Gist of EPW December Week 2, 2020

The Economic and Political Weekly (EPW) is an important source of study material for IAS, especially for the current affairs segment. In this section, we give you the gist of the EPW magazine every week. The important topics covered in the weekly are analysed and explained in a simple language, all from a UPSC perspective.

TABLE OF CONTENTS

Surging Reserves

Context:

The article analyses India's growing foreign exchange reserves (FER) and the associated instability.

India's Foreign Exchange Reserves (FER)

- The Foreign Exchange Reserves (FER) of India have increased for the second consecutive year, even when the country is facing a slowdown and hardships due to the pandemic.
    - In 2019-20, the FER of India has increased by $65 billion, taking the total stock of reserves to $478 billion.
    - The current year has added $97 billion to the total stock of foreign reserves which stood at $575 billion by the end of November 2020.
- It is expected that the annual FER inflows would exceed the record of $111 billion during the global boom in 2020-21.
- FER is an effective tool that protects the country from internal and external shocks and also assists the country in achieving its monetary and exchange rate policy goals.
- However, the adequacy of the FER is difficult to assess.
- Achieving FER of more than half a trillion was not an easy task for the country. In the late 1960s, FER of India, for the first time reached the 1 billion dollar mark and it took almost another quarter-century to touch the $10billion mark.
- After that, the global boom partly aided the situation and FER took a rise and hit $100 billion in just a decade, and then in another decade and a half, it crossed half a trillion dollars.

- The FER of India is now able to fund the imports for more than a year or repay around 90% of its external debts.
- In the current times, India holds the position of being the 5th largest country in the world in terms of FER.
- Amongst the top five countries, China holds the top position, followed by Japan, Switzerland, and Russia.

Issues with India's FER:

- Despite these achievements, the annual inflows into India's FER have not been stable and led to the decline in FER four times in the last two decades.
    - The reason behind such volatility is the qualitative differences between the FER of India and the other top four countries.
- FER of China, Japan, Switzerland, and Russia is mainly from huge surplus countries in their current account which is due to the excess of exports of goods and services over the imports.
- On the contrary, India had to rely mostly on capital inflows for its FER, i.e, mainly external commercial borrowings, foreign investments, and bank deposits of non-resident Indians.
- Estimates show that almost around half of the net capital inflows into the country in the last few years were accumulated as foreign exchange reserves, as structural factors and slow growth, primarily due to lower domestic demand, constrained the productive use of foreign capital.

Instability in India's FER:

- Instability in India's FER is mainly due to its dependence on capital inflows.
    - Capital inflows in the form of foreign investments, commercial lending, and bank deposits are more volatile and are first to flee in case of a major crisis.
    - Compared to capital inflows, earnings from current accounts are more stable.
- For example, during the global financial crisis, capital inflows in India reduced from $108 billion in 2007–08 to just $8 billion in 2008–09. Similarly, due to the pandemic, the capital inflow in the first quarter of 2020-21 was just $0.1 billion as compared to capital inflow in 2019-20, during which $65 billion were added to FER.
- Also, in the first quarter of 2020-21, current account surplus and valuation changes added $27.9 billion to the FER. This is because of a sharp reduction in imports due to the pandemic. After 2006-07, such situations have occurred only twice.

Low return on FER:

- Another issue is the low return from accumulated FER. To maximize returns, the Reserve Bank of India (RBI) invests funds in gold and other multi-asset portfolios mostly in dollars, euro, yen, or the renminbi.

- About 93% of total FER is invested in foreign currency assets and 6% in gold.
- Despite spreading the investment risks across such a wide spectrum, earnings from foreign currency assets were only 2.7% in 2019-20.

Alternate use of FER:

- Due to safety needs and instability factors associated with India's FER, it has not been used for other purposes such as for setting up a sovereign wealth fund or for financing infrastructure.
- However, of late, RBI has started making exceptions to it.
- For example, RBI has been authorized to invest up to $5 billion in bonds of the India Infrastructure Finance Company Limited (UK) to finance the acquisition of energy assets. Investments worth $1.9 billion have already been made by RBI.

Conclusion:

In coming years, a stable FER, its better management along with improved absorption capacity of the economy will facilitate the more productive use of the funds. Till then FER will serve only as insurance against domestic and external sector shocks and will remain underutilized.

