GS SCORE

An Institute for Civil Services

IAS 2024

INTERVIEW GUIDANCE SERIES

Current Affairs & Major Debates *of* ECONOMY

GROWTH & DEVELOPMENT

1 Manmohan Singh, Architect of Economic Reforms

Preface:

Manmohan Singh, former Prime Minister and Finance Minister of India, passed away on December 26, 2023, at the age of 92. He will always be remembered for playing a pivotal role in saving India's economy during the 1991 economic crisis.

Brief background

- During the 1991 economic crisis, India was on the verge of a **sovereign default (unable to pay off its debts),** with extremely low foreign exchange reserves. The government even had to pledge its gold reserves to raise money.
- This crisis was caused by years of poor economic management, where the government was spending more than it earned, leading to high levels of debt.
- India's economy was also heavily controlled by the government through the **License-Quota Raj,** which restricted business growth and hindered private enterprise.
- In 1991, when Singh took over as Finance Minister in P**.V. Narasimha Rao's government,** he introduced a **series of economic reforms** that transformed India's economic landscape:
  - **Deregulation:** Industries that were previously tightly controlled by the government were opened up for private sector participation.
  - **Trade liberalization:** The government reduced import tariffs (taxes on imports) and removed restrictions on exports.
  - **Devaluation of the rupee:** The Indian currency was made weaker to make Indian products cheaper abroad, boosting exports.

Key Achievements of the Reforms

- **India's Growth in the Global Economy:** The 1991 reforms played a crucial role in increasing India's presence in the global economy.
- According to **World Bank data,** India's share in global GDP (the total economic output of the world) had been declining since the 1960s. However, after the reforms, India's economic growth accelerated, and its share in global GDP began to rise. Today, India is on track to become the **third-largest economy in the world.**
- **Poverty Reduction and Welfare Programs:** Another major achievement of the reforms was a **significant reduction in extreme poverty.** As the economy grew, the government was able to generate more revenue, which it could then use to fund welfare programs aimed at helping the poor.
- Although poverty is still a problem in India, especially in rural areas, the economic growth resulting from the reforms has helped lift millions out of extreme poverty. The reforms also created a cycle of wealth generation, which improved the government's ability to address poverty.
- **Rise of Private Businesses and the Stock Market:** The reforms helped unleash the power of private enterprise. By deregulating industries, businesses were no longer restricted by government controls, allowing them to grow, create jobs, and compete globally.
- The stock market also grew rapidly after the reforms. In the early 1990s, companies like Infosys were able to list their shares on the stock market, which sparked the development of an equity culture in India.

- **Increased Foreign Investment:** Following the reforms, India became a more attractive destination for foreign investors. The liberalization of markets and the opening up of sectors to private businesses helped bring in foreign direct investment (FDI). This investment provided stability to India's economy, even as imports increased.
- The inflow of foreign capital also helped stabilize the Indian rupee and supported the growth of India's stock market.

Challenges That Remain

- **Manufacturing Sector Stagnation:** Despite the impressive growth in sectors like services (IT, software, etc.), India has not been able to boost its manufacturing sector as much as other countries like China.
- The share of manufacturing in India's GDP has remained stagnant since the reforms. This has been a big concern because a strong manufacturing sector can create jobs for millions of people and lead to more inclusive growth.
- Even though India missed the opportunity to become a major manufacturing hub, some states have done better than others in attracting manufacturing investments. Moving forward, India's policymakers need to focus more on building up the manufacturing sector to create more jobs and strengthen the economy.
- **Inequality and Regional Disparities:** While the economic reforms helped reduce extreme poverty, they did not equally benefit all parts of India. Inequalityremains a challenge, with some regions and states growing faster than others. The growth has been more visible in urban areas, while rural regions have seen slower development.
- There is also concern about the growing gap between the rich and poor, as a large chunk of the wealth created by the reforms has been concentrated among a smaller group of people.

Interview Question

Q:1. What were the major economic challenges India faced in 1991, and how did Manmohan Singh's reforms address these challenges?

Q:2. Explain the key components of the 1991 economic reforms introduced by Manmohan Singh. How did each of these reforms contribute to India's economic transformation?

Q:3. How did India's share in global GDP change after the 1991 reforms? Discuss the factors that contributed to this change.

Q:4. What were the long-term impacts of Manmohan Singh's economic reforms on poverty reduction and welfare programs in India?

Q:5. Despite the success of the 1991 economic reforms, what are the continuing challenges India faces in terms of manufacturing growth and regional inequality? How can these challenges be addressed in the future?

2 Inequality & Growth

Preface:

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 and address the adverse impacts of rising inequality. The report highlights that post-liberalization, the income disparity has widened substantially, and India's position in global inequality trends has raised concerns about the sustainability of the growth model.

Key Highlights of the Report:

- **Income Distribution:** The **top 1%** of Indians have seen their share of income rise from **11.5% in 1951** to **22.6% in 2022**, surpassing the income share of the colonial-era period.
  - The **top 10%** of the population now holds **57.7%** of the total national income, up from **36.7%** in 1951.
  - Meanwhile, the **bottom 50%** and **middle 40%** have witnessed declines in their income share, reflecting a growing income gap.

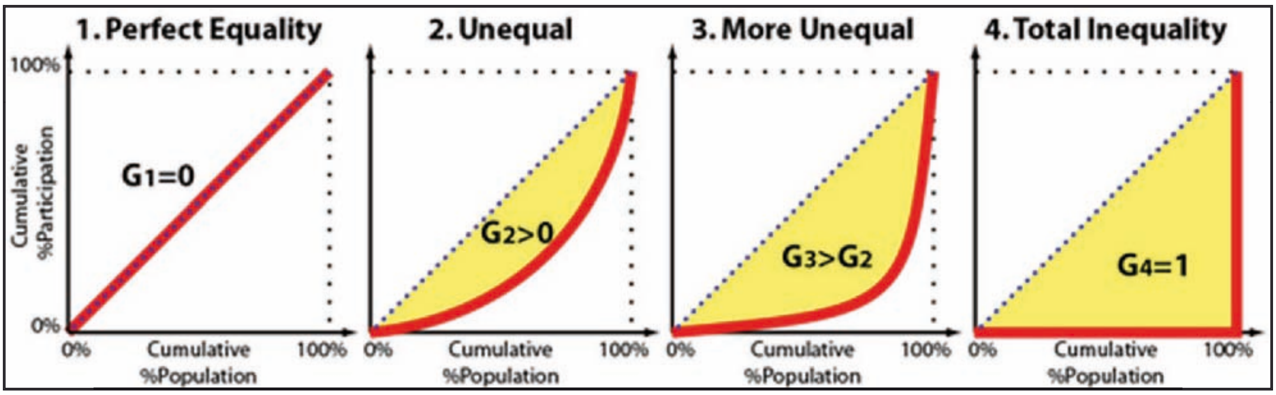
Gini Coefficient:

- The Gini coefficient, which measures income inequality, ranges from 0 (perfect equality) to 1 (perfect inequality). India's Gini coefficient has worsened from 0.36 in 2013 to 0.47 in 2023, highlighting the growing disparity in income distribution within the country.

- **Impact of Liberalization and Post-Liberalization Trends:** Since **1990s liberalization**, the income disparity between the **top 10%** and the **middle 40%** has widened significantly, while the share of the **bottom 50%** has steadily declined.
  - This increasing disparity signals the **uneven** benefits of liberalization and the potential for economic exclusion of large sections of the population.
- **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, indicating that India's inequality is not an isolated issue but part of a broader global challenge.

Required Measures:

- **Policy Interventions:** There is an urgent need for policies that promote **equitable economic growth**, aiming to reduce the widening income gap.
  - **Inclusive growth policies** should focus on improving the income share of the **bottom 50%** while ensuring that the **benefits of growth** reach all sections of society.
  - Failure to act promptly may **undermine social cohesion** and hinder **long-term development**.
- **Sustainable and Inclusive Economic Development:** **Redistribution policies**, such as progressive taxation and welfare programs, could address income disparities and promote social equity.



Interview Questions:

Q:1. **Why is the widening income gap in India a significant concern for social cohesion, and what long-term effects could it have on the country?**

Q:2. **How has economic liberalization since the 1990s contributed to the growing income disparity in India, and what measures could be implemented to address these disparities?**

Q:3. **In comparison to other global economies, how does India's income inequality compare, and what lessons can India learn from other nations' approaches to reducing inequality?**

Q:4. **What role can welfare programs and progressive taxation play in addressing the income disparity between the top 1% and the bottom 50% in India?**

Q:5. **How can inclusive growth be promoted in India, given the current trends of widening income inequality, and what specific policies should be prioritized?**

3 2024 Economics Nobel Prize

Preface:

The **2024 Nobel Prize in Economics** was awarded to **U.S. economists Daron Acemoglu, Simon Johnson, and James A. Robinson** for their groundbreaking studies on how institutions are formed and their impact on prosperity. The Nobel committee recognized the winners for enhancing our understanding of the root causes behind the "**success or failure of nations".**

Significance of Their Work

- The noble prize winners studied the **"global inequality in wealth".**
- The disparity between rich and poor nations has long puzzled economists.
- Currently, the richest 20% of countries have an average income 30 times greater than that of the poorest 20%.
- Various theories have attempted to explain this divergence, ranging from historical colonialism to differences in natural resources and even intelligence.
- However, Acemoglu, Johnson, and Robinson argue that the primary explanation lies in the quality of economic and political institutions.
- Their influential 2012 book, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, along with their collaborative paper from 2004, emphasizes that:
  - **inclusive institutions**—characterized by secure property rights and democracy—promote economic growth
  - **whereas extractive institutions**—marked by insecurity and lack of political freedom—lead to stagnation and poverty

Why is there a "Wealth Gap" between nations?

- The wealth gap between nations refers to the significant differences in income and prosperity that exist across countries. Some nations that were once rich have become poor, particularly after experiencing
- Economists Daron Acemoglu, Simon Johnson, and James A. Robinson have explored this issue, focusing on the **role of societal institutions** established during colonization.
- **The Role of Institutions:** Institutions are the rules and systems that govern how a society operates. They include laws, political structures, and economic policies. The quality of these institutions can greatly influence a country's economic success or failure.

Inclusive vs. Extractive Institutions

- **Inclusive Institutions:** These institutions provide secure property rights, promote political participation, and encourage investment. They allow individuals to work hard and benefit from their efforts. Countries that adopted inclusive institutions tend to become more prosperous over time.

- **Extractive Institutions:** In contrast, extractive institutions concentrate power and wealth in the hands of a few. They often lack protection for property rights and discourage investment. Countries with extractive institutions struggle to achieve economic growth and often remain poor.

- **Impact of Colonization:** Institutions are described as the **"rules of the game"** that shape individual incentives in economic interactions. During colonization, different types of institutions were established in various regions:
  - **Inclusive institutions:** In areas where colonizers intended to settle and build a future, inclusive institutions were often created. For example, in North America, these institutions supported long-term economic development.
  - **Extractive institutions**: In regions where colonizers did not settle, they established extractive institutions aimed at exploiting resources quickly. This approach can be seen in parts of Africa and Asia, including India, where the focus was on extraction rather than growth.

Interview Question

Q:1. Explain the key contributions of Daron Acemoglu, Simon Johnson, and James A. Robinson to the study of global inequality. How did their work challenge traditional theories about wealth disparities between nations?

Q:2. What are the differences between inclusive and extractive institutions as defined by the Nobel laureates? Provide examples of countries or regions where each type of institution has had a significant impact on economic development.

Q:3. What role do societal institutions play in shaping individual economic incentives and outcomes? How can changes in the structure of these institutions lead to shifts in national prosperity?

4 10 Years of 'Make in India'

Context:

The 'Make in India' initiative, which aims to transform India into a global manufacturing hub was launched on September 25, 2014 and has completed a decade into existence.

- **About 'Make in India' Initiative:** The **'Make in India'** initiative aims to establish India as a **global manufacturing hub**. Over the past decade, it has focused on **enhancing investment, fostering innovation, and developing a robust manufacturing infrastructure.**
- **Objectives**: The campaign promotes investment, skill development, intellectual property protection, and aims to enhance India's manufacturing capabilities.
- **Vocal for Local**: It emphasizes boosting local manufacturing while showcasing India's industrial potential globally.
- **Make in India 2.0**: This phase encompasses 27 sectors, integrating both manufacturing and services.

Four Pillars of the Initiative

- **New Processes**: Enhancing the business environment and promoting entrepreneurship through improved ease of doing business.
- **New Infrastructure**: Development of industrial corridors and smart cities, integrating technology and communication to improve infrastructure and IPR.
- **New Sectors**: Opening FDI in critical sectors such as defense, insurance, and railways.
- **New Mindset**: Shifting the government's role from regulation to facilitation, partnering with industry for economic development.

Key Achievements of Make in India

- **Mobile Manufacturing Growth**: From just **two mobile manufacturing units in 2014**, the number has skyrocketed to **over 200**. Mobile exports surged from **?1,556 crore to ?1.2 lakh crore**, a remarkable **7,500% increase**. Today, **99% of mobile phones** used in India are domestically produced, positioning India as the **second-largest mobile manufacturer**
- **Steel and Semiconductor Production**: India has become a **net exporter of finished steel**. Investments in semiconductor manufacturing exceeded **?1.5 lakh crore**, with new plants projected to produce over **seven crore chips daily**.
- **Renewable Energy Expansion**: India is now the **4th largest producer** of renewable energy globally, with capacity increasing by **400%** in the past decade.
- **Electric Vehicle Industry**: The electric vehicle sector, nearly non-existent in 2014, has grown to a market worth **$3 billion**.
- **Defence Exports**: Defence exports have surged from **?1,000 crore to ?21,000 crore**, reaching more than **85 nations**.
- **Toy Industry Success**: The toy industry has witnessed a **239% increase** in exports while imports have halved, significantly benefiting local manufacturers.
- **Empowerment of MSMEs**: The initiative has empowered ordinary citizens, especially within the **Micro, Small and Medium Enterprises (MSME)** sector, fostering entrepreneurship and wealth creation.
- **Production Linked Incentive (PLI) Schemes**: PLI schemes have attracted thousands of crores in investments and created millions of jobs, improving the ease of doing business.
- **Cultural and Industrial Pride**: Iconic projects like **Vande Bharat trains**, **BrahMos missiles**, and various consumer electronics proudly carry the **Make in India** label, reflecting Indian innovation and quality.

