Gist of EPW April Week 4, 2022

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 analyzed and explained in a simple language, all from a UPSC perspective.

1. Surge in Exports
2. Backward Class Reservation in Local Bodies
3. Trade Measures Enacted by Countries Due to the COVID-19 Pandemic
4. Equity Stake of Government in Vodafone

1. Surge in Exports

Context:

The article discusses the current surge in exports, the reasons behind this increase, its implications, concerns, and the way forward.

The data and its implications:

- The sudden surge in the exports of goods and services has brought a sense of contentment to the Ministry of Commerce and Industry.
- The exports of goods have increased to an all-time high figure of $419.7 billion in 2021-22 and services have risen to $249 billion in 2021-22.
- After registering a decline in exports for two consecutive years, 2021-22 has witnessed a growth of 43.8% in the exports of goods, 20.9% in the growth of exports of services, and a growth of 34.3% in the overall exports of goods and services with a $668.9 billion figure.
- These figures are quite satisfactory but if we take the average of the fall in exports in the last two years, the growth of exports of goods, services, and total exports in 2021 has declined to 10%, 6.8%, and 8.5% respectively. The figures are good but not very appealing.

Reasons for rising exports:

Following are the reasons behind the surge in exports:

High Prices:

- The prices have risen due to the recovery from the pandemic. This has contributed to the rise in exports of India. As long as high prices last and the economy is not hampered by another wave of Covid, these high exports will sustain.

Global Demand:

- The rise in India's exports could be attributed largely to the continued global growth momentum and the resultant increase in global import demand, along with favourable global commodity prices.

Russia-Ukraine War:

- The Ukraine war, while impacting the world economy as a whole, has also created a commodity squeeze in Europe, which countries like India can fill in. Commodity prices have been on a high trajectory for quite some time.
- The war pushed their prices up further. Crude oil prices had been rallying even before the Ukraine war as economies opened up after the pandemic and winter demand for fuel remained high.
- In 2020-21, India exported around 56,769 TMT (thousand metric tonnes) of petroleum products worth $21,406 million to countries such as the United Arab Emirates, Singapore, and China. The products included diesel, petrol, aviation turbine fuel, and naphtha.

Areas of Concerns:

Despite the phenomenal growth in exports, there are some concerns that are discussed below:

Lagging behind the peak levels:

- If we look at the peak levels of exports of goods, services, and total exports then India is lagging behind.
- The share of exports of goods (in 2013-14), services (2008-09), and total exports (2013-14) in the Gross Domestic Product (GDP) were at the peak levels with 17.2%, 8.9%, and 25.4% respectively as against 13.5%, 7.3%, and share of total exports by 20.8% in 2021-22.
- It clearly shows that despite such a good hike the share of exports of goods, services and total exports of goods and services still lag behind by 5 percentage points.

Widened trade deficit:

- The exports have recorded a high growth rate but the trade deficit has also widened. The data shows that the merchandise trade deficit has doubled to $192.2 billion in 2021-22 from $102.6 billion in 2020-21.

- Hence, the share of the merchandise trade deficit in the GDP has increased from 3.8% in 2020-21 to 6.2% in 2021-22.
- Although there is a surplus in service trade, it has squeezed in the past few years from the peak levels of 3.9% of GDP to 3.1% in 2021-22 and hardly compensate for the merchandise trade deficit.

Sustainability of the rising exports:

- The share of service sectors in the total exports has doubled from 19.8% to 36.4% between 1990–91 and 2006–07. The share then stagnated and has fallen to 35.1% in 2021-22.
- The share of exports has noticeably increased by 6 percentage points to 64.9% in 2021-22. The numbers are very significant but the sustainability depends on the high global prices and no disruptions due to the pandemic.
- In contrast to the above, the data on disaggregated exports depict that the current increase in exports is very doubtful in terms of sustainability because the rise is narrow-based and dominated by a few goods such as petroleum products (153.6%), yarn, made-ups, and handlooms (55.7%), gems and jewelry (50.3%), and engineering goods (46%).

The disparity in the growth of exports:

- The data shows the growth in exports of agricultural products has increased to an all-time high number of $50 billion.
- On the contrary, the exports of other important products such as drugs and pharmaceuticals, rice, and tea were in the single digits, while that of spices and iron ore declined.
- The above-mentioned points show that there is a disparity in the growth of exports and it also raises a question about the sustainability of the current surge in exports.

Factors that can elevate Current Account Deficit:

Economists are of the view that there may be a widening of the current account deficit due to the following reasons:

- Elevated global commodity prices,
- Unlocking of the economy after the Omicron wave,
- Improved vaccination cover limiting future Covid-led disruptions, and
- Production-linked incentives by the Centre starting to contribute to export buoyancy in a gradual manner from FY23.

