03 Feb 2023: UPSC Exam Comprehensive News Analysis

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A. GS 1 Related

Nothing here for today!!!

B. GS 2 Related

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C. GS 3 Related

Category: ECONOMY

1. Putting Budget 2023 into perspective

Syllabus: Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.

Prelims: Facts about Union Budget

Mains: Analysis of Union Budget 2023-24 and the trends in the Indian Economy

Context

The Union Finance Minister presented the Union Budget for FY 2023-24 on February 1, 2023.

Background

- The Economic Survey 2022-23 suggests that the Indian economy is expected to post a real GDP growth of 7% in 2022-23 and further expects both the retail as well as wholesale inflation rates to come below the 6% mark in the coming months.
- The Union Budget 2023-24 which was presented against this backdrop has assumed nominal GDP growth of 10.5% in 2023-24,
    - This implies that the government has assumed a projected inflation rate of just 4%, given the economic survey's baseline real GDP growth projection of 6.5%.
- Experts believe that these projections and assumptions made by the government indicate official optimism regarding the Indian economy and the Indian economy will experience a reduction in inflation coupled with high growth even at a time when the rest of the world is witnessing a slowdown and inflation.

Key highlights of Budget 2023-24 and analysis

- The Economic Survey had expected a new cycle of investment-led growth led by the private corporate sector, aided by increasing credit from the banks.

    - However, the Union Finance Minister, rather than relying upon such predictions, has announced a significant increase in capital expenditure (capex) in the Budget.
    - This increase in the capex aims to crowd in private investment, particularly in infrastructure sectors such as highways, railways, and power plants.
- Additionally, in the Budget 2023-24, allocations for subsidies extended on food, fertilisers, petroleum and on interest were reduced along with the reduction in the allocation of welfare schemes such as the MGNREGA.
    - This can lead to higher prices of cereals, LPG cylinders and fertilisers such as urea.
- Experts say that the overall impact of such expenditure switching can lead to inflation.

Longer-term assessment of the Union Budget

- It is important to compare the current government's fiscal strategy in the post-pandemic period with the fiscal strategy of the UPA-II and NDA-I governments in order to get a clear picture of the Indian economic situation.
- **Total Expenditure:**
    - The total expenditure (annual average) by the Union government had decreased from 15% of the GDP during the UPA-II (2009-10 to 2013-14) tenure to less than 13% during the NDA-I government's tenure (2014-15 to 2018-19).
    - However, the recessionary risks on account of the COVID-19 pandemic forced the government to increase their total expenditure significantly to 17.7% and 16% of the GDP in the years 2020-21 and 2021-22 respectively.
    - Since then, the total expenditure has declined slightly to about 15% of GDP, ie. 15.3% in 2022-23 and 14.9% in 2023-24.
- **Capital expenditure (Capex):** Capex has increased significantly since 2020-21.
    - I.e. 1.8% of GDP in the UPA-II era, 2.2% in 2020-21, 2.7% in 2022-23 and 3.3% in 2023-24.
- **Subsidies:** The overall trends in the spending on subsidies on food, fertiliser and petroleum have been reduced from 2021-22.
- **Defence expenditure:** Defence expenditure which was 2% and 1.6% of GDP under the tenure of UPA-II and NDA-I governments respectively had reduced to 1.5% of GDP in 2022-23.
- **Agriculture:** The total expenditure on agriculture has witnessed an increase during the NDA-II government's tenure and this is attributed to the allocation to the PM-Kisan cash transfer scheme.
- **Education**: Education expenditure in recent years has reduced compared to the UPA-II era.
- **Rural development and health:** Expenditure on health and rural development have remained almost at the same level between UPA-II and recent years.

