1. Critically evaluate the impact of liberalisation in addressing the twin problem of poverty and unemployment in India.

Approach:

As the directive here is critically evaluate, it is necessary to arrive on the overall analysis of the pros and cons backed by evidence. In the first part of answer it is expected to show what were expected outcomes of liberalisation in addressing the twin problem of poverty and unemployment in India. In the next part you can show what are positive impacts and what are the negative ones. A constructive way forward will fetch you more marks.

Introduction:

In the economic history of India major economic reforms occurred in 1991 when a new economic policy was announced. This policy focussed on three aspects i.e. liberalisation, privatisation and globalisation. Though the macro objective of these reforms was to dismantle the excessive regulatory framework, micro objectives were focussed at increasing growth rate of per capita income and achieving full employment there by reducing income inequality, reducing number of people living below poverty line.

Body:

Liberalization refers to the process of making policies less constraining of economic activity and also reduction of tariff or removal of non-tariff barriers. Poverty and unemployment are inseparable twins as unemployment leads to lack of a regular income, which in turn leads to the inability of a person to be able to maintain the basic needs, such as having sufficient healthy foods, availing health care and having adequate shelter and lack of education. However, even it is possible to live in poverty even while employed. For instance, A low paid worker may suffer much the same hardships.

Positive impacts of liberlisation on Poverty and Unemployment:

- There are two conclusions on trends in poverty. The first one, shown in a World Bank study by Gaurav Datt and others, is that poverty declined by 1.36 percentage points per annum after 1991, compared to that of 0.44 percentage points per annum prior to 1991.
- The second conclusion is that in the post-reform period, poverty declined faster in the 2000s than in the 1990s. Around 138 million people were lifted above the poverty line during this period.
- The poverty of Scheduled Castes and Scheduled Tribes also declined faster in the 2000s. The Rangarajan committee report also showed faster reduction in poverty during 2009-10 to 2011-12.
- Higher economic growth, agriculture growth, rural non-farm employment, increase in real wages for rural labourers, employment in construction and programmes like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) contributed to higher poverty reduction in the 2000s compared to the 1990s.

- Unemployment rate is reduced: In 1991 unemployment rate was 4.3% but after adoption of new LPG policy more employment is generated because of globalization many new foreign companies came in India and due to liberalization many new entrepreneurs have started new companies because of an abolition of Industrial licensing / Permit Raj so, employment is generated, and due to which India's unemployment rate is reduced from 4.3% in 1991 to 3.6% in 2014.
- Strongest revolution of new century has been one of Information Technology, which started in last years of past century. This revolution was different because it made globalization even more obvious and stark. It made possible transfer of real time human labour across nations, without transfer humans themselves. There by it increased the employment rate in India.

Negative impacts of liberalisation on Poverty and Unemployment:

- Liberalisation benefits to those who have the skills and technology in the country. The higher growth rate achieved by an economy can be at the expense of declining incomes of people who may be rendered redundant. Hence, liberalisation has widened the gap between the rich and poor, rises inequalities and thereby increasing the number of poor in the country.
- In 1991, agriculture provided employment to 72 percent of the population and contributed 29.02per cent of the gross domestic product. However, in 2018 the share of agriculture in the GDP went down drastically to15% and employment to nearly 50%
- . This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness which in turn grappled more and more farmers in to poverty. Rising suicides of farmers in Maharashtra is one such example.
- As per the methodology of the Suresh Tendulkar Committee report, the population below the poverty line in India was 354 million (29.6% of the population) in 2009-2010 and was 269 million (21.9% of the population) in 2011–2012.Till 2014 unemployment rate came down to 3.6%. However, after 2014 due to jobless growth unemployment rate has increased to 6.1% in 2018.
- Former vice chairperson of NITI aayog, Arvind Panegariya also pointed out that Underemployment, and not unemployment is the key challenge facing India. He also argued that, it is not possible to grow at 7% and have no jobs growth. Most people are employed but earn low wages, especially in agriculture output per worker is one-fifth of that in industry.

Way forward to overcome the twin problem of poverty and unemployment:

- India needs to continue to follow the two-fold strategy of achieving high economic growth and direct measures through social protection programmes.
- The focus should also be on increase in urban growth and income as the share of urban poverty will rise with urbanization.
- It is necessary to focus here on the two important measures: creating productive employment and providing quality education for reduction in poverty and inequality.

