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25 APR 2018

1:40

GENERAL STUDIES (TEST CODE : 1059)

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Medium Hindi/Eng.	ENGLISH	Registration Number	154939
Center	RN	Date	25/4/18

INDEX TABLE			INSTRUCTIONS
Q. No.	Maximum Marks	Marks Obtained	<div>1. Do furnish the appropriate details in the answer sheet (viz. Name, Registration Number and Test Code).</div> <div>2. There are TWENTY questions printed in ENGLISH.</div> <div>3. All questions are compulsory.</div> <div>4. The number of marks carried by a question/part is indicated against it.</div> <div>5. Answers must be written in the medium authorized in the Admission Certificate, which must be stated clearly on the cover of this Question-Cum-Answer (QCA) Booklet in the space provided. No marks will be given for answers written in medium other than the authorized one.</div> <div>6. Word limit in questions, if specified, should be adhered to.</div> <div>7. Any page or portion of the page left blank in the Question-Cum-Answer Booklet must be clearly struck off.</div>
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Total Marks Obtained:			
Remarks:			
Signature of Examiner			

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EVALUATION INDICATORS

1. Alignment Competence
2. Context Competence
3. Content Competence
4. Language Competence
5. Introduction Competence
6. Structure - Presentation Competence
7. Conclusion Competence

Overall Macro Comments / feedback / suggestions on Answer Booklet:

1.

2.

3.

4.

5.

6.

All the Best

1. Highlighting the issues faced in BOT and EPC models of infrastructure investment, explain how HAM can address these. (150 words) 10

Ans: 1 Built-operate transfer model
implied a responsibility on private player to undertake all responsibility for building, financing, operation & maintenance to recover cost and thereafter, transfer the infra project to Government.

Issues:

- ① Delay in land acquisition, environmental clearances leading to cost overrun having deterrent effect on private players.
- ② Inability to service bank loans by concessionaire leading to legal challenges and also bank NPA's.

Engineering Procurement, Construction model entailed arrangement of finances, land acquisition, environmental clearances by the Govt. whereas the private player builds the project after procuring it after an agreement with Govt.

Issues:

- ① Private player ignored the quality of work undertaken due to risk shifting.

- ② Delays due to private players,
 ③ Huge blockage of Government funds.

Consequently, in order to avoid such problems, govt. has come up with Hybrid annuity model wherein 40% of the project cost is paid by Govt. to the concessionaire upfront and remaining is paid in installments depending upon the level of completion.

It puts responsibility on private player to ensure quality and adhere to deadlines as future installments can be stopped.

Similarly, it reduces the upfront full cost burden on government.

The cooperation of states using cooperative federalism is leveraged in land acquisition & environment clearances.

The Govt. should also employ the model of 'value capital financing' and 'swiss challenge' to meet

2. The measurement of the extent of formal sector and formal employment is yet an unsettled matter in our economy. Comment. Also, mention the steps which the government has taken to improve its extent.

(150 words) 10

Ans: 2 NSSO survey 2013 measured 93% of our economy as informal in nature.

Various issues regarding measurement:

- ① Lack of availability of data regarding informal sector.
- ② NSSO survey questionnaires are rigid in nature and do not give enough flexibility.
- ③ There is no measure to capture employment semi-self employment such as Uber and Ola driver thus undermining the reliability of data.
- ④ NSSO data captures only firms with 20 or more employees having electricity connection. However, other which get a fixed and regular employment are not captured.

Economic survey 2017-18 estimated the size of economy to be around 50% ^{more} formal as per GST data and around 38% ^{more} formal as per registration in social security schemes. (EPFO) .

The Govt. has appointed Arvind Panagariya Committee to undertake measures for better capturing the employment - unemployment data.

Aadhar - PAN linkage has also helped in better capture of data.

Govt. has started using MCA-21 data and included various service providers such as beauty parlours etc. in their data estimation.

3. The investment rate in India has gradually declined after a historic high in the mid 2000s. Examine the reasons behind this trend. Discuss the steps required to revive investment for a sustained growth. (150 words) 10

Ans: 3

Savings-Investment Gap [Economic Survey]

2011-12	2012-13	2013-14	2014-15	2015-16
-4.3	-4.8	-1.7	-1.3	-1

Investment has declined to a historic low with Gross fixed Capital formation lying in negative zone. This leads to negative capacity addition and slowdown.