Tax situation

- Experts point out that the current tax situation is the reason for the reductions in government spending on subsidies and welfare schemes.
- According to experts, the government has been forced to cut expenditure on subsidies and welfare schemes in order to increase capex on infrastructure and this is mainly because of inadequate revenues, which have continued to be the key challenges to public expenditure.
- **Gross Tax Revenues:** The gross tax revenues as a share of GDP posted a slight increase from 10.2% under the UPA-II tenure to 10.8% under the NDA-I government.
    - However, the percentage of gross tax revenues then declined to about 10% of the GDP during the first two years of the NDA-II government.
    - It was only in the post-pandemic period (since 2021-22) that the gross tax revenues crossed 11% of GDP.
- **Corporate Tax:** The share of corporate taxes in the GDP has declined as compared to the UPA-II era.
- **Income Tax**: The percentage of income taxes in the GDP has increased progressively to reach 3% of the GDP in 2022-23.
    - Further, the revenues from personal income taxes have also become equal to the revenues from corporate tax and this shows a trend of a **regressive taxation regime.**
    - This has forced the government to provide a few concessions to income taxpayers in the Budget 2023-24.
- **Indirect Tax:** The share of indirect taxes has also increased under the NDA tenure and it is also considered to be a regressive shift.
    - The percentage of **customs duties** has declined from 1.6% during the UPA-II to 0.8% in 2022-23
    - However, the share of excise duties has increased from 1.7% under the UPA-II (GST was not introduced) to 2% in 2020-21 and has remained over 1.2% in 2022-23, over and above the GST collections by the central government at over 3% of the GDP.
- According to the experts, the high share of income taxes in direct taxes and the increasing share of indirect taxes in GDP have led to an increase in income and consumption inequalities.

Trends in fiscal deficit and devolution of taxes to states

- **Fiscal Deficit:** The fiscal deficit had reduced from 5.4% of the GDP under the UPA-II government to 3.7% under the NDA-I, mainly due to expenditure compression.
    - However, in the NDA-II tenure (in 2019-20) the deflationary fiscal stance was reversed and the fiscal deficit peaked at 9.2% of the GDP in 2020-21 in the backdrop of the pandemic.

- The government has set up a plan of fiscal consolidation and aims to cut down the deficit below 4.5% by 2025-26.
- The fiscal deficit target for FY 2023-24 in the latest Budget is 5.9%.

- **Devolution of Taxes:** The States' share of taxes in the central divisible pool of taxes was raised from 2.8% of the GDP under the UPA-II to 3.7% of the GDP under the NDA-I because of the increased devolution formula recommended by the 14th Finance Commission.
    - However, the States' share in the central divisible pool of taxes under the NDA-II government has reduced to an annual average of 3.4% of the GDP.
    - The reduction is on account of the increasing incidence of cesses and surcharges imposed by the Union government. This has reduced the size of the divisible pool thereby reducing the tax revenues to the States.

Comparison with other G20 countries

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	General Government Expenditure (% of GDP)														
India	26.6	26.2	27.1	27.2	26.2	26.3	27.4	31.1	30.1	28.9	28.3	28.1	27.8	27.7	27.6
G-20 Emerging	30.4	30.6	31.8	32.1	31.7	31.9	32.5	34.8	32	32.6	31.9	32	31.8	31.8	31.7
	General Government Revenue (% of GDP)														
India	19.6	19.1	19.9	20.1	20	20	19.9	18.3	20.2	19	19.2	19.6	19.9	20.1	20.4
G-20 Emerging	28.6	28.2	27.5	27.5	27.7	27.8	27.3	25.4	26.4	25.3	25.6	25.6	25.7	25.7	25.8
	General Government Gross Debt (% of GDP)														
India	67.7	67.1	69	68.9	69.7	70.4	75.1	89.2	84.2	83.4	83.8	84.1	83.8	83.4	83
G-20 Emerging	38.5	40.9	44	48.8	51.4	53.1	55.9	66.4	67	69.4	74.2	78.2	81.6	84.5	86.8

Image Source: The Hindu

- The above table presents a comparison of the estimates and projections of India's public debt situation and fiscal balance with the average of other G-20 emerging economies.
- India's gross public debt peaked at 89% of the GDP in 2020 and has continued to decline.
    - However, the gross public debt of other G-20 emerging market economies has continued to increase and is expected to surpass India's gross public debt-to-GDP ratio by 2026.
- The analysis also reveals that despite India's revenue-to-GDP ratio being lower than that of other G-20 emerging economies, India's public debt-to-GDP ratio is expected to perform better than those countries' average and this is mainly because of a higher projected GDP growth of India.

