1.How sustainable is the vision of export led economic growth in the current changing global order? Critically examine.

Approach:

It expects student to write about - in first part write about positive aspects of export led economic growth - in second part mention why it is not sustainable for economy - in third part write way forward/suggestions.

Introduction:

Export led growth is where a significant part of the expansion of real GDP, jobs and per capita incomes flows from the successful exporting of goods and services from one country to another. As the global supply chains look to diversify their sources, amid Covid-19 pandemic, India hopes to become one of the replacements for China. Moreover, the idea of turning the Indian economy into an export-led economy is not new.

Body:

Export-led growth sustainable due to:

- Exports of goods and services are an injection into the circular flow of income leading to a rise in aggregate demand and an expansion of output. This helps to raise per capita incomes and reduce extreme poverty especially in developing/emerging economies.
- Growing export sales provide revenues and profits for businesses which can then feed through to an increase in capital investment spending through the accelerator effect. Higher investment increases a country's productive capacity which then increases the potential for exports.
- Many industries help facilitate trade such as trade insurance, logistics and port facilities. Countries with fast-growing export sectors are likely to see increased investment and employment in these related industries. A good example is the importance of trade to countries such as the Netherlands (including the port of Rotterdam), and Singapore and Hong Kong both of which have developed in globally-scaled hubs for trade.
- India's big, unexploited opportunities are in unskilled labour exports. India is vastly under-exporting relative to its labour force. Because China's wages are rising as it has become richer, it has vacated about $140 billion in exports in unskilled-labour intensive sectors. Post-COVID, the move of investors away from China will probably accelerate to hedge against supply chain disruptions.
- As India contemplates atmanirbharta, two deeper advantages of export orientation are always worth remembering. 1) Foreign demand will always be bigger than domestic demand for any country. 2) If domestic producers are competitive internationally, they will be competitive domestically and domestic consumers and firms will also benefit.

However, there are potential risks and drawbacks from export-led growth:

- Focusing on exporting might lead to over-dependence on the economic cycles of trade partner countries and vulnerability to external economic and political shocks.
- Running persistent trade surpluses might incite a protectionist response from other nations who feel that the benefits of trade have been unequally skewed in favour of exporting countries. Huge trade imbalances remain a big concern in the global economic system.
- Production capacity allocated to supply goods and services for export cannot be put to use meeting domestic needs and wants. There might be a consequent dip in domestic living standards unless the country is also prepared to import goods and services using the revenue generated from exporting.
- Rapid export-led growth might lead to demand pull inflation and higher interest rates. High relative inflation might then have the effect of making export industries less competitive in overseas markets and domestic producers less price competitive against imports.
- Export-led growth might be unsustainable if it contributes extraction of natural resources beyond what is required for long term balanced growth to be maintained. Consider for example the impact of deforestation and over-fishing and degradation of land by industrial-scale farming.

Way Forward:

- Building Domestic Demand: No matter how bleak the global demand remains in the present times, a robust industrial architecture is crucial for a country to become self-sufficient. Thus, there is a need to build strong domestic demand, to sustain industrial activity in India.
- Focus on Knowledge Power: As the population in the majority of the developed world is ageing, India can leverage its demographic dividend and export its human resource to the world. For this, India needs to invest in its education, research & innovation capabilities and turn into a Knowledge superpower.
- Addressing Structural Issues: All countries that promoted export-led growth invested heavily in human capital and ensured very good infrastructure with ports, roads, airports and railways. Thus, India needs to: Invest in its labour force and provide them with regular, affordable food supply and housing. Build a well-functioning infrastructure and take various trade facilitation measures like easier customs clearances, less paperwork.
- Economic Decentralisation: There is also the need for economic planning to be devolved lower and lower down all levels of government so that people are empowered to take up an economic activity that suits them and develop the resilience needed to respond to new opportunities and threats.
- Providing Easy Credit: Providing easy credit remains a critical aspect of mobilising investment. Hence, India also needs cleaning up of the Non-Performing Assets. In this context, the privatisation of banks will be a step in the right direction.

Conclusion:

The idea of the export-led economy has been very successful for many East-Asian countries (also called East-Asian Miracle). In the 1960s and 70s, these countries transformed their economies rapidly from developing countries to become middle-income countries through high export. However, the viability of a new export-based economy, that India aspires to be, depends on policy restructuring, reaping demographic dividend and leveraging its domestic market.

