▶ **Impact of Economic Changes:** Since the signing of the FTA in 2011, there have been significant economic changes in both India and Japan. A review of the deal is essential to align it with the current economic realities and address any disparities that may have emerged over time.

▢ Issues to be Addressed

- ▶ **Non-Tariff Measures:** One of the key areas of discussion in the review will be non-tariff measures, such as rules of origin (ROO) and product-specific rules (PSRs). These measures have impacted Indian businesses, particularly in terms of eligibility for preferential tariffs and determining the national source of products.
- ▶ **Concerns Over Trade Deficit:** India's imports from Japan have consistently outweighed its exports, leading to a widening trade deficit. Addressing this concern requires revisiting the terms of the FTA to ensure a more balanced flow of trade between the two countries.
- ▶ **Market Access:** The review will also focus on enhancing market access for Indian products in Japan. This includes addressing barriers and restrictions that hinder the entry of Indian goods into the Japanese market and exploring opportunities for expanding the range of products traded between the two countries.

PRACTICE QUESTION

Q. There is a persistent trade deficit of India with its FTA partners. Critically analyse

12. INDIA-EURASIAN ECONOMIC UNION (EAEU) FTA

CONTEXT: India is “seriously considering” starting talks for a free trade agreement with the Eurasian Economic Union (EAEU), as per the Foreign Minister of Belarus.

▢ The Scope of EAEU

- ▶ The Eurasian Economic Union (EAEU) is an economic union of five post-Soviet states — **Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia** — with an integrated single market.
- ▶ Coming into force in 2015, the EEU currently consists of 183 million people and a gross domestic product of over USD 2.4 trillion.

▢ Impact of India-EAEU FTA

- ▶ The agreement is expected to boost New Delhi’s exports to the region, particularly in areas such as engineering goods, electronics and agriculture, making trade more balanced.
- ▶ The FTA will help the two partners will help them to collaborate in key areas such as oil and gas, gold and diamond, timber, pharmaceuticals, agriculture, aviation, railways and logistics.
- ▶ If the trade agreement is concluded, it will further strengthen relations between India and Russia.

FACT BOX

Trade Turnover

- India’s trade turnover with the EAEU in the 2022-23 full year amounted to \$50.3 billion.
- Meanwhile, trade turnover with Russia was \$49.3 billion, with Kazakhstan \$641 million, with Armenia \$135.3 million, with Belarus \$111.8 million and with Kyrgyzstan \$56.6 million.
- Supplies of crude oil from Russia were the main cause for the growth of trade with Russia.

PRACTICE QUESTION

Q. Discuss the potential implications of India-Eurasian Economic Union (EAEU) Free Trade Agreement (FTA) negotiations on India’s economic and geopolitical interests. What are the key sectors likely to benefit from this agreement?

13. TRADE DEFICIT

CONTEXT: India has recorded a trade deficit, the difference between imports and exports, with nine of its top 10 trading partners, including China, Russia, Singapore, and Korea, in 2023-24, according to official data.

- ▶ **Trade Deficit:** The trade deficit with China rose to \$85 billion, Russia to \$57.2 billion, Korea to \$14.71 billion and Hong Kong to \$12.2 billion in 2023-24 against \$83.2 billion, \$43 billion, \$14.57 billion and \$8.38 billion, respectively, in 2022-23.
- China has emerged as India’s largest trading partner with \$118.4 billion of two-way commerce in

2023-24, edging past the U.S.

- The bilateral trade between India and the U.S. stood at \$118.28 billion in 2023-24. Washington was the top trading partner of New Delhi during 2021-22 and 2022-23.
- India's total trade deficit in the last fiscal narrowed to \$238.3 billion as against \$264.9 billion in the previous fiscal.
- **Impact of Trade Deficit:** Trade deficit affects a country's balance of payments, reflecting all international transactions. It indicates the economic health concerning global interactions.
- **Consumption Patterns:** Reflects residents' ability to purchase more goods than produced domestically.
- **Capital Account:** Indicates foreign currency financing through loans and investments.

▢ **Advantages and Disadvantages of Trade Deficit**

- **Advantages: Availability of Goods:** Ensures ample supply of imported goods for domestic consumption.
- **Disadvantages:** Puts strain on a country's external financial obligations. Affects the stability and value of the country's currency.

What is Trade Deficit?

- Trade deficit refers to a scenario in international trade where a country's expenditures on imports exceed its earnings from exports. It is also termed as a negative balance of trade.
- **Components of Trade Deficit Calculation:** The calculation of trade deficit encompasses various transactions in international trade:
 - **Goods and Services:** Includes imports and exports of physical goods and intangible services.
 - **Capital Account Transactions:** Involves asset transfers like trademark rights or mining rights.
 - **Current Account Transactions:** Encompasses primary income (e.g., dividends, interest, remittances) and secondary income (e.g., private remittances, pension payments).

PRACTICE QUESTION

Q. Analyze the factors contributing to India's trade deficit with countries like China, Russia, and Korea, and assess its impact on India's economy and external financial stability.

