Economy This Week (13th Jan to 26th Jan 2020)

1. Why Make in India has failed? (TH 20/1/20)

- The Make in India initiative was launched in 2014 to promote the manufacturing sector and India emerged as a major destination for FDI in the year 2015.
- Under the scheme goals/targets were identified:
    - Manufacturing to grow at 12 to 14% per annum.
    - To create 100 mn manufacturing jobs.
    - To ensure manufacturing contribution to GDP is 25%.
- The overall objective was to increase the output, increase investments and create employment opportunities.
- These kinds of initiatives have a long gestation period and 5 years is sufficient time to evaluate such projects.
    - Investment
        - The GFCF of the private sector (measure of investment) has declined from 31.3% of GDP in 2013-14 to 28.6% of GDP for 2017-18. This decline can be attributed to:
            - Decline in the savings rate in the economy.
            - Household savings have declined while private corporate sector savings have increased.
        - In terms of output
            - IIP has registered double-digit growth in only two years between April 2012 to November 2019. In fact, for the majority of the months, it was 3% or below (negative for some months!). All this means the growth and output have not been achieved in this sector.
        - With regards to employment
            - Govt. has not released various reports related to employment data.
            - Govt. has in fact decided to revise the existing data collection mechanism.
            - Industrial employment has not kept pace with the addition of people to the labour market.
        - Issues
            - The schemes announced were overly dependent on the foreign capital for investments and global markets for produce. This led to an uncertainty as the domestic production had to be adjusted based on the demand variation in the outside market.
            - There was policy casualness i.e. the policymakers did not consider and address various issues that have led to stalling of these projects.
        - Reasons for failure
            - The targets were very ambitious, for example, a growth rate of 12 to 14% is beyond the capacity of the industrial sector and India has never achieved it.
            - They brought too many sectors under coverage of the scheme, this led to loss of policy focus.
            - It was ill-timed as there was rising trend of protectionism and a rising trend of uncertainty in the global market.
        - Hence, the economy needs much more than policy window dressing for increasing the manufacturing activity.

2. Govt. looking at a proposal to cap edible oil imports (BS 22/1/20)

- The total demand in the market is satisfied by importing around two-thirds of vegetable oils.

  - India imports around 15 MT costing the exchequer over ₹ 75000 Cr.
- Total domestic production is 30 MT and the govt. aims to increase this to 47 MT by 2024-25. For this, the govt. aims to launch a national mission on edible oil programme (it is expected that the allocation for this could be done in the upcoming budget).
  - Production of oilseed was around 28 to 30 MT in the last couple of years and the oil production was around 7.5 to 8 MT.
- The reliance on imported vegetable oils has increased. Govt. hand to look into it to ensure that the domestic availability increases and reliance on imports decreases.
- Experts have recommended:
  - Creating an oilseed development fund.
  - Promoting the production of GM crops (Genetically Modified).
    - Globally, many countries are producing edible oils through GM crops and these oils are being imported and sold in India.
    - Rapeseed oil from Canada and soybean oil from Argentina include oil made from GM seeds.
  - Solvent Extractors Association (SEA) has recommended capping the imports to 15 MT and gradually reducing this with an increase in domestic production.
- Palm oil
  - It is a major edible oil.
  - The total potential area is 1.9 mn hectares.
  - Cultivated land is 300000 hectares.
  - Andhra Pradesh accounts for 55% of total coverage.

3. Cash Reserve Ratio (CRR) needs a relook (BS 22/1/20)

- CRR is a proportion or the ratio of the NDTL (Net Demand and Time Liabilities) that the banks will have to maintain with the central banker.
- Banks have kept deposits totalling ₹ 5.25 trillion under this with the RBI and on which they do not earn any interest income. On the other hand, they pay out interest of around ₹ 25000 Cr annually to the depositors on this amount. Hence, there is a need to rethink CRR so that some of the issues in the banking sector such as increasing credit outflow, reducing interest rates, etc. could be addressed.
- The legal reserve requirement in countries such as Australia, Canada, Denmark, New Zealand, etc. is zero.
- RBI uses tools such as Open Market Operations (OMO), CRR, etc. to operationalise its monetary policy.
- Indian central banker has used CRR as a monetary stabilisation tool between 1970 and 2011. Since February 2013, it has remained at 4% (it hovered around 15% level during the mid-1990s). This strategy is not unfamiliar as India has been using the play book used by OECD countries for many years (for example, the concept of inflation targeting, maintaining the debt to GDP ratio, etc.). The CRR in OECD economies and some other industrialised countries has been brought down to 1.5 to 2%.
- There is a need to reduce the CRR to a conservative level of 1.5%, this would increase the capital availability, earnings of the banks, reduce interest liability of the banks, etc.

4. RBI reopens the scheme for FPI investments in debt (TH 24/1/20)

- RBI earlier had introduced a separate channel for the FPIs to invest in India's debt market.
  - As per RBI, so far an investment of ₹ 54300 Cr has already come through this route.

- The investment limits will be available on tap and would be given on a first come first served basis.

- RBI has decided to reopen allotment of the investment limits under the VRR (Voluntary Retention Route) to the foreign investors in the debt market.
- The investment limit has been doubled to ₹ 1.5 lakh Cr from ₹ 75000 Cr, with a minimum retention period of three years.
- Earlier the short term investments by FPI could not exceed 20% of the total investment of that FPI in either central govt. securities or state development loans (this was applicable to even corporate bonds). This limit has been raised to 30% now.

5. Brazil and sugar subsidies (TH 26/1/20)

- In 2018-19, India overtook Brazil to become the world's largest sugar producer. Unlike India, Brazil is not geared towards exports. India accounts for 5% of global exports and Brazil 35% share.
- Several farmer groups have asked the Indian govt. to force the Brazilian govt. to withdraw the complaint against the sugarcane subsidies filed against the Indian govt.
- The Brazilian govt. has stated that it is open to finding non-litigious solutions to the issue.
- With the compliant, Brazil has threatened the livelihoods of five crore sugar cane farmers.
- The govt. does not pay any subsidy directly to the farmers, it announces Fair and Remunerative Price (FRP) which is paid by the mill owners to the sugarcane farmers.