2. Why is India grappling with the challenge of unemployment? Discuss. Examine the sectors that have high potential for creating jobs for the youth.

Approach:

As the question has two directives it is better to answer straightforwardly. The core of the question lies in unemployment and creating jobs for the youth. Hence, one can start by introducing some facts or stats regarding unemployment besides quoting any report regarding unemployment. In main body part, it is necessary to divide the question in two parts. For the first half of the answer, candidate needs to write the reasons due to which India is grappling with the challenge of unemployment. As a bridging gap between first half and second half, candidate may show which sectors have high potential for creating jobs for youth. In the second half, directive is examine, here a candidate is expected to investigate and establish the key facts and issues related to those specific sectors which have the high potential for creating jobs for the youth in India. For value addition, one can show a graph regarding unemployment, mentioning sector specific unemployment in table format, one can also mention current government schemes/programmes which works with objective of creating employment.

Introduction:

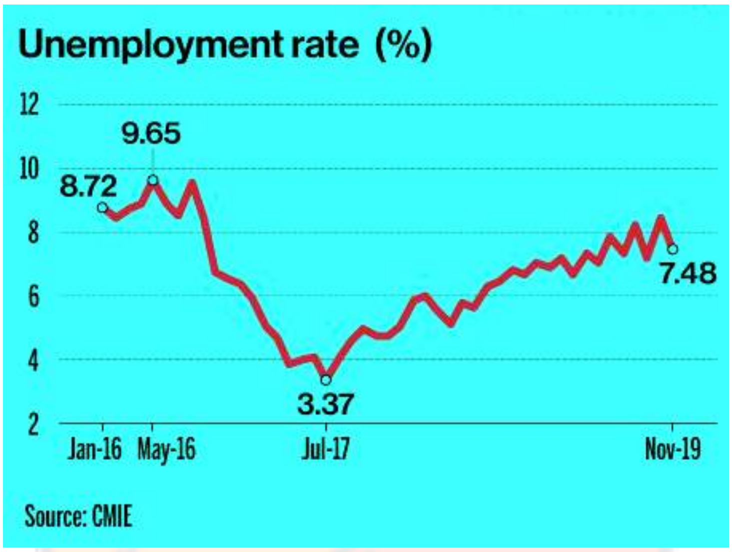
Unemployment occurs when a person who is actively searching for employment is unable to find work. As per the report of Centre For Monitoring Indian Economy(CMEI), unemployment rate in India fell to 7% in September 2020 from 3.37% of July 2017. As unemployment indicates the health of the economy and has subsequent critical domino effects on economy, it becomes essential to look at the reasons due to which India is grappling with the challenge of unemployment.

Body:

Reasons for grappling challenge of unemployment in India:

- Most of the decline in employment has happened due to the fall in the number of workers in agriculture and a sharp fall in the absolute number of female workers.
- Roughly 37 million workers left agriculture in the last six years. During the same time, 25 million women workers were out of the workforce. However, The low productivity in the agriculture sector plus the lack of alternative opportunities for agricultural workers makes transition among the three sectors difficult.
- Surprising trend is of declining women workers, which has absolutely no parallel in any developing or developed country of similar per capita income. In most East Asian countries, the period of rapid growth was also accompanied by a rising number of women workers.
- Along with the fact that the number of people aged 25-64 years increased by around 47 million during the six-year period, it also means that the economy should have created at least 83 million jobs between 2012 and 2018 to accommodate those who have entered the labour force and those forced out of agriculture.