14. RECESSION (CASE OF UK & JAPAN)

CONTEXT: The United Kingdom slipped into recession, with its worst gross domestic product (GDP) performance in 2023 in years. Japan lost its spot as the world's third-largest economy. Its economy is now the world's fourth-largest after it contracted in the last quarter of 2023 and fell behind Germany.

▢ **What is a Recession?**

- A recession is commonly defined as two consecutive quarters of contraction.
- A recession is a significant decline in economic activity that lasts for months or even years.
- Experts declare a recession when a nation's economy experiences
 - negative gross domestic product (GDP)
 - rising levels of unemployment
 - falling retail sales
 - contracting measures of income and manufacturing for an extended period of time

What causes recessions?

- **A sudden economic shock:** An economic shock is a surprise problem that creates serious financial damage.
- **Excessive debt:** When individuals or businesses take on too much debt, the cost of servicing the debt can grow to the point where they can't pay their bills.
- **Asset bubbles:** When investing decisions are driven by emotion, bad economic outcomes aren't far behind.
- **Too much inflation:** Inflation is the steady, upward trend in prices over time.
- **Too much deflation:** While runaway inflation can create a recession, deflation can be even worse.



❑ Why UK, Japan fell into recession?

United Kingdom	Japan
The UK economy fell into recession at the end of last year as hard-pressed households cut back on spending amid the cost of living crisis	A weaker Japanese yen was a key factor in the drop to fourth place, since comparisons of nominal GDP are in dollar terms. But Japan's relative weakness also reflects a decline in its population and lagging productivity and competitiveness.

❑ How would it impact India?

- ▶ While India's GDP has been performing relatively better, no one is immune to economic problems, in the era of globalisation.
- ▶ External headwinds are poised to hurt India's economy too, as service exports are a major part of revenue generated by India's IT industry and global price rise can make India's imports expensive.
- ▶ **India & the UK:** Negotiations between India and the United Kingdom for the proposed free trade agreement (FTA) are at an advanced stage, but India is keen to safeguard its interests.
- ▶ **India & Japan:** According to the MEA's October 2023 report, bilateral trade totalled US\$ 21.96 billion during FY 2022- 23. Exports from Japan to India during this period were US\$ 16.49 billion and imports were US\$ 5.46 billion.

❑ Measures to sidestep the recessionary trend:

- ▶ India is currently the world's fifth-largest economy, placed behind the US, China, Japan and Germany. For India, it's crucial to continue focusing on-
 - strengthening domestic demand
 - enhancing productivity
 - promoting sectors with high growth potential
 - diversifying trade partners
 - reducing dependency on a single market for exports and imports

PRACTICE QUESTION

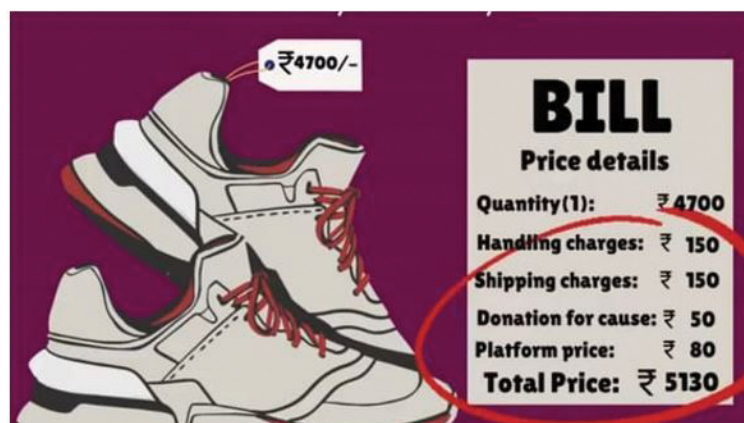
Q. Discuss the factors contributing to the recent economic recessions in the United Kingdom and Japan. How are these recessions likely to impact India's economy, and what measures should India consider to mitigate potential adverse effects?

15. DRIP PRICING

CONTEXT: The Department of Consumer Affairs issued a warning about 'drip pricing,' where only part of the price is shown upfront, and additional charges are added later.

❑ About Drip Pricing

- ▶ Drip pricing means showing **only a fraction of an item's cost at first**, and revealing the full amount during purchase.



- These added charges might include taxes or booking fees, or omitting necessary extras like internet access, which may be needed for the product or service.
 - ▶ In December 2023, the **Central Consumer Protection Authority (CCPA)** released 'Guidelines for Prevention and Regulation of Dark Patterns, 2023' to tackle practices like drip pricing, bait and switch, disguised advertising, and false urgency.
 - ▶ Such practices are considered 'unfair trade practices' under the **Consumer Protection Act, 2019**.

Consumer Protection Act, 2019

- The Consumer Protection Act, 2019 was passed by the Indian government to address issues related to violations of consumer rights, unfair trade practices, and misleading advertisements.
- The Act aims to protect consumers' rights and interests by setting up Consumer Protection Councils to resolve disputes and provide compensation if consumers' rights are violated.
- There are six rights of consumers outlined in **Section 2(9) of the Act**.
 - ▶ Protection from hazardous goods and services.
 - ▶ Protection against unfair trade practices, ensuring awareness of quality, quantity, price, etc.
 - ▶ Access to a variety of goods and services at competitive prices.
 - ▶ Right to seek redressal against unfair trade practices.
 - ▶ Right to receive adequate compensation if wronged by the seller.
 - ▶ Right to consumer education.