Key Initiatives to enable Make in India

- **Production Linked Incentive (PLI) Schemes**: These schemes attracts investment and promotes technology in 14 key sectors to enhance global competitiveness.
- **PM GatiShakti**: It is a strategic initiative for creating multimodal connectivity to achieve a $5 trillion economy by 2025, driven by seven engines: **Railways, Roads, Ports, Waterways, Airports, Mass Transport, and Logistics Infrastructure.**
- **Semiconductor Ecosystem Development**: It encompasses four key schemes:
  - Modified Scheme for Setting Up Semiconductor Fabs in India
  - Modified Scheme for Setting Up Display Fabs in India
  - Modified Scheme for Setting Up Compound Semiconductors, Silicon Photonics, Sensors Fabs, and Discrete Semiconductors, along with Semiconductor Assembly, Testing, Marking, and Packaging (ATMP) / OSAT Facilities in India
  - Design Linked Incentive (DLI) Scheme
- **National Logistics Policy**: Complementing PM GatiShakti, it enhances the logistics sector's soft infrastructure through the Comprehensive Logistics Action Plan (CLAP).
- **National Industrial Corridor Development Programme**: It focuses on creating smart cities and advanced industrial hubs.
- **Startup India**: Supports entrepreneurs and aims to shift India into a job-creating economy.
- **Implementation of GST**: It streamlines taxation to facilitate manufacturing and trade.
- **Unified Payments Interface**: It aims to bolster India's digital economy, enhancing ease of doing business.
- **Ease of Doing Business**: Continuous efforts to simplify regulations and reduce bureaucratic hurdles to boost investor confidence.

Interview Questions

Q:1. **What were the primary objectives of the 'Make in India' initiative when it was launched in 2014? How have these objectives evolved over the past decade?**

Q:2. **Describe the four pillars of the 'Make in India' initiative. How do they contribute to transforming India into a global manufacturing hub?**

Q:3. **Discuss the key achievements of the 'Make in India' initiative in various sectors, such as mobile manufacturing, steel production, and renewable energy. How have these achievements impacted India's global manufacturing position?**

Q:4. **How has the mobile manufacturing industry in India evolved under the 'Make in India' initiative? What role did mobile exports play in boosting the sector's growth?**

Q:5. **What is the significance of the Production Linked Incentive (PLI) schemes? How have these schemes contributed to attracting investment and enhancing the competitiveness of Indian industries?**

5 Economic Slowdown

Preface:

Union Finance Minister Nirmala Sitharaman addressed concerns about a **potential slowdown in the Indian economy**, seeking to reassure both domestic and global audiences that there was no cause for undue worry. Her remarks were made in the context of growing apprehension about weakening economic indicators, such as **faltering urban demand and weak corporate results**, which some analysts have linked to a **"cyclical slowdown."**

What is economic slowdown?

- An **economic slowdown** refers to a period when the growth rate of a country's economy slows down significantly.
- It is characterized by:
  - a reduction in economic activity, typically measured by **lower GDP growth**
  - weakening industrial output
  - faltering consumer demand
  - reduced business investment
- In India's case, a slowdown is marked by weak urban demand, poor corporate earnings, and a dip in high-frequency economic indicators, such as production and consumption, which some economists attribute to **cyclical factors**, rather than structural changes.
- A slowdown may be temporary, or it could be part of a larger economic transition.

Cyclical slowdown	Structural slowdown
• A cyclical slowdown occurs as part of the natural business cycle, driven by fluctuations in economic activity. • It happens when the economy slows after a period of rapid growth, often triggered by factors such as reduced consumer spending, lower business investment, or high inflation.	• A structural slowdown is a **more prolonged, deep-rooted slowdown** that results from fundamental changes in the economy. • These changes can be due to shifts in industries, demographics, technological advancements, or global competition.

- **Characteristics:**
  - Typically short-term.
  - Linked to economic cycles like **recessions and expansions.**
  - Often resolved when the cycle moves into a recovery phase.
- **Example:** A slowdown during a recession, where demand falls, corporate profits decline, and unemployment rises, but the economy recovers as it moves out of the recession.

- **Characteristics:**
  - Long-term or permanent in nature.
  - Caused by structural factors such as **technological disruption, deindustrialization, or changes in the workforce.**
  - Difficult to reverse without significant policy intervention or restructuring.
- **Example:** An economy facing slow growth due to a decline in traditional industries (e.g., manufacturing) and the rise of automation or digital technologies that disrupt labor markets.

Interview Question

Q:1. What is the difference between a cyclical slowdown and a structural slowdown? Provide examples of each type using the context of the Indian economy.

Q:2. In the context of India, what factors are contributing to the current economic slowdown, and how do they fit into the framework of a cyclical slowdown?

Q:3. How does a cyclical slowdown impact consumer demand, corporate earnings, and business investment? Provide examples from India's current economic situation.

Q:4. Why are structural slowdowns considered more challenging to address compared to cyclical slowdowns? Discuss potential structural challenges India might face in the future.

Q:5. Finance Minister Nirmala Sitharaman has reassured stakeholders about the slowdown in the Indian economy. What measures could the government take to address both cyclical and structural aspects of the slowdown?

6 World Development Report 2024: The Middle-Income Trap'

Preface:

As per the World Bank's 'World Development Report 2024: The Middle-Income Trap' report, it may take India close to 75 years, China more than 10 years, and Indonesia nearly 70 years to reach one-quarter of the United States' income per capita.

Highlights of the Report:

- The report mentions the data from the past 50 years shows that countries usually hit a "trap" when they reach 10 percent of the annual **US GDP per capita or middle of the range** as per what the World Bank classifies as middle-income countries — equivalent to 8,0000 dollars as on date.
- By 2023-end, **108 countries** with a total population of six billion (75 per cent of the world) were classified as 'middle-income'.
- **What is Per-capita Income?** Per capita income is a measure of the **amount of money earned per person in a nation or geographic region.**
  - Per capita income is used to determine the average per-person income for an area and to evaluate the standard of living and quality of life of the population.

- **Classification of Countries based on Income Per capita:** Based on per capita income, the World Bank has broadly classified countries into four categories.
    - Low-income countries,
    - Lower-middle income countries,
    - Higher-middle income countries, and
    - High-income countries.

Why transition from a middle-income country to a higher status is majorly a Trap?

- **Shift towards higher value economy**: To progress from middle to high income, a country needs to **increase the productive output of its economy**. At lower levels of development, this involves a structural shift from agricultural production to the manufacture of goods and increasingly, the provision of high-value services.
- **Increasing modern technologies dependence:** Agriculture remains important to output and additional increases in farm productivity raise income through mechanization and the application of modern technologies.
- At the same time, the demand for rural labor falls and this excess or "surplus" labor can be utilized in an expanding manufacturing sector.
- The competitiveness of such output depends, in no small part, on relative labor costs. Labor is employed at higher levels of productivity than in agriculture but at wage levels sufficiently low to ensure that the output can be priced and marketed competitively.
- Thus, a common growth strategy for low-income countries is to expand into low-wage, low-cost, low-technology manufacturing in such items as textiles and food processing.
- Manufacturing adds to the total productive output of the economy, thus increasing income per capita.
- This pattern is adequate to move a country from low to middle income but growth will be limited if the national competitive strategy remains rooted in low-end manufacturing.

Limitations of Per Capita Income:

- **Living Standards:** Since per capita income uses the overall income of a population and divides it by the total number of people, it doesn't always provide an accurate representation of the standard of living. In other words, the data can be skewed, whereby it doesn't account for income inequality.
- **Inflation:** Per capita income doesn't reflect inflation in an economy, which is the rate at which prices rise over time. For example, if the per capita income for a nation rose from $50,000 per year to $55,000 the next year, it would register as a 10% increase in annual income for the population.
- **International Comparisons:** The cost-of-living differences can be inaccurate when making international comparisons since exchange rates are not included in the calculation. Critics of per capita income suggest that adjusting for purchasing power parity (PPP) is more accurate, whereby PPP helps to nullify the exchange rate difference between countries.
- **Savings and Wealth:** Per capita income doesn't include an individual's savings or wealth. For example, a wealthy person might have a low annual income from not working but might draw from savings to maintain a high-quality standard of living. The per capita metric would reflect the wealthy person as a low-income earner.
- **Children:** Per capita includes children from the total population who don't earn any income. Countries with many children would have a skewed result since they would have more people dividing up the income versus countries with fewer children.
- **Economic Welfare:** The welfare of the people isn't necessarily captured with per capita income. For example, the quality of work conditions, the number of hours worked, education level, and health benefits are not included in per capita income calculations. As a result, the overall welfare of the community may not be accurately reflected.

- **Interview Question**

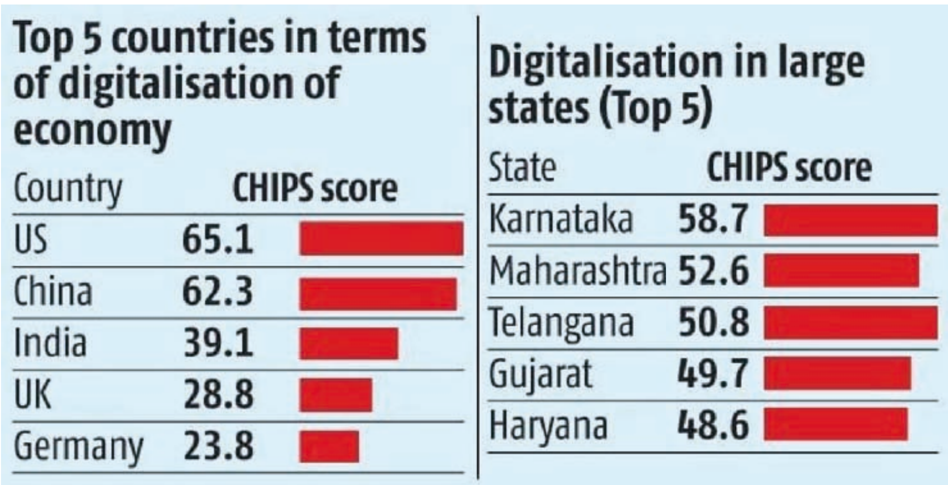
Q:1.	**What is the concept of the 'Middle-Income Trap' as discussed in the World Bank's World Development Report 2024? How does it affect countries like India, China, and Indonesia?**
Q:2.	**According to the World Bank's report, what challenges do countries face when transitioning from a middle-income to a high-income economy? How does this transition impact the growth strategies of developing nations?**
Q:3.	**How does the World Bank classify countries based on per capita income? What are the limitations of using per capita income as an indicator of economic welfare?**
Q:4.	**Discuss the role of modern technology and labor costs in the structural shift required for countries to move from low-income to middle-income status, as explained in the World Bank's 2024 report.**
Q:5.	**What are the potential drawbacks of using per capita income as a measure of standard of living? How do factors like inflation, income inequality, and purchasing power parity impact its accuracy?**

7 Digitalisation in the Indian Economy

- **Preface:**

India is the third-largest digitalised country in the world, following the USA and China, according to the **State of India's Digital Economy Report, 2024 by ICRIER.** Despite impressive progress, India faces challenges in terms of internet access, gender divide, and rural-urban disparity.

- **Key Findings:**



Top 5 countries in terms of digitalisation of economy

Country	CHIPS score
US	65.1
China	62.3
India	39.1
UK	28.8
Germany	23.8

Digitalisation in large states (Top 5)

State	CHIPS score
Karnataka	58.7
Maharashtra	52.6
Telangana	50.8
Gujarat	49.7
Haryana	48.6

- **India outperforms developed nations like the UK, Germany, and Japan in overall digitalisation.**
- **Ranked** 12th **in individual user digitalisation among G20 countries.**
- **Over** 83 billion UPI transactions **in FY2022-23, the highest globally.**
- **Growth driven by** smartphones, internet connectivity, **and** Digital India **initiatives.**
- **Key sectors:** Digital communications, financial services, IT-BPM, agriculture, **and** healthcare.

- **Challenges:**
  - 48% **of Indians lack internet access.**

- Gender gap **in connectivity:** 10% **(higher than the global average of 9%).**
- Rural-urban divide **in internet access:** 58% **(higher than the world average of 49%).**
- **Poor** fixed-line internet quality.

Required Measures:

- **Expand** internet access **in rural areas.**
- **Improve** internet quality **and** broadband **networks.**
- **Address the** gender and rural-urban divides **in internet connectivity.**
- **Focus on** digital literacy **for effective usage.**

Interview Questions:

Q:1. **What factors have contributed to India's rise as the third-largest digitalised country, and how can this growth be sustained?**

Q:2. **Despite India's high volume of real-time digital payments, what challenges remain in terms of internet access and quality across the country?**

Q:3. **How can government initiatives like Digital India and India Stack further help bridge the digital divide in rural India?**

Q:4. **India has made significant progress in digitalisation, yet gender and rural-urban divides persist. What specific measures can be taken to address these disparities?**

Q:5. **What is the significance of the CHIPS framework, and how does it help in assessing and improving a country's digitalisation?**

Q:6. **India is ranked 12th in terms of digitalisation among G20 countries at the individual user level. What steps can India take to improve this ranking?**

Q:7. **How do sectors like agriculture, healthcare, and manufacturing benefit from digitalisation, and what is their potential for further growth?**

8 India's Rapid Urbanisation

Preface:

October 31 is observed every year as **World Cities Day**. The world's urban population has reached an estimated 4.7 billion, or 57.5% of the world's total population, with projections to double by 2050. The theme for this year's World Cities Day is *'Youth Climate Changemakers: Catalysing Local Action for Urban Sustainability'.*

Challenges faced by cities

- Cities are confronting unprecedented challenges, particularly due to climate change.
- Despite progress towards Sustainable Development Goals (SDGs), issues such as poverty, inequality, and environmental degradation persist.
- In the Global South, challenges are compounded by rapid urbanization, inadequate infrastructure, and limited resources. **Common issues include:**
  - Housing shortages
  - Poor access to clean water and sanitation
  - Increased vulnerability to climate-related events

Key Urban Challenges in India

- **Lack of Current Data:** The absence of a 2021 Census hampers accurate assessments of urban population and planning.

- **Inadequate Spatial Planning:** Urban planning is often outdated, failing to accommodate population growth and changes in demographics.
- **Economic Changes:** Deindustrialization since the 1980s has resulted in job losses in major cities, with 40% of the urban population now residing in slums.
- **Climate Change Impact:** Cities face severe pollution, flooding, and heat island effects. Eight out of the ten most polluted cities in India are in the National Capital Region (NCR) around Delhi.
- **Social Segregation:** Urban areas are increasingly divided along social and religious lines, with a widening gap between affluent developments and those lacking basic housing.
- **Informal Sector Vulnerability:** Approximately 90% of city jobs are in the informal sector, characterized by poor working conditions and lack of job security.
- **Governance and Planning Issues**: Despite the 74th Constitutional Amendment aimed at decentralizing urban governance, many Indian cities remain under the control of undemocratic bodies.

Interview Question

Q:1. What are the main challenges faced by cities in the Global South, and how do they differ from those in the Global North? Discuss in the context of India's urbanization.

