Gist of EPW May Week 1, 2022

TABLE OF CONTENTS

1. India's Trade Policy and GVCs

Context: The article provides an overview of the trends in the Global Value Chain participation of six sectors of Indian manufacturing with a key focus on the nature of participation.

An Overview:

- India is all set to adopt a new trade policy with an emphasis on widening its international market access through Free Trade Agreements (FTA) and other tools of international trade.
- The Government of India had introduced a futuristic concept of self-reliance which is famous as Atmanirbhar Bharat, in the wake of the pandemic.
- The waves of self-reliance have reached the shores of manufacturing industries in India and have been at the forefront of developmental policies that intend to make India a global manufacturing hub.
- There are umpteen opportunities for India in the post-pandemic world to expand its influence in the global value chain and explore new markets.
- With the changing dynamics of global production, India has also started integrating with value chains in certain sectors. This has helped India to increase its trade footprints in parts and components.

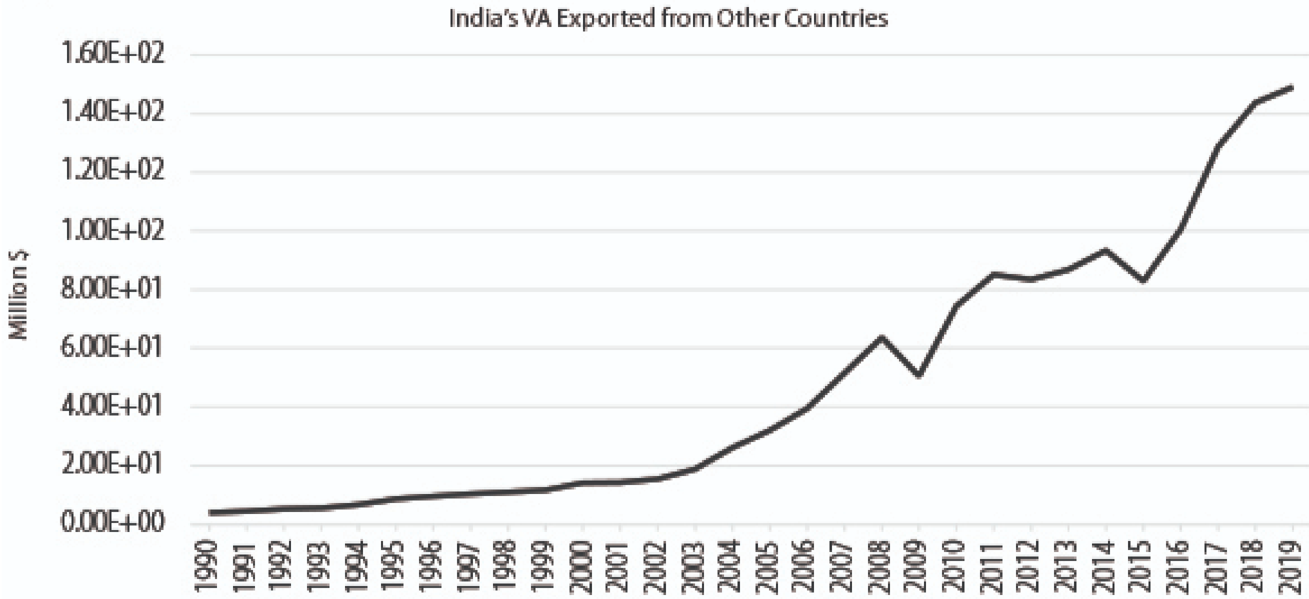
Challenges for India's trade policy:

- Global economic slowdown due to the pandemic.
- Disruption in the global supply chain due to the Russia-Ukraine conflict.
- Increasing protectionism.
- The poorly developed manufacturing sector acts as the strongest impediment to India's trade policy.
- Insufficient infrastructure to promote innovations.
- Lack of investment in important sectors.
- Inadequate availability of skilled workers.
- The 2020 WTO Trade Policy Review of India reported that the country's reformed trade policy is characterised by restrictive norms in terms of strict regulatory compliance on imports, tariffs and so on.
- Lack of rationalised export promotion schemes that are compatible with WTO norms.