Reasons:

- ① Twin balance sheet problem due to rising non performing assets of commercial banks and losses stricken balance sheets of corporates hampering their ability to invest.
- ② Fear of 4C's i.e. CVC, CBI, CAG and courts among banking officials preventing them from granting big ticket loans to boost infra growth.

③ FDI inflows in sector of manufa-
-cturing have been poor. Defence
FDI attracted only \$0.88 Million
in last year.

④ There has been poor export
growth in past few years. ↑

⑤ Global demand has been low
post-global meltdown

⑥ Dumping activities of China has
also been a deterrent factor for
manufacturing investment.

Way forward:

① Speedy resolution of stressed
corporates under Insolvency and
bankruptcy code.

② Faster recapitalisation of Public
Sector banks.

③ Reducing provisioning requirement
for banks in the wake of "Mark
to market" losses due to bond
holdings post-demonetisation.

④ Tax incentives for initial years
should be granted for labour
intensive investments.

⑤ PPP Model of investment in
healthcare.

4. Strengthening the policy and institutional ecosystem supporting inclusive growth needs to be a top policy priority to thrive in the Fourth Industrial Revolution. Discuss. (150 words) 10

Ans: 4 4th Industrial Revolution is characterised by advent of technologies such as Artificial intelligence, robotics, machine learning, deep learning etc.

This poses numerous threats:

- ① Loss of employment in routine and mechanical jobs
- ② Requiring skills upgradation in IT and engineering sector.
- ③ It poses downside risk to India's service exports as BPO, KPO may now be performed by robots.
- ④ It may cause loss of jobs to Indian diaspora in West Asia working in unskilled industries thus reducing remittances and an influx of unemployed citizenry back in country putting huge strain on resources.

However, Various measures have to be taken to harness the huge potential of 4th IR:

- ① Reskilling, upskilling and skilling of our huge youth population which shall enable India to become global technology capital.
 - ② Investment in R&D have to be increased to take benefit of newer jobs which shall be created due to it.
 - ③ Focus on hitherto ignored sectors such as tourism, agro-processing industry etc to be given.
 - ④ A push to 'make in India' is to be given.
 - ⑤ Speedy RCEP conclusion for service exports.
- India has huge potential to exploit in this 4th industrial revolution in the wake of its huge demographic dividend.

5. Explaining the role of human capital in economic development of a country, highlight the challenges and opportunities related to human capital formation in India. (150 words) 10

Ans: 5 A Nation's biggest assets are its human Capital which transform the physical assets into usable resources. India ranked 130 out of 170 countries in Global Human Capital Index.

Role of Human Capital Development:

Human capital formation implies investment in health, education of human resources.

It has huge role in economic development:

① Enables them to undertake research and innovate by building scientific capabilities. This leads to better production technologies, export revenues. e.g. ISRO.

② Reduces the burden of welfare spending on healthcare costs etc. thus saving resources for infra spending.

③ It leads to a happy and satisfied life thus improving HDI rankings.

Challenges:

- ① Low ~~per~~ healthcare spending of less than 2% of GDP.
- ② Rising population of India
- ③ Lack of private sector partici-
-pation in human capital formation
- ④ Cultural and caste-ridden
societies.
- ⑤ Low levels of employment and
rising unemployment thus,
increasing burden on state.

Opportunities:

- ① PPP model in healthcare and
education can be a game changer.
- ② National Health protection
scheme with a coverage of 50
crore people will reduce out of
pocket healthcare costs significantly.
- ③ Continuation of RUSA scheme,
HEFA will increase spending
on education and quality
talent.
- ④ High demographic dividend.
- ⑤ Ageing population in China &
Japan.

6. In the context of major challenges that have restricted industrial growth, there is need for a new industrial policy to enable the industry to fulfill its role as the engine of growth and shoulder the responsibility of adding more value and jobs. Comment. (150 words) 10

Ans: 6 Industrial sector contribution to GDP have been low hovering around 24-25%.

There are various issues regarding it:

- ① Ambivalence of government towards private sector.
- ② Post-Independence, there were heavy industrial licensing and restrictions.
- ③ Inspector raj system and high corruption.
- ④ Lack of investment.
- ⑤ Inefficiency of Public sector units.
- ⑥ Red-tapism, bureaucratic delays, land acquisition problems, environmental clearances.
- ⑦ Ignorance of MSME, retail sector.