Q:2. Explain the term "poverty-driven urbanization" and how it applies to India's rapid urbanization. How does this trend differ from urbanization in Western countries?

Q:3. What are the key issues arising from inadequate urban infrastructure in India, and how did the COVID-19 pandemic highlight these gaps?

Q:4. What are the social and economic consequences of the informal sector's dominance in Indian cities, where approximately 90% of urban jobs are in this sector?

Q:5. Analyze the role of governance in urbanization challenges. How does decentralization through the 74th Constitutional Amendment impact urban planning and governance?

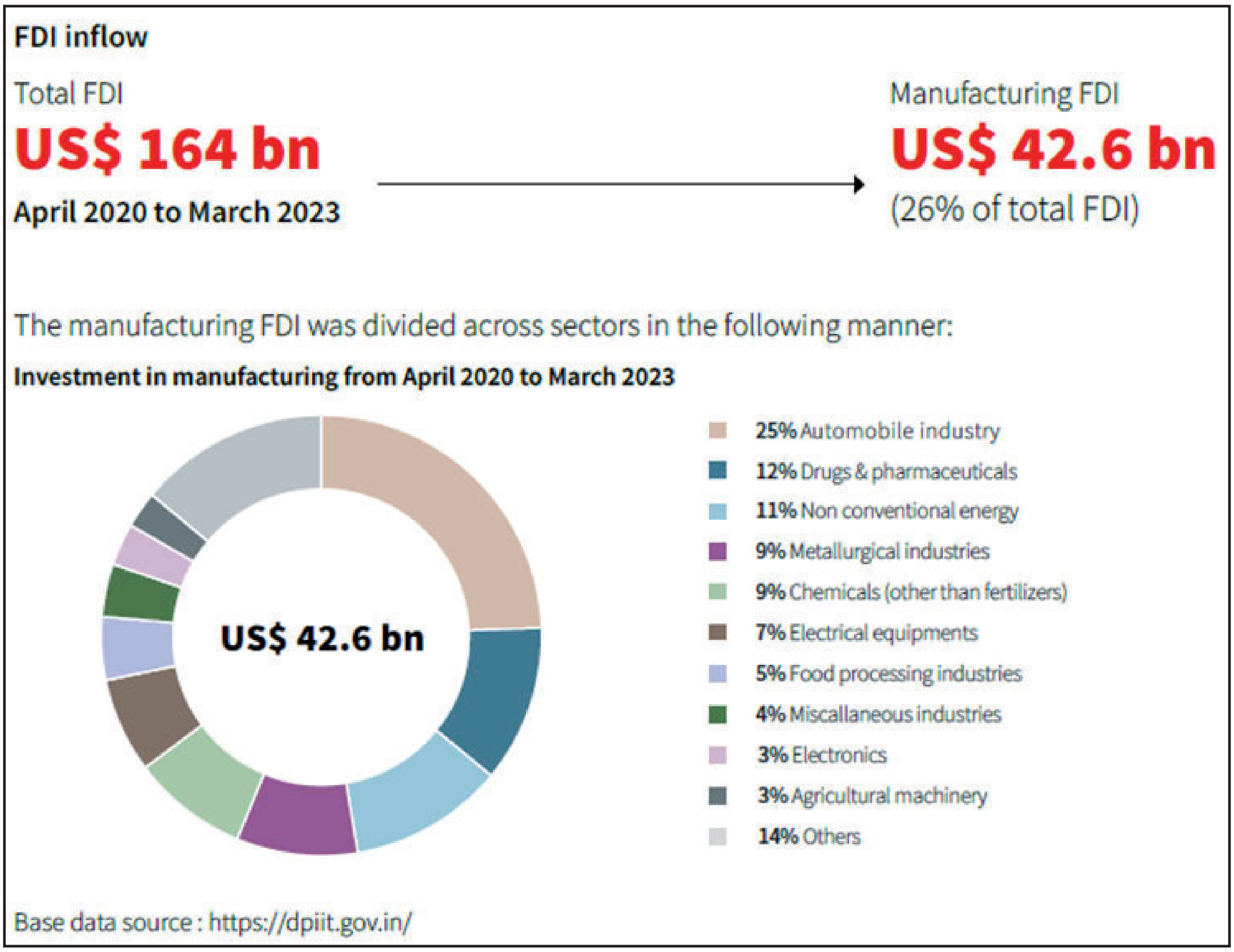
9 India's Manufacturing Landscape

Preface:

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.**

UPSC Interview Question

Q:1. **What are the key steps needed to increase India's manufacturing sector's contribution to GDP by 2025?**

Q:2. **How can India address the skill development gap in the manufacturing sector, particularly in advanced manufacturing?**

Q:3. **What impact have initiatives like PLI and Make in India had on India's manufacturing growth, and what further measures are needed?**

Q:4. **How can India overcome the challenges related to industrial infrastructure, such as logistics and power supply, to boost manufacturing?**

Q:5. **What role does manufacturing diversification play in reducing India's dependency on labour-intensive methods?**

Q:6. **How can India improve its global competitiveness in manufacturing, given the competition from countries like China and South Korea?**

10 India's Logistics Sector

Preface:

The logistics sector in India made significant progress in 2024 towards achieving the goals outlined in the **National Logistics Policy (NLP)** launched in 2022. The sector saw improvements in efficiency, cost reduction, and infrastructure, driven by key government initiatives and reforms.

Current status of India's Logistics Sector

- The logistics sector contributes around **13-14% to GDP** and provides livelihood for more than 22 million people.
- It enables **timely delivery, decreases costs, and enhances competitiveness**, crucial for thriving businesses.
- The logistics industry employs over 22 million people in India, making it a significant contributor to the country's employment landscape.
- The demand for India's logistics sector is expected to rise significantly due to several key factors.
- **India's projected GDP growth** of USD 26 trillion by fiscal year 2048 (with USD 6 trillion by 2030) and the goal of boosting merchandise exports to USD 1 trillion by 2030 will create substantial opportunities for the transport and logistics industry.
- Projections suggest that the sector will grow at a CAGR of 4.5 per cent from 2022 to 2050, reaching 15.6 trillion tonnes.

Key Developments in 2024:

- **Logistics Cost Reduction**: India's logistics cost remains high at 10-14% of GDP, but the government aims to reduce this. Efforts to lower logistics costs were emphasized after India improved its **World Bank Logistics Performance Index** ranking to 38th globally in 2023.
- The **Goods and Services Tax (GST)** has notably cut waiting times at state borders, reducing truck travel time by nearly **30%**, thereby helping to reduce logistics costs and increasing the average distance trucks travel.
- **Infrastructure and Investment**: The logistics sector saw significant investments in infrastructure, with a **1% increase** in capital expenditure for infrastructure development. This growth aligns with India's ambition to become a **$5 trillion economy by 2027**.
- Progress in **multi-modal connectivity** was marked by improvements in rail, waterway, and highway infrastructure. The **Sagar Sethu maritime portal** and other digital initiatives like the **Coastal Shipping Bill** and **Sagar Ankalan portal** are helping to modernize port logistics.
- **Digital Transformation and Policy Support**: The logistics industry experienced transformative changes in 2024, including deeper **digital adoption** and enhanced focus on **risk management**.
- The **One Network for Digital Commerce (ONDC)** and government-backed initiatives like **UDAN** (to promote regional air connectivity) contributed to enhanced logistics efficiency.
- **Growth Prospects**: The logistics sector, valued at **USD 250 billion** and contributing **14%** to India's GDP, is expected to continue growing, supported by increased e-commerce demand, faster delivery needs, and expanding exports.

Challenges and Future Focus:

- Despite significant progress, there is need for **further technology integration** to reduce logistics costs and improve the ease of doing business.
- Maritime connectivity projects identified in the Union Budget with an outlay of Rs 75,000 crore need to be expedited to strengthen coastal transportation.

Interview Questions

Q:1. What are the key goals of India's National Logistics Policy (NLP), and how have these goals been progressing in 2024?

Q:2. How has the Goods and Services Tax (GST) contributed to the reduction of logistics costs in India? Discuss its impact on truck travel time and overall efficiency.

Q:3. What role does digitalization and technology adoption (like RFID and GPS) play in enhancing the efficiency of India's logistics sector?

Q:4. What are the key infrastructure developments that have been made in India's logistics sector in 2024? How do these developments contribute to improved logistics efficiency?

Q:5. How do Multi-modal Logistics Parks contribute to the efficiency of India's logistics sector? What are the advanced facilities provided in these parks?

11 Gross Fixed Capital Formation (GFCF)

Preface:

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.

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.

UPSC Interview Question

Q:1. **Why is the failure of private investment, as indicated by low GFCF, a concern for India's economic growth?**

Q:2. **What role does GFCF play in improving living standards and boosting economic output?**

Q:3. **What factors have led to the decline in private investment and GFCF in India since 2011-12?**

Q:4. **How can boosting private consumption expenditure contribute to reversing the decline in GFCF?**

Q:5. **What measures can the government take to encourage private investment in fixed capital?**

12 India Planning Global Trade Promotion Body for MSMEs

Preface:

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.

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
  - 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

EXISTING AND REVISED DEFINATION OF MSMEs

EXISTING MSME CLASSIFICATION

CRITERIA: INVESTMENT IN PLANT & MACHINERY EQUIPMENT

Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment <₹25 lakh	Investment <₹5 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 & Services	Investment <₹1 crore & Turnover <₹5 crore	Investment <₹10 crore & Turnover <₹50 crore	Investment <₹20 crore & Turnover <₹100 crore

UPSC Interview Question

Q:1. How will the establishment of the GTPO help in addressing India's growing trade deficit?

Q:2. What benefits will the GTPO provide to MSMEs that are currently unable to tap international markets?

Q:3. Why is it important for the GTPO to have branch offices in major global economies?

Q:4. What challenges might the GTPO face in promoting MSME exports, and how can they be addressed?

Q:5. How can the GTPO contribute to India's long-term economic growth and international trade relations?

13 Economic Redistribution in India

Preface:

- 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.
  - 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.

Interview Questions

Q:1. How do the Directive Principles of State Policy (DPSP) address the issue of wealth concentration in India?

Q:2. What role does the balance between Fundamental Rights and DPSP play in promoting social and economic justice?

Q:3. How has the shift to a market-driven economy impacted wealth inequality in India?

Q:4. What are the challenges in balancing wealth redistribution with economic efficiency and growth?

Q:5. How can India ensure inclusive growth while pursuing liberalization and privatization policies?

14 Low Wages and impact on Indian Economy

Preface:

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.

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**: 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.

- **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.

> - **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.***

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.

Interview Questions:

Q:1. What are the key factors contributing to low wages among daily wage workers in India?

Q:2. How do informal sector challenges impact the overall economy of India?

Q:3. What are the potential economic benefits of replacing the current minimum wage system with a living wage?

Q:4. How can policy interventions improve the living standards and financial stability of daily wage workers?

Q:5. What role do education and skill development play in addressing the issues faced by daily wage workers?

15 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.

Interview Questions:

Q:1. What is the financing gap for universal social protection in low- and middle-income countries, and why is it critical to address?

Q:2. How do regional disparities impact the implementation of social protection systems globally?

Q:3. What role do progressive taxation and better debt management play in financing universal social protection?

Q:4. How can the climate crisis be integrated into social protection frameworks to ensure sustainability?

Q:5. What are the key challenges in achieving universal social protection, and how can international cooperation help?

16 Minimum Wage vs Living Wage

Preface:

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.

WHAT'S THE DIFFERENCE?

LIVING WAGE Takes into account basic expenses such as housing, food, clothing, education and healthcare, and standard of living

MINIMUM WAGE Based on labour productivity and skillsets

Living wages higher than minimum wages

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.

Interview Questions

Q:1. Why is India transitioning from a minimum wage to a living wage, and how will this impact the workforce?

Q:2. What are the challenges in implementing minimum wage regulations across India's diverse states?

Q:3. How does the shift to a living wage improve socio-economic conditions beyond just income?

Q:4. What role can the ILO play in developing a framework for transitioning to a living wage in India?

Q:5. What impact will the implementation of a living wage have on India's informal/ unorganized sector?

17 Digital Public Infrastructure

Context:

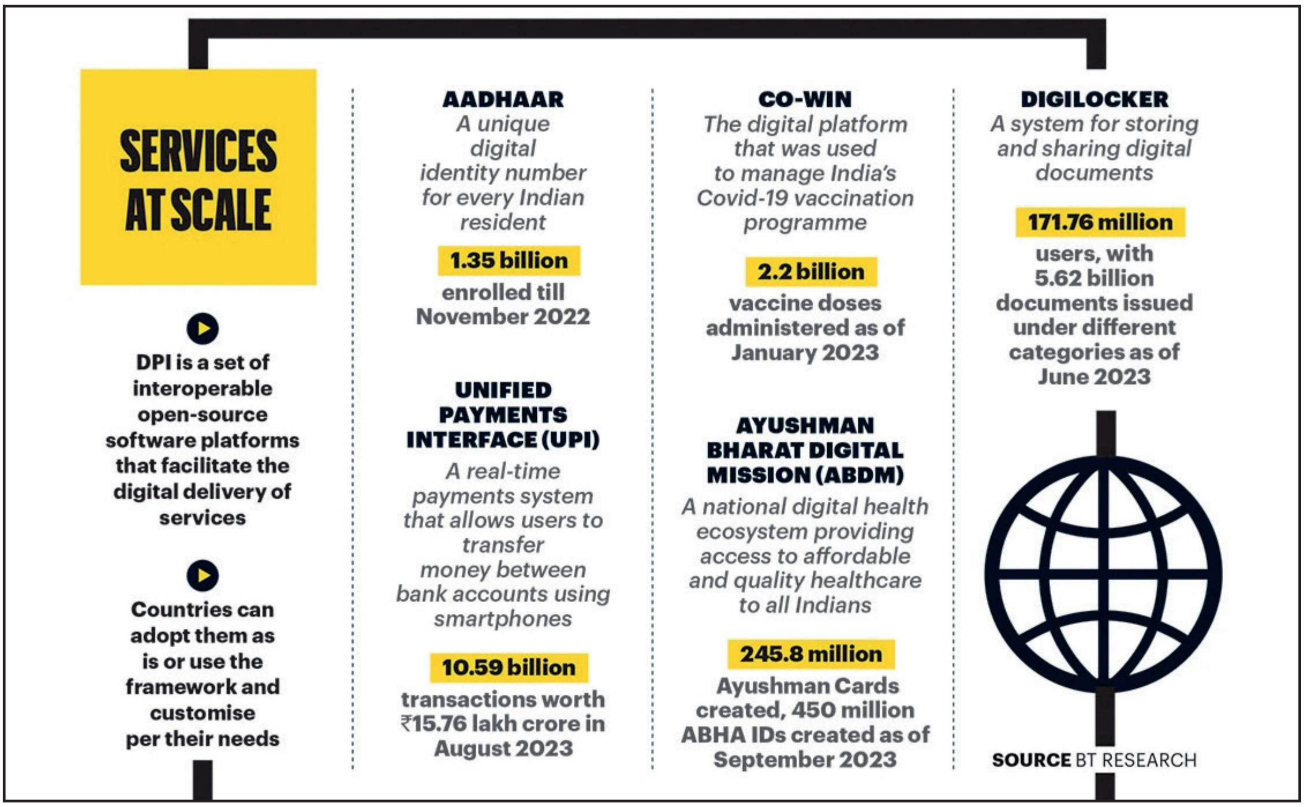
Digital Public Infrastructures (DPIs) are projected to drive India towards a $1 trillion digital economy by 2030, contributing to its goal of becoming an $8 trillion economy.