India in Global Value Chain:

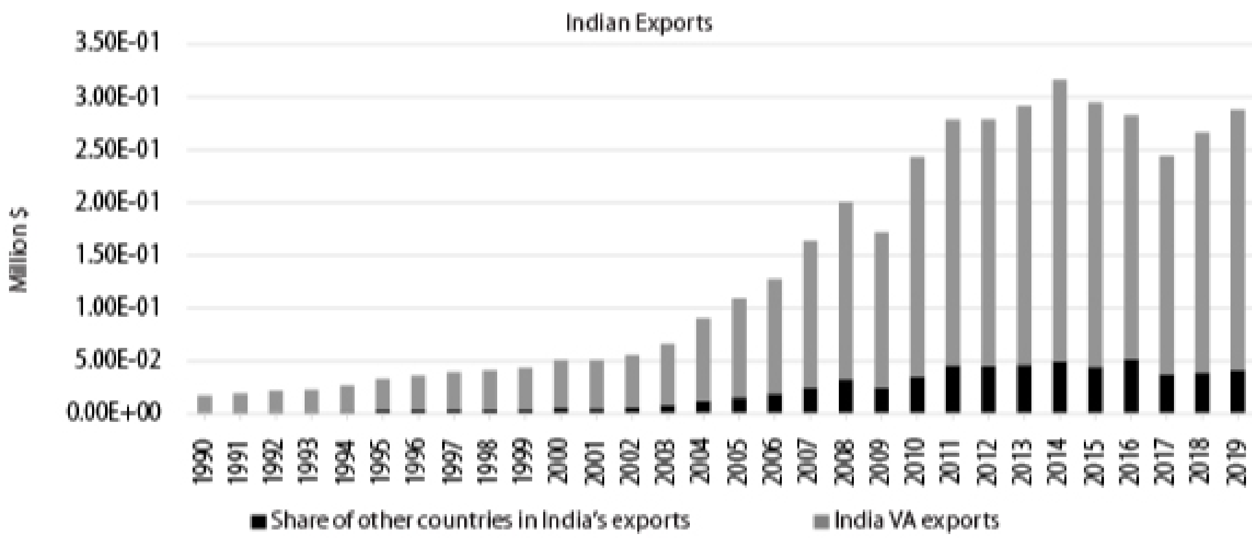
India in Global Value Chain:

Figure 1: India's Contribution to Foreign Exports



Source: Compiled by the author using UNCTAD MRIO EORA Database statistics, https://www.worldmrio.com/unctadgvc/.

Figure 2: Value Added by India and Other Countries in Indian Exports



Source: Compiled by the author using UNCTAD MRIO EORA Database statistics, https://www.worldmrio.com/unctadgvc/.

Image source: EPW

Steps taken by GOI to tackle the crisis:

- India has signed a supply chain pact with Japan and Australia which would result in broadening the supply chain through the collaboration of the intervening countries. This would be a pragmatic approach to dealing with the crisis till things return to normalcy.
- **India is all set to attract companies that found supply chain relocation a major challenge as an outcome of the pandemic.** This would ensure employment generation and a boost to avert the aftermath of COVID-19.
- The Indian market is inclusive of various favourable factors for supply chain relocation such as a suitable business environment, liberal FDI norms, improved **Ease of Doing Business**, digital infrastructure and consumer-friendly ambience. All these factors make our country an efficient emerging global manufacturing hub.
- The Production Linked Incentive (PLI) scheme has been an effective policy initiative by the government to further the manufacturing potential in important industries like automobiles, semiconductors, textiles and so on.
- India's beyond record export growth rate had hit a historic **$400** billion in the financial year 2021-22 and has been considered the highest ever.
- There have been some landmark trade agreements that India has signed in order to explore the international market and promote its trade interests accelerating India's influence in the global supply chain. For example, the Government of India took an attempt to sign a Free Trade Agreement with UAE which is anticipated to go a long way.

The India-UAE FTA:

India has stepped ahead on a new journey with a renewed approach to indulge in Free Trade Agreements (FTA) with its trade partners.

The Shift in Approach:

- With revamped objectives and renewed aspirations, India is eager to focus on gaining market access that shall facilitate the Indian industry's integration into the global value chain.
- It has been iterated that the signing of the FTA by India will no longer be confined to the intention to join a group but it will also address the new dynamics of international trade and the Indian economy.

