Economy This Week (6th July to 12th July 2020)

TABLE OF CONTENTS

1. Atmanirbhar in agriculture (IE 6/7/20)

- The government has:
    - Stepped up efforts to check imports and investments from China.
    - Raised import duties on Chinese imports.
    - Asked Indians to be vocal for local.
- With a population of 1.3 bn, there is a need to be self-sufficient in the agriculture sector. India faced the issues of food security back in the 1960s and it should not be repeated now. One thing that has changed between then and now is that the forex reserves presently are very high (more than $500 bn).
- India has been a net exporter of agricultural commodities in the last 10 years (2010-11 to 2019-20). The agri exports peaked in 2013-14 to $43.6 bn and imports stood at $18.9 bn, giving a trade surplus of $24.7 bn.
- In the last six years (of the Modi Government), the agri exports have stood at $36 bn and the net agri trade surplus at $11.2 bn. There has been a lacklustre performance.
- There is a need to look into the agri commodities where India has a competitive advantage.
    - In the export basket, rice and sugar are among the top.
        - But these are heavily subsidised. The power and fertiliser subsidy together account for about 15 to 20% of sugar and rice produced per hectare.
        - Consume huge amounts of water. Hence, they are leading to a virtual export of water and are depleting underground water.
    - The same level of incentives must be provided to the exports of high-value agri produce like fruits and vegetables, spices, tea, coffee, etc.
    - In the case of imports, the edible oils form the biggest chunk.
        - There is a need to augment productivity and increase the recovery ratio of oils from oilseeds.
        - In this, oil palm has the potential to give 4 times of oil per hectare. India has 2 mn hectares that are suitable for oil palm cultivation, which means it can yield 8 mt of palm oil.

2. Paradox of India's trade surplus (BL 8/7/20)

- For the quarter from Jan to April 2020, India managed to have a current account surplus of 0.1% of GDP.
- This surplus is driven by a lower trade deficit. This trend has continued and as per the data, the trade balance has improved further and turned positive after many months.
- This is important as, since 1976-77, there has been no year in which India has not incurred a substantial merchandise trade deficit (a higher trade deficit creates problems for government and RBI).
    - But because of the high surplus on account of invisibles and remittances, the CAD (Current Account Deficit) has been moderate.
    - The CAD is because of our inability to control imports and export more.

- Imports such as gold, oil, electronics have inflated our import bill.

- As per WTO, the lockdowns imposed by various governments around the world have severely affected the economic activities everywhere. For the second quarter in the current year, global trade is expected to suffer by a year on year drop of 18.5% (highest drop on record; this decline is in addition to the growing geopolitical and trade tensions).
- In this period, India's trade also has suffered.
  - The merchandise trade (imports + exports) has gone down from $66 bn to $27.48 bn in April and has recovered to $41.25 bn in May.
  - Merchandise exports declined by 36.3% and merchandise imports by 51% in April.
  - The impact on services trade is much less severe. The services exports have declined by 13.7% and imports by 26.12%.
- The decline in trade balance though has been lauded by many, this actually is a warning sign as the trade balance has come down as a result of the decline in imports. This decline in imports denotes a contraction of demand in the real economy. The decline in imports can be seen in gold, petroleum goods, coal, electronics, machinery, etc.

3. Why solar at ₹ 2.36 is a big deal (BS 8/7/20)

- SECI (Solar Energy Corporation of India) auctioned 2000 GW of solar energy and it yielded a tariff of ₹ 2.36 per unit of solar power (beating a previous low of ₹ 2.44 per unit).
- This is significant as it has taken place:
  - During the pandemic
  - Amidst the threat of imposition of customs on solar imports
  - Many of the auction winners were overseas companies, which shows the confidence in the Indian market
  - Cheaper solar power means cheap power for all and clean access to energy
- The government is also thinking of increasing the penalties on the discoms which fail to comply with renewable purchase obligations (RPOs). Once done, this would lead to higher demand for renewable energy.

4. An optimistic train of thought (BS 9/7/20)

- The government is looking to start running private trains by April 2023. As per the current plan, there would be 151 private trains covering 109 routes, entailing investments worth ₹ 30000 Cr.
- This would account for just 5% of the number of trains under operation. In addition to this, none of the physical operations and infrastructure (such as safety-related operations, locomotives, coaches, loco pilots and security personnel, etc.) would be supplied by Indian Railways and the private sector would be handling onboard services such as ticketing, catering and housekeeping.
- At independence, India had about 42 rail systems, some of which were under the control of the private sector, and the railways was nationalised in 1951, creating one of the largest networks in the world. The current trend of allowing more participation of the private sector began in 2014 (discussions on privatising railways started from 1993). The thinking is that with commissioning of Dedicated Freight Corridor (DFC) by 2021 and the bulk of the freight operations shifting to these tracks, there would be additional headroom for passenger services along the existing tracks. There has been an additional demand and this additional demand can be met with participation of the private sector players (in addition to this, the number of passengers handled by railways is expected to increase from 8.4 bn to 13 bn by 2030 and to 18 bn by 2040).
- The issues are:
  - To what extent this unmet demand will be satisfied, as with the entry of private players, the services provided will be of premium nature and these players would be having the freedom

to decide the fares and they are unlikely to incur losses (Indian Railways incurs a loss of 37 paise per 10 km amounting to ₹ 35000 to 40000 Cr annually).

- In addition to this, the private sector players will have to pay haulage charges, energy charges and a share of gross revenues determined through a bidding process.
- The infrastructure project completion of Eastern and Western Corridors is important.
- The private sector would be focused on on-time performance and the parameters that would be deciding this would be out of the hands of these private sector companies. The highest speed of Indian trains is pegged at 160 km per hr and this in only in one sector i.e. Delhi-Agra.
  - Such high speeds would require modern tracks, signalling facilities and boundary walls.
  - The maximum speed at busiest routes i.e. Delhi-Mumbai and Delhi-Kolkata was increased from 110 to 130 km/hr and was cleared to improve to 160 km/hr in 2020 at an investment of ₹ 15000 Cr.