The Govt. has set up a panel to look into a new industrial policy. It should encompass the following:

- ① Reduced tax rates on industrial income.
- ② Liberalising FDI in defence manufacturing.
- ③ setting up of SEZ's in backward states.
- ④ creating an organic link between infrastructure and industry.

⑤ Increasing incentives under 'Make in India'.
Industrial growth is backbone of an economy as it generates employment and boosts GDP highly.

7. Discussing the reforms that contributed in improving India's ranking in the World Bank's 'Ease of Doing Business' index, identify the challenges that still remain in the overall environment of doing business. Suggest some concrete steps that India can take to further improve its performance on the index. (150 words) 10

Ans: 7 India improved its ranking ease of doing business from 130 to 100 in 2017. Similarly, a ~~moray's~~ sovereign rating upgrade has been received due to robust economic reforms.

Achievements:

- ① Goods and service tax has reduced multiple indirect taxes.
- ② Passage of insolvency and bankruptcy code for speedy insolvency resolution; adoption of prompt corrective action framework by RBI to resolve loan defaults.
- ③ Reducing no. of formalities to start & register a business, getting electricity connection time has been reduced.
- ④ Adoption of SWIFT (Single Window Interface for facilitating transactions) by Indian customs.

⑤ Fast-tracked environmental clearances -

Challenges:

- ① Facilitating speedy land acquisition is still a hurdle.
 - ② There are lot of restrictions on contractual labour employment with rising labour union strikes.
 - ③ Red-tapism, corruption and bureaucratic hurdles.
 - ④ High turn around time at ports.
 - ⑤ Lack of infrastructure.
 - ⑥ Delay in judiciary and high litigation costs.
- Measures:

- ① Setting up of arbitration centres to reduce judicial delays.
- ② Enactment of labour codes to reform the labour market.
- ③ Improved IPR protections in the country.
- ④ Reducing logistics cost by boosting up infrastructure investment.

8. Special Purpose Vehicles (SPVs) are fast becoming an important avenue for channelising funds for projects in infrastructure sector. Explaining the concept of SPVs, highlight some of the benefits and risks associated with them. Also, suggest measures to manage the risks identified.

(150 words) 10

Ans: 8 Special Purpose Vehicles are entities created in order to under
take a certain objective. For
instance SPV's are created to
undertake smart City Projects. They
are registered as Corporate entities
with investment from Govt./Pub.
agencies which is implementing
the Project. undertaking

Benefits:

- ① Increased specialisation as
experts are hired according to
need.
- ② Helps in outcome analysis.
- ③ Expenditure incurred can
be tracked on real time basis
along with project progress.
- ④ Enables the project undertaking
agency to focus on Core operations
such as Policy making.
- ⑤ Helps in easy finance raising

from market.

Risks associated:

- ① It may lead to high costs due to large formalities and legal requirements.
- ② It may be unable to attract specialists due to low credit-ability.
- ③ Possibility to frauds, embezzlement of funds increases.

Measures which should be taken:

- ① There should be a nominee of project undertaking agency on board of such entity.
- ② Regular audits should be conducted.
- ③ Time bound targets should be given to such SPV.
- ④ The powers and responsibilities of officials should be clearly defined under Articles of Association & Memorandum of Association.

9. Providing social security, especially to those working in unorganised sector, is an important requirement to achieve the goal of inclusive growth. Discuss. (150 words) 10

Ans: 9 Social security involves measures such as retirement pensions, healthcare coverage via insurance.

It is important as it poses a drain on government resources during the old age due to rising health costs and absence of steady source of income.

Unorganised sector involves mostly poor people with poor health, education which are mostly vulnerable. Providing social security benefits to them ensure their active participation in economic activities. It provides them a happy and satisfied life thus, avoiding social costs.

Various measures have been taken:

- ① Atal Pension Yojana for people between the age group of 18-40 yrs.

- ② National Pension scheme wherein people from unorganised sector can also contribute and are eligible for tax deduction U/s 80CCD.
- ③ Maternity benefit Act which provides measures for 26 weeks of maternity leave in both organised & unorganised sector.
- ④ Govt. is pushing a totaliser agreement with UK Govt. to ensure portability of social security benefits when worker migrates.
- ⑤ Schemes such as One IP - Two dispensaries.

