Indian Economy

① GDP = 3.2 Trillion \$, Growth rate : 6%. Imf → "Bright spot"

Determinants of potential GDP

① Capital stock
② labour efficiency, production & participation
③ Non-accelerate inflation rate of employment
④ Global outlook.

Inhibiting factors :
- land → clearance, corruption
- labour → prod^y.
- Capital → investment, demand
- Entrepreneurship

Global, Temporary schocks, Sector specific issue } Apply this formula

① Regulatory issues → leakages out of economy, black money
② labour → low prod^y, Capital-output ratio = 4:1
③ Capital → effective capex - 4.5% of GDP.
④ Rising NPA, ⇒ NBFC
⑤ Global exports (20% GDP, 1.8% of all Global exports)
⑥ COVID, war
⑦ manufacturing, agricultural, services

State of the Economy

1) 3rd largest in PPP & 5th largest in market exchange rates ($3.2 Trillion) ($261 b in 1990)

2) Growth rate

3.7%	-6.6%	8.7%	7.0%	~6.5%
19-20	20-21	21-22	22-23	23-24

3) private Consumption → ~60% of GDP (Growth driver)

4) Steady ↑ of Capex
- → ↑ capex budget (67%)
- → ↑ direct tax & GST
- → pickup in pvt. investment

4) · GST ≈ ~12 lakh crore in FY23

5) Major shocks to the Economy
- → COVID-19
- → Russia-Ukraine
- → policy rate hikes of Central Banks

6) fiscal deficit
- → back to ~6.4% of GDP
- → GST collection ⇒ 12 lac crore in FY23
  - ↓ Tax payer doubled to 1.4 crore

debt
- → ~60% of GDP (Central)
- → 30% of GDP (States)
- → Internal → 95.1%
  - External → 4.9%

Combined Gross deficit of states – 2.8% of GDP.

7) Monetary: Repo rate = ↑ 6.5%.
- ↓ Banking sector → {Recog^n, resol^n, recapitalisation, reforms}
- ↓ GNPA = ~5%.
- ↑ Capital Market –

8) Employment
- · 41.3% LFPR ; 4.1% unemployed.
- · female : ~22% ; 46% in agriculture.

9) Skill development
- · 5% of workforce is formally skilled. (52% in USA, 96% in S. Korea)
- · 37 yrs demo. dividend.
- · only 50% of educated are employable.

10) Financial Inclusion → 7/17 SDG goals
- → 49 crore PM JDY acunts (55% women)
- → Top 10% → 76% wealth, → 52% income
- Bottom 50% → 2% wealth, → 8% income

11) land records
- → 94% villages completed comput^n.
- → ~~20%~~ 1.15ha avg farm size
- → <10% land under non-agri use.

12) Taxation
- · Tax to GDP ratio → 11.7%

13) farm Mechanization
- ▫ only 40–45% in India.
- ▫ ~2.5% of GDP provided as subsidy.
- · 50% of agri HH are under debt

14) 3rd largest Startup Ecosystem

External sector

→ Merchandise exports → ~420 B$ (petro. products, Gems & jewelly, pharma).

→ Services exports :- ~254 B$

→ forex reserve :- 560 B$, CAD = 2.1% of GDP.

→ 1.8% share in world's exports

→ exports → (18% of GDP)

→ 5th largest recipient of FDI (~90 B$)

↓ Computer software & H (44%)

imrit kaur

digital public infra

(*) digital solutions that enable basic functions essential for public & pvt. service delivery

JAM
UPI
Bharat net
PM DISHA

→

ONDC
Account Aggregat
Health Stack, Agristack
FASTAG
Co-WIN.

MSME → 30% GDP, 40% exports
→ 50% in rural areas

Financial inclusion index → 53.9 (2021 year) by RBI

⇓ based on access (35%)
Usage (45%)
Quality (20%)

Highlights of the Budget

Amrit kaal - vision → an empowered & inclusive Economy

- * opportunities for citizens with focus on Youth
- * Growth in Job creation
- * Strong & Stable Macro Economic environment

7 pillars

① Inclusive development → Agriculture & Co-op → digital public infra in agriculture
→ Agri. accelerator fund → agri-startups in rural areas
→ Global Hub for millets (Shree Anna)
→ Cooperation → PAC, FPO.

Inclusive development → accessing edu^n & skilling
① Teacher's training.

Inclusive development → Affordable Health for All → Sickle cell Anemia elimination

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② Reaching the last mile → Aspirational districts & Blocks programme (500 blocks)
→ Pradhan Mantri PVTG development mission.
→ Ekalavya Model Residential Schools.
→ PM Awas Yojana → ↑ 66% budget.
→ Support for poor prisoners

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③ Infrastructure & Investment → Investment → Capex → 10 lakh crore → 3.3% of GDP
effective capex → 4.5% of GDP.
→ Crowd-in private investment

Infrastructure & Investment → Enhancing last mile Connectivity → Railway → 2.4 lakh crore
→ Coastal shipping → PPP model
→ Regional conn^d → 50 additional airports.

Infrastructure & Investment → Urban development
① Sustainable cities of tomorrow
② Municipal bonds
③ Urban Infra development fund.
④ Urban Sanitation.

---

④ Green Growth → Green Hydrogen Mission.
→ Battery Energy Storage Systems
→ Renewable Energy

Amrit Dharohar → wetlands
PM-PRANAM → Fertilizers. fuel
MISHTI → mangroves

(5) YOUTH POWER → PM Kaushal Vikas Yojana 4.0 → 30 Skill India Int'l centres
→ Unified Skill India digital platform
→ Boosting Tourism → Vibrant villages programme
→ Setup Unity mall in states.

(6) UNLEASHING THE POTENTIAL → Good Governance → Jan Vishwas Bill
→ National data Governance policy
→ Centres of Excellence for AI.
→ KYC process

↓

towards Transparent & accountable admn

↓

(1) Vivad se Vishwas - I (relief for MSME)
(2) e-Courts
(3) Fintech services

Employment
- FPR: 40.1%
(52 crore)
Reasons

Employment - 1 → Targets :- ↑ FLFPR → 30%.
→ increase formalization
ensure wages, good working cond, prod ↑.

LFPR :- 40.1% → 45% in agriculture.
(52 crore) → 60 crore by 2022.