Countries in focus:

- Under the new FTA strategy, the Government of India has offered priority to six countries to deal with, among which the United Arab Emirates is at the top of the list for an early harvest deal.
- Other countries on the list include the United Kingdom, the European Union, Australia, Canada, Israel and a group of countries in the Gulf Cooperation Council (GCC).

Rays of Positivity:

- The revisited and refurbished FTA strategy is a welcoming move by India to promote its trade interests in important regions that will contribute to the overall economic growth.
- The fresh negotiations along with the government's willingness to indulge in interim and mini-trade deals will provide impetus to the entire gamut of India's trade.
- In September 2021, UAE expressed its intention to enter into bilateral economic agreements with eight countries and India was one among them.
- Over the progressive rhythm of time, UAE has emerged as a major economic hub in the world due to its strategic location. UAE, with its 'Vision 2021', has emphasized on diversification of its economy with enormous importance to the hydrocarbon sector followed by services and manufacturing.

India-UAE Relationship:

- The diplomatic relationship between the two countries flourished in 1972.
- The relationship has been boosted with the visit of the Indian Prime Minister to UAE in 2015 which marked the onset of a strategic partnership between the two countries.
- The Crown Prince of Abu Dhabi was invited as the chief guest at the Republic Day celebrations of 2017 transforming the bilateral relationship into a comprehensive strategic partnership.
- In September 2021, the India-UAE comprehensive economic partnership agreement was launched.
- Time has witnessed the deepening of India's trade relations with the UAE. This makes UAE the third-largest trading partner of India.
- With the new FTA, this relationship will be further strengthened.
- This will be an enabler of two-way investment that is anticipated to benefit India's export targets.
- UAE offers an attractive market for Indian electronics, automobiles and other engineering products.
- This partnership will also invite multinational investments from other geographies that will expand the business of both India and the UAE.

Significance:

- Despite the existence of a number of positives arising from the new FTA, the complicated tariff structure of the UAE which is in compliance with the GCC norms, needs to be addressed and negotiated in order to assist the Indian exporters.
- Therefore, it is suggested that the FTA agreement must try to introduce more transparency and predictability in terms of Non-Tariff Barriers to ensure a less cumbersome compliance procedure.

Ways Ahead:

- Country-level participation with larger value chain intervention becomes essential for mitigating the crisis in the Global Supply Chain.

- The experts suggested that we concentrate on international cooperation with transparency in the trade frontier, sustainability and trade discipline meticulously designed under the guiding principles of WTO.
- The execution of all the important ways put forth by government interactions, international organisations, economists and other functional authorities will become an enabler in transforming events of crisis into opportunities for people and their aspirations.

2. Digital Banks May Boost Inclusive Banking

Context

Recently the Union Finance Minister stated that the government is looking to open 75 digital banks in 75 districts of the country.

Details

- The Reserve Bank of India also reiterated that the new digital banking units (DBUs) that will be set up will help improve the access to digital infrastructure thereby accelerating and extending the delivery of banking services.
- Experts believe that this move by the government is mainly focused on achieving digital financial inclusion.

Current situation of the Banking sector in India

- The Indian banking sector is losing momentum in recent years as other financial sector segments such as pensions, mutual funds and stock markets have gained impetus.
- The stagnant level of bank credit available to the private sector, which has continued to be around 50% of the gross domestic product (GDP) for almost 10 years, indicates the banking sector is limited.
    - The domestic credit available to the private sector as a percentage of the GDP is significantly higher in other developing countries like Singapore (120%), Malaysia (121%), South Korea (152%), and China (165%).
    - The credit available to the private sector in developed countries - France (108%), Sweden (133%), the United Kingdom (134%), Japan (177%), and the United States (191%).
- The after-tax return on bank assets averaged 0.5% in India in the decade ending in 2020; this was higher compared to Germany, France, the UK, Switzerland, and Japan but less than in South Korea, Singapore, China, Russia, and the US.
    - The after-tax return on bank equity was 7% in India which was higher compared to Germany, Japan, France, Switzerland, and the UK but less than in Russia, Singapore, Sweden, the US and China.