Ensuring social security schemes is a way to mitigate long term economic costs and achieving sustainable development goals.

10. NBFCs can play a critical role in strengthening our SME ecosystem and contributing to economic development. Comment. Also, discuss the need to build a regulatory framework to address the challenges that NBFCs face.

(150 words) 10

Ans:10 NBFC (Non-banking finance companies) are corporate entities undertaking "financing business".

They have proved to be beneficial for the economy in recent years during the micro-finance revolution.

They have helped in empowering small, micro and medium enterprises who do not have enough collateral to raise funds from banks.

They are also providing technical support to such entities thereby, boosting their market share, increasing employment in the economy.

They have been a successful contributor for asset based lending such as financing automobile, rickshaw promoting self-employment.

Similarly, they have engaged in niche sectors such as housing finance leading to sectoral development.

Challenges:

- ① overlapping jurisdiction of RBI and SEBI
- ② lack of finance and invest - ors.
- ③ stringent rules and regulations regarding lending, reserve ratios.
- ④ restrictions on receiving way forward: foreign funds.

- ① There should be clarity in jurisdiction over their governance. Financial stability and development council should be leveraged to resolve such issues.
- ② Foreign funding restrictions should be eased.

11. In the light of increasing NPAs and frauds, the twin balance sheet problem has grown immensely. Comment on the issue and analyse the potential of the Insolvency and Bankruptcy Code to be a game changer for Indian economy's health and long-term growth. (250 words) 15

Ans: 11 Twin balance sheet problem refers to the rising Non-performing assets of commercial banks coupled with stressed balance sheet (due to losses, mounting debts) of the corporates.

Various reasons can be attributed for present state of affairs:

1. During the economic boom period in the first decade of 21st century, there was huge lending for infra-structure projects. However, due to various delays in land acquisition, red-tapism, corruption, the projects were unable to complete themselves and thus, defaulted on loans taken.
2. This led to evergreening of loans by restructuring them.
3. Recognition of bad loans due to asset quality review.
4. Economic slowdown post-global recession and reduction in demand lead to falling revenue and loan defaults.
5. Cases of wilful defaults.

In the recent times, numerous cases of frauds (Nirav Modi case, Kingfisher default) case have brought to light the issues of lack of internal control mechanisms, collusive corruption among bank officials, lapses on part of auditors, weak regulatory and supervisory control of RBI, failure of banking sector governance.

It has deep rooted implications.

1. It has reduced the cap investment in the economy and consequently less no. of jobs are being created leading to low income and low demand.
2. It has reduced the capability of banks to lend further as leading to poor growth of infrastructure.
3. It has called for more govern-ment investment in banks to re-capitalise them to meet capital adequacy norms. This crowds out welfare spending.

Insolvency and bankruptcy code has provided a time bounded and speedy resolution process of the stressed assets of the bank.

It also act as deterrent for wilful defaults as the assets of defaulters are immediately taken over and prevents the defaulter from selling it. It has banned the promoters from bidding for the stressed assets.

It has unified and clarified the jurisdiction of various tribunals such as NCLT for corporates and partnerships, Debt recovery tribunals for individuals.

These measures have to be coupled with MR's i.e. Recognition reform, recapitalise, restructuring. Similarly, banking sector governance reforms as suggested by PJ Nayak Committee have to be implemented. RBI should be given more powers with regard to Public sector banks regulation.

12. Public Sector Enterprises formed the backbone of industrial development after independence, but with changing times, their role has also changed. Discuss. Also, comment on the need to adopt a multi-pronged strategy to deal with the issues that they are facing. (250 words) 15

Ans: 12 As highlighted in Economic Survey, Indian economy has moved from socialism without entry to marketism without exit with increased ambivalence towards private sector.

Public Sector undertakings proved to be growth drivers post-independence, especially during 2nd FYP (PLP model) as the private sector lacked capacity at that time to invest; focus was given on regional development; aim was to have more inclusive and equitable development.

However, overtime these Public Sector became sick / loss-making enterprises, especially post liberalisation, Privatisation and globalisation reforms. This was mainly on account of inability to compete with more efficient players;

rigid bureaucratic governance structures, lack of innovation, lack of protection from government etc.