Reasons for unemployment :-
- ~~less~~ focus on labour intensive sectors (Textiles)
- disguised unemployment.
- Inadeq. infra.
- missing manufactr sector.
- Pop Growth
- low skills.
- Social Norms (for women)
- Structural slowdown in Econ

① Casualisation of workforce
② Jobless Growth.

Types of unemploymt :-
- * Disguised (agriculture)
- * Structural. (Skill mismatch).
- * Seasonal (agri)
- * Cyclical (recession)

PMKVY, NSDC, MNREGA.
Startup India, Standup India.

Implications
- loss of demographic potential.
- inequality ↑ Poverty ↑
- Gender gap ↑
- reduced demand economy ↓.
- ↑ crimes frauds
- Nutritional Security.

Some ways to create employment
- → Only 5% skilled → induce skill training programes.
- → Tourism Sector → 10 lakh invested creates 78 Jobs (highest).
- → Labour intensive industries → Textile & industry
- → promote MSME sector.
- → Breach digital divide.
- → promote entrepreneurship.
- → ↑ spending on edu^n, health,
- → prospects of Gig Economy → "platform India Initiative"

↑↑ Quality of employment also.

Poverty → 364 million
→ Social phenomenon in which a section of society unable to fulfil the basic necessities of life.

Factors

Social
- Illiteracy
- Caste divide
- Gender discrim.
- Improper social fees
- dowry
- Social exclusion

Economic
- low agr prody
- unemployment
- Urban poverty
- land hlds ↓

Demographic
- popn ↑

Geograph
- variable climate
- disast. R/N

→ lack of investment
- unemploy + underempl
- lack of entrepreneurship

→ Linkages with Health, cyclic relat, low nutri, edu ↓, skill dev ↓.
- Employment
- popn
- environment
- Socio-cultural inequality.

→ Approach → Growth oriented approach.
- Specific poverty alleviation progm
- providing min. basic amen.

Multi-dim. poverty Index :-
- Health → Nutri (1/6), Child Mortality
- Edu → years of schooling, School attend
- living stands → Cooking fuel (1/18), Sanitation, drin water, Elec, Hous, Asset

(1)

Inclusive Growth, Development

is an economic growth that "creates opportunity for all segments of the population" & "distributes the dividends of the increased prosperity, both in monetary & non-monetary terms, fairly across society".

Dimensions

Social	Economic	Political	Environmental
→ Affordable edu^n^	→ Financial inclusion & literacy	→ long-term perspective & planning	→ Sustainable development
→ Quality HealthCare	→ Agr. development	→ Transparent, efficient Govern	→ Red^n^ of wastage
→ Gender parity	→ Quality Empl	→ No corruption	→ prot^n^ of flora & fauna
→ Regional parity	→ Connectivity & Comm^n^	→ Beyond discriminat^n^	→ future generations need.
→ Socially equal treatmt			

→ Govt, pvt sector, NGO, CSO, Media all are imp. stakeholders

1) Poverty reduction & increase in quality & quantity of Employment.
2) Agricultural developmt
3) Social sector developmt
4) red^n^ in regional disparities
5) protecting environment
6) Good Governance.
7) ~~Econ~~ Recog. of women's agency.
8) Access to essential services.
9) Financial Inclusion.
Technological advancement.

Need for inclusive Growth

1) Poverty : 34.8 crore (BPL).
not only economic → social, cultural & political aspects.

2) Inequality :- Top 10% → 74.3%.
B- 50% → 2.8%.
social → opportunities, access to livelihood, edu^n^, health - across Gender, caste, Religion, Ethnic, Regions.
Low social mobility.

3) Unemployment : + underemployment.

4) Inclusive development Index :- (WEF)
India : 62/74

5) Global social mobility India : 76/82 (WEF)

Challenges:-

→ Slow Economic Growth :-

→ Wealth Concentration →

→ Automation

→ Education

→ Informalization of labour

→ Unequal women participation :- add \$28 T, → 26% of world's GDP. 60% to India's

→ dependency on Agriculture →

→ changing labour Market →

→ Corruption → red tape, age-old social barriers, lack of transparency.

→ Eradication of child labour,

→ Inclusive Growth will lead to Human Capital Formation.

Sectoral steps Taken :-

Education & skill development :- NEP, PM Kaushal vikas Yojana, Skill India.

Health :- Ayushmann Bharat,

Social Security :- PM Suraksha Bhima, PM Jeevana Jyoti Yojana, Atal Pension Yojana

MUDRA

Financial Inclusion - PMJDY, SHG, Micro-finance

Employment Generation :- MGNREGA, DDU-GKY,

Agriculture :- doubling farmers income by 2022. Soil Health Card

PM Krishi Sinchayee Yojana.

Infrastructure :- Affordable housing.

Housing → slum Rehabilitation. Awas Yojana.

clean sanitation → SBM, Jal Jeevan Mission.

Gender → Janani Suraksha, Standup India

'ff dimentions:

- unemployment, skill development
- Poverty
- Financial inclusion.

Pillars → ① Sustained Economic growth → 5$ Trillion Economy.

② Social development → of all sections SC, ST → vulnerable + Regional disparity (need special focus)

(empowerment of marginalized section)

③ Financial inclusion

④ Social Infrastructure & skill development.

⑤ Technology advancement (Aatmanirbhar Bharat) use to reduce.

↓

Reduce digital divide

⑥ Progressive Taxation (should not be regres) +

Inflation need to be kept in check while focusing on growth.

⑦ Reduce intra/inter regional imbalances.

2

Some Misc. Strategies.

- → Universal Basic Income
- → Increasing Insurance Coverage :-
- → Strategy on Resource efficiency
- → Social Stock Exchange
- → CSR
- → Circular Economy.

- → Non-farm jobs needed
- → Shift to formal sector
- → reforming export strategy.
- → Strengthen SME's.
- → Encourage Startups

* Inclusive development Index (by WEF) :- → 62/74 emerging Countries.

Human development Index : 131/189.

Multi-dimension poverty Index :

(3)

Fiscal Policy. Government Budgeting → Article 112 → annual financial Statement

Financial Bill :- Article 110

Allocation ✓
Distribution ✓
Stabilization ✓

Revenue
- expenditure
- Receipts

Capital
- Expendit
- ~~Revenue~~ Receipts

→ Deficit Financing

fiscal policy → change in Govt. expenditure & Taxes that are designed to achieve macro-economic policy goals. ↑ growth, employment, investment etc. price stability.