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

- **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.

Interview Questions:

Q:1. How do India's Digital Public Infrastructures (DPIs) contribute to its goal of becoming a $1 trillion digital economy?

Q:2. What makes India's approach to Digital Public Infrastructures unique compared to global "big tech" models?

Q:3. Can you discuss the importance of public-private collaboration in the development of DPIs?

Q:4. How do Digital Public Infrastructures promote inclusive development and service delivery?

Q:5. What challenges might arise in ensuring data privacy and security within India's DPIs?

18 Universal Basic Economy and India's Poverty

Preface:

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.

Interview Questions:

Q:1. What are the main benefits and challenges associated with implementing Universal Basic Income (UBI) in India?

Q:2. How does UBI help break the cycle of generational poverty in underprivileged communities?

> **Q:3. Do you believe UBI could reduce inequality in Indian society? Why or why not?**
> **Q:4. How would UBI impact local economies, particularly in slum areas?**
> **Q:5. What are the potential financial sustainability issues of a nationwide UBI program?**

19 Household Consumption Expenditure Survey (HCES)

Preface:

The **Household Consumption Expenditure Survey (HCES) 2023-24** has been recently released by the Ministry of Statistics and Programme Implementation (MoSPI).

Household Consumption Expenditure Survey (HCES)

- **HCES** is conducted by the **Ministry of Statistics and Programme Implementation (MoSPI)**.
- The survey collects data on what households in India spend on goods and services.
- This data helps in understanding trends in **economic well-being**, updating the **Consumer Price Index (CPI)**, and measuring **poverty**, **inequality**, and **social exclusion**.
- The survey also helps update the **basket of goods and services** used for calculating the CPI and tracks changes in the standard of living.
- **HCES 2023-24**: Ongoing from **August 2023 to July 2024**. The **summary results** for this year have been released in the form of a **factsheet**.

Key Findings of HCES: 2023-24

- *Average Monthly Per Capita Consumption Expenditure (MPCE):* **Without imputed values for free items**:
  - **Rural MPCE**: Rs 4,122
  - **Urban MPCE**: Rs 6,996
- **With imputed values for free items** (like government benefits):
  - **Rural MPCE**: Rs 4,247
  - **Urban MPCE**: Rs 7,078
- Comparison with Last Year (2022-23)
  - **Nominal increase** in MPCE (compared to 2022-23):
  - Rural areas: **+9%**
  - Urban areas: **+8%**
  - **Rural-Urban Gap**: The gap in MPCE has narrowed:
  - In 2022-23: **84% higher in urban areas**
  - In 2023-24: **70% higher in urban areas**
- This means that **rural consumption** is growing at a faster pace.
- Increase in Consumption for Bottom 5-10%
- The **bottom 5-10%** of the population (ranked by consumption) has seen the **highest increase in MPCE**, both in **rural** and **urban** areas, indicating more inclusive growth.
- **Inequality in Consumption**
  - **Consumption Inequality**: The survey measures how evenly or unevenly consumption is distributed across different households using the **Gini coefficient**.
  - **Rural Areas**: The Gini coefficient dropped from **266** in 2022-23 to **0.237** in 2023-24, indicating a **decline in inequality**.

- **Urban Areas**: The Gini coefficient dropped from **314** in 2022-23 to **0.284** in 2023-24, also showing reduced inequality.

State-wise Variation

- **Top States in MPCE**:
  - **Rural MPCE**: Highest in **Sikkim** (Rs 9,377) and lowest in **Chhattisgarh** (Rs 2,739).
  - **Urban MPCE**: Highest in **Sikkim** (Rs 13,927) and lowest in **Chhattisgarh** (Rs 4,927).
- **Top UTs in MPCE**:
  - **Chandigarh** has the highest MPCE in both rural (Rs 8,857) and urban (Rs 13,425) areas.
  - **Dadra and Nagar Haveli** and **Daman and Diu** have the lowest MPCE in rural areas (Rs 4,311), while **Jammu & Kashmir** has the lowest in urban areas (Rs 6,327).

Key Observations

- **Non-food Items Dominate Expenditure**: Both in rural and urban India, **non-food items** contribute more to total consumption, with categories like **conveyance**, **clothing**, **durable goods**, and **entertainment** being major contributors.
- **Consumption Patterns**: In both rural and urban India, **beverages and processed foods** contribute the most to food-related expenditure.
- **Improvement in Inequality**: There is a clear decline in **income inequality** between 2022-23 and 2023-24, both in rural and urban areas.

Interview Question

Q:1. **What do the findings regarding rural and urban consumption trends indicate about the economic disparity in India?**

Q:2. **How have social welfare schemes influenced rural consumption patterns in India?**

Q:3. **Why has there been a shift in the food-to-non-food expenditure ratio, especially in rural areas?**

Q:4. **What is the significance of the narrowing consumption gap between rural and urban India?**

Q:5. **How does income inequality impact consumption expenditure, according to the survey?**

20 Link between GDP Growth & Employment

Preface:

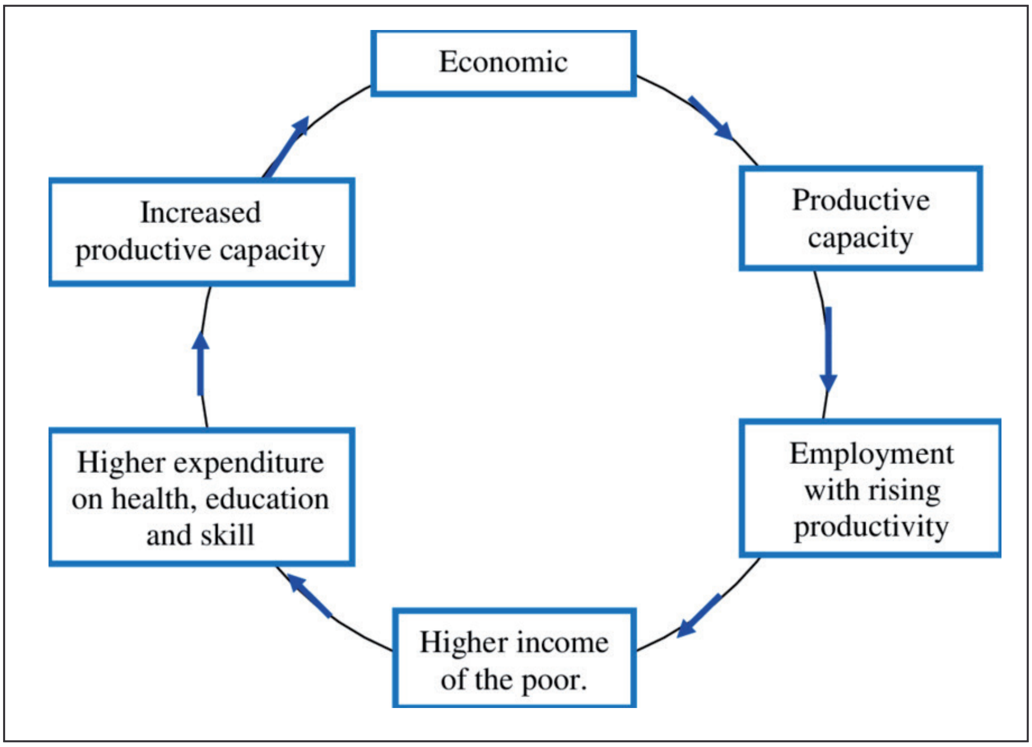
'A recent report highlights a weakening relationship between India's GDP growth and employment generation over time.

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.

Interview Question

Q:1. Why has the relationship between India's GDP growth and employment generation weakened in recent years?

Q:2. How does the type of economic growth (extensive vs. intensive) influence employment generation?

Q:3. What factors contribute to the lag effect observed between GDP growth and changes in unemployment rates?

Q:4. How does India's GDP growth performance in recent years compare to historical trends?

Q:5. What impact did the 2015 change in GDP calculation method have on reported growth figures?

21 State of Unemployment in India:

Preface:

The Ministry of Labour refuted a report by Citigroup that predicted India would struggle to create sufficient employment despite a 7% growth rate. The Ministry highlighted positive trends based on official data (PLFS, RBI, etc.), such as improved labor market indicators like increased LFPR and WPR, and a declining unemployment rate over the past five years.

State of Unemployment in India:

- **India Employment Report 2024:**
  - Working population increased from 61% in 2011 to 64% in 2021, projected to reach 65% by 2036.
  - However, youth participation in economic activities declined to 37% in 2022.
- **Unemployment Rates (CMIE Data):**
  - **June 2024:** 9.2% unemployment rate (an increase from 7% in May 2024).
  - **Female Unemployment**: 18.5% (up from 15.1% last year).
  - **Male Unemployment**: 7.8% (slightly higher than 7.7% in June 2023).
  - **Rural Unemployment:** Increased to 9.3% in June from 6.3% in May.
  - **Urban Unemployment**: Rose to 8.9% in June from 8.6% in May.

Positive Trends in Employment:

- Between 2017-18 to 2021-22, India generated 80 million employment opportunities (average of 20 million jobs per year).
- Labour Force Participation Rate (LFPR): Increased from 49.8% in 2017-18 to 57.9% in 2022-23.
- Worker Population Ratio (WPR): Increased from 46.8% in 2017-18 to 56% in 2022-23.
- Unemployment Rate: Decreased from 6% in 2017-18 to 3.2% in 2022-23.

How Unemployment Rate is Calculated in India:

- Formula:
  - **Unemployment Rate =** Number of Unemployed Persons / Civilian Labor Force
  - **Unemployment Rate =** Number of Unemployed Persons / (Employed + Unemployed Persons)
- Criteria for Classification as Unemployed:
  - **Age:** At least 16 years old.
  - **Availability:** Available to work full-time during the last four weeks.
  - **Actively Seeking Employment:** Actively searching for jobs.

Key Economic Events Impacting Unemployment:

- **Global Financial Crisis (2008-09):** Reduced job opportunities across sectors.

- **Demonetisation (2016):** Disruptions in the informal sector led to temporary job losses.
- **GST Implementation (2017):** Initial disruptions affected employment stability.
- **Covid-19 Pandemic (2020):** Nationwide lockdowns caused widespread job losses.
- **Inflationary Pressures:** High inflation led to layoffs as businesses cut costs.

Key Labour Market Indicators:

- **WPR**: Percentage of employed persons in the population.
- **LFPR:** Percentage of persons in the labor force who are working or seeking work (age 15+).

Interview Questions

Q:1. What is the current state of unemployment in India based on recent reports, and how does it compare to previous years?

Q:2. Can you explain the key labor market indicators like Labour Force Participation Rate (LFPR) and Worker Population Ratio (WPR)? How do they reflect the health of the job market?

Q:3. What are some of the factors contributing to the gender disparity in unemployment rates in India? How can this be addressed?

Q:4. How does the youth unemployment rate in India compare to the overall unemployment rate? What steps can be taken to address the issue of youth unemployment?

22 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.

Interview Questions

Q:1. **Can you explain how the El Niño phenomenon affects India's agricultural productivity? How does it impact food inflation in the country?**

Q:2. **What are the main economic implications of crop failures in India due to El Niño, particularly on farmers and food prices?**

Q:3. **How does the Indian monsoon season contribute to agricultural productivity, and why is it so crucial to India's economy?**

Q:4. **What are the potential risks to food security in India as a result of an El Niño-induced monsoon failure?**

23 India's Ageing Workforce

Preface:

India's workforce is experiencing rapid ageing, despite having a predominantly youthful population, as per CMIE's Economic Outlook data. The increasing share of older workers in the workforce has significant implications for the economy, employment patterns, and social services.

- **India's Ageing Workforce:** The workforce is shifting towards older demographics, particularly those 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:** Youth employment rates are declining, causing younger workers to leave the job market.
- **Demographic Shift:** The increase in older workers reflects a shift in employment patterns and changing demographic trends.

Transformation of Demographic Dividend into 'Demographic Curse':

- **Challenges:** The inability to provide sufficient employment opportunities for youth could negate the demographic dividend, exacerbating economic and social challenges.
- **Economic Burden**: Persistent youth unemployment may lead to economic strain, higher poverty levels, and increased social issues.

Implications of Ageing Population:

- Economic Challenges:
  - Shrinking working-age population may lead to labor shortages, affecting productivity.
  - The ageing population increases demand for healthcare services, straining public budgets.
  - A growing elderly population poses challenges for pension and social security systems.
- **Healthcare and Social Services:**
  - The elderly require more healthcare services, primarily due to chronic health conditions.
  - The demand for long-term care facilities and services will increase, placing pressure on caregivers.

Year	Population (45 years and above)	Employed	Employment Rate (in %)
2016-17	32,20,48,753	15,23,72,914	47
2017-18	34,79,69,222	16,03,52,550	46
2018-19	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	18,94,18,508	45
2022-23	45,10,40,539	19,95,94,541	44

- **Policy and Planning:**
  - Investment in healthcare infrastructure and geriatric care becomes essential.
  - Reforming pension and social programs to ensure sustainability is crucial.
  - Policies to support older workers in the workforce or facilitate retirement transitions are needed.

Data from CMIE:

- The proportion of young workers (aged 15 to 29) has decreased from 25% in 2016-17 to 17% by March 2023.
- The share of workers aged 30 to 44 has declined from 38% to 33% during the same period.
- The proportion of workers aged 45 and above has increased from 37% to 49%.
- Despite an overall decline in total employment (from 41.27 crore to 40.58 crore), the most significant decline is observed in the youth workforce.

Interview Questions:

Q:1. What are the key factors contributing to the ageing of India's workforce?

Q:2. How can the decline in youth employment impact India's demographic dividend?

Q:3. Discuss the economic implications of an ageing workforce in India.

Q:4. What steps should India take to address labor shortages and ensure productivity despite an ageing workforce?