- The unemployment in India is not due to single reason, but it is due to multitude of reasons. For instance, disguised unemployment, structural unemployment, seasonal unemployment, vulnerable unemployment, technological unemployment, cyclical unemployment, and cyclical unemployment. Hence, it becomes a multi-fold crisis for India as economy is interdependent.
- Inadequate skills: Lack of vocational skills, skill gap of the working population posed one of the biggest sector specific challenge of unemployment. For instance, According to the Developer Skills report of an online learning platform, there is a strong mismatch between the frameworks/ skills required by the corporate world and the ones being learned by students. Close to 80% of the engineers blamed a lack of focus and hands-on coding experience for this situation.
- In the past few years, India's GDP grew at about 7-8%, but growth does not translated into creating more employment opportunities for the labour force of the country. For instance, the number of salaried jobs contracted by 1.8% in 2019-20. So, even before Covid kicked in, we were struggling to create salaried jobs.
- Legal complexities, Inadequate state support, low infrastructural, financial and market linkages to small businesses making such enterprises unviable with cost and compliance overruns. For instance, despite the fact that attempt were made to lure foreign investors to set up their manufacturing plants in India under Make in India initiative. Very less investors are attracted to set up their manufacturing plants in India, just like Apple manufacturing plant set up issue.
- Also figures can be cited that in 2014, the share of manufacturing in India's GDP was 15%, However, in 2019 it contracted by 1% reaching to 14%.
- Inadequate growth of infrastructure and low investments in the manufacturing sector, hence restricting the employment potential of the secondary sector. For instance, despite being an emerging field in the economy, electric vehicles market is failing to create more job opportunities in 2nd and 3rd tier cities.
- The huge workforce of the country is associated with the informal sector because of a lack of required education or skills, and this data is not captured in employment statistics.
- The core cause of structural unemployment lies in the education we provide and how we provide it. For instance, the system of rote learning and targeting marks as an indicator of merit led to loss of true potential of child's intellect, like Indian middle class aspiration of making their son engineer and daughter.
- Gender based selection of jobs is also one of the factors which is affecting the job availability. For instance, a day time job is considered as safe and secure job for woman. Which contradicts job choices for woman.
- As per CMEI report, even before Covid-19, job opportunities were low for Indian youth. For instance, in November 2019, Unemployment rate in India fell to 7.48% which is evident in Graph 1.



Graph 1: Unemployment Rate in India (November 2019)

Unemployment affects the economy of the country as the workforce that could have been gainfully employed to generate resources actually gets dependent on the remaining working population, thus escalating socio-economic costs for the state. For instance, a 1 % increase in unemployment reduces the GDP by 2 %. Hence, creation of job opportunities becomes of critical importance. Meanwhile, manufacturing sector in the economy holds the key to create more jobs in India due to its forward and backward linkages.

- There are number of labour intensive manufacturing sectors in India such as food processing, leather and footwear, wood manufacturers and furniture, textiles and apparel and garments. Special packages, individually designed for each industry are needed to create jobs.
- The share of manufacturing in the Indian economy has varied between 14.7% of gross domestic product (GDP) and 16.7% of the GDP, between FY05 and FY20.
- Manufacturing activity leads to the creation of large employment in several service sector areas for instance, consider industry of readymade garments where backward linkages will provide job opportunities for youth in the rural areas for raw materials production, transport and for the youth in urban area with subsequent industrial and market development.
- Of course, just manufacturing cannot create enough jobs for the 10-12 million individuals who enter the workforce every year in India. In stark contrast, between 2004-05 and 2019-20, the share of services in the economy has gradually increased from 43.5% of the GDP to 50.4%.
- As per the study conducted by Climate Policy Initiative and Indian School of Business, India's renewable energy sector, including the solar and wind power generation segments, could create new job opportunities between 2 million and 4.5 million over the next 25 years.
- Besides tourism industry has more potential to generate more jobs. For instance, tourism Council calculated that tourism generated 8.31 lakh crore (US$120 billion) or 6.3% of the nation's GDP in 2015 and supported 37.315

million jobs, 8.7% of its total employment. The sector is predicted to grow at an average annual rate of 7.5%.