✓ Counter-cyclical
✓ pro-cyclical

→ ✓ Fiscal deficit *
✓ debt to GDP ratio
✓ Public debt
✓ Tax buoyancy → indicator of efficiency & responsiveness of Tax revenue mobilizatn to GDP growth.

→ FRBM Act → Features

2023-24 Budget highlights:-

(1) Capital expenditure ↑ 37%.

Fiscal Responsibility & Budget Managementary Act :-

why? fiscal discipline, Transparency & accountability in fiscal & actions of the Govt

Features :- → fiscal, revenue & primary deficit as % of GDP.
→ Tax & non-Tax revenues as % of GDP.
→ Central Govt. as % of GDP.
→ Limit fiscal deficit to 3% of GDP by March 2021. (now 6.8%)
debt of Central Govt to 40% of GDP by 2024-25, (now 49%)

→ Can have deviation under certain Conditions.

N K Singh Committee's Recommendations :- 2.5% by 2023.

→ debt as the primary Target ✓
→ fiscal Council establishment →
→ deviations Should be Clearly Specified.
→ Govt Shouldn't borrow from RBI

3 documents : Macroeconomic framework Statement
Medium Term Fiscal Policy Statement
Fiscal policy strategy Statement.

& M
the Govt

Revenue Account
- Receipts
  - → Tax
    - direct
    - Indirect
  - → Interests
  - → dividends & profits.
  - Grant-in-aids
- Expenditure
  - planned → CSS
  - Non-plan → Grants to states.

Capital Account
- Receipts
  - disinvestments
  - Sales
- Expenditure
  - Capi

Stages in enactment

① Presentation of the Budget → ② General discussion (3-4 days) → 3-4 weeks, houses adjourned → ③ Scrutiny by departmental Committees → ④ demand for grants (Separate for each ministry.) → ⑤ Appropriation Bill → ⑥ Finance Bill

Presentation of the Budget: Eco-Survey, Taxation proposals

Weakness in Budgetary process:

- Exclusive focus on inputs. → need top down approach
- Bottom-up approach → becoming game of lobbying
- Focussing on short-term approach
- wrong estimations → leading to high fiscal deficit.
- Skewed expenditure in the last Quarter → lapsable funds

Ge

approach.

③

Gender Budgeting

no Separate budget.

Gender Sensitive formulation of legislation, programmes & schemes;
→ allocation of resources, implementation, execution, audit,
impact assessment of programms & follow-up Corrective action.

5-Stage Framework:

Step 1: Analysis of the Situation of women in a given sector.
2: assessment of extent to which current policy addes issues in step 1.
3: assessment of adequacy of budget allocation to implenet step 2.
4: Monitor the money spent
5: An assessment of the impact of the policy

In India: first introduced in 2005-06, GB statemt → Part-A :- women specific (100% allocat.)
Part-B: pro-women schemes.

4 Seq. phases → knowledge building & networking
institutionalizing the process.
Capacity building.
enhancing accountability.

→ Gender Budgeting cells created in each dept.

Shortcomings
→ gender budget expenditure ↓
women empow funds ↓.
→ only few schemes from MWCD like Nirbhaya fund, Beti Bachao Beti Padao.
→ weak moniting.
→ lack of dedicated Human resources.

Outcome Budgeting → Suggesting & listing of estimated outcomes
programmes (or) schemes designed.

→ For given outlay it looks → outputs (quantitative)
outcomes (Qualitative).

UPA 2005-06 :- "people in Country are Concerned with outcomes not outlays"

Performance Budgeting → reflects i/p of resources & the output of Services.
Quantifying particular goals.

Participatory Budgeting

years of

Advantage

elimin

8 years of GST

Advantages

- Eliminates Cascading effect
- Broadening Tax Base
- Regulation of unorganized sector
- Reduces Tax evasion
- Creates parity in Service & manu. sector.
- Common market
  one nation, one market
- Improved logistics
- Co-operative federalism

Achievements

1. 1 lakh/month.
2. Tax Base (1.2cr)

Challenges

- Complex Tax slabs
- Complex & Cumbersome filling structure
- Transitional Issues
- Concerns over shortfall & Compensation to States
- Tax evation & frauds. (fake e-way Bills, invoices)
- overestimation
- Expanding GST purview.

way forward

- Simple structure (less slabs)
- Robust Compliance regime.
- Structural refers.
- Increasing Transparency in Fiscal management.

(GST Tax Slabs)

	% of items	
exempted	7%	→ fresh fruits & vegetables, food items which are necessary.
5%	14%	→ apparel (<1000), footwear, packaged food items
12%	17%	→ frozen food, medicines, diagnostic kits, non AC rest
18%	43%	→ AC restau, hotels, telecom.
28%	19%	→ automobiles, 5 star hotels, motorcycles.

→ Contains 1300 goods & services +
tax on gold → 3%.
precious & semi precious stone → 0.25%.

Exports

not covered under GST :- 1) alcohol for human consumption
2) petroleum products
3) Electricity

Challenges to Govt : (post lib?)
1. low tax/GDP ratio (17%)
2. FRBM limits
3. decline in capex
4. off budget borrowings
5. populist expenditure (1.8 lac cr)
6. Bank recapitalisation

Efficient tax system (BECN).
Buoyancy
Effectiveness
Cost effective
Neutral to economic decision

Good items,

Exports & Export led Growth → majorly due to Services → they finance merchandise trade deficit.

⇒ 1.7% of world's exports ⇒ China: 13%, US: 9%.

→ 18% of GDP → dominated by Services.

Challenges

- low participation in Global value chains.
- low diversification of export Basket.
- low competitiveness
- infrastructural issues.
- Regional disparities
- not able to take Comparative advantage.

→ Eco Survey advocated Export led Growth → foreign remittances, more jobs, CAD ↓, demand ↑, infra ↑. → part of GVC, development.

Govt. Initiatives → RoDTEP, PLI, cluster, SEZ

way forward → increasing Competitiveness → manu. base, R&D, Trade lib.
- Exploring & Shrgt potn. sctrs.
- Robust Foreign Trade policy.
- Enhancing Trade relations.

Foreign Trade policy 2023
- ↑ to 2T $ from 700 B $
- district as export hubs
- Special focus on e-Commerce, Amnesty scheme
- Export duties ×
- Internationalization of Rupee
- lower costs for small firms.

Trade Agreements

PTA (preferential trade Agreements) :- has few positive list which are duty free.