PRACTICE QUESTION

- Q. Examine the concept of 'drip pricing' and its implications for consumer rights and protection in India. Discuss the measures introduced by the Central Consumer Protection Authority (CCPA) to regulate practices like drip pricing under the Consumer Protection Act, 2019.

16. CLIMATE CHANGE AND IMPACT ON GLOBAL SEA TRADE

CONTEXT: Global trade, heavily reliant on maritime routes, faces increasing challenges due to climate change. From shifting shipping lanes to heightened risks, the effects of environmental shifts are reshaping the maritime industry in profound ways.

❑ The Good: Emerging Arctic Trade Routes

- Climate change has led to the melting of Arctic ice, opening up new trade routes:
- **Northern Sea Route (NSR):** Along Russia's coast, potentially reducing East Asia to Europe travel time by two weeks.
- **Northwest Passage:** Across Canada, facilitating faster North America to Bering Strait journeys.

Arctic Trade Routes	Benefits
Northern Sea Route	Cuts travel time by 2 weeks, reduces fuel consumption
Northwest Passage	Shorter journey from North America to Asia

❑ The Bad: Challenges in Established Routes

- **Panama Canal:** Facing water level drops due to drought, impacting passage for large ships. Restrictions on vessel weights and reduced traffic capacity add delays and increase costs.

❑ The Ugly: Geopolitical and Environmental Concerns

- **Arctic Territory Disputes:** Rising accessibility raises questions over governance, potentially leading to political tensions.
- **Environmental Impact:** Increased shipping could harm Arctic ecosystems, necessitating robust regulations and infrastructure development.

PRACTICE QUESTION

Q. Examine the impact of climate change on global maritime trade, focusing on emerging Arctic trade routes, challenges in established routes such as the Panama Canal, and associated geopolitical and environmental concerns. How can international cooperation mitigate these challenges?

17. PANAMA CANAL AND IMPACT ON SUPPLY CHAIN

CONTEXT: Drought conditions in the Panama Canal are challenging supply chains that rely on this important waterway to rethink their strategies to move product as shallower-than-usual waters have reduced the number of vessels allowed to traverse the canal per day and restricted maximum ship weights.

❑ Mapping the Traffic

- Since its completion, it has served as one of the world's most important shipping routes, providing the fastest way to sail between the Pacific and Atlantic oceans.
- More than 14,000 ships crossed the canal in 2022. Container ships are the most common users of the Panama Canal and transport more than 40% of consumer goods traded between Northeast Asia and the U.S. East Coast.
- The global waterway handles an estimated 5% of world trade. If the situation remains the same, there will be expensive freight costs.

❑ Why is it facing issue?

- **Low rainfall:** there has been 30 percent below average this year, causing water levels to plunge in the lakes that feed the canal and its mighty locks.

- ▶ **El Niño:** The immediate cause is the El Niño climate phenomenon, which initially causes hotter and drier weather in Panama.
- ▶ **Climate change:** Climate change may also be prolonging dry spells and raising temperatures

▢ Impact on Global Supply Chains

- ▶ **Time and Cost Efficiency:** The canal reduces travel time for ships, resulting in quicker delivery of goods. It lowers transportation costs by shortening the distance ships need to travel.
- ▶ **Increased Trade Capacity:** The expansion of the Panama Canal, completed in 2016, allows for larger vessels, known as New Panamax or Neo-Panamax ships, to pass through. This expansion has increased the volume of goods that can be transported, boosting trade capacity.
- ▶ **Influence on Trade Routes:** The canal has shifted global trade routes, making it a preferred path for many shipping lines. It has affected the dynamics of global shipping, with some routes becoming more economically viable.
- ▶ **Strategic and Economic Implications:** The canal's strategic importance makes it a focal point for global trade and economic policies. Countries and businesses strategically plan their supply chains to leverage the canal's benefits

Panama Canal

- The Panama Canal (82-kilometre long) was among the defining engineering achievements of the 20th century.
- **Completed in:** 1914
- **Connecting Points:** The Canal connects the Pacific and the Atlantic Ocean via one of the narrowest isthmi in the world.
- **Physical features:** The Canal's principal physical features are:
 - ▶ **Gatun Lake, and the central man-made lake** stretching nearly all the way across the Isthmus;
 - ▶ **Gaillard Cut**, the eight-mile-long excavation through the Continental Divide that extends Gatun Lake to Pedro Miguel Locks
 - ▶ the locks on both sides of the Isthmus that raise ships between sea level and the lake (**Gatun Locks on the Atlantic and Pedro Miguel and Miraflores Locks on the Pacific**)
 - ▶ the ports of **Balboa** on the Pacific and **Cristobal** on the Atlantic

PRACTICE QUESTION

Q. Describe the recent challenges faced by the Panama Canal due to drought conditions and their implications for global supply chains.

