Economy This Week (28th Dec 2020 to 3rd Jan 2021)

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1. Swiss challenge idea does not fly with creditors (BL 28/12/20)

- The committee of creditors (CoC) of DHFL has shot down the suggestion of the advisor to go for a Swiss Challenge method to decide on the winning bidder.
- The CoC has rejected this on the grounds that it would lead to legal complications and would delay the whole process.
- Some of the bankers also felt that introducing the Swiss Challenge model now would lead to objections from the original bidders as it was not mentioned in the original Request For Resolution Plans (RFRP) document. As many as 21 bidders have shown interest in submitting the resolution proposal for DHFL.

2. Resilient supply chains as a pandemic lesson (TH 30/12/20)

- 'The geopolitics and geoeconomics can never be truly separated' - Henry Kissinger
- One important lesson that the pandemic has taught is that the world should build resilient supply chain systems which can withstand disruptions and also ensure reliability for the global economy.
- The disruptions in the supply chain could be man-made or natural and both are equally disruptive.
- With the outbreak of the pandemic, there was an immediate effect on the supply chains emanating from China and many companies in sectors such as automobiles, electronics, etc. felt the impact of this. India excels in pharmaceuticals but over-reliance on imports of Active Pharmaceutical Ingredients (API) from China makes it vulnerable.

- In recent times there has been increased weaponization of trade and this will only increase from now onwards and in this context, India, Japan and Australia have launched the Supply Chain Resilience Initiative (SCRI) focusing on automobiles, petroleum, steel, textiles, financial and IT services, etc. This initiative may be bolstered with the participation of the United Kingdom, France, etc. in the coming days.
- China on one hand has been calling for normal relations with India and on the other hand, has been continuing to face off with it in Ladakh. It has been the strategy used by China to resolve contentious issues wherein it has used its economic leverage to weaken its opponent's resolve. A recent example of this is the set of measures taken by China in trade against Australia.
- Post-1970s, Japan has invested billions of dollars in the Chinese economy but has carefully developed a risk mitigation strategy by following 'China Plus One', and diversified investments in the Association of Southeast Asian Nations (ASEAN), India and Bangladesh.
    - In phase 1 of Japan's Relocation Package, 89 Japanese companies availed the subsidies to diversify out of China into Japan, Southeast Asia, India. A sizeable number of SMEs chose to relocate to Southeast Asian countries such as Vietnam, Thailand and Malaysia.
- India, a developing country cannot afford a disruption in its supply chains.
    - The automobile sector which imports 27% of its requirement faced a tough time in recent months because of the pandemic.
    - India, being the 4th largest market in Asia for medical devices, has an import dependency of 80%, among its major exporters are Japan, China, Singapore, Germany, etc. and this is clearly not sustainable.
    - The Indian electronics industry was worth $120 bn in FY19 and is forecast to grow to $400 bn by 2025. Hence there is a need to promote the presence of India in the global supply chains and also reduce import dependency.
    - The govt in the defence sector has identified 101 items in the negative list and there is a huge potential for the foreign manufacturers to enter into tie-ups with reputed domestic companies in manufacturing these items.

3. Rising cost of raw materials (LM 30/12/20)

- In 2021 the prices of many commodities/items in the market are set to rise.
    - Cars and commercial vehicles - 1 to 4%
    - Two-wheelers - by a small margin as these are price sensitive
    - Tractors' prices are set to rise
    - Consumer goods such as refrigerators, televisions, washing machines, etc.
    - Homes could also get expensive in the first half of 2021
- The rise in prices is attributed to
    - Cost of production has increased for most of the producers as input costs have increased

- Costs of raw materials such as metals have increased and these constitute as much as 70% of total raw material consumption in sectors such as automobiles
    - In addition to this, importers will have to pay more for freight transportation as the maritime supply chain is stressed because of rising international demand and shortage of containers
    - The price rise is also because of increasing overheads such as higher covid safety protocols, higher fixed costs, lower capacity utilisation, etc.
- With rising prices, the consumer might be forced to hold back the discretionary spending which would have a limiting impact on the economic recovery.
- If the prices of steel do not moderate, the infrastructure projects are also likely to slow down. This would limit job creation, reduce the consumption of metals and non-metals.
- This may have a much bigger impact on the MSMEs as they work on wafer thin margins and will not be able to transfer these costs to their corporate customers.
- The industry experts have asked the govt to clampdown the iron ore exports, regulate steel prices and allow for liberal steel imports.