FTA (Free " ") : negative list which has duty, so, more broader than FTA.

CECA (Comp. Eco. Cooperati Agremt) → broader than FTA
CEPA (partnersh ") which includes mainly goods.

they are more ambitious in terms of holistic coverage of goods + Services, investments, Competition, govt. procuremet, disputes.

Custom union → Countries trade at zero duty, also decide to do trade with RoW at mutually agreed same rate.

Economic Union : above + monetary & fiscal policy is also same
Eg: EU

Existing agremts:

FTA → 1) ASEAN
South Asia → Ind, Pak, Nepal, SL, Ban, Bhutan & Maldives
Srilanka.
Japan
South Korea
UAE - recently

World-Tra...
rules ha...

5 principles → reciprocity
Transpar
Safety valves
binding & enforceable

World-Trade organization :-

→ rules based, member driven organi, deals with Global rules of trade b/w nations.

functions → reduce barriers, sign multi-lateral agreements
→ forum for negotiation & dispute resolution
→ ensure Countries develop from Trade

Ministerial Conference → major one

Agreement on Agr → check vision - Sep'21

Issues with WTO :-

→ moving away from multi-lateral inst → plurilateral *.
→ opening up of world Trade → disadvantage to low income.
→ era of new economic colonialism
→ only focus on some issues (eg: oil is ignored)
→ U.S → high non-tariff barriers.
→ high subsidies
→ TRIPS issues → huge challenges to pharma industry for medicine.
Agricult → India curtailed many subsidies
dispute appellate body is dysfunctional.

There are also some advantages too. increase in Trade, exports.

Investment

→ GDP growth is not the only determinant of economic dev.
but → leads to income, standards of living.

→ Savings, Incremental-Capital o/p ratio ⇒ impact Infrastructure.

Financing of Infrastructure :- → necessary if not sufficient condition.

Challenges

- Funding Gap → Fiscal burden on Govt (High FD)
- Asset-liability mismatch of Banks. (Huge NPA)
- Legal & procedural issues
- Need efficient Corporate Bond market.
- develop muncipal bond markets.
- Insufficiency of user charges

Measures taken :-

- PPP
- Viability Gap funding
- FDI
- NIIF
- Infra. debt funds
- NMP → encashing brownfield projects.
- NIP

Core issues

- poor contractual framework → numerous inadequacies, lacunae, Gaps, no details.
- financing issues → employ high leverage in terms of debt funding, + NPA's
- Absence of Sectoral regulation; regulatory hurdles.
- → backdoor entry of pvt. players + crony capitalism +
- → Cost overruns + time overruns.

Refms

1. Process side refms → ease of Compliance, rationalization of rules.
2. Liberalized FDI regime & EoDB.
3. Boost investor's Confidence by enhancing Capital exp. (Crowd in of pvt) prudent utilization of viability gap funds.
4. Vijay Kelkar Committee
   - → Establish Infra PPP Adjudication Tribunal (IPAT)
   - → develop Sector-Specific institutional framework for PPP projects.
   - → Create umbrella guidelines for stressed projects & sector-specific framework
5. Integrity pacts → to reduce the Corruption.

Public Private Partnerships in Infrastructure :- why? → new Technology, resources

needs proper allocation of → risks, rewards, responsibilities, resources

Govt → Special purpose vehicle

Experts → Special purpose vehicle

Sponsor & Shareholder → Special purpose vehicle

Financier → Special purpose vehicle ⟹ also Joint ventures.

Customers → Special purpose vehicle

Special purpose vehicle → it's a legal entity

$\boxed{\text{Models}}$:- varied by
- Ownership of Capital assets
- Responsibility for investment
- Assumption of risks
- duration of Contracts

① Supply & management Contracts :- just management a portion/whole.

② Turnkey :- Contract in desing & building with fixed fee.

③ Afferma/lease : responsible for operating & maintaining the infra.
Risk :- investment by Govt
operation by pvt.

④ Concessions :- Build-operate Transfer :- private :- operational & Investment risk
Govt :- Implicit & explicit liabilities due to loan guarantees.

get many from managing & marketing → not sure.

they have Political risk
Technical risk
Risk of financing.

- Build-own-operate-Transfer
- Build-own-operate.
- Build-lease-Transfer.

⑤ Private-finance Initiative model :

Contemporary:

(1) Swiss challenge model – publish authority will publish the bid & invite 3rd parties to match/exceed
↓
Competition, Transparency, Creativity

(2) EPC (Engineering, procurement & Construction):-
↓ Govt pay 100% fee, land acq. (90%), req norms, } adv: no NPA
Pvt: Timely Completion → incentives / penalties

Disadv: Govt → fiscal burden, no money,
Pvt → no incentive to complete faster

(3) Hybrid Annuity Model: EPC + PPP
Project Cost:- NPV of Capital cost + 15 yrs maint. → Govt will pay 40%, land, clearances
Pvt → 60% through fund raising
⇓
Govt will pay through annuity
operation/maintenance Risk
Collects 70%
Traffic Risk, Inflation Risk

→ most viable

Challenges: Still a new model, need to increase the participation

Factors to Consider
(1) well defined adv of both
(2) clear responsibility matrix
(3) time-period for completion of projects
(4) Clarity about clearances → land, EIA.
(5) Grievance redressal mechanism.

Conclusion:

→ works well when they combine efficiency & risk asses of pvt. sectr + public govt

not other way around.

+ sensible risks & responsibilities + needs flexibility.

FDI

why FDI?

NMP

Asset Monetization

- "unlock value from public invest" ✻
- "Taps private sector differe" ✻
- "Creation of new sources of revenue" ✻

Existing Assets Base → Monetise → proceeds → New infra

diff b/w
Asset Monetis (vs)
disinves (vs)
privatiza

NMP → monetization of Core Assets.

- Roads
- Railways
- Power
- Telecom
- Nat Gas.

} Total 6 lakh Crore

→ Mon. of assets not ownership

direct Contractual approach → Brownfield PPP → OMT, OMD

Structured Financing Models → long term lease → EnvIT, ReIT

Signifi

- Resource mob
- PPP
- Res m
- private capital
- fiscal prudence.

Govt

FDI

why FDI?
- domestic capital is inadequate
- removing BoP
- by taxing profits of Foreigners → mobilise funds
- Technol, Skill, Entrepreneurship
- Employment

~90B$ FDI

Forei
- FDI
- FPI

Stats
- 5th largest recipient
- Computer software & Hardware is the highest
- 100% in many → Telecom, Fin services, petr, Agr, Aviat, Insurance, pharma etc.