Q:5. How should India adapt its healthcare and pension systems to manage an increasing elderly population?

Q:6. What labor market policies can be implemented to support older workers or facilitate their retirement?

Q:7. How can demographic changes in India's workforce influence the country's economic growth trajectory?

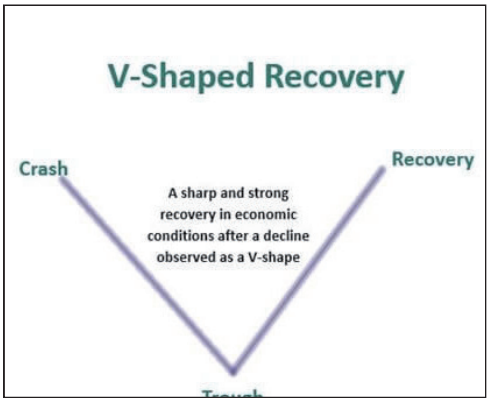
24 Economy Recovery

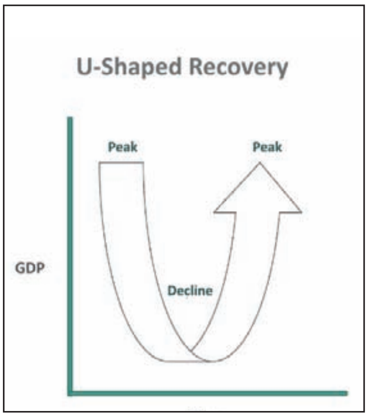
Preface:

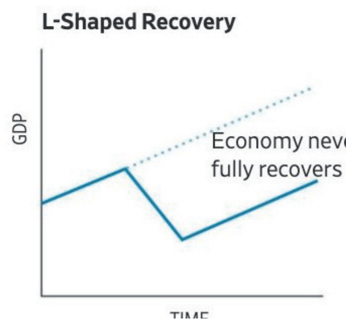
Economic recovery after a recession can take various forms. The nature of recovery depends on the underlying economic conditions, the effectiveness of policy responses, and the resilience of different sectors. Economists have classified recovery patterns into five distinct shapes: V, U, L, W, and K. These shapes describe how the economy behaves after a significant downturn, with varying degrees of speed and sustainability.

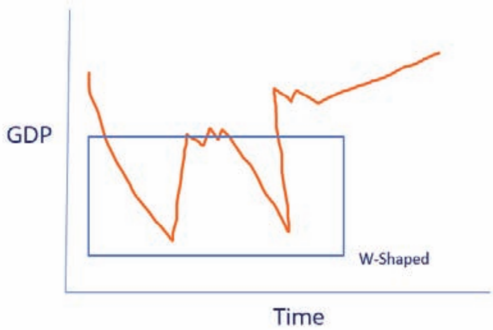
Different Recovery Shapes:

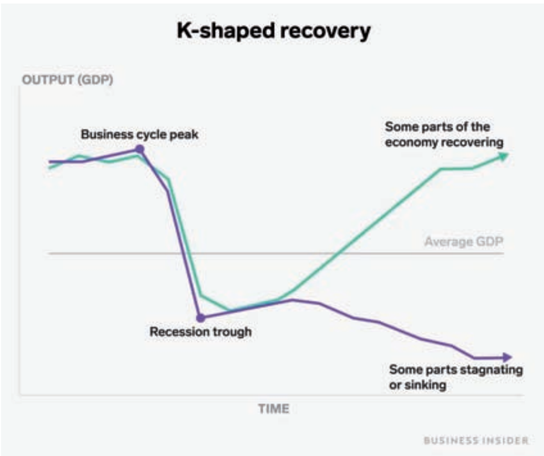
- **V-shaped Recovery**:
  - The economy experiences a sharp decline followed by a rapid and strong rebound, returning to pre-recession levels within a year.
  - **Best-case scenario:** Boosted by effective fiscal and monetary policies.
- **U-shaped Recovery:** Characterized by stagnation after the recession before a gradual and prolonged recovery.
  - **Nike Swoosh recovery:** The economy stays depressed for a while, causing job losses and erosion of savings, before picking up gradually.
- **L-shaped Recovery:** The worst-case scenario where the economy fails to recover to its previous peak levels, even after several years.
  - **Prolonged downturn:** Economic revival takes an indefinite amount of time, leading to long-lasting damage to the economy.











- **W-shaped Recovery:** Also known as "double-dip recession", the economy briefly rebounds before falling again into a recession, followed by a second, more sustained recovery.
  - **Consumer confidence hit:** Two periods of recession, with a full recovery potentially taking up to two years.
- **K-shaped Recovery:** A recovery where different sectors of the economy rebound at vastly different rates.
  - **Unequal recovery:** Large-cap companies and public sector enterprises recover faster due to government support, while small businesses and blue-collar workers lag behind. This disparity is symbolized by two diverging lines in the letter K.

Interview Questions:

Q:1. **What are the key characteristics of a V-shaped recovery, and why is it considered the best-case scenario?**

Q:2. **How does a U-shaped recovery differ from a V-shaped recovery in terms of duration and impact on jobs?**

Q:3. **What does an L-shaped recovery represent, and why is it considered the worst-case scenario for an economy?**

Q:4. **Can you explain the concept of a W-shaped recovery and the impact of multiple recessionary periods?**

Q:5. **How does a K-shaped recovery manifest, particularly in the context of the Covid-19 pandemic, and what are its economic implications?**

Q:6. **How can policymakers address the unequal recovery seen in a K-shaped recovery to ensure broader economic stability?**

Q:7. **In your opinion, which recovery shape is most likely for the Indian economy post-COVID-19, and why?**

25 Preston Curve

Preface:

The Preston Curve, introduced by American sociologist Samuel H. Preston in 1975, offers significant insights into the relationship between a nation's per capita income and its average life expectancy. The curve reveals that wealthier countries generally enjoy longer life spans compared to poorer nations, highlighting the impact of economic prosperity on public health.

Key Insights from the Preston Curve:

- **Proposed by**: Samuel H. Preston (1975)
- **Core Observation**: As per capita income rises, life expectancy tends to increase. This correlation underscores the critical role of economic prosperity in improving public health.
- **Contributing Factors**:
  - Improved access to healthcare
  - Better education systems
  - Cleaner environments
  - Enhanced nutrition

Debates on Causality:

- **Economic Growth Advocates**: Some experts argue that economic growth is the primary driver of improvements in health outcomes, citing rapid progress in countries like India and China.

- **Medical Technology Advocates**: Others believe that advancements in medical technology, including vaccines, play a significant role in improving life expectancy, even in low-income settings.

FACT BOX

- **Per Capital Income:** Measures the average income earned per person in a country. It is calculated as:

  Per Capita Income = National Income / Population

- **Net National Income (NNI):** Indicator of a country's economic activity, accounting for depreciation of fixed capital.
  - **NNI** = GNI – Depreciation of Fixed Capital
- **Gross National Product (GNP):** Represents the total value of goods and services produced by a country's citizens in a given year, whether within the country or abroad.
  - **GNP** = GDP + Net factor income from abroad

Interview Questions:

Q:1. **Can you explain the key insights from the Preston Curve and its relevance to economic development?**

Q:2. **How does per capita income influence public health, as per the Preston Curve?**

Q:3. **What are the key factors that contribute to the correlation between income and life expectancy?**

Q:4. **Do you believe that economic growth is the primary driver of improved life expectancy, or are there other factors at play?**

Q:5. **How do advancements in medical technology, such as life-saving vaccines, impact public health outcomes in low-income countries?**

Q:6. **Can you explain the difference between Gross National Product (GNP) and Net National Income (NNI) and their significance in the context of the Preston Curve?**

Q:7. **In the context of the Preston Curve, how do low-income countries like India and China fit into the global pattern of life expectancy and economic growth?**

Q:8. **What policy measures can governments take to improve public health outcomes in lower-income countries, given the correlation with income levels?**

26 Greedflation

Preface:

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.

Interview Question

Q:1. What is greedflation, and how does it differ from traditional inflation?

Q:2. Why is greedflation a concern for emerging economies like India?

Q:3. How can the Indian government regulate the risk of greedflation as industries privatize and liberalize?

Q:4. What are the potential consequences of unchecked greedflation on consumer behavior and economic stability?

27 Shrinkflation

Preface:

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.

Interview Question

Q:1. What is shrinkflation, and how does it differ from regular inflation?

Q:2. Why do businesses prefer shrinkflation over price hikes in times of economic stress?

Q:3. **How does rising production costs contribute to shrinkflation?**

Q:4. **What impact does shrinkflation have on consumer behavior and purchasing power?**

28 Disinflation facing resistance from Food Inflation

Preface:

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.

Interview Question

Q:1. **What is the difference between disinflation and deflation?**

Q:2. **Why is achieving disinflation crucial for the economy?**

Q:3. **How does food inflation impact overall inflation trends in India?**

Q:4. **What role do supply-side factors, like weather conditions, play in food inflation?**

Q:5. **How does the high food inflation rate resist disinflationary trends?**

Q:6. **What measures can the government and RBI take to control food inflation?**

29 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.

Interview Questions:

Q:1. What is the Mineral Security Partnership (MSP), and why is it significant for India?

Q:2. Discuss the environmental and health concerns associated with mining critical minerals.

Q:3. How do recent amendments in India's mining laws aim to balance production with sustainability?

Q:4. How can India address the challenges of securing critical minerals while ensuring minimal environmental damage?

30 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

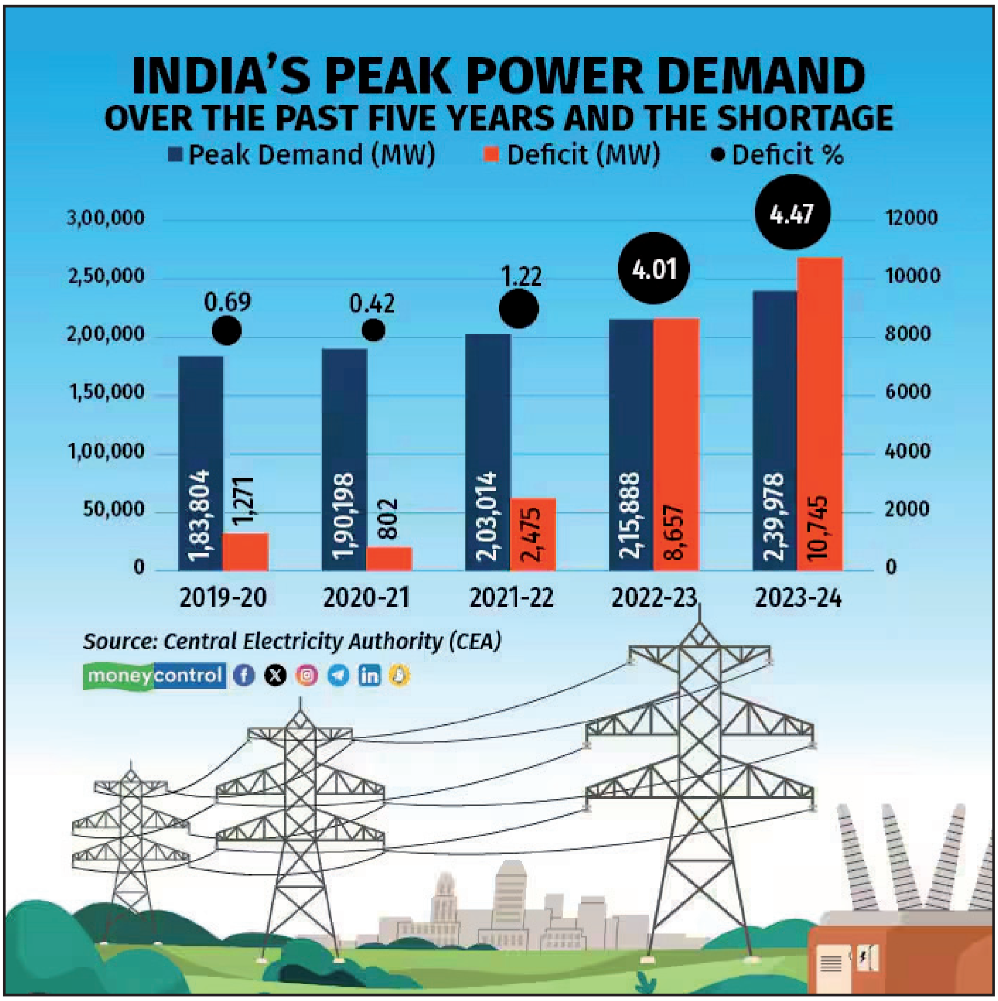
- Thermal power dominates, constituting 68% of total electricity generation.
- Hydro power has reduced slightly, while nuclear power shows modest growth.

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.

India's Energy Demand and Infrastructure:

- India is the world's third-largest energy consumer. Electricity accounts for 34 per cent of India's total GHG emissions.
- The country has achieved an installed capacity exceeding 400 GW, leveraging a mix of traditional fuels like **coal, oil, and gas,** alongside renewables such as **solar, wind, biomass, and hydroelectric power**.
- **India's Climate Commitments**
  - Net Zero by 2070
  - India aims to reduce its emission intensity by at least 45% from 2005 levels by 2030.



- **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.

> - At least 50% of the country's total electricity will come from renewable sources by 2030.
> - As of May 2024, Renewable energy sources, including large hydropower, have a combined installed capacity of 193.57 GW.
>
> - **Installed capacity for Renewables:**
>   - **Wind power**: 46.42 GW
>   - **Solar Power**: 84.27 GW
>   - **Biomass/Co-generation**: 10.35 GW
>   - **Small Hydro Power**: 5 GW
>   - **Waste To Energy**: 0.59 GW
>   - **Large Hydro**: 46.92 GW

- **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.

Interview Questions

Q:1. What are the major sources of power generation in India, and how do they contribute to the overall electricity supply?

Q:2. How does India's power consumption impact its CO_2 emissions and air pollution levels?

Q:3. What are the key challenges India faces in meeting increasing power demand, especially during non-sunlight hours?

Q:4. Discuss the limitations of solar power in meeting India's energy needs, particularly for industrial usage.

Q:5. How does the One Nation One Grid initiative improve India's electricity distribution system?