However, there lies a lack of political will to disinvest these enterprises. e.g. Air India till now.

In the present times, there role in the economy has largely been restricted to generation of employment, controlling critical sectors of the economy which have security implication on nations; maintaining critical infra such as oil, gas etc.

There is a need to adopt a multi-pronged approach as highlighted by NITI Aayog in its 3 year action agenda:

- ① There should be complete disinvestment of loss making units who have little potential of revival
- ② There should be strategic disinvestment of the PSU's who are loss making but have

revival potential.

3. There should be separation of post of chairman and managing director of PSU's with little political meddling to improve governance.

4. Greater autonomy should be given to Maharatna, Navratna, Mini-Ratna Companies

5. Govt. support should be restricted to equity only and they should be asked to raise resources from market which shall force them to be efficient.

With changing economic times, the role of government has to change. It should act as a regulator of the market rather than being a market player itself. The competitive forces should be allowed to operate leading to better price discovery, more investments in economy etc.

13. For a developing country like India, the sectoral allocation of scarce resources is a critical factor determining pace and quality of development.
Discuss. (250 words) 15

Ans: 13 Scarcity of resources call for their allocation in the most optimum manner.

India is a developing country and has to focus on a plethora of sector to achieve its development goals.

It impacts its peace, security and sovereignty, welfare, human development.

① Defence vs welfare spending debate

Increasing defence allocations crowd out funds available for health, education etc.

② R&D spending vs Development Goals.

In order to achieve high human development, more funds are to be spent on improving public service delivery, achieving

foodland nutrition security.
This has led to our R&D spending
at 0.8% as compared to US
(4.2%), China (around 2-3%).
This hinders our potential to
develop in future. Hence,
giving rise to a debate of
present development vs future
development.

③ Rural development vs Urban Growth

Policymakers get confused
among allocation between rural
development on one hand and
focus on smart cities, urban
rejuvenation. This was visible
in reduction of budget for
Panchayati Raj Ministry in recent
years.

Hence, there is a need to balance
the budget spending.

The principle of prioritisation
and urgency should be used

while allocating the resources to ensure its efficient and effective utilisation and achieve maximum human welfare.

14. Highlight the importance of MSME sector in India's economy. Also, identifying the challenges, suggest some policy recommendations to ensure their sustenance and competitive growth. (250 words) 15

Ans: 14 More than 90% of firms in India are MSME, contributing to about half of India's exports.

Importance of MSME:

- ① Drivers of employment in the economy.
- ② Provides inclusive growth and egalitarianism by reducing inequality.
- ③ It helps in boosting rural incomes thus, leading to enhanced social indicators of health, education etc.
- ④ They are a source of tax revenue for the government.
- ⑤ They help in harnessing the demographic dividend of the Nation.
- ⑥ Source of investment in the economy which creates incomes and sustains demand in economy.

Challenges faced by MSME:

- ① Lack of financing as they do not have big collateral or market standing.

- ② lack of expertise, innovation and hand-holding support in their initial years leading to their failure.
 - ③ Recent introduction of GST with its problem of delayed refunds have led to working capital blockage and thus, increased costs for these firms.
 - ④ Lack of specialised talent for R&D due to low paying capacity thus, making it difficult to compete with large foreign and corporate players.
 - ⑤ Lack of infrastructure in the economy such as rural motorable roads, poor internet connectivity.
 - ⑥ Corruption, red-tapism, legal costs.
 - ⑦ Introduction of minimum alternate taxes.
 - ⑧ Land acquisition, environmental clearances.
- Measures taken by Govt:
- ① Reduction in tax rates from 30% to 25% for firms with turnover upto ₹250 crores.
 - ② 'Udyami Mitra' and 'Udyami Sakhi' support schemes to provide them technical support to be able to export.

- ③ Increasing incentive under Merchandise Export from India Scheme & Services Export from India Scheme by 2%.
- ④ Seed-certification of documents, Fund of funds of INR 10,000 crores to provide seed-funding.
- ⑤ mandating procurement from MSME under Govt. procurement policy.
- ⑥ Increasing their participation in defence indigenisation through IDG scheme.