- Employment focus is the major part of equity approach. Studies have shown that agricultural growth leads to reduction in poverty twice as that of non-agriculture. We need more diversified agriculture for raising the income of farmers.
- However, future employment has to be created in manufacturing and service. In this context, the Make in India initiative, focus on start-ups, Mudra, financial inclusion, etc., are steps in the right direction. Equally, service sector employment has to be promoted.
- Over time, the share of the organized sector has to be raised while simultaneously improving productivity in the unorganized sector.
- Efficient delivery systems of public services. Many reckon that poor governance is the biggest constraint in achieving the aspirations of a new generation and reduction in poverty, inequality and unemployment.

Conclusion:

Sustainable Development Goal 1, one of the 17 Sustainable Development Goals established by the United Nations in 2015, calls for "no poverty". Though Liberalisation focused on creating employment and thereby reducing poverty, some of the issues still remain a challenge for the policymakers. There is a need of an effective anti-poverty programme at solving the unemployment problem through structural, institutional and technological reforms in the economic sectors for speeding up the pace of economic growth, and reduction in poverty. If the expected reforms are implemented in their letter and spirit we can realise true meaning of 'Sabka Saath, Sabka Vikaas'.

2. How do tax policies affect the investment climate? Illustrate.

Approach - It expects students to write about tax policies and how it affect the investment climate and analyze with different examples.

Introduction

To foster economic growth and development governments need sustainable sources of funding for social programs and public investments. Programs providing health, education, infrastructure and other services are important to achieve the common goal of a prosperous, functional and orderly society. And they require that governments raise revenues. Taxation not only pays for public goods and services; it is also a key ingredient in the social contract between citizens and the economy. And also impacts the investment business cycle in economy.

Body

Tax policies affecting investment climate:

- Retrospective tax: The policy of retrospective taxation has acted as an "irritant" and adversely affected the inflow of foreign capital to India.
- Abrupt Policy Changes: There has been a lack of certainty about tariff and taxes. This uncertainty needs to be resolved soon to boost business and investments ties.
- Plethora of Taxation Laws: There have been many taxation laws of the Central and many State Governments which increases complexities and litigation and reduces predictability, fairness and automation.
- High price reduce investable amount: Multiple governments levy so many taxes on businesses that "taxes" is the highest budget items on the ledger sheets of most businesses. Businesses have to raise prices to get money to pay these taxes. So product prices go up. In return it reduces the investment in business cycle.
- Recession due to taxation policy: The high taxation takes so much away from the economy that it enters a permanent form of recession. If government tries to boost the economy with increased government spending, the result is stagflation (simultaneous high inflation and unemployment) instead of prosperity.
- Reduction in Investable Income: First of all, taxes reduce your investable income, that is, the amount of income you can invest. When you pay taxes before you invest, you have less money to invest into the stock market and other investments.

Recent government taxation policies and its effect on investment:

- Vodafone case: Following a setback from Supreme Court decision the government, made amendment to the Finance Act in 2012 to give retrospective effect to its claims. This was the trigger for Vodafone to seek arbitral recourse. And spoiled the investment environment in India.

- Re-introduced long-term capital gains tax 2018: LTCG tax on sale of equities will be applicable on gains exceeding Rs1 lakh. The tax rate is 10%. The tax roiled equity markets on budget day. Its worst budget-day performance in the five years of this government.
- Tax holiday for SEZ: SEZs typically feature liberal tax laws. Such zones have generated significant interest in investment in developing countries, demonstrating sharp increase in international trade and economic activity. This investment in SEZ have helped in employment generation with almost 1.8 million people being employed by SEZ units in the country.
- GST implementation: GST implementation is a breakthrough tax-reform with respect to Foreign Direct Investments in India. Increased tax compliance will ensure reduced litigations and increased investor confidence. In a slow global economy, GST will provide the required boost to international trade and FDI, which will aid in the economic growth of the country.
- Corporate tax cut in 2019: Lowering of corporate tax rate has made India a globally competitive and favoured destination for investment and the impact of this landmark reform will be felt in the coming years.

Way Forward

- Reducing Scope of Litigation: There is a need to focus on signing Advance-pricing Agreements 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. However, there is a need to bring more transparency for avoiding issues related to retrospective taxation.
- Indian Finance Code: There is a need for simplification of taxation laws in India. In this context there is a need to implement recommendations of the Financial Sector Legislative Reforms Commission.
- Adopting International Best Practice: India may explore the option to revise the standard of treatment clause to align it with international practices and include the traditional standard of protection of fair and equitable treatment.