31 India's Demographic Advantage

Context:

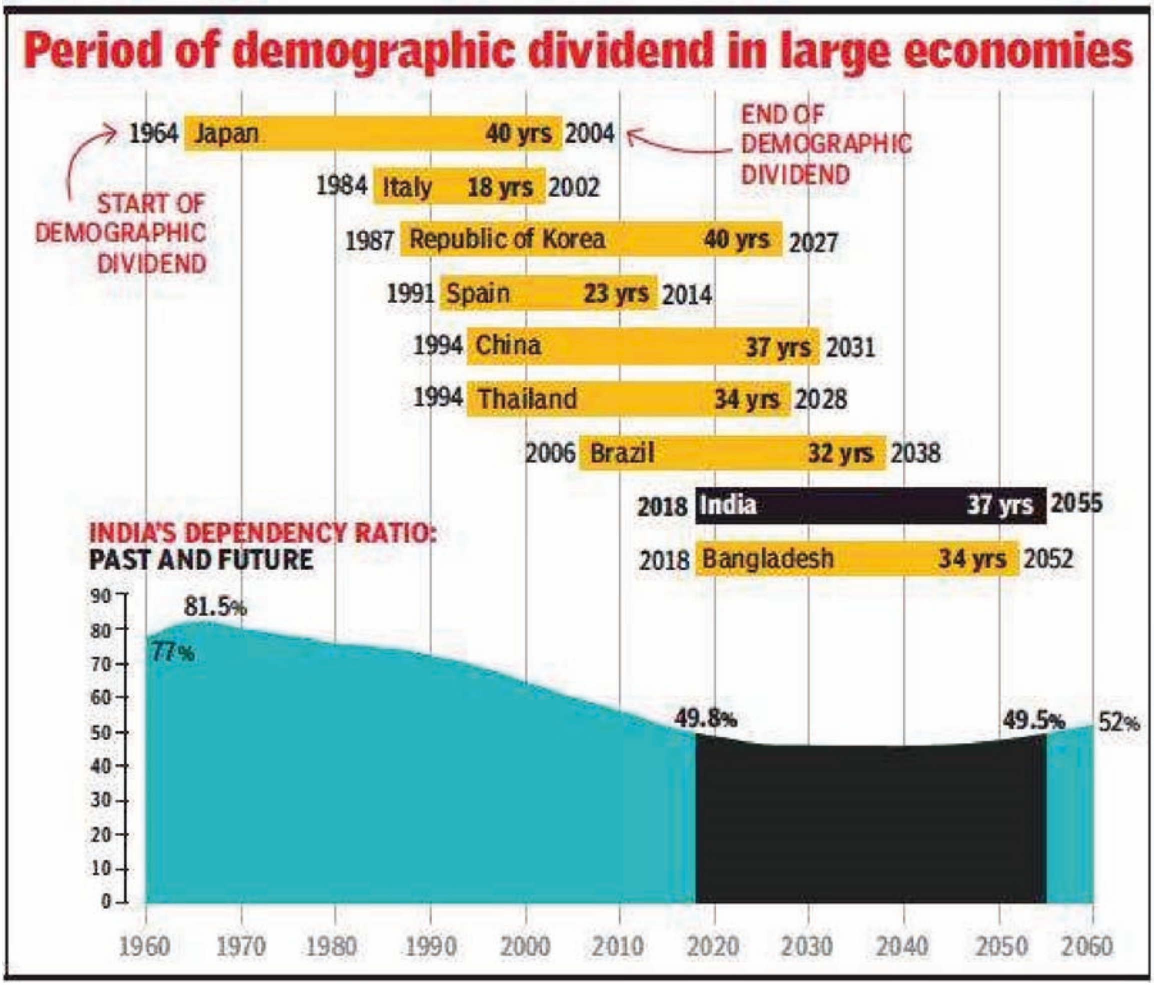
The **World Bank's South Asia regional update, "Jobs for Resilience,"** underscores concerns over India's employment growth amidst its demographic dividend.

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.

Interview Question

Q:1. **How has India's youth unemployment rate changed in recent years, and what challenges does it pose for the economy?**

Q:2. **Discuss the key factors that contribute to low female workforce participation in India and South Asia.**

Q:3. **What steps should the Indian government take to fully leverage its demographic dividend?**

Q:4. **How do education reforms and vocational training initiatives play a role in addressing India's employment challenges?**

Q:5. **How can gender inclusivity policies help increase female participation in the workforce in India?**

Q:6. **What is the significance of India's demographic dividend, and how long is it expected to last?**

Q:7. **How have regional trends, such as in Uttar Pradesh and Bihar, contributed to improving youth employment rates?**

32 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

Interview Question:

Q:1. In the context of India's strategy to achieve energy security, particularly through domestic resource utilization and infrastructure development, what are the key challenges and opportunities that India faces?

Q:2. How do global energy dynamics influence these efforts, and what role does energy diplomacy play in ensuring long-term energy independence for India?

Sectors of Economy

33 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)**

- ### Interview Question

Q:1. **How can India's coastal economy, through its Blue Economy initiatives, contribute to sustainable growth and employment generation? What challenges does it face in balancing economic growth with environmental concerns?**

Q:2. **In light of global energy and geopolitical dynamics, how can India's maritime strategies, such as the Deep Ocean Mission and Maritime India Vision 2030, help secure its position in the international trade and shipping sectors?**

Q:3. **What are the environmental pressures on India's Blue Economy, and how can the country adopt sustainable practices in marine resource extraction and maritime infrastructure development?**

Q:4. **How can India balance its pursuit of economic growth through the Blue Economy with the environmental sustainability of its coastal regions and marine biodiversity?**

Q:5. **What role does energy diplomacy play in enhancing India's Blue Economy and maritime security, especially in the context of global supply disruptions like the Russia-Ukraine war or the Israel-Hamas conflict?**

34 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.
- **Inter-Ministerial Task Force (IMTF):** Tasked with recommending national-level legislation for online gaming regulation.
- **Affordable Mobile Data:** India's competitive pricing for mobile data supports widespread gaming accessibility.

Interview Questions

Q:1. India's gaming sector has witnessed rapid growth, especially in mobile gaming. What factors have contributed to India surpassing China as the largest consumer of mobile games?

Q:2. Despite its economic potential, India's gaming industry faces concerns such as Internet Gaming Disorder and tax evasion. How can the government address these challenges while promoting industry growth?

Q:3. With the integration of technologies like VR, AR, and the metaverse, how do you foresee the future trajectory of India's gaming industry, and what role should government regulations play in this growth?

Q:4. In the context of Digital India, how has the government's push for digital infrastructure supported the gaming sector, and what further steps can be taken to foster growth in this industry?

Q:5. India's mobile gaming market is projected to grow significantly by 2029. What potential societal impacts should be considered as gaming becomes an integral part of daily life, particularly among the youth?

Q:6. How do you see the role of India's young demographic in shaping the future of the gaming industry, and what opportunities can the sector offer to harness the skills of this growing population?

35 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 l**ike **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.

Interview Question

Q:1. What are the main challenges faced by Indian Railways in enhancing its efficiency and modernizing its infrastructure, and how can these be addressed?

Q:2. The modal share of railways in freight transport has declined significantly over the years. What measures can be taken to make rail transport more competitive for freight services?

Q:3. **Public-Private Partnerships (PPPs) are seen as a potential solution for infrastructure improvement. How can the PPP model be effectively implemented in the redevelopment of Indian Railways stations and facilities?**

Q:4. **What role can technological upgradation, such as AI, IoT, and big data analytics, play in improving the operational efficiency and passenger experience of Indian Railways?**

Q:5. **Despite advancements like the Vande Bharat trains, safety remains a concern in Indian Railways. What further measures can be implemented to ensure the safety of passengers and railway employees?**

36 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.

Interview Question

Q:1. **The Indian steel industry has transitioned from a net exporter to a net importer in recent years. What are the primary reasons behind this shift, and how can India address these challenges?**

Q:2. What impact do predatory imports, especially from China, have on India's domestic steel industry, and what measures should be taken to protect and promote local production?

Q:3. How do export taxes and disruptions like the Red Sea crisis affect India's steel exports, and what can be done to enhance India's global competitiveness in the steel market?

Q:4. The National Steel Policy aims to increase India's steel production capacity to 300 million tonnes by 2030. What steps should the government take to achieve this target while ensuring the stability of the domestic market?

Q:5. Increasing import duties can support India's steel industry. How can India balance protecting domestic industries with maintaining healthy trade relations and avoiding trade conflicts?

37 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.

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.

Interview Questions

Q:1. How can India tap into the economic potential of its LGBTQ+ community to contribute to national economic growth, and what policies should be implemented to ensure inclusivity?

Q:2. Discrimination and societal stigma hinder the economic participation of the LGBTQ+ community in India. What steps should be taken to address these challenges and promote equal opportunities in education and employment?

Q:3. Studies suggest that homophobia costs India a significant portion of its GDP annually. How can India mitigate these losses and unlock the full economic potential of marginalized communities like LGBTQ+ individuals?

Q:4. Corporate India is increasingly recognizing the value of LGBTQ+ inclusion. How can this shift in corporate engagement contribute to a more inclusive economy, and what role does government policy play in this transition?

Q:5. What are the socio-economic challenges faced by the LGBTQ+ community in India, and how can the government and society work together to address issues like mental health, poverty, and access to education?

38 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.

Interview Question

Q:1. The gig economy is reshaping India's job market, offering flexibility and income opportunities. How can the government ensure that gig workers have access to social security, healthcare, and other benefits typically provided to traditional workers?

Q:2. With the expansion of the gig economy, especially in tier-2 and tier-3 cities, what steps can be taken to ensure that this growth leads to inclusive economic development, particularly for marginalized communities?

Q:3. Technological advancements, such as AI and robotics, are driving the growth of the gig economy. How can India harness these technologies to enhance the productivity and well-being of gig workers, while addressing challenges like job security and fair wages?

Q:4. Gig work offers flexibility and autonomy, particularly attracting the millennial and Gen Z workforce. What impact does this shift towards remote, flexible work arrangements have on the traditional labor market, and how can policies be designed to balance both?

Q:5. The gig economy is expanding rapidly, with a projected increase in workforce participation. What are the potential challenges this expansion poses to labor laws and regulations in India, and how can the government address these challenges to ensure fair treatment of gig workers?

39 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).**

Interview Questions

Q:1. What steps can India take to address challenges like space debris and competition from China in its growing space economy?

Q:2. How can public-private partnerships enhance India's space capabilities, and what regulatory changes are needed?

Q:3. How can India balance national security and the commercialization of its space activities?

> **Q:4.** **What strategies should India pursue to capitalize on the growing global space economy by 2035?**
>
> **Q:5.** **How can advancements in space technology contribute to India's economic growth and social development?**

40 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.

Interview Question

> **Q:1.** **What are the key differences between sub-orbital and orbital space travel, and what implications do these differences have for space tourism?**
>
> **Q:2.** **How can the development of space tourism impact India's space industry and its future space exploration goals?**
>
> **Q:3.** **Discuss the potential challenges and benefits of space tourism becoming more accessible to the general public in India.**
>
> **Q:4.** **What are the ethical and environmental considerations surrounding the growth of private space tourism, and how can they be addressed?**
>
> **Q:5.** **How do you see the future of space tourism evolving, and what role can India play in this global industry?**

41 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.

Interview Question

Q:1. **What role does the proposed Self-Regulatory Organisation (SRO) framework play in the governance of the fintech sector in India, and how will it benefit consumers?**

Q:2. **Discuss the challenges posed by the dominance of foreign-owned fintech companies in India. What steps can be taken to boost the adoption of Indian fintech apps?**

Q:3. **How can fintech companies contribute to financial inclusion in India, especially in rural and underserved regions?**

Q:4. What are the potential risks of misuse in the fintech sector, such as money laundering, and how can regulatory authorities effectively address these concerns?

Q:5. How can advancements in fintech, such as AI and blockchain, transform the traditional financial sector in India? What regulatory challenges may arise from this transformation?

42 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.

Interview Questions

Q:1. What are the key challenges facing India's unorganised sector, and how can these challenges be addressed to improve its contribution to the economy?

Q:2. How can the government bridge the income disparity between the organised and unorganised sectors in India, especially considering their differing contributions to GDP?

Q:3. Given the resilience shown by the unorganised sector despite economic shocks, what policy measures should be adopted to support its growth and recovery?

Q:4. How important is data collection and updating for formulating effective policies for the unorganised sector, and what role can technology play in improving data access?

Q:5. What role does the unorganised sector play in employment generation in India, and how can it be further empowered to contribute to economic development?

Money & Banking

43 Challenges for the new RBI Governor

Preface:

Sanjay Malhotra has recently taken over as the **26th Governor of the Reserve Bank of India (RBI)**, succeeding Shaktikanta Das, who served as the Governor during a challenging period. Sanjay Malhotra steps into a challenging role with significant expectations, inheriting a legacy that sets a high bar. As the new RBI Governor, he will contend with seven critical priorities.

Shaktikanta Das's leadership

- Das's leadership was marked by his ability to manage various crises, such as the **Covid-19 pandemic, financial troubles with companies like IL&FS and Yes Bank, and tensions between the RBI and the government.**
- His tenure focused on maintaining financial stability, improving the banking system, and promoting digital innovations like the central bank digital currency and UPI.
- Das's work earned him recognition as one of the **best central bankers**

Critical Priorities in front of RBI's Governor

- **Taming Inflation Without Hurting Growth**: Inflation has been volatile, mainly due to **supply-side issues** in sectors like food and energy. Malhotra must find ways to control inflation without **negatively affecting economic growth.** Traditional methods like **raising interest rates** may not work well because inflation is driven by factors like global supply shocks, not just domestic demand. A balance is needed to ensure liquidity in the market and support sectors in need of credit, while **managing inflation.**
- **Global Monetary Policy Differences**: Global monetary policy divergence is at its peak, with the **US Federal Reserve** maintaining **restrictive monetary policies** to **combat inflation** while several emerging markets are exploring rate cuts to support growth.
- India's interconnectedness with global capital flows and trade necessitates a calibrated approach to avoid capital flight and rupee depreciation.
- RBI must employ nuanced tools, including targeted liquidity operations and foreign exchange market interventions, to preserve external sector stability without undermining domestic growth prospects.
- **Reassessing the Inflation Targeting Framework (FIT)**: The RBI follows a framework that targets keeping inflation at around 4% (with a margin of 2% above or below). However, **rising global uncertainties** and **supply-side challenges** (like climate change and geopolitical issues) make this framework less effective. Malhotra may need to revise this framework, potentially allowing for more flexibility and considering both inflation control and economic growth.
- In particular, the persistence of **supply-side shocks** has flattened the **Phillips Curve**, weakened monetary transmission channels, and complicated the extraction of accurate signals from headline inflation. The reduced efficacy of standard policy levers against predominantly cost-push shocks, coupled with shifts in consumption patterns and digitalisation-induced pricing anomalies, highlights the technical challenges of maintaining rigid, point-based targets in a changing economic landscape.
- **Managing Currency Volatility**: The Indian rupee has been fluctuating due to global financial instability and other factors. The RBI has tried to stabilize the rupee, but it's a challenge. Malhotra may need to use strategies like diversifying reserves, promoting trade in currencies other than the dollar, and working with other central banks. While a weaker rupee could help exports by making Indian products cheaper, it also poses risks like higher import costs and pressure on companies with foreign debt.