18. INDIA'S FOREIGN TRADE POLICY

CONTEXT: The Foreign Trade Policy (FTP) 2023-2028, recently unveiled by India's Commerce and Industry Ministry, aims to guide and regulate the country's import and export activities for the next five years.

- ▶ **Foreign Trade Policy (FTP)** lays down guidelines for importers, exporters, and manufacturers in India, based on the Foreign Trade (Development and Regulation) Act, 1992. It is revised every five years to align with evolving global trade dynamics and national economic priorities.

Key Features of FTP 2023-2028

- ▶ Objective and Ambition
- ▶ **Aim:** Triple India's goods and services exports to USD 2 trillion by 2030 from USD 760 billion in 2022-23.

Salient Features	
Targets \$2 trillion exports by 2030	Digitisation and faster processing of applications
Continuous and responsive framework with no end date	Amnesty scheme for shortfall in export obligations
Making rupee a global currency	Restructuring of Department of Commerce
Making India a trade hub	Over 50% reduction in threshold for recognition of star trade houses

- **Motto:** Focus on long-term excellence and productivity.
- Policy Framework
- **Continuity with new schemes:** FTP 2023-2028 replaces FTP 2015-20 with an open-ended policy framework, adjusted as per global trade trends and industry feedback.
- **Amnesty Scheme:** Introduced for exporters to resolve old authorizations and begin afresh.
- ▶ **Trade Facilitation Measures**
 - **Internationalization of rupee trade:** Highlighted as a major initiative.
 - **Advance Authorization Scheme:** Special scheme for clothing and apparel sectors to enhance responsiveness to market demands.
 - **Recognition and rewards:** Exporters to be recognized with star ratings and townships of export excellence identified.
- ▶ Sectoral Focus and Incentives
 - **Green technology products:** Inclusion of battery electric vehicles, vertical farming equipment, and others with reduced export obligations.
 - **Dairy sector exemptions:** Exempted from maintaining average export obligations under certain conditions.
 - **PM Mega Integrated Textile Region and Apparel Parks:** Eligible for benefits under Common Services Providers.
- ▶ **Neighbourhood and Transit Policy:** Enhanced trade transit facilities for adjacent countries while ensuring compliance with WTO commitments.
- ▶ Challenges and Gaps
 - **Policy Incongruence:** Continued reliance on outdated regulations, posing challenges in meeting current trade needs.
 - **Underutilization of FTAs:** Limited leverage of FTAs leading to trade deficits, indicative of missed opportunities in preferential market access.
 - **Regulatory Standards:** Pressure to adopt Indian-specific standards impacting trade barriers, necessitating alignment with international norms and WTO notifications.
- ▶ **Significance:** The FTP 2023-2028 aims to foster better export promotion through partnerships and ease of doing business enhancements, targeting emerging sectors and export hubs.

PRACTICE QUESTION:

Q. Discuss the key features and objectives of India's Foreign Trade Policy 2023-2028.

19. BRICS EXPANSION

CONTEXT: India participated in the recent Brics Foreign Ministers' Meeting in Nizhny Novgorod, Russia, marking the first meeting since the expansion of Brics in 2023. The expansion saw Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE joining Brazil, Russia, India, China, and South Africa as full-fledged members. Russia assumed the chairmanship of Brics on January 1, 2024.

BRICS and its Expansion:

- ▶ **Origins and Objectives:** The term BRIC was coined in 2001, but formalized as a bloc in 2009 by **Brazil, Russia, India, and China**, later joined by **South Africa** in 2010.
 - Initially an **economic forum**, BRICS aims to create a **fairer international order and reform the multilateral system**.
 - **Expansion Dynamics:** After 13 years, BRICS expanded in 2023, admitting **Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE**.

Impact of Expansion: The BRICS group now comprises almost:

- ▶ 46 per cent of the world's population (with China and India alone accounting for 86 per cent of BRICS)
- ▶ 36 per cent of global GDP (of which China alone accounts for 65 per cent of BRICS)
- ▶ 25 per cent of world trade, measured in terms of exports.
- ▶ This enlargement added USD 2.6 trillion to the group's GDP, reaching USD 28.5 trillion collectively and covering **1% of global output**.
- ▶ The expansion enhanced **BRICS' economic and geostrategic reach**, doubling its **oil production capacity** and accounting for **25% of global exports**.
- ▶ It also strengthened control over rare earth minerals and projected significant GDP growth for new members by 2050.

Impact and Challenges of BRICS Expansion:

- ▶ **Economic Influence:** Despite BRICS' economic significance, G7 countries still dominate global GDP, accounting for 43.2%. However, forecasts suggest a shift in economic power towards BRICS, especially with the significant growth projected for new members like Egypt and Ethiopia.
- ▶ **Geopolitical Significance:** BRICS seeks to challenge the **Western-centric global order** by establishing institutions like the New Development Bank. While it aims to reduce dependence on Western-led institutions, challenges remain in implementing a common BRICS currency and dethroning the US dollar.
- ▶ **Challenges and Limitations:** BRICS faces challenges such as **overreliance on China's economy, limiting leverage and equality within the group**. Bilateral power dynamics between China and India pose complexities, with China's larger economy overshadowing India's influence within BRICS.