However, various other measures which can be taken are:

- ① Time bound granting of approval for start-ups applying for grants with positive scheme sanction mechanism.
- ② Ensuring transparency of Rules act to bring uniformity and clarity of rules, laws etc.
- ③ Labour Market reforms with reduced restriction on contract labour;
- ④ Resolving banking crisis to enable availability of funds; reintroduction of LoU's with adequate safeguards etc.

15. In the inclusive development index of World Economic Forum (WEF), India stands very low. Discuss briefly the issues associated with living standard, environmental sustainability and protection of future generations from further indebtedness in India, on which the ranking is done. (250 words) 15

Ans: 15 Inclusive development implies economic growth coupled with improved social indicators encompassing all the people of the nation.

Oxfam report highlighted that top 1% of Indians own 73% of its wealth and 53% of its income.

The situation on living standards have been dismal with around 25% of population reeling below poverty; health expenditure being less than 2% of GDP, doctor - patient ratio of 1:1400 (against WHO standards of 1:1000). Approx. 2/3rd of population resides in rural areas with agri-cultural dependence where incomes have fallen drastically leading to farmers suicides.
India has been ranked 130 out of 170 in Global Human Capital index; 108th in Global Gender Gap report

highlighting poor participation of women in workplace, increasing violence, crime cases.

On the environmental front, there has been deleterious air pollution, smog choking the National Capital; there is rise in greenhouse gases. Heat waves with severity have been a cause of worry. There has been increasing shortage of water in regions such as Marathwada, Vidarbha etc. Farmers of Punjab, Haryana are also suffering due to falling ground water tables.

India's debt to GDP ratio is 69% as a nation. However, the poor, vulnerable, rural residents are under increasing debt burden from money lenders, usurers.

This puts a burden on their next generation wherein they are bound within shackles of money lenders and are unable to progress.

However, On the positive side, India's

rank has improved to 10 in Composite
-alth ~~Health~~ Youth Index. There has
been an improvement in sex ratio
at birth in states such as Haryana
highlighting improved focus on
gender issues. The sexual harassment
at workplace act has been enacted
alongwith SH-Box to reduce
gender discrimination & increase
female workforce participation.
Criminal Law amendment ordinance
has been passed to provide
death penalty for rape offenders.

In the state of forest report, there
is a 1% increase in forest cover.
Increased rights have been provided
to forest dwellers and tribals
under Forest Rights, 2006 ensuring
inclusive and participative
growth.

Increasing role of Panchayats & Gram
Sabha in implementation of schemes
such as MGNREGA, Beti-Bachao Beti
Padhao has led to positive results.

Inclusive development is a sustained
effort which requires active involvement
-ent of all

16. Under-employment rather than unemployment is the key problem facing India today. Elaborate. Also, suggest measures to counter this problem.

(250 words) 15

Ans: 16 As pointed by Mr. Narayan Murthy, less than 30% of Indian engineers are trainable for employment. Underemployment refers to a phenomenon wherein a person gets work below his capacity in terms of either quality or quantity (duration) or both.

~~This is a~~ Recent example of railway wherein 2.5 crore people have applied for 1 lac jobs with much higher qualification than required highlights it.

Reasons:

1. Lack of industry specific skills.
2. Lack of vocational training, internship along with study.
3. Outdated curriculum with which is out of touch with job market.
4. Lack of new jobs in market leading to people settling for lower jobs.
5. Advent of technological disrupt

-tions such as robotics, artificial intelligence taking up routine and mechanical jobs.

6. lack of self-employment spirit among the rural areas, youth.

7. Brain drain of high talent.

Around 12 million people are entering the labour market, however they lack the desired skills. Labour market legislation are another hindrance. Various measures are needed to counter this problem:

① As pointed by Sharada Prasad Committee, there has to be increasing industry-academia connect so that outcome oriented learning can be done.

② ~~There~~ India has to engage with Indian diaspora abroad to come back and contribute with their enhanced skills & knowledge in nation development leading to brain gain.

③ Promoting self-employment by enhanced funding under

Start-up India mission.

④ Developing agricultural processing industry to move people out from agriculture by fast-track-ing SAMPADA scheme.

⑤ Labour market reforms with codes on wages, industrial employment etc. should be speedily brought in.

⑥ Portability of social security benefits should be undertaken.

⑦ Renewed focus on skill development by encouraging ~~under~~ private sector to make contribution.