Back-up for the short-run:

- If we consider the overall external sector, India is still in a favourable position in terms of foreign exchange reserves which stood at $618 billion at the end of FY 2021-22.
- This ensures that India has a backup for any adverse trends in the economy and it will help in maintaining the stability at least in the short run.

Conclusion:

- India's exports have recorded a remarkable growth in 2021-22. But, the volatility in commodity prices, supply chain disruptions, and a possible change in world political order would certainly have an impact on trade and the economy.
- India has a backup of foreign reserves to deal with short-run adversities but it has to implement the policies with a long-term perspective and objectives.

2. Backward Class Reservation in Local Bodies

Context

A Member of Parliament recently highlighted a "constitutional deadlock" in the matter of reservations of seats for "backward classes" in local bodies.

Details

- States like Karnataka and Maharashtra have not been able to conduct the elections for local bodies as they have not complied with the "triple test" laid down by the Supreme Court for such reservations.
- For states to fulfil the criteria laid down by the Supreme Court there is a need to release the caste-based data collected in the Socio-Economic and Caste Census (SECC), 2011 which is available with the union government.

Reservations in Local Bodies

- The 73rd and 74th Constitution Amendments Act of 1992 addressed the issues of the inadequate representation of the Scheduled Castes (SCs), Scheduled Tribes (STs), and women in panchayat raj institutions (PRIs) and urban local bodies (ULBs) along with various other issues.
- This was achieved by the introduction of Article 243-U (PRIs) and Article 243-T (ULBs).
- Both the articles mention the reservations to the members of the SC, ST communities and women in various positions at PRIs and ULBs.
- Also, the articles mention that the state may reserve seats for the "backward class of citizens."

Read more on the **[73rd Constitutional Amendment]** in the link.

Issues with the Reservations for Backward Classes

- The constitutional provisions for the reservations for backward classes in the local bodies are said to be poorly drafted.
- The term "backward classes" used in the articles lacks clarity and hence gives rise to confusion.
- Articles 15 and 16 which provide for reservations in education and employment, respectively mention the criteria for identification of such classes, (like Article 15 mentions "socially and educationally backward," and Article 16 mentions that "backward class" has to be "[in]adequately represented in the services under the State.").
    - However, the conditions and criteria for classifying as backward classes for the purpose of reservations are not outlined in Articles 243-D and 243-T.
- Also, the category of "backward classes" varies across the country, unlike the SCs and STs who are said to be uniform across the country.
- The SCs and STs are identified at the union level through a constitutional mechanism, but there was no constitutional mechanism for the identification of "socially and educationally backward classes" until the introduction of Article 342A by the 102nd Constitution Amendment Act, 2019.
- Even though the Indra Sawhney judgement has provided a few conditions to identify backward classes, it is only an expansion of the principle laid down in Articles 15 and 16.
    - There is still no clarity on how the "backward class of citizens" can be identified to grant them the benefit of reservations under Articles 243-D and 243-T.

Judicial Interventions

Krishna Murthy Case (2010)

- In the K Krishna Murthy v/s Union of India judgement, the Supreme Court interpreted Articles 243-D and 243-T by acknowledging the fact that the articles lacked clarity.
- The SC held that the "two articles do not provide measures as to how the backward classes can be identified. Instead, discretion has been conferred on State Legislatures to design and confer reservation benefits in favour of the backward classes. "
- The court also upheld the argument which said that reservations in local government are different from those mentioned in Articles 15 and 16, and hence the provisions mentioned in these articles cannot be applied in the case of Articles 243-D and 243-T.
- The court also rejected the application of the "creamy-layer" clause that emerged out of the Indra Sawhney judgement but prescribed the 50% cap on reservations.
- The court also said that it is the responsibility of the states to undertake "rigorous investigations" to formulate the criteria as to which classes would be conferred with the "backward class" status.

Vikas Kishanrao Gawali case (2021)

- In the Vikas Kishanrao Gawali v/s the State of Maharashtra judgement the SC subjected the Reservation Notifications under the Maharashtra Zilla Parishads and the Panchayat Samitis Act which provide for reservations in PRIs to the judgment in Krishna Murthy and declared that these reservations for backward classes in the state are unconstitutional.
- The court laid down the "**triple test**" for the state to declare classes as "backward classes"
- The "**triple test"**
  - States must set up a commission to identify the backwardness in terms of political participation
  - The commission must be allowed to determine the extent of reservation in local bodies
  - Limit the reservation to 50% of the positions in the local bodies

Recommendations

- The term "backward class" must be provided with more clarity in Articles 243-D and 243-T.
- The union government must release the data from the SECC, 2011.
- The term "backward classes" must be replaced with more well defined "socially and educationally backward classes".
- To extend reservations only to those politically under-represented backward classes there is a need to restrict the reservations only to backward classes whose representation in local bodies has been less than their proportion of the total population.