***Nut graf**: Despite there being concerns regarding the trends in the welfare expenditure, gross tax revenues, devolution of taxes to states and the increase in the fiscal deficit of the country, the projected high GDP growth has ensured that the Indian economy would perform better than other G-20 emerging markets. However, if the projected GDP growth fails to materialise, the macroeconomic situation can become catastrophic.*

D. GS 4 Related

Nothing here for today!!!

E. Editorials

Category: INTERNATIONAL RELATIONS

1. Trade Integration Across Asia

Syllabus: Bilateral, Regional & Global Groupings & Agreements Involving India and/or Affecting India's Interests

Mains: Significance of Trade and Connectivity Across Asia

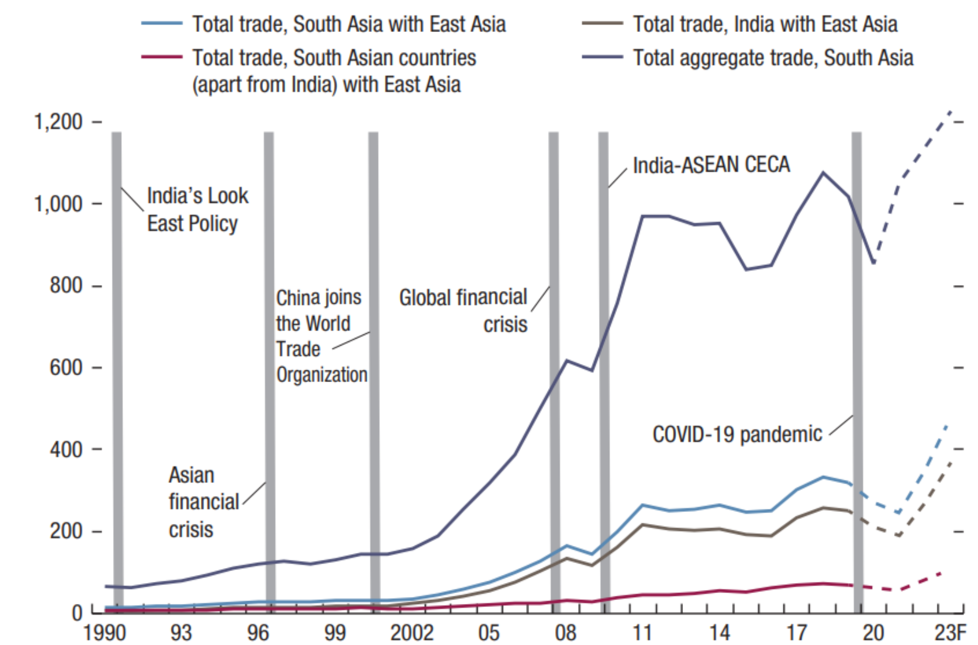
Context: IMF Forecast on global trade in 2023.