India has a huge demographic dividend with 65% of its population below 35 yrs of age. It has the potential to capture the space vacated by China and Japan due to their ageing population. This required quality training and education on war footing.

17. A near stagnant tax to gdp ratio for the country since decades reflects not only non-fruit of efforts to increase it but also underlying structural issues with tax regime. Comment. (250 words) 15

Ans: 17 In the last decade, the tax buoyancy rate has remained stagnant at around 1 with falling to 0.8 and 0.6 in 2013-14 to 2015-16. It has picked up since 2015-16.

It highlights various issues in our tax regime:

1. Very high rates of taxation as compared to countries such as Ireland which acts as a deterrent to pay taxes and a motivator to evade taxes.
2. Multiplicity of tax laws before GST in indirect taxes such as VAT, excise, sales tax, tolls, entertainment taxes etc. leading to high compliance costs for businesses.
3. Increased dispute among tax filers and tax department with approx. ₹ 6 lac crores of amount under dispute. (Economic Survey 2017-18)

4. High rebates being given under various tax laws. Consequently, only 3% of people pay taxes.
5. Increased tax-impoverish raj was another contributor.
6. Increased corruption, bribery, among crony capitalism are a major contributor.
7. Poorly drafted tax laws with various loopholes.
8. Economic slowdown part - Global recession.

It has wide ramifications:

- ① Reduced resources and fiscal space available with the government thus reducing welfare spending, infrastructure spending leading to poor business environment.
- ② It crowds out private investment as Govt. borrows money for its own spending leaving little for private sector. This leads to high interest rates and inflation in the economy.

However, with introduction of GST, there has been an increase

in unique tax filers by 50%.
There is increase income tax filers
also post demonetisation.

Way forward:

- ① Direct tax reforms should be speedily brought. Appointment of Arvind Mehta Committee is a step forward in this direction.
- ② A revenue neutral rate of 15% for GST should be brought as recommended by Arvind Subramanian Committee.
- ③ Land, petroleum products should be brought under GST to make GST truly 'One Nation, One Tax'.
- ④ 'Payment of taxes' should be made a fundamental duty under Constitution.
- ⑤ National Litigation Policy should be revised to prevent unnecessary appeals by tax departments wherein they lose in 80% of cases.
- ⑥ Speedy refund of tax should be undertaken.

These tax reforms shall enable India to move ahead on its goal of achieving a double digit growth

18. The need to overhaul the current budget making process can be gauged from the fact that it neither undertakes broad-based consultations, nor is adequately transparent nor effective in estimating and allocating the demands of various stakeholders. Examine. (250 words) 15

Ans: 18 Department of Economic Affairs undertakes budget making with wide ranging consultations from industry, academia, experts. However, it has suffered from various issues:

- ① There is lack of transparency.
- ② It has become more of a formality and a show of populism while ignoring the underlying national economic issues.
- ③ There is lack of even inter-ministerial coordination with bureaucrats struggling for increased allocations. It has become more of a political tool.
- ④ ~~the~~ Parliamentary Committee having MPs have little economic knowledge to analyse them.
- ⑤ There has been increasing use of guillotine to pass the budget without any discussion thus,

- marking an assault on democracy.
- ⑥ There is lack of fiscal discipline with government ~~not~~ missing fiscal targets with impunity.
 - ⑦ Involvement of civil society in budget making process is minimal.
 - ⑧ There is inefficiency in defense allocations as defense contracts are committed contracts and need non-lapsable funds rather than lapsable funds.

However, there have been considerable reforms in past few years to improve the exercise.

Merger of railway budget and General budget to prevent populism, save costs, brings efficiency.

Similarly, shifting of budget date to 1st February has prevented the Government to take vote on account and utilise the allocated budget more efficiently throughout the year prevent 'March rush'.

Way forward:

- ① Aligning the fiscal with calendar year can be considered with due care on lines of Shankar Acharya Committee.
- ② Use of Guillotine in Parliament should be avoided - Rules of Procedure of Lok Sabha should be amended necessitating a minimum hours of discussion before passing the budget.
- ③ Academic community, civil society should be engaged more using MyGov platform and giving rewards to good suggestion.
- ④ Highlights of budget making process should be shared once the budget is presented and passed to engage citizens.