Conclusion

- Considering the importance of local bodies in strengthening democracy at the grassroots levels, any confusion and delays in conducting the elections would affect the functioning of these institutions.
- Hence urgent interventions are needed which are aimed at,
  - Avoiding the undertaking of fresh surveys by the states to identify backward classes.
  - Excluding the classes that are already well-represented in the local bodies.
  - Providing conditions to fix the share of reservation for backward classes.

3. Trade Measures Enacted by Countries Due to the COVID-19 Pandemic

Context

This article tries to analyse various measures undertaken by countries in the wake of large scale disruptions in trade triggered by the coronavirus pandemic.

Background

- The global economy experienced a remarkable decline post the announcement of the COVID-19 pandemic by the World Health Organization (WHO) in March 2020.
- The International Monetary Fund's (IMF) reports in April 2020 estimated that the global output would decline by around 3%.
- During the first six months of the year 2020, the Organisation for Economic Co-operation and Development (OECD) projected a 13% decline in the global gross domestic product (GDP).
- There was a -3.2% decline in economic growth worldwide and the decline in global trade was nearly 5.3%.
- In this context, countries across the world have adopted many policies to protect their markets and economies.

Sources that provide the details of the measures undertaken by countries

- The **World Trade Organisation** has been maintaining a database and reporting its members' notifications on COVID-19.
- **The Global Trade Alert (GTA) database.**
- **Market access map (MAM)** by the **International Trade Centre (ITC).**

'Temporary' Trade Measures

- Countries mostly opted to take the protectionist approach to protect the domestic producers from imports.
- Export restrictions were imposed as governments tried to insulate their economies from the global markets.
- Countries had become protectionist by banning exports and restricting supplies of critical items inside the country's territories.
- Over 70% of the trade measures were focused on medical supplies which are essential to fight the pandemic.
  - These products included sanitisers, PPE kits, hydroxychloroquine, remdesivir, ventilators, testing kits, vaccines, etc.
- India had undertaken the most number of such policies, followed by Brazil, Argentina, Indonesia, China, Pakistan, Eurasian Economic Union, etc.

Trade-restricting Measures

- Countries adopted trade-restricting measures such as export bans and import restrictions to address the domestic shortages and protect domestic enterprises.
- Other trade-restricting measures included policies that imposed certification norms and quality standards.
- Nearly 78% of such export restrictions were directed at medical products.

- The present multilateral trade rules offer adequate policy flexibilities to impose trade restrictions, particularly during emergencies.
- Countries utilized these flexibilities to adopt trade-restrictive measures, to "overcome critical shortages".
- Such trade measures have significant consequences for trade with partner countries. These can trigger a domino effect, where countries enforce similar restrictions on each other to keep their domestic markets insulated.
- Further, such policies disrupt the trade relations between the partner countries.
- Reports suggest that these export bans have increased the prices of ventilators, oxygen supplies and masks.
- When export restrictions are used in one sector, it may trigger export restrictions in other sectors, although they are not directly related to combating the pandemic.
    - **Example**: Many countries imposed export bans on food products such as wheat, rice, vegetables, oil, fruits and eggs due to concerns about food security.
    - Russia, Indonesia, and Korea imposed import restrictions on animal-derived products from China.
    - Egypt banned imports of garlic, green ginger, and carrots from China.

Trade-liberalisation Measures

- Trade-liberalising policies were adopted to address various supply-side bottlenecks of medical supplies and other humanitarian goods.
- The most used trade-liberalising policies were:
    - Reduction of import tariffs
    - Temporary elimination or reduction of anti-dumping duties
    - Tax or import duties waivers
    - Moratorium on import tariffs
    - Exemption from VAT, customs duties, and other taxes
- These policies were also focused mainly on products required for emergency purposes like vaccines.
- These measures have been more effective in the post-pandemic era, which help boost growth and competition by using pent-up demand.

Use of NTMs as Trade Policy

- As per United Nations Conference on Trade and Development (UNCTAD), non-tariff measures (NTMs) are defined as trade policy measures that have a potential economic effect on the price and (or) quantity of traded goods and services.
- Experts in trade economics believe in avoiding unnecessary trade barriers, and, reducing and harmonising the use of NTMs.