Indian State and the Future of Agriculture

Context:

The government is pushing for corporate investment in agriculture through farm laws. The article analyses the impacts of allowing corporate investments on the overall agriculture sector.

Background:

- At the time of independence, the Indian economy was characterized as an underdeveloped one.
- Despite three-fourths of the working population employed in agriculture, accompanied by the extensive spread of rivers and a vast range of climatic conditions, India was not able to produce sufficient amounts of foodgrains for its people.
- India was compelled to import a significant amount of foodgrains from the developed countries among which the United States was the chief exporter.
- The countries of the Western world with food-surplus were eagerly ready to sell or even provide food as aid but, they had certain conditions, which were unfavourable for a country that was restoring its lost position after a prolonged period of colonization.

Developments in Agriculture:

- The investment made by the government in agriculture, though confined to a few regions only, accelerated the production of food sufficient to meet the requirements of the increasing population.

- Efforts made by enterprising farmers along with the investment made by the government to build the required infrastructure made the Green Revolution a success.
- The government played an important role in supporting the farmers to intensify production by facilitating the construction of dams and canal networks, setting up agricultural universities, marketing networks, and also through the provision of cheap credit from institutional sources on a "priority" basis.
- The green revolution has also spread to other "less-developed" regions. However, in this, neither central nor state governments are investing to create the necessary infrastructure.

Agriculture in the post-liberalization era:

- With the neoliberal reforms of the early 1990s, the broader orientation of the economy started changing.
- The private sector grew at a faster pace, accelerating the expansion of the whole economy. However, the corporates preferred the service sector which has limited employment-generating capacities.
- Thus, India didn't follow the classical growth trajectories of many industrialized nations of the global north.
- Although Indian agriculture faced a rapid decline, it still employs a larger proportion of the workforce.
- The decline in the agriculture sector in terms of its value addition has led to an imbalance in the overall economy which went beyond the sphere of income and employment.
- The urban and corporate economy has marginalized the agriculture sector and its impact is discernible to those who are working in it.
    - For example: earlier, agriculture was profitable so much so that the land-owning castes were able to get their children educated with the hope that they would find employment in cities.
- However, corporates in urban areas preferred educated individuals and people from upper castes with the required cultural capital. This has left those coming from villages and having agricultural backgrounds in the lurch.

Corporate investment in agriculture:

- With growing power and influence, corporates started diversifying their enterprise beyond traditional areas of manufacturing and software outsourcing to agriculture and food processing as new avenues for investments.
- The demand for processed food is growing as the numbers of the urban middle class are increasing along with their increasing preference for processed food. Also, processed foods have high export potential.

- Neo-liberal policymakers of India see this as the most desirable solution to solve the agricultural crisis which has been lingering for a long time.
- It is difficult for the corporates to enter the agricultural sector because of many factors such as complex laws governing agricultural lands and restrictions over the leasing of agricultural lands. Apart from this, buying of agricultural lands by corporates is also restricted.
- It is only through contract farming that corporates can enter into the agricultural sector.
- After the 1991 economic reforms, many global agro and food processing corporates have expanded their operations in India.
- Although investments in pesticides and the supply of seeds were already made, investment began in consumer goods covering a range of products such as potato chips and tomato sauce to processed cereals and dairy products.

Impacts of contract farming on farmers:

- Contract farming is an old concept. State governments under their Agricultural Produce Market Committees (APMC) or Agricultural Produce and Livestock Market Committees (APLMC) legalize contracts between farmers and corporates under contract farming.
- Multinational companies such as Nestle, Monsanto, and Pepsi as well as Indian companies such as ITC, Reliance, Tata Rallis, Mahindra, and Adani Group have invested in many areas ranging from seed production to procurement of tomatoes and potatoes. Increasing profit margins have expanded their operations in various domains of agriculture.
- The Indian government has been keen to have corporate investments in agriculture. Knowing this, corporates have been lobbying hard to make their way for expansion in the sector.
- The new agricultural laws need to be seen in this context.
- However, it should be noted that contract farming has not been beneficial for all farmers. Big farmers have benefited from working with corporates whereas the smaller farmers have hardly benefited from contract farming. Often small farmers have to deal with bureaucratic business arrangements.

Conclusion:

- According to many farmers, the new laws disturb the existing system of the agriculture market, with which they are familiar.
- Moreover, the laws have been framed without consulting the primary stakeholders. This has led to more distrust and anxiety among farmers.