Constraints
- poor EoB
- regulatory complexity
- red. investment in Greenfield projects
- ~~more~~ FPI
- less cond. infrastructure

what more?
- making infra projects commercially viable.
- Greater participation of State Govt → land, law & order, env clearances.
- Corporate bond market
- Rating
- Ease of doing Business
- labour reforms
- Single window clearances.

Framework

Current scenario

Data

→ ICOR :- ~4 for Indian Economy.

→ India's Gross Savings rate :- (30%)

Savings → Investment → Capital formation → production of goods & services

- Savings ↓ mobilized by HH & pvt. sectors
- Investment ↓ in different assets
- Capital formation ↓ Machinery/ equipments
- production of goods & services ↓ More employment & Economic activity ↓ Higher GDP

framework :- Infrastructure

Current Scenario : Share of GDP.
Importance.
Status of FDI

+ Social outlook
Environmental outlook

Constraints :- Capacity,
Sector Specific.
Lack of funds.

Govt. Initiatives :- {

More to be done / way ahead :- Specific Sector-wise +
Skill development
Research & integration.

{ NIP → Share, imp!, what more?
~~N~~MMP.
Gati Shakti

Need of Infra :-

→ Improving Growth :- for 5$ Trillion → need 100 lakh crore by 2024

Industrial dev :-

Employment generat → 2 ways → while construct, & aftermath many ancillary

Trade & Commerce :-

↑ prod'y :- Eg: logistic cost : 14% → if we reduce, less cost ↓, more exports, cheaper prices

induces investment, FDI :- Sound infra → attracts more investment

WB :- 1% increase in investment ⟹ 1% increase in GDP.

→ Its called "lifeline" of the economy

→ Health & well-being;

Educational attainment → ↑ social mobility → decrease inequality
↓ panacea for all ills

physical Infrastructure : Dams, roads, railways, Telecommunications, Banks

Social Infrastructure → Education, Health, Sanitation facilities".

2014-15

Road Transport | Transport Sector (4.77%) → Road : 3.22%, Rail : 0.75%, Air : 0.15%, water : 0.06%

Reducing logistics | Manufacturing | Growth | Trade & Commerce | Social integ.

Security → Border roads

Freight (69%) share
Passenger (90%)
2nd largest road network in world

FDI: 100% allowed

Private Sector key player :-
↳ Hybrid annuity model
Toll-operate-Transfer
Build-operate & Transfer

Issues :-

- Capacity issues — NH : only 2.2%
- Maintenance — 40% of funds
- accidents & safety → 18.9 per lakh
- Costs ↑ (land issues)
- + High freight cost

Govt initiatives :-

→ Bharatmala Pariyojana :- 34,800 kms in 5 yrs. (Current 1.32 lakh kms)
Multi-modal integ. (backward areas, Tourist spots, border, Coastal, Int' trade)

(NHAI) → nodal agency
set up InvIT → Infrastructure Investment fund.

→ Motor vehicle Amendment Act, 2019 :- to provide for road safety
→ Special Accelerated Road developm for NE region (SARDP-NE)
→ PM Gram Sadak Yojana ; NIP → (111 lakh cror → 18% road sector)

Way ahead

→ Increase connectivity by expanding road network
→ Improved maintenance & safety :- (maintenance mgmt system)
→ Skill development - vocational course (ITI)
→ Research & devel - IT enabled traffic managmt, new materials/techniques
→ Increased coverage of toll collection

CAG → GIS mapping of Assets, adopting social Audit

Rakesh Mohan Committee → Integrated multi-modal system
Road user Satisfaction surveys

Recent developments

1. Budget 2023-24 ⇒ 2.7 lakh Crore

2. PVTG ⇐ Special Road Connⁿ.

3. PM Gati Shakti programme

Rail Transport :- 4th largest network, largest passenger carrier, 4th larg freight

Issues

① Congested networks + delays

② negligible non-fare revenues.

③ High freight cost subsidising passengers

② efficiency of terminal par.

④ Safety & poor quality

⑤ Organization Structure
delay in decision making / inadequate market orientation.
departmental orientation.

⑥ poor connectivity [last mile (X)]

Privatization of Railways → challenges → Accountability reduced.
→ limited coverage only to profitable areas.
→ fragmentation :- eg. UK → break into infra + operating.

Railways Restructuring → railways depts working in "silos"
need creation of Indian railway management service (IRMS)

DFC → ~~Quad~~, ~~WDFC~~, ~~EDFC~~.

Rail development Authority

way ahead :- 3 pillars → new revenues
new norms
new structures

→ Better utilization of existing infrastructure to address congestion
→ ease organizational rigidity through structural refer :- (IRMS)
→ rationalize fare structure, subsidies, monetize assets.

Rakesh Mohan Committee
→ increase investment in railways
→ sep of railways manag & operation.
→ integrated multi-modal system

Bibek Debroy. Committee → modernisation
→ establish Railways reg. Auth of India (RRAI)
→ encourage private entry → both freight & passenger trains
→ all 3 manuf → SPV → IR Manu Company
→ Transition to financial accounting.

Kakodkar (High-level safety review)
① implementation of advance signalling.
② Elimination of all level crossings
③ Corporatized to Indian railway Corp & regulated by RRAI.

RAIL SAFETY

Reasons

- derailments
- ↓ fund for Tracks renewal
- Human Error
- over-utilization of Tracks (80% are overburdened)
- Shortage of Deth coaches

Measures taken

- Kavach system
- Mission zero Accident – {Train collision avoidance system}

Way forward → **Kakodkar Committee** →
1. Advance signalling systems
2. Safer LHB (linke Hofmann Busch) German made.
3. Automatic train control systems.
4. Research design & Standards orgn → more autonomy

Sam Pitroda Committee → more funds to be avalaible for railway safety

CIVIL AVIATION → Supports 1.7 million Jobs in the Country.

3rd largest domestic market in the world. (fastest growing)

Issues

Capacity & Infrastructure | High fuel cost | Aviation safety. | Liquidity issues of airlines

Skill shortage

(45% of overall operating cost)

Govt initiatives:

→ Regional Connectivity scheme – Ude desh ka Aam Nagarik (RCS-UDAN)

↳ enable regional Connectivity through fiscal support & infra development.