- **Enhancing Financial Inclusion**: India has made significant progress in financial inclusion, with over 500 million accounts opened under the **Pradhan Mantri Jan Dhan Yojana (PMJDY).** However, there are still challenges in ensuring these accounts are used effectively, providing better access to credit, and bridging the digital divide. Malhotra will need to support digital banking and ensure that people are well-equipped to use financial services.
- **Addressing Climate Risks and Green Finance**: Climate change poses risks to the financial system. Malhotra will need to address these risks by promoting **"green finance"** and encouraging investments in sustainable projects. This might involve offering incentives for green investments, requiring companies to disclose their climate-related risks, and working with other countries on climate stress testing.
- **Maintaining Financial Stability**: The financial system must be stable to support economic growth. This includes ensuring that **non-banking financial companies (NBFCs)** are well-regulated, addressing risks related to the growing fintech sector, and preventing any gaps in regulations. Malhotra will need to strengthen the oversight of these institutions and ensure that they don't pose risks to the broader financial system.

Interview questions:

Q:1. How can RBI balance controlling inflation while supporting sectors in need of credit?

Q:2. How should the RBI manage global monetary policy divergence and capital flows?

Q:3. Should the RBI reassess its inflation targeting framework in light of global uncertainties?

Q:4. What strategies can the RBI adopt to stabilize the rupee amid global volatility?

Q:5. How can the RBI promote green finance and address climate-related financial risks?

44 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.

Income	Expenditure
• 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)	• Printing currency notes • Staff salaries • Commissions to banks

Interview Questions

Q:1. What factors led to the Reserve Bank of India (RBI) transferring a record surplus of Rs 2.11 lakh crores to the government in fiscal year 2023-24, and how does this impact the Indian economy?

Q:2. How does the Economic Capital Framework (ECF), formulated by the Bimal Jalan committee, guide RBI's surplus transfer to the government, and what are the implications of this framework for economic governance?

Q:3. In what ways can the surplus transfer from RBI help manage the fiscal deficit and provide economic stimulus, especially in the context of India's current economic challenges?

Q:4. What are the potential challenges and policy implications of transferring large surpluses from the RBI to the government, particularly in terms of inflation, interest rates, and long-term fiscal health?

Q:5. How can the government utilize RBI's surplus to address economic inequality and promote inclusive growth, especially in sectors like the informal economy that face data and structural challenges?

45 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.

Interview Question

Q:1. What are the primary reasons behind the growing Non-Performing Assets (NPAs) in India's public sector banks, and how can these issues be effectively addressed?

Q:2. How effective has the Insolvency and Bankruptcy Code (IBC) been in tackling the problem of bad loans in India, and what further reforms are needed to improve its functioning?

Q:3. What role do loan write-offs play in managing NPAs, and how can the practice be balanced with financial prudence and accountability in public sector banks?

Q:4. How does the rise in NPAs impact the overall economy, and what steps should be taken to ensure that the health of the banking sector is restored to facilitate economic growth?

Q:5. What are the challenges associated with the implementation of the National Asset Reconstruction Company Ltd. (NARCL), and how can it contribute to the resolution of bad loans?

46 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)

Interview Question

Q:1. The Reserve Bank of India (RBI) has played a significant role in India's transition from a planned to a market-oriented economy. How has the RBI adapted its policies to meet the challenges of this economic transformation?

Q:2. Given the RBI's long history of managing economic disruptions, including global crises and demonetization, what key lessons can be drawn from its experience to better prepare for future economic shocks?

Q:3. The RBI has significantly reduced the non-performing asset (NPA) ratio through initiatives like the Insolvency and Bankruptcy Code (IBC). How effective have these measures been in fostering a more stable banking sector, and what more needs to be done?

Q:4. The formal adoption of inflation targeting by the RBI has helped maintain price stability. How does inflation targeting work in practice, and what challenges does the RBI face in ensuring it remains effective in the face of global economic uncertainties?

Q:5. With the increasing digitization of India's financial services, the RBI has played a pivotal role in initiatives like the Unified Payments Interface (UPI). How can the RBI continue to drive innovation in the digital economy while ensuring financial inclusion and stability?

Agriculture

47 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.

Interview Questions

Q:1. How do India's agricultural subsidies impact the livelihoods of low-income farmers?

Q:2. Why are developed countries concerned about India's increasing agricultural subsidies?

Q:3. What is the significance of subsidies for India's agricultural productivity and food security?

Q:4. How do direct and indirect subsidies differ in supporting Indian farmers?

Q:5. How do agricultural subsidies contribute to rural poverty alleviation and farmer incomes?

48 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.

Interview Question

Q:1. **How do Punjab and Haryana contribute to India's wheat procurement for food security?**

Q:2. **What factors make Punjab and Haryana critical to India's wheat production?**

Q:3. **How has climate change affected wheat yields in Punjab and Haryana?**

Q:4. **What role do Punjab and Haryana play in the Public Distribution System (PDS)?**

Q:5. **How did the Green Revolution impact wheat production in Punjab and Haryana?**

49 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.

Interview Question

Q:1. What is the role of the Minimum Support Price (MSP) in ensuring income security for farmers?

Q:2. How does MSP affect market stability and food security in India?

Q:3. What are the key challenges associated with the MSP system in India?

Q:4. How does the MSP system influence farmers' crop choices and agricultural sustainability?

Q:5. What is the role of the Commission for Agricultural Costs & Prices (CACP) in determining MSPs?

50 Draft National Policy Framework on Agricultural Marketing

Context

Farmer unions tell Union government to reject policy on agriculture marketing.

What is Agricultural marketing?

- Agricultural marketing is a critical link between farmers and consumers, ensuring that agricultural produce reaches the right buyers at fair prices.
- **Components:** Production Planning; Pricing; Promotion; Distribution; Sales.
- Key components of India's agricultural marketing system include the **Agricultural Produce Market Committee (APMC)**, which regulates the trade of agricultural commodities to ensure fair practices.
  - Agricultural Produce Market Committee (APMC) is a regulatory body that oversees agricultural commodity markets in India.

- **Market Structure:** APMCs, commonly known as mandis, are the primary platforms where agricultural products are sold. These mandis are regulated by state governments and are used by farmers to sell their produce to wholesalers, retailers, or processors. Agricultural markets are divided into:
  - **Primary Markets:** Village-level markets.
  - **Secondary Markets:** Larger markets at the district level.
  - **Terminal Markets:** Large urban centers where products are traded in bulk.
- **Objectives of the APMC:**
  - Manage Farm-to-Retail Price
  - Timely Payments to Farmers
  - Limit Distress Sale by Farmers
  - Prevent Exploitation by Intermediaries

What is the Draft National Policy Framework on Agricultural Marketing?

The **draft National Policy Framework on Agricultural Marketing** released by the Central government aims to create a **competitive and transparent agricultural marketing ecosystem**. The focus is on ensuring that **farmers** have access to diverse markets and can secure better prices for their produce. The key aspects of the framework:

- **Digital Innovations and Market Access:** The policy emphasizes **digital innovations** to improve the agricultural marketing ecosystem. By adopting technologies like **blockchain**, the framework aims to enhance **transparency** and efficiency in trading processes. Farmers will also be allowed to sell their produce across various platforms.
- **Promoting Private Investment in Infrastructure:** The policy highlights the need for **private investment** in essential agricultural market infrastructure. This includes building **warehouses**, **cold storage facilities**, and other logistics solutions to improve the storage and handling of agricultural produce. This is expected to **reduce post-harvest losses** and ensure that farmers receive fair prices for their products.
- **Simplifying Regulations and Improving Market Coordination**:
  - **Simplification of licensing norms** to make market entry easier for traders.
  - **Reduction of state-specific restrictions** that hinder the free movement of agricultural produce across states.
  - **Grievance redressal mechanisms** for both farmers and buyers to resolve issues and disputes quickly.
- **Addressing Challenges Facing Farmers**: The policy acknowledges the **challenges faced by small and marginal farmers**, including:
  - **Fragmented landholdings**
  - **Inadequate market access**
  - **Price volatility**
- These issues often lead to **unfair pricing** and **low income** for farmers, necessitating urgent policy interventions. The framework proposes a set of measures to improve **market access**, ensure **fair prices**, and support **sustained income** for farmers.

Criticisms and Farmer Concerns

- While the policy aims for **inclusive growth**, critics argue that the framework echoes aspects of the **farm laws** introduced in 2020, which were later repealed after widespread protests.
  - The draft policy talks about **dismantling Agriculture Produce Marketing Committee (APMC)** markets and promoting contract farming, which was one of the key points in the three farm laws that farmers had protested against.

- There are concerns that the policy could still lead to **privatization of agricultural markets** and further weaken **minimum support price (MSP) mechanisms.**
- The major concern among farmers is **contract farming**, a subject which was a part of the three repealed farm laws, equipping APMC markets with specific infrastructure and services in Public Private Partnership (PPP) mode and the push for reforms in the state's agricultural marketing laws and policies.

Reforms in Agricultural Marketing Laws:

The government promotes reforms in state marketing laws and policies to develop accessible competitive markets for farmers, such as direct marketing and private markets.

- **e-NAM Initiative:** Launched in 2016, the **National Agriculture Market (e-NAM)** enables farmers to sell their produce transparently to a large number of buyers across multiple markets electronically.
- **FPO Scheme:** The government launched the **10,000 Farmer Producer Organizations (FPOs) scheme** in 2020 to provide market linkages, access to e-markets, futures markets, and export markets, while also offering collective bargaining power for farmers.
- **Agriculture Infrastructure Fund (AIF):** The Agriculture Infrastructure Fund (AIF) is a central sector scheme providing Rs. 1,00,000 Crore in loans for investing in post-harvest market infrastructure like warehouses and cold storage facilities.
- **Agricultural Marketing Infrastructure (AMI) Scheme:** The Agricultural Marketing Infrastructure (AMI) scheme, part of the Integrated Scheme for Agricultural Marketing (ISAM), provides financial assistance for the construction of godowns/warehouses in rural areas to enhance the storage capacity for agricultural produce.
- **FPOs Access to Various Markets:** FPOs enable farmers to access e-markets, futures markets, export markets, and benefit from collective bargaining and sale of value-added products.

Interview Questions

Q:1. What is the primary goal of the draft National Policy Framework on Agricultural Marketing?

Q:2. How does the policy propose to improve market access for farmers?

Q:3. What role do APMCs play in India's agricultural marketing system?

Q:4. What are the key criticisms raised by farmer unions against the policy?

Q:5. How does the policy address challenges such as price volatility and fragmented landholdings for farmers?

51 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.

Interview Questions

Q:1. What is the main objective of the Union Government's target to establish PACS in every village by 2027?

Q:2. How do PACS contribute to financial inclusion for farmers in rural areas?

Q:3. What are some of the challenges faced by PACS in expanding their operations?

Q:4. How do PACS help empower communities through the cooperative model?

Q:5. What steps have been taken to integrate PACS into the digital ecosystem, and what challenges remain?

52 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.

Interview Questions

Q:1. How are agricultural sensors contributing to sustainable farming practices in India?

Q:2. What role do satellite imaging and weather tracking play in improving agricultural productivity?

Q:3. How does blockchain technology enhance the agricultural supply chain in India?

Q:4. What are some of the emerging technologies transforming Indian agriculture, and how do they benefit farmers?

Q:5. What challenges need to be addressed to promote the widespread adoption of digital technologies in agriculture?

53 Current State of India's Fertilizer Sector

Context

The ongoing crises in Ukraine and Gaza have raised concerns about the **stability of global fertilizer markets**, directly impacting India, one of the world's largest agricultural producers.

Current State of India's Fertilizer Sector

- India's fertilizer sector is grappling with a significant supply-demand imbalance.
- Despite being one of the **largest consumers of fertilizers globally**, the country relies heavily on imports to meet its agricultural needs.
- The recent report by the **Standing Committee of Parliament on Chemicals and Fertilizers** indicated that domestic production is insufficient to meet the demand for fertilizers, particularly for **Di-Ammonium Phosphate (DAP) and Muriate of Potassium (MOP).**
- **Current Import Fertilizer Scenario:** The Standing Committee's August 2023 report shed light on the dependency on imports. It noted that:

- Approximately 20% of India's urea requirement is met through imports.
- About 50-60% of DAP and 100% of MOP needs are satisfied through foreign sources.
- The dependence on imports is especially concerning given the geopolitical tensions in regions like Eastern Europe and West Asia, which could disrupt supply chains and inflate prices.
- **How Has India's Fertilizer Production Changed?** In the 2021-22 agricultural year, India consumed around 579.67 lakh metric tonnes (LMT) of major chemical fertilizers, compared to 629.83 LMT in 2020-21. Production figures reveal a persistent shortfall:
  - **Urea**: Produced 250.72 LMT; consumed 341.73 LMT.
  - **DAP**: Produced 42.22 LMT; consumed 92.64 LMT.
  - **MOP**: Entirely imported; no domestic production.

Challenges Facing the Sector

- **Dependence on Imports**: The significant reliance on imports for key fertilizers like DAP and MOP exposes India to global market fluctuations and geopolitical instability.
- **Production Capacity Constraints**: Existing fertilizer manufacturing facilities are not sufficient to meet domestic demand, leading to shortfalls and increased reliance on imports.
- **Rising Prices**: The ongoing crises in Ukraine and Gaza are causing oil prices to rise, directly affecting the cost of fertilizers and impacting farmers' operational costs.

Interview Question

Q:1. How does India's dependency on imports for fertilizers impact its agricultural sector?

Q:2. What are the key challenges facing India's fertilizer industry in terms of production and supply?

Q:3. How can the government enhance domestic fertilizer production and reduce reliance on imports?

Q:4. What role does the Nutrient-Based Subsidy (NBS) scheme play in regulating fertilizer prices in India?

Q:5. How is the shift towards nano urea and natural farming methods expected to affect India's fertilizer consumption patterns?

Investment

54 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

Interview Question

Q:1. What factors contributed to the 22% decline in Foreign Direct Investment (FDI) in India during 2022-23?

Q:2. How does Foreign Direct Investment (FDI) contribute to India's long-term economic growth?

Q:3. What sectors in India are currently attracting the most FDI?

Q:4. How do global economic uncertainties and higher interest rates affect FDI inflows to developing countries like India?

Q:5. What are the two main routes available for foreign investors to bring capital into India under the FDI policy?

External Economy

55 Tariff Reforms in India

Preface:

Eric Garcetti, the US Ambassador to India, recently spoke at an event organized by the **US-India Business Council (USIBC)**. His comments were aimed at improving trade relations between India and the United States.