Conclusion

Thus, taxation creates both favourable and unfavourable effects on various parameters. Unfavourable effects of taxes can be wiped out by the judicious use of progressive taxation. Further, if India really wants to become an international hub of global investment, there is a need for ensuring transparency and certainty in India's tax regime.

3. Examine the ways in which digital technologies can improve the ease of doing business in India.

Approach:

Student are expected to Examine the ways in which digital technologies can improve the ease of doing business in India in first part and explain the other concerns pertaining to Ease of doing business in second part.

Introduction:

The ease of doing business index is an index created by the World Bank Group. India has jumped 14 places to rank 63rd out of 190 countries in the World Bank's Doing Business 2020 report on account of significant improvement in its various parameters. India's success in boosting its ease of doing business ranking is spectacular and Digitalisation played a great role in ranking up of ease of doing business.

Body:

On the back of multiple policy reforms, digital led process transformation and capacity building in government has change things for good.

- COMPACT and GePG: This initiative targets the 'Selling to Govt' parameter of EoDB. The Government e-Payment Gateway at the Pay and Accounts Offices of the Government of India has reduced the average payment cycle from 20-25 days to 4-5 days. The automation of payment process helps the corporate citizens who sell to the government. Selling to the government also became easier after the launch of the e-procurement module in various government departments. Tendering process has become online and transparent because of it.
- e-biz portal: This initiative targets the 'Starting the Business' parameter of EoDB. The e-biz portal provides various services to the entrepreneurs in starting and running a business. The entrepreneur can create an account and avail the industry specific services at one location.
- e-Courts: This initiative targets the 'Enforcing Contract' parameter of EoDB. Automation of courts through e-courts which allow the complainants to file cases electronically. This ultimately reduces the time of companies which earlier required during physical process.
- MCA 21: This initiative targets the 'Starting the Business' parameter of EoDB. The MCA 21 project is instrumental in the incorporation process and application is designed to fully automate all processes. It impacts the starting a business parameter in ease of doing scores. With this project in place the ministry of corporate affair offers a broad bouquet of e-services to the corporate citizens.
- GST: This initiative targets the 'Paying Taxes' parameter of EoDB. Multiplicity of indirect taxes, multiplicity of institutions managing & collecting indirect

taxes became history now. GST clubs all the indirect taxes into one and hence there is uniform and easy procedures of payment.

- Digitization of Land records and property registration: This initiative targets the 'Registering Property' parameter of EoDB. Digitization of land records and property registration helps businesses to have a seamless experience. Digital records are less prone to forgery and hence offer better enforceability.
- Power Sector Reforms: This initiative targets the 'Getting Electricity' parameter of EoDB. India's score on getting an electricity connection is good for the EODB ranking. This can be attributed to the power sector reforms in general and digitalization of application process in particular.
- Shram Suvidha Portal: This initiative targets the 'Labour Market Regulation' parameter of EoDB. Shram Suvida Portal is a one-stop-shop for Labour Laws compliance. It consolidates information of labour inspection and its enforcement. It promotes the use of a common Labour Identification Number (LIN) to comply with more than 40 labour laws.
- Taxpayers services and TRACES: This initiative targets the 'Paying Taxes' parameter of EoDB. Corporate Income Tax is adding value to the score of EoDB. Through multiple projects, the Income Tax Department has facilitated various e-services to the individuals as well as the corporate citizens. These services include e-filing of income tax return, online payment of taxes, e-TDS reconciliation etc.
- EDI for eTrade: This initiative targets the 'Trading across borders' parameter of EoDB. This Mission Mode Project seeks to simplify procedures, introduce electronic delivery of services, provide 24/7 access to users, increase transparency, reduce transaction cost and time.

Even though through the digitalisation India have climbed up the position, these are not the only factors which helps. There are certain business-oriented factors which needs to address.

- Operating cost of Business: The big milestone for the EoDB is a reduced cost of doing business through lower regulatory burden and management of factors of production. While the National Infrastructure Pipeline is a step in the right direction to reduce logistics costs and improve infrastructure, reducing the cost of land, power, and capital can significantly ease the burden for businesses.
- Faster implementation of initiatives: Faster implementation of the initiatives that we have taken so far will also help India consolidate its location-product matrix and realise its potential in high value-add segment.
- Burden of Statutory compliances: The Indian regulatory landscape has 1,536 Acts, more than 69,233 compliances and 6,618 regulatory filings across the Centre and states. This is an indication that ease of doing business for companies still remains a work-in-progress for India despite an improvement in the rankings.
- Overburdened Courts: Even though e-court initiative reduce the time for filling the cases there are still much to achieve in it as courts are already

overburdened. Infrastructural developments are much needed part of Indian Legal system faster closer of cases.