- Credit facilities have not been penetrated in to rural areas. The current grants to Microcredit institutes and small scale banks holds the key potential to create more jobs. For instance, network of Garmeen bank in Bangladesh.
- It not only holds the potential to generate jobs in banking sector, but also in other sectors too such as a loan granted to one organisation will create other jobs due to its forward and backward linkages.
- By improving the infrastructure and building post-harvest storage & processing units, and improving transportation facilities to distribute and sell the produce can create a large number of employment opportunities. Raising farmers' income is very important to boost the agricultural sector. For that, Minimum Support Price should be increased. Taking steps to boost Agri exports can also create number of jobs.
- Approximately 51% of MSMEs are in rural India. Strengthening them and providing the necessary tools & technologies to MSMEs can create multiple job opportunities.
- Also new fields like Artificial intelligence and Machine Learning hold the potential to create more jobs. According to accountancy firm PwC, over 7 million jobs will be displaced by AI between 2017 and 2037. However, it will also lead to the generation of 7.2 million jobs, which is a net gain of 200,000 jobs in India.
- For sector specific job creation opportunities, Government of India launched following schemes to ensure creation of job opportunities. For instance, Mahatma Gandhi National Rural Employment Guarantee Act launched in 2005 providing the right to work to people. An employment scheme of MGNREGA aimed to provide social security by guaranteeing a minimum of 100 days paid work per year to all the families whose adult members opt for unskilled labour-intensive work. However, recently Azim Premji Foundation suggested increasing MGNREGA workdays from 100 to 200 to compensate for the lack of employment opportunities in rural areas.
- Pradhan Mantri Kaushal Vikas Yojana was launched in 2015. The objective of PMKVY was to enable the youth of the country to take up industry-relevant skill training in order to acquire a secured better livelihood.
- The government launched the Start-Up India Scheme in 2016. The aim of Startup India programmes was to develop an ecosystem that nurtures and promotes entrepreneurship across the nation. Besides, Stand Up India Scheme also launched in 2016 aimed to facilitate bank loans to women and SC/ST borrowers between Rs 10 lakh and Rs. 1 crore for setting up a greenfield enterprise.
- National Skill Development Mission was set up in November 2014 to drive the 'Skill India' agenda in a 'Mission Mode' in order to converge the existing skill training initiatives and combine scale and quality of skilling efforts, with speed.

Conclusion:

India has the opportunity to build a productive and inclusive workforce in the near future due to its advantage of demographic dividend. However, necessary cautions have to be addressed. It will not only help to create more jobs and reduction of unemployment in near future but it will help to ensure realising the dream of 'Aatm Nirbhar Bharat'.

3. The continuance of retrospective amendments to taxation laws hurts investor sentiments and is detrimental to India's economic aspirations. Do you agree? Substantiate your views.

Approach – You need to enumerate various recent retrospective amendments to taxation laws and show its effect on investor sentiments as well as India's economic aspirations in both positive and negative forms while also mentioning the side you agree with. Proper substantiation of points is necessary.

Introduction

India, one of the fastest growing economies of the world with an exemplary rate of GDP, has tax as the main source of Government revenue, which contributes approximately 18% revenue to the GDP, and has always been a very sensitive issue taking into consideration the economic condition of population at large which have led to issues like retrospective amendments to taxations laws.

Body

- Retrospective taxation allows a country to pass a rule on taxing certain products, items or services and deals and charge companies from a time behind the date on which the law is passed.

Consequently, the retrospective amendments to taxation laws can be seen to have the following benefits:

1. From the ancient time, retrospective law or ex post facto law has been a part of standard jurisprudence. It is neither an Indian creation, nor it is being used exclusively in India.
2. Some retrospective amendments are always required either to prevent the misuse of law or to harmonize various decisions of honourable courts with the statutes.
3. Further, many experts opine that such amendments are sometimes required to correct the "aberrations" that had come in by decisions of the quasi-judicial bodies, which went against the legislative intent.
4. Many consider this instrument as a platform of a great instrument to finance State welfare and achieve the much desired dream of egalitarianism.
5. Apart from India, many countries including the US, the UK, the Netherlands, Canada, Belgium, Australia and Italy have retrospectively taxed companies, which had taken the benefit of loopholes in the previous law.

At the same time, continuance of retrospective amendments to taxation laws can be seen as hurting investor sentiments and detrimental to India's economic aspirations due to the following points:

1. Introducing a retrospective taxation amendment into a present taxation system is hard on both ends i.e. for the government to implement and for the people to accept. The increased money flow towards the government results

in lack of credit in the hands of the public and they are left helpless with a heavy tax burden on their heads.

2. A company's business decisions are based upon the tax situation that exists today. It is very difficult to organize its activities today based on a future law that will be made applicable from today. An ideal tax system should be predictable certain and stable. Hence retrospective implementation is considered a bad move.
3. Hurts Investor Confidence: The amendments are criticised by investors globally, who said the change in law was "perverse" in nature. This impacts the market sentiment and the flow of foreign funds to India.
4. Hurts Companies: While governments often use a retrospective amendment to taxation laws to "clarify" existing laws, it ends up hurting companies that had knowingly or unknowingly interpreted the tax rules differently.
5. As a retrospective amendment affects ongoing contracts too, it is very difficult for the contracting parties to accommodate a new levy against their private interest agreeable to both ends at once. In addition to domestic issues, international transactions also suffer a heavy blow and will certainly affect the foreign investment and faith, triggering financial crunches.
6. The legislature in recent times has perverted its power to enact retrospective changes in taxing statutes. One major instance would be of the Finance Act, 2009, which exemplifies several retrospective alterations in the Income Tax Act. For example – the Vodafone case.