4. Discoms muse on new biz strategies for higher revenues (LM 30/12/20)

- Discoms are plagued by issues such as low tariff collections, increasing power purchase costs, inadequate tariff hikes, mounting dues from government departments, etc. The discoms collectively have incurred losses to the tune of ₹ 85000 Cr in 2018-19 and covid is likely to have worsened the situation for them.
- The discoms are looking into newer methods to increase revenue flows.
- Under the plan, the discoms will be tapping into the user data on power consumption to pinpoint the usage of inefficient appliances in the households.
- This data will be provided to the equipment seller to pitch the sales (for replacing older appliances) and a personalised alert to the customer will be sent.
- This strategy could become a lucrative source of income for the discoms.
- This would be happening along with replacing the 250 million conventional meters with smart meters.
- In this regard, the foreign investors have already shown interest and IntelliSmart (JV between Energy Efficiency Services Limited and National Investment and Infrastructure Fund) is already doing a pilot project and plans to offer these high value-added services to discoms of New Delhi Municipal Corporation (NDMC) and Uttar Pradesh.

5. Micro irrigation programs under parliament panel radar (LM 30/12/20)

- The parliamentary committee on water resources is looking into how water conservation can be done with a focus on micro-irrigation programme 'Per Drop, More Crop (PDMC)' and crop diversification.
    - PDMC is a part of Pradhan Mantri Krishi Sinchayee Yojana (PMKSY).
- The committee is taking a closer look at the broader issue of groundwater conservation and the ways in which its depletion (mainly because of usage in agriculture) is affecting the agriculture cropping pattern in states such as Madhya Pradesh, Punjab and Rajasthan.
- For agriculture purposes, the water used is 65% from groundwater and 35% from surface water.
- 89% of the total groundwater available is used for agriculture and 10% is for domestic purpose.
- The implementation of Per Drop More Crop is to be assessed as some of the states have complained that the machinery provided under the scheme has operational and durability issues.
- The panel is likely to submit the recommendations next year.

6. Govt asset sales to partly fund higher spending in FY22 (TH 31/12/20)

- The govt is set to spend more in the next fiscal compared to the current fiscal's budgeted expenditure of $415 bn and infrastructure would be the priority area.
- For this, the govt is expected to raise $40 bn through asset sales.
- The actual expenditure for the current fiscal is expected to be lower at ₹ 30.4 tn (but will be higher than the previous fiscal expenditure of ₹ 26.86 tn).
- The govt would be targeting infrastructure development and supporting growth.
- For this higher expenditure, the govt will have to go for asset sales and borrowings.
- The govt had targeted raising ₹ 28 bn through asset sales this fiscal but the pandemic has delayed the process.

7. GST MOP UP ALL TIME HIGH IN DECEMBER (BL 2/1/21)

- The GST mop up for the month of December has reached an all-time high of ₹ 1,15,174 Cr. This is on account of the crackdown on tax evaders, fake invoices, systemic changes introduced recently and signals a strong economic recovery.
- This is the highest since the launch of GST in July 2017.
- It is significantly higher than the collection of November which was ₹ 1,04,963 Cr and is 12% higher for the same month for last fiscal.
- Till now monthly GST collections have crossed more than ₹ 1.1 lakh Cr in 3 months only and this is the third month in a row this year when the collections have crossed ₹ 1 lakh Cr.
- This is significant for another reason that some of the areas are still experiencing a lockdown and the GST collections have increased despite that.

8. RoDTEP scheme to cover all exports (BL 2/1/21)

- The Finance Ministry, last year, had announced that a new Scheme RoDTEP will be replacing the Merchandise Exports from India Scheme (MEIS), as WTO has ruled the MEIS to be against the multilateral trading norms.
- Central govt has announced that effective 1st January 2021, Remission of Duties or Taxes on Exports of Products (RoDTEP) will be covering all the exports.
- However, the exporters are still waiting for clarity over rates of reimbursement.
- Unless there is clarity on this, the exporters will be in a bind over booking their orders and pricing them.
- Ministry of Commerce will be soon notifying the RoDTEP rates based on the recommendations given by a committee chaired by G K Pillai (3 member RoDTEP Committee).
- The RoDTEP rates are dependent on the actual input taxes paid by each sector at various stages of production, the calculation is becoming a time-consuming process.
- In addition to this, the uncertainty seems to be on the fact that the initial allocation of expenditure under the scheme was pegged at ₹ 50000 Cr annually but the concern is that it could be scaled back because of the financial constraints.