FACT BOX

New Development Bank (NDB)

- **Established in:** 2014 by the BRICS group.
- **Headquarters:** Shanghai, China
- It is a **multilateral bank** focused on **financing infrastructure projects and sustainable development**.
- So far, it has financed 96 projects worth \$33 billion.

PRACTICE QUESTION

Q. Discuss the expansion of BRICS in 2023 and its implications for global economic and geopolitical dynamics

20. GLOBAL LAYOFFS AND IMPACT ON INDIA

CONTEXT: Recently, many U.S. multinational companies have announced massive layoffs, surpassing 60,000. A layoff is the temporary or permanent termination of employment by an employer for reasons unrelated to the employee's performance.

Reasons for Layoffs

- ▶ **Global Recession:** With talks of a global recession, technology companies, typically big spenders, are now resorting to cost-cutting measures.
- ▶ **Financial Strain:** Companies are not making enough profits to cover their expenses or need substantial extra cash to pay off debt.
- ▶ **Indian Startups:** Media reports indicate that over ten thousand employees were laid off by Indian startups, particularly in the edtech and ecommerce sectors, in 2022.

Fear of Economic Recession

- ▶ **Global Economic Concerns:** Companies are apprehensive about a potential economic recession, with inflation soaring globally.
- ▶ **IMF Forecasts:** The International Monetary Fund (IMF) has provided a gloomy outlook for global GDP growth in 2022 and 2023 due to the pandemic and the ongoing Russia-Ukraine conflict.

Impact of Layoffs

- ▶ **Loss to Workers:** Psychological and Financial Damage: Layoffs can be damaging to affected workers and their families, communities, colleagues, and other businesses.
- ▶ **Loss of Prospects:** Job Security Concerns: Laid-off Indian workers face the prospect of leaving the U.S. if they cannot find a new employer within 60 days. Back home, job prospects are also weak due to hiring freezes and slowdowns.
- ▶ **Decreased Customer Confidence:** Layoffs send a message to customers that the company is undergoing a crisis, potentially reducing customer trust.
- ▶ **Emotional Distress:** Impact on Remaining Employees: Those who remain employed may suffer emotionally, leading to decreased productivity due to fear and uncertainty.

PRACTICE QUESTION

Q. Discuss the implications of recent global layoffs, particularly in multinational companies, on the Indian economy and workforce. How can India mitigate the adverse effects of such global economic downturns?

21. SEA PIRACY & IMPACT ON GLOBAL ECONOMY

CONTEXT: For decades, the U.S. Navy prepared for potential conflicts with major global powers like the Soviet Union, Russia, and China. However, its current focus has shifted unexpectedly to combating Houthi rebels, an Iran-backed group based in Yemen. This conflict has become the most intense ongoing naval battle the Navy has faced since World War II.

- ▶ **Houthi Rebels:** The Houthis are an armed political and religious group which champions Yemen's Shia Muslim minority, the Zaidis.
 - At present, they are targeting Red Sea and adjoining Gulf of Aden.
- ▶ How could Houthi attacks affect the global economy?
 - **Disruption of Trade:** The attacks have resulted in significant disruptions to shipping in the Red Sea directly affecting global trade flows, particularly those relying on the efficient passage through the Suez Canal.

- **Impact on Energy Transit:** Approximately 12 percent of seaborne oil and 8 percent of liquefied natural gas (LNG) pass through the Suez Canal, making any disruption in the Red Sea a critical concern for global energy markets.
- **Alternative Shipping Routes:** Due to the risks associated with the Red Sea route, some commercial ships have opted to circumnavigate the **Horn of Africa**. However, this alternative route entails additional costs estimated at approximately USD 1 million in extra fuel expenses for a round trip.
- **Economic Costs:** The shift away from the Red Sea route has financial implications beyond fuel costs. Insurance premiums for ships navigating through the Red Sea have surged nearly tenfold since the onset of Houthi attacks, reflecting heightened risks and uncertainties associated with this route.

PRACTICE QUESTION

Q. Discuss the impact of Houthi rebel attacks in the Red Sea on global trade and energy security. How are these attacks reshaping maritime routes and influencing economic costs for international shipping?

22. STABLE GOVERNMENT & POLICY IMPLICATIONS

CONTEXT: A stable government is crucial for the economic and social development of a country. Stability in governance ensures consistent policy implementation, fosters investor confidence, and promotes social cohesion. It provides the necessary environment for long-term planning and development, which is essential for sustained growth.

◦ Economic Implications

Investment and Economic Growth	Fiscal Policies	Social and Political Implication
<ul style="list-style-type: none"> ◦ A stable government boosts investor confidence, leading to increased foreign direct investment (FDI). ◦ Stability allows for comprehensive and long-term economic planning. ◦ Stable governments can ensure continuous funding and support for large infrastructure projects. ◦ Long-term stability attracts private sector participation in public projects through PPPs. 	<ul style="list-style-type: none"> ◦ A stable government is more likely to implement sustainable fiscal policies that balance growth with fiscal discipline. ◦ Stability allows for effective debt management strategies, ensuring that public debt remains at sustainable levels. 	<ul style="list-style-type: none"> ◦ Stable governments can maintain and enhance social welfare programs. ◦ Stability fosters trust between the government and its citizens. ◦ Stable governments can pursue long-term structural reforms in areas. ◦ Consistency in governance ensures that policies are coherent and aligned with long-term national goals.