Way Forward -

- Reducing scope of litigation by signing Advance-pricing Agreements (APA's) to avoid Transfer pricing disputes.
- Need to Bring More Clarity on Tax laws: India has already rolled out Anti-tax avoidance regulations i.e. the General Anti-Avoidance Rules (GAAR) from assessment year 2018-19.
- Indian Finance Code for simplification of taxation laws in India. In this context there is a need to implement recommendations of the Financial Sector Legislative Reforms Commission.
- Implementing Shome Committee recommendations: which recommended that any taxation involving indirect transfer of assets located in India should be prospective and not retrospective.

Conclusion

It can thus be concluded that retrospective application of tax law should occur in exceptional or rarest of rare cases, and with particular objectives. Moreover, retrospective application of a tax law should occur only after exhaustive and transparent consultations with stakeholders who would be affected which would be help in improving India's ease of doing business and overall business environment.

4. Explain the phenomenon of jobless growth in the Indian context. Why does it occur? Is there a way to address it? Discuss.

Approach:

It is straightforward question, it expects student to give explanation about jobless growth in India context, reason behind it and in end mention measures to address it.

Introduction:

The World Bank, in its publication, "South Asia Economic Focus, Spring: Jobless Growth?", says that over the long-term, India has been creating 7,50,000 new jobs for everyone per cent rise in gross domestic product (GDP), at an average of 7% growth, India should be creating at least 5.25 million jobs, if not more.

Body:

Jobless growth in India:

- In a jobless growth economy, unemployment remains stubbornly high even as the economy grows. This tends to happen when a relatively large number of people have lost their jobs, and the ensuing recovery is insufficient to absorb the unemployed, under-employed, and those first entering the workforce.
- During the last decade (2001-11), the growth rate of the labour force (2.23 per cent) was significantly higher than the growth rate of employment (1.4 per cent), which itself was several-fold less than the growth rate of the economy. According to Census 2011, the average growth rate of the economy was 7.7 per cent per annum, when it was only 1.8 per cent for employment.
- 66th round of the National Sample Survey Office (NSSO) data on employment in 2011 revealed that between 2004-05 and 2009-10, only 1 million jobs were added per year; in a period when the economy averaged a record 8.43% growth annually.
- An Indian Labour Bureau survey of 2015 showed that 2,000 companies in eight sampled industries generated all of one lakh jobs, a fall from the four lakh generated in 2014, even though growth in 2014 was lower than in 2015.
- A HDFC Bank report on India's tapering jobs growth says that "employment elasticity" in the economy is now close to zero – for every one-point rise in GDP, jobs grow only 0.15. Fifteen years ago, it was 0.39

Reasons behind the Jobless growth

- In India, growth is attributed to service sector, whereby both employment and wages have seen a rise. But as figures say, the biggest employing sector in India is the Agriculture sector, employing 45% of the population but contributing 15% to the GDP, whereas Service sector is the biggest contributor to the GDP but employs less than 30%. IT and Financial services are drivers of service sector growth in last 2 decades however both of these sector are not employment intensive. Thus contributing to jobless growth in India.

- Labour –intensive manufacturing sector did not become the engine of growth in India. In fact, it was the knowledge-intensive services sector which along with some segments of capital intensive manufacturing was the engines of growth in India. But these sectors by their nature were not employment-intensive.
- Stagnation in manufacturing output and employment and contraction of labour-intensive segment of the formal manufacturing sector.
- Therefore, the nature of the trade regime in India is still biased towards capital-intensive manufacturing.
- The nature of Indian manufacturing is not employment-friendly. Most of them are automated and any employment is highly skilled. Thus they Have contributed to growth, but not necessarily to employment.
- The labour intensity of MSME is four times higher than that of large firms. - but they are not treated well in India they have poor access to credit and they are plagued by many serious problems which has limited their growth potential.
- Impediments to entrepreneurial growth in small firms (such as high costs of formalisation) along with a long history of small scale reservation policy which has prohibited the entry of large scale units in labour intensive industries.
- The tax incentives, subsidies, depreciation allowance all are solely linked to the amount invested and not to the number of jobs created.
- Sluggish process in education and skill levels of workers.