- Special Focused for MSME's: As CII suggested in its report, Micro, small and medium enterprises need a special helping hand, and should be exempted from approvals and inspections for three years under state laws while following all rules.
- Low performance in few parameters: In the four parameters i.e. enforcing contracts (163rd), starting a business (136th), registering property (154th), and paying taxes (115th) India still far behind than actual rank. Huge Improvements in these parameters are require to achieve government's target to take India among top 50.

Conclusion:

India has sought to improve its ease of doing business index ranking as a means to attract investments to achieve the targets set for 'Make in India'. Central and state governments have introduced a plethora of reforms across various sectors, such as UP government launched 'Nivesh Mitra' e-portal to facilitate various business process. These reforms have contributed to achieving it. Sustaining this reform momentum can drive new investments including from overseas. This is a sign that we are travelling on the road of "minimum government and maximum governance".

Q.4 What is the role of government in a liberalised economy? Discuss. In this light, assess the performance of the Indian governments post 1991 economic reforms.

Approach:
In the introduction part candidate can explain what is a liberalised economy and in brief explain what role government plays. In the main body part, it is expected to give in detail the role of government in a liberalised economy. In the next part it is necessary to assess the performance of the Indian government post 1991 economic reforms.

Introduction:
Liberalised economy is the economy where elimination of the control of the state over economic activities takes place. It provides greater autonomy to the business enterprises in decision-making and eliminates government interference.

Body:
Role of government in a liberalised economy:

- Ensuring efficiency of services: The government could attempt to correct market failures like monopoly and excessive pollution to ensure efficient function-ing of the economic system. Externalities (or social costs) occur when firms or people impose costs or benefits on others outside the marketplace.
- Infrastructure building: The government could provide an integrated infrastructure. Infrastructure (or social overhead capital) refers to those activities that enhance, directly or indirectly, output levels or effi-ciency in production.
- Essential elements are systems of transportation, power generation, communication and banking, educational and health facilities, and a well-ordered government and political structure. Since the cost of providing these essential services are very high and benefits accrue to numerous diverse groups, such activities are to be financed by the government.
- Promotes and ensures Equity: Markets do not necessarily produce a distribution of income that is regarded as socially fair or equitable. As market economy may produce unacceptably high levels of inequality of income and weather. Government programmes to promote equity use taxes and spending to redistribute income toward particular groups.
- Economic Growth or Stability: Governments rely upon taxes, expenditures and monetary regulation to foster macroeconomic growth and stability to reduce unemployment and inflation while encouraging economic growth.
- Macroeconomic policies for stabilisation and economic growth includes fiscal policies (of taxing and spending) along with monetary policies (which affect interest rates and credit conditions). Since the development of macro-economics in the 1930s governments have succeeded in bringing inflation and unemployment under control.

Performance of the government post 1991 reforms: India's New Economic Policy was announced on July 24, 1991 known as the LPG or Liberalisation, Privatisation and Globalisation model.

Positive performance:

- End of license raj which was characterized by overarching dominance of slow moving bureaucracy.
- The key objective was to plunge Indian economy into the arena of "Globalization" and to give it a new thrust on market orientation. The policy was intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
- End of state owned enterprises monopoly in capital intensive sectors thus giving rise to competition and fair market price discovery and gradual decline of complacency of State owned enterprises.
- India's GDP growth rate increased. During 1990-91 India's GDP growth rate was only 1.1% but after 1991 reforms GDP growth rate increased year by year and in 2015-16 it was estimated to be 7.5% by IMF.
- In the field of agriculture, it has brought many agricultural practices like the usage of technology and investing in the R&D sector of the agricultural economy. In the industrial sector it has brought in competition and variety of goods which made our Indian industries make the goods more competent and various techniques of manufacturing goods. In the service sector India has become of the top player in the providing services in the field of Information Technology which brings valuable FOREX to the country with the companies investing in India.
- Since 1991, India has firmly established itself as an attractive foreign investment destination and FDI equity inflows in India in 2019-20 (till August) stood at US$ 19.33 billion.
- In 1991 the unemployment rate was high but after India adopted new LPG policy more employment got generated as new foreign companies came to India and due to liberalisation many new entrepreneurs started companies.
- Per Capita income increased due to an increase in employment. Infrastructure, improved considerably because of PPP model adoption in various projects.