Case Study: India's Economic Reforms Post-1991

- In 1991, India faced a severe economic crisis, which led to the introduction of significant economic reforms under a stable government led by then Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh.

PRACTICE QUESTION

Q. Using examples from India's economic reforms post-1991, analyze how stability in governance has facilitated long-term planning and implementation of reforms.

23. SPORTS ECONOMY OF INDIA

CONTEXT: The sports economy in India is an evolving and rapidly growing sector that contributes significantly to the nation's GDP and employment. The sector encompasses a wide range of activities including sports infrastructure, sporting events, sports tourism, sports goods manufacturing, and sports media.

■ Key Statistics

- ▶ India's sports industry clocked a growth of 11 per cent recording a total revenue of ₹15,766 crore in 2023 over 2022. Nearly 87 per cent of the sports industry's revenues came from cricket amounting to ₹13,701 crore in 2023, up 13 per cent.
- ▶ India won 107 medals in the 19th Asian Games, crossing the hundred mark for the first time.
- ▶ **Contribution to GDP:** The sports sector contributes around 0.1% to India's GDP, which is relatively low compared to developed countries.
- ▶ **Employment:** The sports industry provides employment to about 5 million people directly and indirectly.
- ▶ **Sports Infrastructure:** India has over 15,000 stadiums and sports complexes. Significant investments have been made in developing sports facilities, particularly in preparation for major events like the Commonwealth Games 2010 and the Cricket World Cup 2011.
- ▶ Key Components of the Sports Economy
 - **Initiatives:** Government schemes like Khelo India aim to improve grassroots-level infrastructure and promote a sports culture.
 - **Major Events:** India hosts several major international sports events such as the Indian Premier League (IPL), Pro Kabaddi League, Indian Super League (ISL), and international cricket matches.
 - **India's advantage:** India's has a demographic advantage, with a median age of around 32 years, indicating a large young population which can participate in sports.
- ▶ **Economic Impact:** These events generate significant revenue through ticket sales, sponsorships, broadcasting rights, and merchandise.

PRACTICE QUESTION

Q. Examine the economic significance of sports in India, highlighting its contribution to GDP, employment generation, and infrastructure development.

24. INDIA INCLUSION IN JP MORGAN EM BOND INDEX

CONTEXT: India's journey towards inclusion in the JPMorgan Emerging Market Bond Index marks a significant milestone in global finance. The decision, slated to be completed by March 2025, will integrate Indian Government Bonds (IGBs) into the index, mirroring similar caps set for China, Indonesia, and Mexico. This move is poised to unlock substantial foreign investments and reshape India's bond market dynamics.

■ Key Details of the Inclusion Process

- ▶ **Inclusion Timeline:** The process begins on June 28, 2024 with an initial 1% weight, gradually increasing monthly to reach a 10% cap by March 2025.
 - Only **Indian Govt Bonds (IGBs)** issued by the **Reserve Bank of India (RBI)** under the '**Fully Accessible Route (FAR)**' will be included in the indices.
 - JP Morgan identified 23 Indian government bonds with a combined notional value of \$330 billion eligible for inclusion.
- ▶ **Potential Inflows:** Foreign investments of approximately \$21 billion are anticipated initially, with potential total inflows estimated at \$30 billion as India's weight in the index grows.
- ▶ **Impact on Bond Prices:** Analysts predict buoyant bond prices due to increased demand from global investors.

■ Significance of JPMorgan Emerging Market Bond Index

- ▶ **Global Reach:** The index covers diverse asset classes across developed and emerging markets, totaling over \$20 trillion in market value.
- ▶ **Impact on Emerging Markets:** It sets standards for local market and corporate benchmarks, guiding investor strategies globally.

■ Implications for India

- ▶ **Economic Impact:** Inclusion is expected to bolster India's economic prospects by enhancing bond market liquidity and reducing borrowing costs.
- ▶ **Bond Yield Trends:** Bond yields have seen a decline, indicating investor optimism and potential cost savings for the government.
- ▶ **Equity Market Indirect Benefits:** While direct impacts on equity markets are limited, lower bond yields could indirectly bolster corporate financing and equity valuations.

Bond Market Index

- A bond index is used to measure the value of a section of the bond market.
- It can be defined by specific characteristics such as **maturity or credit rating to capture a narrower slice of the market**.
- Just like an equity index, a bond index is made up from the prices of selected bonds, which are a lot more fluid and often harder to value than equities.
- **Key global bond market indices:** Bloomberg Aggregate Bond Index, the Merrill Lynch Domestic Master, JP Morgan Bond Index, FTSE Bond Index, and the Citigroup US Broad Investment-Grade Bond Index

JP Morgan Bond Index

- It is a US dollar denominated, investment-grade index spanning asset classes from developed to emerging markets.
- The JPM GABI extends the US index to also include multi-currency, investment-grade instruments.
- **The JP Morgan Emerging Market Bond Index (EMBI)** was formed in the early 1990s after the issuance of the first Brady bond.
 - ▶ More recently, JP Morgan led investors towards higher yielding local rates by launching the Government Bond Index-Emerging Markets (GBI-EM) series and the Corporate Emerging Markets Bond Index (CEMBI) series.
 - ▶ These have become the new standard for local market and corporate EM benchmarks, respectively.