Key Points:

- **Call to Lower Tariffs:** Garcetti emphasized the importance of reducing tariffs (taxes on imports) between India and the US. He said, "We need, together, to lower tariffs, not see them go up."

- Lowering tariffs would lead to more balanced and fair trade between the two countries, and also increase trade volume.
- **President Donald Trump's Trade Stance:** Donald Trump, the US President-elect at the time, had previously threatened to impose reciprocal tariffs on India.
  - Reciprocal tariffs mean that if India charges the US high tariffs (like on American goods), the US would charge India the same amount on their goods.
- Trump highlighted this tit-for-tat approach, saying if India imposes a 100% tariff on American products, then the US would impose the same tariff on Indian products. He also mentioned other countries like Brazil who have high tariffs, adding that this policy would be applied to all countries with high tariffs.
- Garcetti stressed the need for collaboration between the US and India, especially in areas like training and talent-sharing. He suggested that both countries should work together to meet the needs of companies in the Indo-Pacific region.

India-US Trade Relations

- The US remains India's largest trade partner, with bilateral trade reaching nearly $120 billion in FY24, slightly surpassing India's trade with China.
- Unlike China, though, India enjoys a favourable trade relationship with the US, making it a critical source of foreign exchange.
- India was the sixth-largest beneficiary of the US-China trade war, with a $36.8 billion increase in exports driven by growth in electronics, pharmaceuticals, and engineering goods.
- Indian companies had invested USD 3.4 billion in the US in the past year.
- India lost duty-free access under the decades-old Generalised System of Preferences (GSP) programme in 2019, during Trump's first presidency. India, previously the largest beneficiary, saw tariff-free benefits on approximately $5.7 billion worth of exports to the US.
- Despite efforts to diversify exports, India's dependence on the US has grown significantly over the past decade.
- According to official 2022–23 data, the US accounted for 18% of India's exports, up from 10 per cent in 2010–11.

FACT BOX

India's Tariff Regime

- The Indian government has consistently raised tariff and non-tariff barriers to protect domestic suppliers across most sectors and to bolster indigenous production.
- India's average tariff rate of 17% is higher than the US's 3.3%, but similar to other major economies like South Korea (13.4%) and China (7.5%).
- However, India has demonstrated its openness to free trade by removing customs duties for imports from **FTA (free trade agreement) partners** such as **ASEAN (Association of South East Asian Nations), Japan, and South Korea.**
  - However, despite India's willingness, the U.S. has been reluctant to reduce tariffs through FTAs.
- Many nations protect domestic industries by imposing significant tariffs on certain items. **World tariff profiles 2023** published by the WTO lists the data on the highest tariff charged by countries.
  - The highest tariffs of some other countries include 457% by Japan, 887% by Korea and 350% by the US.

Interview Questions

Q:1. What is the significance of the tariff reforms discussed by US Ambassador Eric Garcetti, and how could reducing tariffs between India and the United States benefit bilateral trade?

Q:2. Explain the concept of 'reciprocal tariffs' as discussed by former President Donald Trump. How could such a policy affect India-US trade relations?

Q:3. In the context of India's tariff regime, how does India's average tariff rate compare with other major economies like the US, China, and South Korea? What impact might this have on India's trade relations?

Q:4. Discuss the effect of the loss of duty-free access under the Generalized System of Preferences (GSP) on India's trade with the United States. How has this influenced India's export patterns?

Q:5. What are the key challenges India faces in negotiating Free Trade Agreements (FTAs) with countries like the United States, and how might these affect India's trade policy and tariff structures?

56 BRICS currency and de-dollarization

Context

US President-elect Donald Trump has issued a strong warning to BRICS countries, threatening to impose **100% tariffs** on them if they create or support any currency that could challenge the US dollar's dominance. Trump's statement suggests that if BRICS countries attempt to weaken the dollar's position, they could lose **access to the US market**—making it difficult for them to export goods to the US.

Background on US Dollar Dominance:

- After **World War II**, the **Bretton Woods Agreement (1944)** established the **US dollar** as the central currency for global trade. This system initially pegged the dollar to gold, and other currencies were linked to the dollar.
- Though the **gold standard** ended in **1971**, the dollar continued to dominate because of its stability and trust.
- The **US dollar** became the world's **primary reserve currency**, with over **58% of global foreign exchange reserves** held in dollars.
- In the **1970s**, the US made deals with oil-exporting countries (especially **Saudi Arabia**) to sell oil only in US dollars. This created a constant demand for the dollar, known as the **"petrodollar" system**.
- Many global systems, like **SWIFT** (for international payments), the **IMF**, and the **World Bank**, still operate primarily in dollars.

What is De-dollarisation?

- The US dollar, which accounts for around **58% of global foreign exchange reserves**, is a cornerstone of international trade and finance.
- It is involved in nearly 90% of global forex transactions and remains the primary currency for commodities like oil. However, its share of global reserves has dropped to a 20-year low of 58%.
- **De-dollarisation** refers to countries reducing their dependence on the US dollar for trade, reserves, and financial transactions.

- Countries are shifting to using their own currencies or regional currencies in trade, rather than relying on the US dollar. They might also explore **cryptocurrencies** or other systems.

Key aspects of de-dollarisation include:

- **Reduced use of the US dollar in trade**: Countries are forming **bilateral trade agreements** to settle transactions in their own currencies.
- **Diversifying reserves**: Instead of holding most reserves in US dollars, countries are investing in other currencies like the **euro**, **yuan**, or even **gold**.
- **Alternative payment systems**: Countries are developing or joining payment systems that don't depend on US dollar-dominated networks like **SWIFT**. For example, **China's CIPS** is an alternative to SWIFT.
- **Economic sovereignty**: De-dollarisation helps countries protect themselves from US economic sanctions and the instability of dollar fluctuations.

Role of BRICS in De-dollarisation

- The **BRICS** group (Brazil, Russia, India, China, and South Africa) has been leading efforts to move away from the dollar. They have discussed creating a **shared currency** to facilitate trade within their group, which could reduce their exposure to US financial systems.
- At a recent **BRICS summit**, a symbolic banknote was introduced, but there are no immediate plans for a unified BRICS currency or for replacing SWIFT with a BRICS alternative.
- **BRICS currency**
  - The idea of a **shared BRICS currency** gained traction during the **2023 Johannesburg summit**, where Brazilian President proposed a **common currency** to shield member states from dollar fluctuations. Advocates argue that such a currency could enhance financial stability and reduce vulnerability to external shocks.

Interview Question

Q:1. What is the significance of the US dollar's dominance in global trade and finance since World War II?

Q:2. How does de-dollarization help countries protect themselves from US economic sanctions and instability?

Q:3. What efforts are being made by BRICS countries to reduce their dependence on the US dollar?

Q:4. What was the proposal discussed at the 2023 BRICS summit regarding a shared currency?

Q:5. How does the "petrodollar" system contribute to the continued dominance of the US dollar in global trade?

57 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.

Interview Question

Q:1. What are the main categories of global debt, and how do they contribute to the current debt burden?

Q:2. How does high debt servicing impact the ability of countries to invest in essential sectors like health and education?

Q:3. Why are developing countries more vulnerable to the global debt crisis, and how does this affect their development?

58 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.

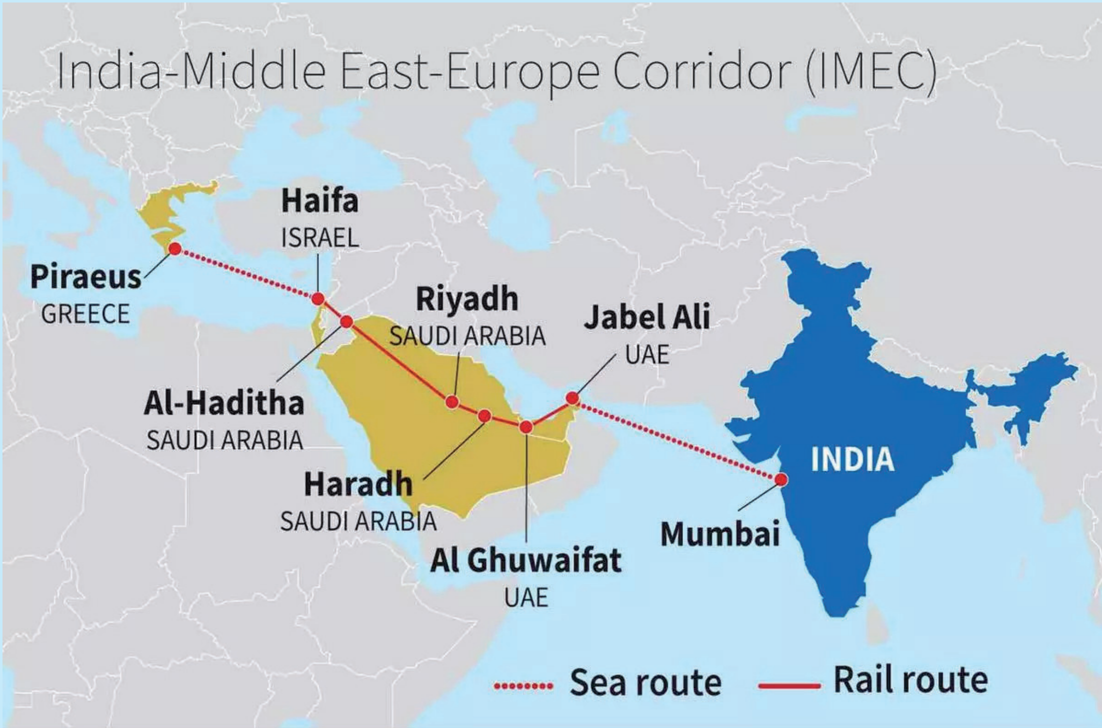
Growing Proximity between India and the Middle East

- **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.



- **Interview Question**

Q:1.	**How does the ongoing conflict between Israel and Iran affect India's oil supply and inflation?**
Q:2.	**What are the specific sectors in India that are most vulnerable to disruptions in oil supply due to the Middle East tensions?**
Q:3.	**How could a closure of the Strait of Hormuz impact India's economy indirectly?**
Q:4.	**What is the significance of the India-Middle East-Europe Economic Corridor (IMEC) for India's trade and connectivity with Europe?**
Q:5.	**Which ports are involved in the IMEC, and how do they facilitate enhanced trade between India, the Middle East, and Europe?**

59 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:**
  - **Global trade:** The Red Sea owes its strategic importance for global trade to the **Bab el-Mandab Strait** which lies between **Yemen and Djibouti**.

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.

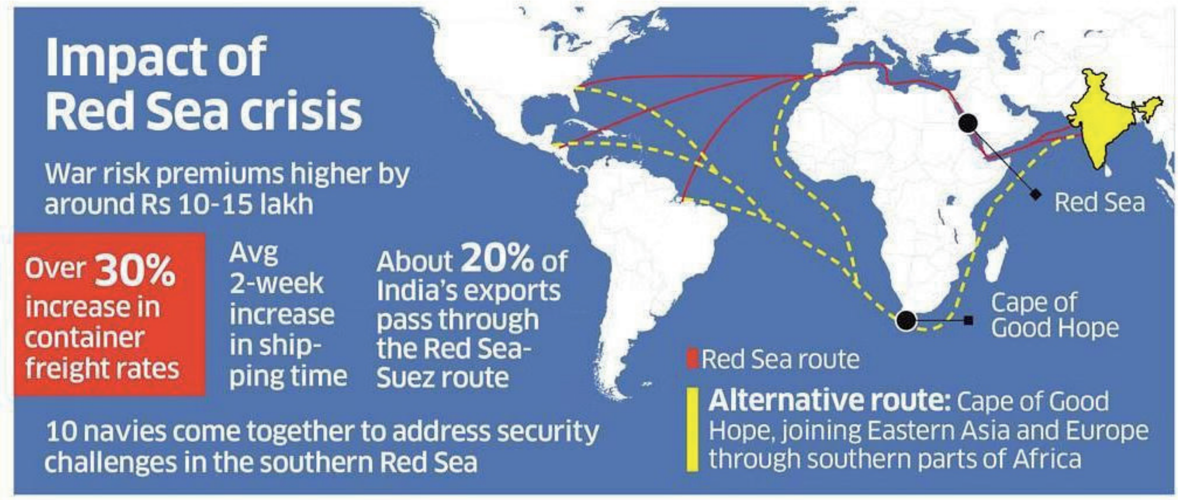
- **Busiest route:** It is one of the world's busiest cargo and oil transit points with almost **12% of international merchandise trade passing through it.**

- **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.

Interview Question

Q:1. Discuss the strategic importance of the Red Sea route for global trade and India. How has the ongoing Red Sea crisis affected India's trade and shipping logistics?

Q:2. What are the major challenges and opportunities arising from the disruption of the Red Sea route for India's exports and imports, and how can the IMEC offer an alternative trade route?

Q:3. Explain how the ongoing Israel-Palestine conflict and the vulnerability of the Strait of Hormuz impact the India-Middle East-Europe Economic Corridor (IMEC) as a viable alternative to the Red Sea route.

Q:4. How has the Red Sea crisis influenced China's Belt and Road Initiative (BRI), and what challenges does India face in promoting the IMEC as an alternative trade corridor?

60 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).

Interview Question

Q:1. What is a trade deficit, and how is it calculated? Discuss its components, including goods and services, capital account transactions, and current account transactions.

Q:2. In the context of India's trade deficit, analyze the implications of its growing trade imbalance with countries like China, Russia, and Korea. What does this signify for India's balance of payments and economic stability?

Q:3. How does a trade deficit affect a country's currency value and its external financial obligations? Discuss the advantages and disadvantages of having a trade deficit, particularly for an emerging economy like India.

61 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.

- **Interview Question**

Q:1. **Explain the origins and objectives of BRICS. How did the expansion in 2023 impact its global standing, both economically and geopolitically?**

Q:2. **Analyze the implications of BRICS' expansion in 2023 for global economic power dynamics. How does the group now compare with the G7 in terms of global GDP and trade?**

Q:3. **What are the key benefits and risks of BRICS' expansion in terms of geopolitical influence? How does BRICS aim to challenge the Western-centric global order?**

62 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.**

Interview Questions

Q:1. Explain the process of India's inclusion in the JPMorgan Emerging Market Bond Index. What is the timeline and expected weight increase over time?

Q:2. How will the inclusion of Indian Government Bonds (IGBs) in the JPMorgan Emerging Market Bond Index impact India's bond market dynamics and foreign investments?

Q:3. Define a bond market index and its role in measuring the value of bond markets. How does the JPMorgan Bond Index serve as a benchmark for local market and corporate EM debt?

Q:4. What are the potential risks or challenges associated with India's inclusion in the JPMorgan Emerging Market Bond Index, particularly regarding its bond market liquidity and foreign investor expectations?

★★★★★