Negative performance:

- In 1991, agriculture provided employment to 72 percent of the population and contributed 29.02 percent of the GDP. Now the share of agriculture in the GDP has gone down drastically to 18 percent. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness.
- Due to opening up of the Indian economy to foreign competition, more MNCs are competing local businesses and companies which are facing problems due to financial constraints, lack of advanced technology and production inefficiencies.
- Globalization has also contributed to the destruction of the environment through pollution by emissions from manufacturing plants and clearing of vegetation cover. It further affects the health of people.

- LPG policies have led to widening income gaps within the country. The higher growth rate is achieved by an economy at the expense of declining incomes of people who may be rendered redundant.

Conclusion:

Thus economic reforms of 1991 have brought out mixed results however it is to be noted that India has since been able to grow at a very fast pace. On the whole the GDP has witnessed rise from ~USD 275 million in 1991 to ~USD 2 trillion in 2014. But in this process our economy has jumped from primary sector to tertiary i.e. service sector, overlooking manufacturing (secondary) sector which encompasses sustainability. Schemes like Make in India need an impetus to make India 'Aatmnirbhar' in its true sense which will help the government to balance its role as a regulator and facilitator.

Q.5 The MSME sector holds the key to engender fast and equitable socio-economic growth in India. Do you agree? Substantiate.

Approach:
As the directive here is substantiate, it is necessary to give examples to support the arguments. In the introduction candidate can explain about the MSME sector. In the main body simply explain the potential of MSME sectors potential to speed up the inclusive socio-economic growth in India. These arguments need to be substantiated by examples. Candidate can conclude by showing how this sector will contribute to the development of India to achieve inclusive development.

Introduction:
Micro small and medium enterprises (MSMEs) have always been vital in the socio-economic development of India. Spread across both urban and rural areas, MSMEs produce a diverse range of products and services and provide large-scale employment at low capital cost. They not only support in industrialisation of rural and backward areas, but also help in reducing regional imbalances and assuring equitable distribution of national income and wealth.

Body:
MSME sector holds the key to engender fast and equitable socio-economic growth in India:

- MSMEs are part of the larger industrial ecosystem and act as ancillary units for large enterprises. They cater to the needs of local markets as well as to national and international value chains.
- Employment generation potential: MSME is the second largest employment generating sector after agriculture. For instance, as per present estimates, the Indian MSME sector, including khadi, village and coir industries, consists of 51 million units and provides employment to over 117 million persons.
- Contribution to GDP: With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities.
- It also accounts for contributing 7 per cent to India's GDP while accounting for 45 per cent of the total manufacturing output and 40 per cent of the exports from India. Besides, it contributes around 45% of the overall exports from India.
- Inclusive growth: MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society.
- For example: Khadi and Village industries require low per capita investment and employs a large number of women in rural areas.
- Financial inclusion: Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.
- Promote innovation: It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.

Thus, Indian MSME sector is the backbone of the national economic structure and acts as a bulwark for Indian economy, providing resilience to ward off global economic shocks and adversities. It thereby also engenders fast and equitable socio-economic growth in India. However, there are some challenges which needs to be addressed.

- As per 2015-16 survey of the National Statistical Office, two most important problems mentioned were a lack of demand and unpaid dues.
- MSME sector is also affected by the political economy of state intervention, which seems biased in favour of large corporations.
- Unlike the ₹1.5 trillion tax bonanza that large companies received as part of a pre-pandemic stimulus, there was no such bounty for the MSME sector.
- Less access to credit, less access to market, low technological improvement, have plagued the growth potential of this sector.
- Also, the MSME sector has to now compete with a corporate sector that has easy access to capital, cheap and unregulated labour and a lower tax burden than before.

Considering these challenges government came up with some of the initiatives such as launch of the Udyami Mitra Portal, launched an e-commerce platform on the lines of "Amazon and Alibaba" to sell products from MSMEs and the Khadi and Village Industries Commission, simplification of government procedures, MSME Sambandh etc. These programmes hold the potential to solve the challenges posed in front of MSME sector.

Conclusion:

MSME ministry has set a target to up its contribution to GDP to 50% by 2025 as India becomes a $5 trillion economy. As recommended by 'India MSME Report 2018', we need an entitlement approach that can have the potential of compelling all related stakeholders to work on a common national agenda and provide solutions under a scientifically structured framework which will supplement the 'vocal for local' campaign there by engendering fast and equitable socio-economic growth in India.