→ National civil Aviation policy (2016):-

- "ease of doing Business"
- "Infra devel"
- "Make in India".

Way ahead

- Enhance Infra ↑investment
- skilling
- Ease the regulatory environment.
- promote air-cargo Growth.
- develop MRO industry (maintenance repairs & operations)

DGCA → regulatory Body

AAI → PSU – Infra dev.

- **Types of ports**
  - **Based on cargo handled**
    - Industrial Ports
    - Commercial Ports
    - Comprehensive Ports
  - **Based on location**
    - Inland Ports
    - Out Ports
  - **Based on on specialized functions**
    - Naval Ports
    - Industrial Ports
    - Entrepot Ports
    - Packet Station
    - Ports of Call
    - Oil Ports

Significance of port development

- **Economy**
  - Reducing Logistics cost
  - Blue Economy
- **Security**
  - Ensuring safety of strategic installations
  - Curtailing transnational organized crime at sea
  - Keeping an eye on maritime traffic
- **International Relations**
  - Countering the influence of China
  - Regional integration
  - Net Security Provider in the IOR
- **Environment**
  - Good design of Ports for sustanable development
- **Social**
  - Inclusive development
  - Sustainable livelihood

Hurdles in enhancing India's port connectivity

- **Infrastructure bottleneck:** Shallow ports, subdued capacity utilization at ports, logistics bottleneck.
- **Regulatory bottleneck:** Lack of level-playing field between major and minor ports, bureaucratic challenges.
- **Issues related to investment:** Lack of financing, subpar private sector participation.
- **Labour issues:** Overstaffed, unskilled and untrained labour.
- **Less competitive on global front**

Steps taken to enhance India's port connectivity

100% FDI

- **Ease of doing business:** Encouraging investments, Centralized web-based Port Community System (PCS), Captive Policy for Port Dependent Industries.
- **Dealing with infrastructural bottleneck:** Sagarmala Programme, Bharatmala programme, Project Unnati - Operational Efficiency Improvement, Capacity Expansion of existing Major Ports, New Port Development, Development of a transshipment terminal (hub).
- **Legislative reforms:** MPA Act, 2021.
- **Cooperation with neighboring countries**

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Governance of ports

- **Major Ports:** They fall in the Union list of the Constitution and are administered under the Indian Ports Act 1908 and the Major Port Trust Act, 1963.
- **Minor Ports:** Minor ports are managed at the **State level.**
- **Governance model:** Until the enactment of MPA Act, 2021, the 11 ports owned by the Indian government widely followed a hybrid format of the service port model and the landlord model.

Way ahead

- **Regulatory reforms:** Opening up the dredging market, coordinated efforts for last-mile connectivity to ports.

Cruise Tourism

- **Dealing with the issues of financing:** Cruise tourism as a revenue source, investment opportunities in bunkering.
- **Improving infrastructure:** Prioritisation of projects under Sagarmala, multimodal connectivity, smart ports and blockchain logistics.
- **Policy interventions to promote inland waterways:** Navigable route development, enhancing last-mile connectivity, development of industrial corridors, promoting passenger transportation, ensuring adequate air clearance.

→ port led development of ~~ch~~ Singapore
→ Inland waterway carry <2% of freight.

operating cost compar...
Rs/Tonne km
Road : 3, Rail : ...
waterways : 0.3

Govt. initiatives:-

Sagarmala :- 4 pillars →
- Port Modernization
- Port Connectivity
- Port led Industrialization.
- Coastal Community development.

→ benefits Coastal Commu...
→ Inland waterways
→ Tourism
→ logistics ↓,
→ Easy movement of cargo.

↓
"Coastal Economic Zone."

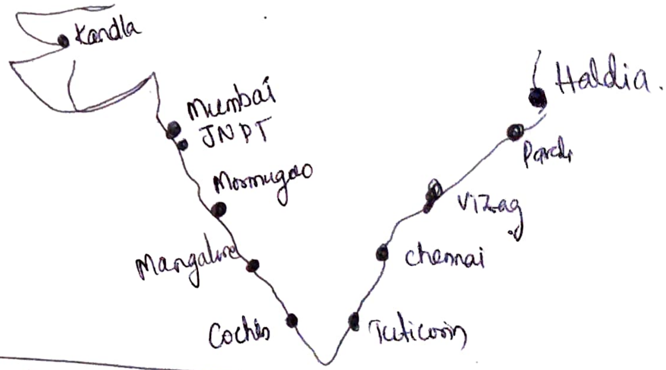
Major Port Authorities Bill, 2021:- → replaces Major Port Trusts Act, 1963 *

(Board of Major Port Authority) → regulatory & landlord, infrastructure.

Private
- carry out operations.
- leased to pvt. firms.
- share in revenue.

→ envisages (Landlord port model)
→ expansion of port infrastructure
→ decentralize decision making & infuse professionalism.
→ PPP projects will be taken up by board + CSR also included
→ Board can fix ~~tax~~ Tariff + raise loans.
→ greater autonomy to 12 major ports & professionalise their Governance.

Criticism → privatise ports
diluting powers of States on land use.



Inland waterways → Carries less than 2% of freight.

→ 14,500 navigable waterways.

Inland waterways Authority of India
↓ implementing
Jal Marg Vikas project.

TELECOM SECTOR → 2nd largest Telecom market, 1.17 billion sub base.

→ pillar of digital India

→ Tele-density: 88% → Rural: 60% → (huge potential)

6% of GDP. 3rd largest in FDI inflows, 2.2mn direct & 2 mn indirect Jobs.

Challenges

- Debt ridden sector
- Issues related to Taxation (AGR)
- Import dependence (critical infra)
- Huge Spectrum user charges (Limited Spectrum availability)
- price-war
- Lack of infra in rural & semi-urban
- duopoly

way ahead:

Govt. initi:

→ 100% FDI

→ PLI scheme -

→ Digital India programe, Bharatnet.

→ Moratorium on AGR payments.

National digital Communications policy: → Connect India, propel India, Secure India.

- Broadband for all
- jobs
- ensuring digital Sovereignty
- Enhancing India's Contrib to Global value chains
- → 8% of GDP.