- Trends in the decade ending 2019 suggest that the ratio of non-performing loans to gross loans averaged 6.1% in India whereas it was found to be 1.4% in China, 3.3% in Brazil, 3.8% in South Africa, and 8.1% in Russia.

Digital Banking Units (DBUs)

- A DBU is a diversified fixed point business hub that is equipped with minimum digital infrastructure for delivering digital banking products and services.
- DBUs are also tasked with servicing the prevailing financial products and services digitally in self-service mode at any point in time.
- Scheduled Commercial Banks other than Regional Rural Banks (RRBs), Payment Banks and Local Area Banks with previous digital banking experience are permitted to open DBUs in Tier 1 to Tier 6 centres.
    - These banks are authorised to establish DBUs without taking permission from RBI unless otherwise specifically restricted.
- DBUs will be treated as Banking Outlets.

RBI Guidelines on DBUs

- Every DBU should be housed distinctly, with separate entry and exit provisions and also separate from an existing Banking Outlet.
- The design and infrastructure of these DBUs should be appropriate for digital banking users.
- The front-end of digital banking must have equipment like Interactive Teller Machines, Interactive Bankers, Teller and Cash Recyclers, Interactive Digital Walls, Video KYC Apparatus, etc.
    - The back-end must include Core Banking Systems and other information systems required for digital banking.
- Sufficient cyber security protection systems must be installed.
- Each DBU must offer certain minimum digital banking products and services.
- DBUs must possess a required digital mechanism to offer real-time assistance and redress customer grievances arising from services offered by the DBUs.
- Banks shall report the Digital Banking Segment as a sub-segment within the existing "Retail Banking Segment".
- The Board shall review the progress and key performance indicators of digital banking services including that of DBU.

The need for DBUs

- **A Niti Aayog published paper in November 2021 -** this paper acknowledged that the technology required for launching DBUs is already developed and the establishment of DBUs will help address key policy challenges that hinder the banking system, promotion of inclusive banking and also assist in extending digital technology to a larger proportion of the population.

- **Nachiket Mor Committee Report (2014)** - this report reiterated the need for adopting differential banking policies to assist specialised banking institutions and expand financial inclusion.
    - The report pointed out that the cost-efficiency of operations with the DBUs will extend credit to micro and small scale enterprises as the current credit gap in the MSME sector is projected to be Rs. 5 trillion.

Conclusion

In a situation where the Indian banking system is handicapped with several challenges, the establishment of Digital Banking Units (DBUs) which promote better financial inclusion, perform better in product innovation and offer better digital solutions is a welcome sign. However, measures that prioritise expanding credit and prevent non-performing assets are essential for reviving the Banking system in India.

3. Repealment of the Rubber Act, 1947 and the Enactment of the Rubber (Promotion and Development) Bill, 2022

Context

The Rubber (Promotion and Development) Bill, 2022.

Various laws introduced for the rubber industry in India

- **The Indian Rubber Control Act, 1934**
    - This legislation was introduced to control and regulate trade measures in natural rubber based on the provisions of the International Rubber Regulation Agreement (IRRA).
    - **Indian Rubber Licensing Committee (IRLC)** was set up under the Act.
- **The Rubber Control Order, 1942:**
    - This order was issued under the Defence of India Rules to impose strict control on the price and trade of natural rubber.
    - The order also extended control over the manufacturing of products containing rubber, in the wake of an acute shortage of the material, due to World War II.
- **The Rubber Control and Production Order, 1942:**
    - This order was issued under the Defence of India Rules.
    - The objective of the order was to control the planting of rubber, monopolistic procurement of natural rubber by the government, fixation of prices for different rubber grades, regulation of trade, and concerted efforts to boost rubber production.
    - **Indian Rubber Production Board (IRPB)** was established.
    - The order expired in 1946.
- **The Rubber (Production and Marketing) Act, 1947:**

- Post World War II, there was a demand for constituting a statutory body for regulatory and development activities in the rubber industry.
- The central government enacted the Act and set up the **Indian Rubber Board** in 1947.
- The Rubber Act has been amended several times in 1952, 1954, 1960, 1982, 1994, and 2010.
- The Rubber (Production and Marketing) Rules, 1947 were issued under the act and were later replaced by the Rubber Rules, 1955.