- But during the pandemic, countries were seen imposing “unnecessary” NTMs, such as licensing requirements and public procurement norms.
- The NTMs like quotas and prohibitions are said to be trade-disrupting in nature.

Conclusion

- The liberal use of trade-restrictive policies has affected the trade flows, and supply chains, increased inflation and reduced people’s purchasing power.
- There is an immediate need for countries to cooperate, pool risk, and increase the global production of essential items.
- Formulating a distribution mechanism free of trade barriers is the key to combating the pandemic.
- Thus, multilateral trade organisations such as the WTO must be reformed and strengthened to ensure the checks and balances required, so that global trade can continue in a free and fair manner.

Also read: [WTO Agreements]

4. Equity Stake of Government in Vodafone

Context

This article discusses various provisions for telecom service providers as part of the government’s reform package.

Background

- The Indian telecommunications sector is going through a period of crisis.
- The judgement on the [adjusted gross revenue (AGR)] has further aggravated the situation of the highly indebted telecom sector.
- The most affected telecom sector provider has been Vodafone Idea which has an estimated additional burden of Rs. 58,000 crores and has raised its total liabilities to about 2 lakh crores.
- Considering the importance of Vodafone to the telecom sector in India and the fact that its exit would jeopardise the government’s chances of recovering its massive dues from the firm, the government announced a relief package in September 2021 to extend financial assistance to the sector.

Government’s relief package for the telecom sector

- The package provided a moratorium of four years to fulfil the payment dues arising out of the Supreme Court's AGR judgment and on the spectrum purchased in past auctions.
- The concept of AGR has been redefined to exclude non-telecom revenue and all remaining penalties have been scrapped.
- It also allows for 100% Foreign direct investment (FDI) under the automatic route to the sector.
- The package also provides an option for the service providers to convert the interest amount on the moratorium period into equity held by the government.

For information on this topic, refer to the following article:

UPSC Comprehensive News Analysis of 15th Sep 2021

Vodafone Idea's decision

- The Vodafone Idea firm decided to opt for converting about ₹16,000 crore interest dues liability payable to the government into equity.
- If proceeded further, the government would own 35.8% of Vodafone Idea.
- The government will become the biggest stakeholder in the company which currently has about ₹1.95 lakh crores as debt.

How will it help Vodafone Idea?

- The move will help Vodafone Idea address its short-term liquidity problems by reducing its payment burden.
- It also helps address the problems of the debt burden.
- The move will help the company free up funds for investments in improving network quality and investments in 5G.
- It will also improve the company's ability to secure long-term funding.

Key concerns

- **Ownership problem -** Common ownership of minority shares has been said to have anticompetitive impacts on the sector as non-controlling minority shareholding (less than 50% shares) falls outside the purview of merger scrutiny for any adverse impact on competition.
- **Government as owner -** The possibility of anticompetitive effects is further aggravated when the government is the common owner, as the government may indirectly push the board to accede to its demands.
- **Decision-making -** The government's ownership will also interfere with the decision-making process of the company as it will not be able to increase prices/decrease quality or innovation unilaterally.

* **Spectrum holdings** - At present, the rules bar any company from holding more than 50% of the spectrum in any band below 1 GHz and 35% of the total spectrum; in such a case there are questions about the common ownership of Vodafone Idea and the government-controlled BSNL/MTNL.
* **Discourages investments** - The significant government holding may dissuade potential investors, considering possible government intervention.

Recommendations

* The government should allow asset sharing through a strategic partnership between BSNL, MTNL, and Vodafone Idea or a merger between these.
    * This move will have multiple benefits as the government action can help Vodafone Idea and also improve the competitiveness of BSNL and MTNL at the same time.
    * This partnership provides a unique opportunity to expand access while ensuring and strengthening competition in the sector.
    * It also provides a credible and inexpensive solution to the problems of the faltering BSNL and MTNL and the indebted Vodafone Idea.
* Also, BSNL and MTNL could start their delayed 4G services using Vodafone Idea's network infrastructure.
    * The infrastructure sharing will help in lowering the cost of network deployment in rural areas and stimulate migration to new technologies and the deployment of mobile broadband.

Conclusion

The government's initiative to address the problems associated with the telecommunications sector is a welcome step. However, considering the concerns and challenges associated with the government's approach of converting the firm's debt into equity, allowing the asset sharing between the firms and BSNL/MTNL or a merger of these firms would be a better option as asset sharing between the firms will be mutually beneficial and a "win-win scenario."

Also read: [RSTV In Depth - 5G]