LOGISTICS SECTOR → 4 main → "Transportation"
"Warehousing"
"Freight forwarding"
"Value-added logistics"

but

India : 3rd

→ $ 215 billion size. 14-15% of GDP

Cost

Importance

- Trade ↑
- new market avenues.
- Currently due to lack of post harvest - a 30% food gets wasted
- Central to manufacturing.
- Urbanization ↑

~~Constraints~~

Constraints:

- Cost → 15% of GDP.
- lack of Coordination due to multiple stakeholders.
- "fragmented warehousing" capacity
- Fragmented & unorg. sector
- Infra: road ↓, rail ↑, water ↓
- "Suboptimal modal mix."
- lack of skilled workforce ↑
- "Slow adaption to new Tech"
- "Regulatory hurdles"
- "need huge investment" → High cost & low margin business

Govt. initiatives

→ Infrastructure Status to logistic Sector, creation of logistic division.

→ PM Gati shakti.

→ Multimodal logistics parks

~~digital platt - 16 Mnst~~

Energy Sector → Key driver
Sustainable, Stable, reasonable price needed.

→ India: 3rd largest Consumer, (5.8% world's energy) per capita Consumpt is 625.6 kgoe (world 1860 kgoe) (1/3rd of global avg; 1/11th of USA)

→ Total Energy: * Coal : 49.6%
* Oil : 28%
* Biomass : 11.6
* Gas : 7.3%
* Renew : 2.2%

Power: Thermal : ~~63%~~ 53% ~~370 GW~~ 392 GW
Hydro : 12.4%
Renew : 22.8%

Genr
Transm
Dist → * Issue.

Need of Renewable Energy for :- 'energy security', 'efficiency', 'decarbonization, Sustainability

Coal :- Still major source, Still imports, high ash Content, polln.
8.6% of world's reserve.
Issues → not enough mining (CIL)
→ delayed payments
→ Regional dispatch
PPA's, Rising imports (26% tall), Transportation infra.

Power → old inefficient plants.
→ ~~old inefficient plants~~
→ High (T&D), (AT&C) losses ⇒ Electricity Bill, 2021 → read in detail:
Subsidies to agricult. (17% used by agriculture)
High Commercial Tariff

Oil & Gas → not enough Supply, 90% imported, huge import Bill.

Renewable Energy :-

Solar :- 5,000 trillion kwh/year ⇒ (4-7 kWh) per sq.km/day.
& of 3% land used ⇒ (750 GW) Can be generated

Issues → * land scarcity *
→ import → photovoltaic, lack of manufacturing Base ⇒ High cost of prodn
→ Cost & T&D losses
Regulatory Concerns *
Weather, Grid-Connectivity
*

Steps taken :- 100% FDI
ISA, National Solar Mission, 2010.
"One Sun, One World, One Grid"
talk about INDC
"Green Grids Initiative"

→ "need clear manufacturing policy"
↓ "cluster approach"
→ develop "Solar Champions"
China model.

wind Energy :- potential of 300 GW

National wind Solar Hybrid...

Tidal Energy → 8 GW potential.

Hydropower

Biomass Energy → derived from plants & animal waste, burning / breaking the chemical bonds of organic molecules formed during photosynthesis.

potential of 18 GW

Biofuels

Geothermal

Hydrogen Energy → used for Fertilizer industry, Steel, petroleum refining, methanol prodn, chemical industries.

Energy Conservation & efficiency

Challenges :-

Cross subsidized electricity prices.

Inadequate Investment in Supportive inst mech & human res

lack of enforcement of Standards, codes.

MSME Sector.
System inefficiency unorganized nature.

Energy Conservation Act, 2001 → Bureau of Energy efficiency (Statutory Body).

Energy efficiency in Buildings → Start from planning & construction, natural light, air flow

energy efficiency labelling.
→ Energy Cons for Buildings code.

Industries :- Nat. Mission for enhanced energy efficiency (NMEEE).
→ Perform Achieve & Trade.
50% of Total elec.

Transport Sector → Electric vehicles
→ Nat. Electric Mobility Mission plan.
FAME.
18%.

Agriculture → Power subsidies, Ground water irrigation.
&
NM on Sustainable Agriculture → PM krishi Sinchayee Yojana.
per drop more crop.
Soil Health Management.
25%.

→ PM Ujjwala Yojana :-

UJALA programme

Street lightning national programme.

TOPIC AT GLANCE

Background of the 1991 reforms

Underlying causes for the crisis

- **License raj:** The "License Raj" or "Permit Raj" was the elaborate system of licenses, regulations and accompanying red tape that were required to set up and run businesses.
  - This was largely executed through the MRTP Act, 1969.
- **Policy of import substitution:** This policy advocated replacing imports with domestic production. This led to the monopoly of Indian industries and lack of incentive for them to improve.
- **A closed economy:** The rupee was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market. The overinvolvement of bureaucracy often led to absurd restrictions.

Immediate unfolding of the crisis

The immediate causes of the crisis included complacency caused by Bombay High Oil discoveries, collapse of Rupee-Rouble trade following the dismantling of the Soviet Union and crude oil price hike due to the Gulf War. This resulted in a BoP crisis-

- **1985:** BoP problems started due to persistent deficit between income and expenditure.
- **1990:** The Central Government was close to defaulting on its foreign payments.
- **1991:** The foreign exchange reserves dropped to a dangerous level alongside rise in prices of essential goods.

This led to a situation where India was seeking help from external bodies i.e., IMF and World Bank.

Response of the Indian Government to the crisis

- **Liberalization:** Liberalization was done in various sectors in like **deregulation of industrial sectors, financial sector reforms** like establishment of private banks and increased foreign investment and **reforms related to taxation.**
- **Privatization:** This included **expansion of the 'dereserved list'** thus inviting private participation and disinvestment which helped in transition towards a market driven economy.
- **Globalization:** The idea of globalization manifested in **Trade and Investment Policy Reforms** like dismantling of quantitative restrictions, removal of import procedures and lowering of export duties. It was also accompanied with **Foreign Exchange Reforms** such as devaluation of rupee.

Impact of these reforms

- **Size of the Indian Economy** has grown from about Rs. 6 lakh crore to about Rs. 140 lakh crore.
- With continuous liberalization in the **FDI and FII, the collective investment of the two have crossed $ 100 bn.**
- Forex reserves in 2021 reached a **record high crossing the $ 642 bn mark.**
- India has become a **successful exporter of auto parts, pharmaceutical goods, engineering goods, IT software and textiles.** As a corollary, **the services sector has showed significant growth** post-1991.
- Encouragement to private sector led to **development of a vibrant capital and financial market.**
- Opening of the economy has shifted the demand-supply equilibrium upwards thus resulting in **increased consumption and rising middle class.**

The reforms have also impacted areas like Health and Education, Nature of Politics, Culture and Technological Development.