However, following measures can be taken to address problem of Jobless growth:

- Improving the labour market information system where emerging demand for skills are spotted quickly and the necessary training and certifications for the same are created.
- Quick improvements in public-private partnership in capturing demand for skills and following through with quick investments in skill-building to match demand with supply.
- Jobs and skills planning should be decentralized and it has to be done at state and district levels, where there is granular information on education, skills and job options.
- Implementing a new model of manufacturing which is high-skilled, and where high-end cottage manufacturing can create employment at the small scale level.
- If urbanization is good and well planned, then job growth will be positive. Government should concentrate on the development of towns and narrow areas and service it with good infrastructure to generate employment alongside development.
- If government starts spending on public goods (schools, hospitals, dams, roads etc.) instead of spending on freebies (deep subsidies on food, farm loan waivers etc.) the capacity of government to create employment increases.

Conclusion:

India needs a new strategy to counter the phenomena of jobless growth. This requires manufacturing sector to play a dominant role. “MAKE IN INDIA” initiative a great step forward which will boost the manufacturing. Complementary schemes like Skill India, Start-up India etc. can enhance the skillsets and employment generation.

5. Do you think the inability of the Indian subcontinent to forge long lasting economic alliances, unlike its western and eastern counterparts, has hurt it badly? Critically examine.

Approach:

It expects student to write about - in first part write about how inability of the Indian subcontinent to forge long lasting economic alliances hurt it badly - while in second part write about how it doesn't hurt - in third part write way forward.

Introduction:

Despite geographical proximity and the existence of bilateral and multilateral free trade agreements (FTAs), South Asia is one of the least economically integrated regions in the world. Owing to protectionist policies, high logistics cost, lack of political will and a broader trust deficit, intra-regional trade in South Asia remains well below its potential at 5% of the region's global trade.

Body:

Impact of least economic integration:

- On east side ASEAN and on west Gulf cooperation council and European union helped member countries to achieve rapid economic growth.
- India achieve high growth rate but external trade potential not harnessed to its capacity majorly due to less economic integration in neighbourhood.
- Countries like Sri-lanka, Maldives, Nepal became too dependent on external debt for their development created debt-crisis and interference from big power like China.
- Failure of SAARC and spoiler role of Pakistan could not generate economic alliance which reduced growth pace in Nepal and Bangladesh.
- Till recently India's north-east remained underdeveloped due to lack of geographic connectivity which was possible through Bangladesh even before. Eg: Chittagong port, Kolkata-Pabna-Agartala train etc.
- India and other South Asian nations, collectively forecast to grow by 7.3% in 2017, can integrate their dynamic economies into the rest of Asia.
- Removing obstacles to trade and investment between South Asia, Southeast Asia and other parts of Asia is the key to erase extreme poverty in the region.
- If South Asia and Southeast Asia each cut non-tariff barriers by 50% and trade costs by 15%, will lead to gains of 8.9% of GDP in South Asia and 6.4% of GDP in Southeast Asia.
- Sub-regions of Asia have their respective weaknesses. So the Asia's growth spurt can be achieved from integrating these regions.

However, despite of lack of economic alliance:

- India and Bangladesh achieved high GDP growth rates.
- India-Srilanka free trade agreement increased trade volume between two countries.

- India-Bhutan share special relationship and with Maldives also.
- India's initiatives of 'non-reciprocity' in neighbourhood, 'Neighbourhood first' policy increased economic alliance.

Way forward:
- As always, the problems are not economic but political and geopolitical.
- The drive for regional integration can only come from India.
- Political volatility in the other countries has further dimmed the prospects of economic integration.
- South-East Asian economies grew quickly even after the global financial crisis through new trade agreements, highways, shipping routes, communications and cross-border logistics. This should be replicated in Indian subcontinent.
- Indian subcontinent lacks the institutional framework provided by ASEAN, which has galvanized the above mentioned economic integration. SAARC should be strengthened on these lines.
- The trilateral highway connecting India, Myanmar and Thailand will deliver physical connectivity.
- More robust value chains should be developed with Southeast Asia and East Asia to make such movement of goods efficient.
- Market and institutional links are also to be strengthened.
- A host of new economic corridors, like Bangladesh-China-India-Myanmar (BCIM), are another key to connecting Asia's fastest growing countries.

Conclusion:

Making long lasting economic alliances a reality is everyone's business. While the challenges may be large, the rewards of a more integrated region can be even larger for all the countries of the region. The time to act is now.