Resilient growth of South Asia:

- The International Monetary Fund (IMF) on January 31, 2023, warned that global trade would slow down from 5.4% in 2022 to 2.4% in 2023.
- This forecast is optimistic with various risks such as an escalating Russia-Ukraine war, a decoupling from global supply chains and tackling variants of the COVID-19 virus.
- A recently published paper in an IMF book, "South Asia's Path to Resilient Growth", argues that a strong base exists for South Asia trading more with dynamic East Asia.
- Since the 1990s, South Asia-East Asia trade has gathered pace, which is linked to India's trade re-aligning towards East Asia through its 'Look East' and 'Act East' policies, South Asia adopting reforms, and also China offshoring global supply chains to Asia.
- South Asia returned to the growth rates of the past two decades, achieved resilient and climate-friendly growth without a renewed buildup of macroeconomic vulnerabilities, and resumed the momentum of poverty reduction after the pandemic shock.
- Between 1990 and 2018, the overall merchandise trade between South Asia and East Asia increased by around 10% yearly, reaching $332 billion in 2018. This commerce is expected to increase to about $500 billion in the future.

Figure 10.1. Total Merchandise Trade between South Asia and East Asia, 1990–2023F

(US billion dollars)



Source: Author's calculations based on IMF (2021).

Note: The "F" indicates a forecast. The 2020 and 2021 forecasts for total trade were calculated using percentage change in trade during the periods of 2008–09 and 2009–10, respectively. ASEAN = Association of Southeast Asian Nations; CECA = Comprehensive Economic Cooperation Agreement.

Image Source: IMF

- As global trade is slowing, trading more within Asia makes economic sense. The political will to implement pro-trade policies can improve the lives of people within Asia.

Regional trade integration across Asia:

- A narrower geographical coverage between South Asia and Southeast Asia may be a building block for eventual trade integration across Asia.
- Regional trade integration across Asia can be encouraged by gradually reducing barriers to goods and services trade which were raised since the 2008 global financial crisis and never reversed.
- South Asia's trade opening should also be calibrated with tax reforms as trade taxes account for much of government revenue in some economies.
- To encourage trade benefits and reduce income inequality, it is also crucial to provide adjustment funding to losing industries so that production components may be redistributed and people can be retrained.
- Economies shall improve the performance of special economic zones (SEZs) by ensuring macroeconomic and political stability, adopting good practice regulatory policies towards

investors, providing reliable electricity and 5G broadband cellular technology, and also upgrading worker skills.
    - South Asia has over 600 SEZs in operation, in Kochi (India), Gwadar (Pakistan), Mirsarai (Bangladesh) and Hambantota (Sri Lanka).
- Countries shall pursue comprehensive FTAs that eventually lead to the Regional Comprehensive Economic Partnership (RCEP) to provide for regional rules-based trade to insure against rising protectionism.

Relevance of FTAs:

- Historically, South Asia is described as having one of the lowest levels of trade integration in the world and the South Asian Free Trade Area (SAFTA) is believed to have had little success in facilitating intraregional trade.
- Pursuing comprehensive FTAs eventually leading to RCEP can provide a framework of regional rules-based trade to help insure against rising protectionist tendencies.
- India can still prepare for future RCEP membership by undertaking structural reforms to boost business competitiveness in supply chains and foster greater regulatory coherence with East Asia.
    - The rest of South Asia may be encouraged to join RCEP if India does so due to fear of being left out and facing the negative impacts of trade diversion.
- Stronger economic links and support for the interests of smaller members can be facilitated by a renewed Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).
    - Reinventing BIMSTEC requires better resourcing of its Secretariat, concluding the long-running BIMSTEC FTA, building trade capacity in smaller economies, and introducing dialogue partner status to encourage open regionalism in Asia.
    - To mitigate a backlash against regionalisation, the larger economies should facilitate gains from trade to the smaller and poorer South Asian economies.

Nut Graf: *Regional trade in Asia is recovering after the COVID-19 pandemic and has opened opportunities for South Asia to participate in global value chains and services trade. Therefore, South Asian economies shall have a relook at regional trade across Asia. As South Asia's largest economy, India's G-20 presidency can be a good platform to initiate these changes.*

Category: SCIENCE AND TECHNOLOGY

1. Budget Allocation for Science

Syllabus: Indigenization of Technology & Developing New Technology

Mains: India's budget policy on Science and Technology

Context: The Ministry of Science & Technology has received an increased allocation in the Union Budget 2023-24.