- This index has three sub-variants:
 - **The Emerging Markets Bond Index Plus (EMBI+)** tracks total returns for traded external debt instruments in the emerging market.
 - **The JP Morgan Emerging Markets Bond Index Global** tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+.
 - **The JP Morgan Emerging Markets Bond Global Diversified Index.**

PRACTICE QUESTION

Q. Discuss the implications of India's upcoming inclusion in the JP Morgan Emerging Market Bond Index. How is this expected to reshape India's bond market dynamics and what are the potential economic benefits?

25. IMPACT OF RECENT WAR ON INDIAN ECONOMY

CONTEXT: The ongoing conflict between Russia and Ukraine, which began in February 2022, has had significant global repercussions. India, with its interconnected economy, has experienced several direct and indirect impacts due to this geopolitical crisis. These effects span various sectors, including energy, trade, agriculture, and overall economic stability.

■ Key Impacts

- **Energy Sector**
 - **Oil Price Surge:** The war led to a significant surge in global oil and gas prices. Russia, being a major supplier of natural gas and crude oil, saw its exports disrupted, leading to a supply crunch.
 - **Import Bill:** India, which imports over 80% of its crude oil, faced a substantial increase in its import bill. The rising prices strained the country's fiscal deficit and widened the current account deficit.
 - **Energy Security (Supply Diversification):** The crisis highlighted the need for India to diversify its energy sources. India has been exploring alternative suppliers and increasing its focus on renewable energy.
- **Trade and Supply Chains**
 - **Wheat and Edible Oils:** Ukraine and Russia are significant exporters of wheat and sunflower oil. The disruption in exports led to increased prices for these commodities, affecting India's food inflation.
 - **Metals and Fertilizers:** Russia is a key supplier of metals and fertilizers. The conflict caused supply disruptions and price hikes, impacting India's manufacturing and agriculture sectors.
- **Logistics and Supply Chains**
 - **Global Disruptions:** The war exacerbated global supply chain issues, already strained by the COVID-19 pandemic. Shipping routes and logistics were disrupted, leading to delays and increased costs.
- **Inflation and Economic Stability**
 - **Rising Prices:** The increase in energy and commodity prices led to higher inflation in India. The Consumer Price Index (CPI) saw a noticeable rise, impacting the cost of living and purchasing power of consumers.

- **Policy Response:** The Reserve Bank of India (RBI) had to balance between controlling inflation and supporting economic growth. Measures included adjusting interest rates and monetary policies to mitigate inflationary pressures.
- ▶ **Agriculture**
 - **Fertilizer Prices:** The conflict led to a spike in the prices of fertilizers, as Russia is a major exporter. Higher input costs impacted the agricultural sector, increasing the cost of production for farmers.
 - **Crop Prices:** Disruptions in global wheat supplies led to higher domestic prices, benefiting some farmers but also increasing food prices for consumers.
 - Foreign Exchange and Fiscal Implications
- ▶ **Exchange Rate Volatility**
 - **Rupee Depreciation:** The uncertainty and capital outflows during the conflict caused volatility in the exchange rate, leading to a depreciation of the Indian Rupee against the US Dollar.
 - **Import Costs:** A weaker Rupee made imports more expensive, exacerbating the trade deficit and putting additional pressure on the economy.
- ▶ **Subsidies and Relief Measures:** The government had to increase subsidies and provide relief measures to shield the vulnerable sections of society from the inflationary impact, leading to higher fiscal expenditure.

PRACTICE QUESTION

Q. How have sectors like energy, agriculture, and inflation management been affected by the ongoing Russia-Ukraine conflict, and what measures has India taken to mitigate these effects?

26. MILITANT ACTIVITY IN TOURISM SECTOR

CONTEXT: In recent years, India has witnessed a disheartening trend where militant activities, once confined to specific regions, are now threatening to cast a shadow over its vibrant tourism sector. The recent attack on pilgrims visiting the Shiv Khori shrine in Reasi district of Jammu and Kashmir serves as a grim reminder of this growing menace.

◦ **Impact on Tourism:**

- ▶ The attack in Reasi has sent ripples through India's tourism industry, particularly in regions known for their religious and cultural significance.
 - **Security Apprehensions:** Tourists, both domestic and international, prioritize safety when choosing destinations. Incidents like the one in Reasi undermine confidence in the security arrangements, potentially deterring future visitors.
 - **Economic Fallout:** Religious tourism forms a substantial part of India's tourism revenue. The bustling town of Katra, with its numerous accommodations and eateries catering to Vaishno Devi pilgrims, is now grappling with the aftermath of heightened security concerns.
 - **Cultural Heritage at Risk:** India's diverse cultural heritage, showcased through its temples, shrines, and historic sites, is a major draw for tourists. Militant activities threaten not only the physical safety of these sites but also their cultural significance and accessibility.
 - **Regional Development:** Regions like Reasi, with their religious and natural attractions, depend heavily on tourism for economic development. A decline in tourist footfall due to security threats could stagnate local economies and hinder infrastructural growth.