Challenges that remain unaddressed

- **Limited inclusivity and jobless growth** as GDP growth remains uneven and does not create proportionate level of employment.
- **Taxation framework is complicated and regressive** with half of the tax revenue coming from indirect taxation.
- **Several areas** like agriculture, urban informal sector and forest communities **remain untouched by reform.**
- **Surprise changes, lack of consistency at policy level** makes the Indian market volatile and less attractive.
- **Chronic inadequacy in infrastructure** has a negative multiplier effect on almost all areas of the economy.
- **Small size of the financial sector** including banks and development of bond, forex markets etc.
- **Lack of emphasis on human resource development.**

Way forward for the future of economic policy

- **Diversified privatization** to complement privatization with policies which prevent concentration of wealth.
- **Moving from shareholder capitalism to stakeholder capitalism** to make growth more inclusive. *
- Focusing on creating an **integrated and progressive taxation system.**
- **Clarity in the role public sector envisages to play** in the economy.
- **Holistic reforms** in areas ranging from industry to labour to streamline the **economic climate of the country.**
- **Integrated approach to financial sector** including banks, FinTech sector, financial markets among others.
- With the evolution of India's political economy, the **states need to be an integral part of the reformation process.**
- **Economic policy** reform should **take into account** the ideas and targets propagated by **the SDGs.**

Industry & Trade → after Independence :-

Ind. policy Resol^n, 1948

1956 → Eco. Constitution of India, 3 categ → 1 → only state; 2 → both; 3 → pvt, but regulated

1977 → promotion of cottage & Small Scale Industries

1980 → Concept of economic federali,

Monopolies & Restr. Trade practices,

FERA.

1991 → LPG reform.

Limitations

- *Stagnation of manuf. sector
  - 16% of GDP
  - * Internal lib, no trade reforms
    - ↓ led to
    - (Consumption-led Growth, not export led Growth)
- Selective flow of investments
- displacement of labour, env. damage *.

Pvt. consumption :- 60% of GDP.

Exports – Im = -10%

Reasons for slowdown of Ind. Growth

- Low prod^y Compared to Service sector
  - ↓ b'coz of Unorgn sector
- → Poor infrastructure (~5-6% of GDP)
- → R&D → (0.5% of GDP)
- → High AT&C losses
- * Missing middle in India (either small or large Industries) less medium type.
- less coverage
  - labour reforms
  - land acquisit
  - env. clearances.
- challenge to Technology adaption
  - data security.
  - → Credit Constraints.

Industry → 31% of GDP →

- Mining :- 3.3%.
- Manu → 18% →
  - Textile :- 2.44%.
  - Food prod : 1.55%.
  - metal :- 2.44
  - Mach : 3.93
  - Other : 7.95
- Constru → 7.81%.
- Elect, Gas : 2.18

Govt. Initiatives: MSME Act, 2006
Competition Act, 2002
Nat manu. policy, 2011
GST, IBC, Make in India, Startup India,
PLI, SEZ, NIMZ, Mega parks, Textile parks.

Indices: Global Competitiveness Index
Logistic perf. Index
Global Innov Index. → 46

what needs to be done?

→ demand Gen, infrastrutre
→ encou FDI
→ initiatives to push Industry 4.0
→ Single window clearances,
→ Mega parks & manufacturing clusters.
→ Tax Reforms

Globalization & Indian Economy:

+ve:
- Foreign Trade ↑ (Forex Res)
- FDI inflows ↑ Knowl, Tech ↑
- Expansion of market
- Red^n in brain drain
- Consumer adv.

-ve:
- Inequal ↑
- exploitation of labour
- unemploymt.
- Culture & value system
- Loss to domestic Ind

WTO & Agri, FTA, Import dump

Flexible labour system ↗
- Organization flexi
- Numerical
- Functional
- wage structure
- work time flex.

Informali
- rigid laws
- Service sector only few.
- market mech → led to capital inte, no jobs → labr inte
- lack of thrust in manufactu sector.

Backbone of Indian Economy

MSME Sector : 30% of GDP, 6.3 crore MSME → 11 crore employment

→ 40% of all exports → Target → to 50% GDP for 5 Trill $

Challenges

- Impact of COVID
- Infrastructure Bottlenecks
- Limited Capital & Knowledge.
- Labour challenges.
- Suitable Technology
- Marketing Constraints

Govt Initiative:

→ Expansion of defn :-

Micro :	Inv < 1 Cr,	Turn < 5 Cr
Small	10	50
Med.	< 20 Cr	100

→ Emergency Credit Line Guarantee Scheme.

→ UDYAM portal.

→ Champions portal :- handholding.

Way Forward

→ Parliamentary Standing Committee — economic package, soft loans.

→ Integrate with Global value chains.

→ Central Research Institute for enterprise & entrepreneurship.

Textile Sector → largest employment generation after Agricult :- 45 millin (21%)
→ 2-3% to GDP, 12% export earnings.
→ 1st in Cotton, Jute, 2nd in Silk, 6th in Technical Textiles.

Challenges
- High fragmentation → Unorganized.
- Infrastructure bottlenecks.
- Env. issues (water inten, Chemical)
- Increase in input Costs
- Competitive export market (SL, BAN, China).
- poor access to Techn
- Child labour

Govt. Initiatives
→ PM MITRA (Mega Integrated Textile Region & Apparel).
→ PLI scheme.

Special Economic Zones

- to promote export oriented manufacturing ; investment, emp ; Tax exemptions ; duty free exports ; access to quality infrastruct ,

Challenges

1. unpredictable Govt. policies (withdrawal of tax concessions (sunset clause) (MAT - Alt Tax)
2. Global compe^n & structural issues (so no exports).
3. unutilised resources → (20,000 ha is vacant).
4. absence of single window clearances.
5. disadvantage wrt domestic sales
6. Issues with WTO
7. Smaller in size (Compared to China SEZ) total combined less than SEZ dis.
8. multiplicity of models, NIMZ, Coastal Eco. Zone)

Domestic Enterprise & Services Hub

1. Boost to domestic manufacturing : facilitate entry to domestic markets.
2. Custom duty on final product will be reduced.
3. Regulatory reforms →
4. partnership with states