Key Details:

- The Ministry of Science & Technology has been granted an allocation of ₹16,361.42 crores which marks a nominal increase of 15% from the previous budget estimate.
- Out of this, the Department of Science and Technology (DST) has received ₹7,931.05 crores (32.1% increase compared to the previous year).
  - It was ₹2,683.86 crore for the Department of Biotechnology, or DBT (a nominal hike of 3.9%), and ₹5,746.51 crore (1.9%) for the Department of Scientific and Industrial Research (DSIR).
- However, between 2021-22 and 2022-23, the Ministry has seen a 3.9% decrease.
- The Ministry of Science & Technology was crucial during the COVID-19 pandemic, especially in supporting research and innovation on vaccines, medical devices, and drugs.
- Most of the DST's increase comes from a ₹2,000 crore allocation to the National Research Foundation (NRF).
  - The government announced NRF in 2021 with an outlay of ₹50,000 crore over five years to "strengthen the governance structure of the research-related institutions and to improve linkages between R&D, academia, and industry".
- The Biotechnology Industry Research Assistance Council (BIRAC) under the DBT, an implementing body under the government's 'Mission COVID Suraksha' in 2020 to develop COVID-19 vaccines and augment vaccine manufacturing, has received a 40% cut.
- The Ministry of Earth Sciences has received ₹3,319.88 crore, a hike of 25.11%. While high, this is relatively lower than the previous hike of 40%.
  - The Deep Ocean mission, which includes among other components developing a deep-submersible vehicle, has substantially higher hikes than in previous years.

Analysis of budget allocation:

- Allocation of ₹16,361.42 crore for the Union Ministry of Science and Technology makes up only 0.36 per cent of the overall Union Budget 2023-24.
  - The allocation is very less in comparison with South Korea's 4.8 percent of GDP in science and technology, according to the World Bank. The United States and China spend 3.45 per cent and 2.4 per cent, respectively.
- India's gross expenditure on research and development (GERD), which includes State government and private-sector investments, has been steadily declining since 2009-2010, making higher public sector investment in R&D a longstanding demand of the national research community.

- The budget speech made several references to investing in dedicated centres for excellence in 'Artificial intelligence' research, initiatives to scale up the technology to produce laboratory-made diamonds and a centre for research in sickle cell anaemia.
    - To realise the vision of "Make A-I in India and Make A-I work for India", three centres of excellence for [Artificial Intelligence] will be set up in top educational institutions.
- However, none of the budgetary allocations suggests a significant scale-up of basic research.
    - The numbers mentioned in the Budget do not translate into meaningful results on the ground many times.
    - For example, DST has announced a new scheme called Women in Science and Engineering Post-doctoral fellowship which awards women researchers a fellowship of Rs 55,000 per month and a research grant of Rs 2 lakh annually to help close the gender gap in science.
    - Rs 2 lakh covers research expenses, contingency, travel and the like. But the grant is restrictive which demotivates individual women post-doctoral researchers, who are not employed but get research support from the government.
- A major challenge continues to be research scholars not getting promised funds on time and the wait for quality equipment required by researchers due to bureaucratic hurdles.
- The bulk of research continues to be funded by the government and the participation of the private sector has grown only incrementally.
- Therefore, the government must increase the size of the funding and also ease the procedures to make the most efficient use of it in the coming years.

Nut Graf: *The Ministry of Science & Technology has been allocated ₹16,361.42 crores in the 2023-24 Union Budget. Although it marks a nominal increase of 15% from the previous Budget estimate, it still makes up only 0.36 per cent of the Budget. Experts believe that the present allocation is not sufficient as it does not account for inflation or foster a research ecosystem.*

F. Prelims Facts

Nothing here for today!!!

G. Tidbits

1. Cut in MGNREGS outlay is not a concern: Somanathan

- The Union Finance Secretary has defended the reduction in the outlay for the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in the Budget 2023-24 by saying that the economy was in better shape and there has been an increase in the rural outlays under various other schemes which would create similar employment opportunities.