Travel & Tourism Development Index 2024

- India has climbed to the **39th spot** in the **World Economic Forum's Travel & Tourism Development Index 2024**, marking a significant rise from its 2021 ranking of **54th**.
- **Key-findings:**
- **Topic 10 countries:** United States, Spain, Japan, France, Australia, Germany, the United Kingdom, China, Italy and Switzerland.
- **Findings for India**
 - Despite the challenges posed by the pandemic, India emerged as the **highest-ranking country in South Asia** and among the **lower-middle-income economies**.
 - The country demonstrated high price competitiveness (18th) and boasted competitive air transport (26th) and ground and port infrastructure (25th). Particularly noteworthy were India's robust natural (6th), cultural (9th), and non-leisure (9th) resources, which contributed significantly to driving travel.
 - **Challenges:** Challenging business environment, inadequate transport, information technology, infrastructure and tourist facilities

Government Schemes Promoting Tourism

- PRASHAD
- Swadesh Darshan
- SAATHI
- Dekho Apna Desh
- NIDHI

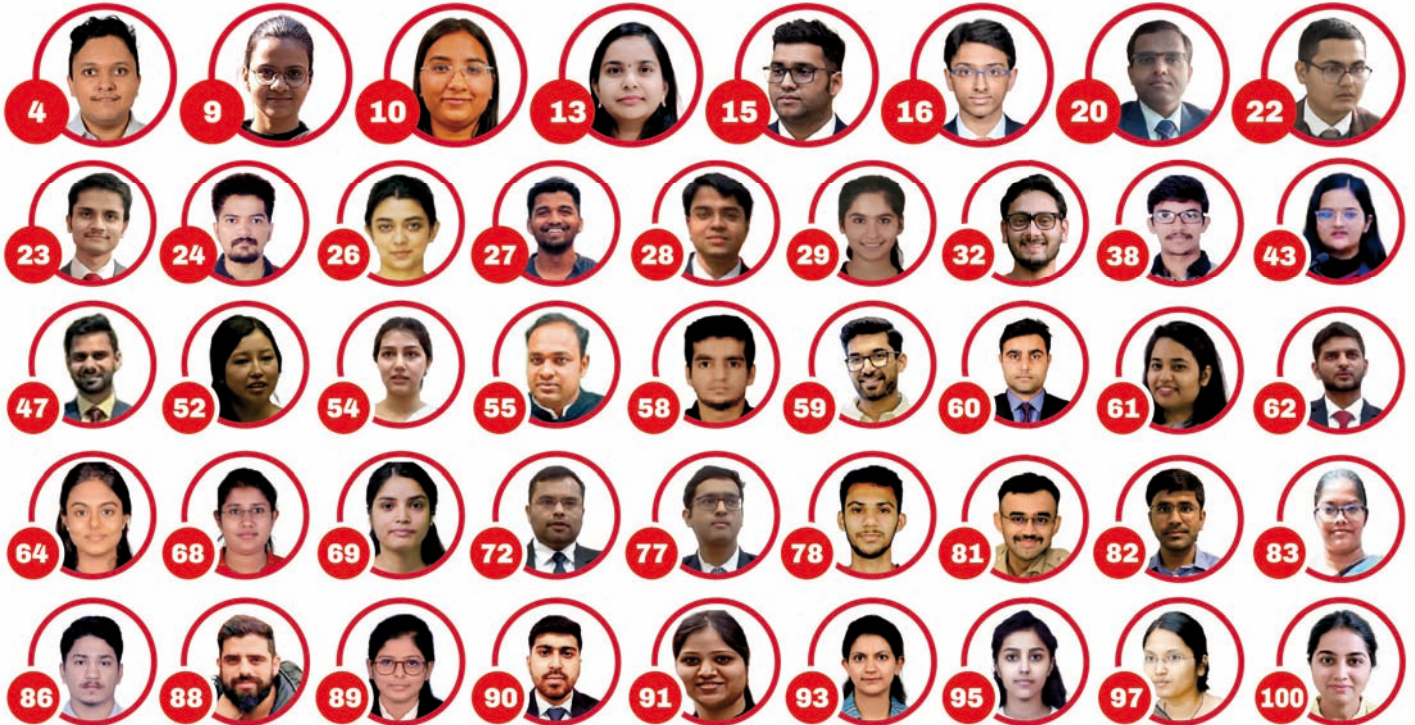
PRACTICE QUESTION

- Q. What measures can be adopted to safeguard cultural heritage sites and promote sustainable tourism in regions vulnerable to security threats?



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TOP 100 ALL INDIA RANKING CSE 2023



TOP 100 ALL INDIA RANKING CSE 2022



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