Economic reforms are a slow and gradual process. Adequate time needs to be given for their stabilization and for them to be in tune with economic structure.

19. Adhering to fiscal discipline is considered as a hallmark of sound financial management by government. Elaborate. To what extent does the Budget 2018 incorporate fiscal discipline vis-a-vis competing targets of the government? (250 words) 15

Ans: 19 Fiscal Responsibility and Budget Management Act, 2003 aimed to reduce fiscal deficit to 3% of GDP and revenue deficit to zero by 2008-09. However, the same has been missed many times.

In the recent budget, the Govt. had missed the last year's target of 3.2% of GDP (fiscal deficit) on account of rising revenue deficit from 1.9% to 2.4% of GDP; fall in tax collection due to disruptions caused by the introduction of GST (lack of proper estimate due to lack of availability of data on refund).

Fiscal discipline indicates strength of economy as:

- ① It indicates borrowing requirement of government which crowds out funds available for private sector and thus, affecting investment in the economy. This in turn, has an adverse impact

on incomes, demand in the economy.
which leads to fall in GDP.

② It leads to higher interest burden on the economy which reduces the availability of government resources for welfare spending in future. Presently, 24% of Govt. expenditure is on interest payments.

③ It leads to high inflation in economy thus eroding savings in the economy. High inflation reduces ~~our~~ exports and causes forex depreciation and rise in current account deficit.

Union Budget 2018-19

The Government has adopted the target of 3.2% for 2018-19 (fiscal deficit as percentage of GDP) and a target of 2.5% of GDP by 2022-23 (on lines of N K Singh Committee recommendation).

However, no deficit targets have been set for revenue deficit.

in the wake of rising crude oil prices, stabilisation of GST etc.

However, the Gout has adopted NK Singh Committee's recommendation to reduce debt to GDP ratio to 60% by 2022-23. But, the challenge lies in reducing debt to GDP ratio with almost stagnant fiscal deficit to GDP ratio (higher borrowing). These two seem anti-thetical to each other.

Moreover, various gout measures announced such as National health protection schemes run the risk of cost overshoot which may increase deficits.

Similarly, in the wake of protectionism, the exports may fall thus, reducing Gout tax revenues.

The re-capitalisation of banks in the wake of increased frauds pose another downside risk.

Hence, a prudent fiscal management approach should be adopted to prevent a fiscal crisis.

20. The role of international trade in achieving a quicker pace of economic development is well recognized. What are the benefits of international trade for a developing country like India? Highlight the challenges that India faces in improving its share in world trade. (250 words) 15

Ans: 20 ~~GDP = PFCG + G~~

$$\boxed{GDP = C + I + G + NX}$$

International trade, after globalisation, liberalisation and privatisation, has led to many fold benefits:

1- Economic benefits: It leads to increase in foreign exchange earnings thus reducing current account deficit.

It has enabled India to emerge as global IT Capital with huge exports of IT services such as software, BPO, KPO. This generates employment in home country and increase income along with government revenues.

It has enabled import of technology, acquisition of defence equipments for safety and security.

It leads to increase in our GDP growth and provide opportunity to show case indigenous products on global scale.

2. Social benefits : It has improved standard of living as many cheaper and better quality products have come in. Newer healthcare treatments & drugs such as MDR-TB, XDR-TB has reduced deaths due to deadly diseases.

Moreover, It has also encouraged various MNC's to set up plants in India in order to export.

Challenges faced in improving share of world trade:

① Competition from Phillippines, Vietnam, New Zealand in various IT services exports.

② There are high logistics cost in India as compared to Bangladesh, Vietnam.

③ labour costs in Vietnam, Bangladesh are lower leading to shifting of MNC plants to these countries.

- ④ Poor turnaround time at our ports leading to cost overruns.
- ⑤ Lack of standardisation of Indian exports leading to their rejection in international markets such as milk and agro-processed products.
- ⑥ Less no. of FTA's of India with other countries due to which the products are subjected to high import duties.
- ⑦ Special Economic Zones working below their capacity or are being misused to attract tax benefits.

⑧ Way forward:

- ① Focus needs to be given on tourism development; incentives should be given to increase exports of drugs & Pharmaceuticals.
- ② A trade development office should be opened in every country.
With rising trade war between US & China, India gains the potential to increase its soy exports.