Reasons for the introduction of the Rubber (Promotion and Development) Bill, 2022

- To rectify the irregularities between the Act and the Rubber Rules, 1955.
- To delete the sections that dealt with the cess on rubber, which was repealed through the Taxation Law (Amendment) Act, 2017 in the backdrop of the introduction of Goods and Services Tax (GST).
- To replace the licensing process of dealers and manufacturers to buy and sell rubber with a simpler one-time registration process that facilitates the Ease of Doing Business.
- To increase the role of the **Indian Rubber Board.**
- The Rubber (Production and Marketing) Act, featured in the list of acts that are no longer relevant in the present socio-economic context which was compiled by a committee set up by the Prime Minister's Office.

Implications of the Rubber (Promotion and Development) Bill, 2022

- **Purview of the Act**
    - The objective of the act is to promote and develop the Indian rubber industry and improve the functioning of the rubber board.
    - The Bill defines "rubber industry" as "the industry engaged in the production, manufacture, supply, distribution, trade and commerce, utilisation of rubber and rubber products, and includes rubber plants, the production, processing, and of Hevea wood, research, development of rubber estates, and services related thereto."
    - The Bill covers all aspects of natural rubber, rubberwood, and products but does not include synthetic rubber and reclaimed rubber within its scope.
- **Autonomy of the board**
    - The board is mainly a statutory recommendatory body as the executive powers are vested with the principal executive officer reporting to the union government.
    - The Bill seeks to remove Section 8B of the Act which provided that the central government should consult the board before taking any actions related to the functioning of the board under the Act.
    - Also, the Bill provides that the centre can supersede the board for a maximum of six months and this means that the members will have to vacate their offices and the government can reconstitute the board through fresh appointments, implying that the board can be dissolved and reconstituted any time.
- **Constitution of the Board**

- According to the original act, 9 members were nominated or appointed by the central government to the board, 11 members were nominated by stakeholder associations and 6 members were nominated by the state governments of Travancore–Cochin and Madras.
- The changes proposed in the Bill say that except for the three members nominated by Parliament, all the members of the board will be nominated or appointed by the union government.
- The Bill mentions dealers, processors, exporters, and institutes or authorities specialising in research in the rubber industry as categories eligible for getting appointed.

- **Powers of the Board**
  - The import of rubber for sale, or purchase of rubber, in the internal market is to be carried out only with the prior permission of the central government.
  - The board is authorised to give directions to dealers, exporters, growers and others in the rubber industry and the violation of such directions can result in penalties.
  - The functions of the board have been increased to include rubber products in research, technical advice, and export promotion.

Criticism against the proposed Bill

- The major criticism of the proposed Bill is that it ignores the interests of smallholders who constitute about 90% of the natural rubber production and planted area.
- Experts say that the Bill favours the rubber product manufacturers over the growers.
- Critics believe that the Bill grossly dilutes the autonomy of the Rubber Board and transfers powers from the board to the central government.
- Critics opine that the Bill empowers the central government to influence the rubber prices and permits unrestricted import of natural rubber.
- The Bill mentions that 19 members are to be appointed from all the categories without specifying the exact numbers which would lead to over-representation and under-representation of certain groups.

Recommendations

- Rubber products manufacturing industry consumes natural rubber, synthetic rubber, and reclaimed rubber (rubber recovered from used rubber products).
  - There is a need to bring synthetic rubber and reclaimed rubber within the purview of the Bill as it would facilitate comprehensive policy formulation for the industry.
- There is a need to include the head of Rubber Research Institute of India (RRII) as an ex officio member of the board.
- Rubber is considered to be a strategic commodity in the larger national interest and countries like China and the US keep strategic reserves of natural rubber.
  - Hence the board must be empowered to get involved in the rubber market in situations of exigencies according to the government's directions.

- The central government must consult the board whenever an action is undertaken that affects the interest of the board.
- There is a need to exclude growers from proceedings and penalties against the contravention of directions from the board.
- There is a need to upgrade the status of natural rubber including its processed forms as "agricultural products".
    - Declaring natural rubber as an agricultural product will extend the benefits of loans, domestic taxes, etc.
    - Also, it will help the natural rubber sector become eligible for benefits from the schemes operated by the Ministry of Agriculture and Farmers' Welfare.