- In the Union Budget 2023-24 the MGNREGS was allocated **₹60,000 crores** which is said to be 18% lower than the current year's Budget Estimates and about 33% lower than the Revised Estimates of ₹89,000 crores.
- Defending the move by the government, the Union Finance Secretary has said that there has been a significant increase in the allocations to **PM Awas Yojana (Grameen)** and other initiatives such as Jal Jeevan Mission.
- The Finance Secretary further added that MGNREGS is a demand-driven scheme and the allocations to the scheme would be increased during the year if there exists a higher demand.
- Further, answering the questions on the reduction in the allocation for the PM Kisan scheme from ₹68,000 crores to ₹60,000 crores, the Finance Secretary said that the database of the scheme has been updated after a three-year gap and this found a few of the beneficiaries to be ineligible, people were availing benefits in two places, there were those who had migrated and those who were taxpayers but had not disclosed, which has reduced the number of eligible people by about 10% due to the database cleaning.

2. CITES database reveals red sanders smuggling

- According to a fact sheet prepared by TRAFFIC, the trade database of the **Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)** has recorded 28 incidents of red sanders confiscation and seizure while being exported from India.
  - CITES is an international agreement between countries that aims to ensure that the international trade in wild animals and plants does not threaten the survival of the species.
- The consignments of red sanders were exported to China (53.5%), Hong Kong (25.0%), Singapore (17.8%) and the US (3.5%) from 2016 to 2020.
- **Red Sanders *(Pterocarpus santalinus)*** which is also known as red sandalwood, is an endemic tree species with distribution restricted to the Eastern Ghats in India.
  - The tree which is found in the State of Andhra Pradesh is said to be one of the most exploited tree species in the country.
  - According to the foreign trade policy of India, the import of Red Sanders is prohibited, while export is restricted. However, the heartwood of the tree is in great demand both in domestic as well as international markets
  - Heartwood is used in the manufacturing of furniture and handicrafts, and red dye obtained from the wood is used as a colouring agent in textiles and medicines.
  - The tree species is listed under:
    - Wildlife Protection Act: **Schedule IV**
    - IUCN status: **Endangered**

3. No bar on contesting two seats in one poll

- The Supreme Court recently refused to discard a provision in the election law that permits candidates to contest polls from two constituencies simultaneously by saying that it is an issue concerning political democracy and it is for the Parliament to decide.
- **Section 33(7)** of the Representation of the People Act (RP Act) permits an individual to contest a general election or a group of by-elections or biennial elections from two constituencies.
- A petition was filed by an advocate which sought to declare Section 33(7) of the RP Act invalid as it violated the one person, one vote, one candidate, one constituency dictum of democracy.
- The government in the past has objected to the petition and had said that the one-candidate-one-constituency restriction would require a legislative amendment but the current restriction on two constituencies was reasonable enough, and there was no need for any amendments at present.

H. UPSC Prelims Practice Questions

Q1. Which of the following statements is/are correct? (Level – Moderate)

1. As per Section 33(7) of the Representation of People's Act (RPA), 1951, one candidate can contest from a maximum of two constituencies
2. Section 70 of RPA bars candidates from representing two constituencies in the Lok Sabha/state Assembly.
3. The Law Commission was not in favour of the Election Commission's recommendation to amend Section 33 (7).

Options:

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: A

Explanation:

- **Statement 1 is correct,** Section 33(7) of the Representation of the People Act (RP Act) permits an individual to contest a general election or a group of by-elections or biennial elections from two constituencies.

- **Statement 2 is correct,** Section 70 of RPA bars candidates from representing two constituencies in the Lok Sabha/State Assembly.
- **Statement 3 is not correct,** The Law Commission had **recommended an amendment** of section 33(7) of the RPA to permit candidates to contest from only one constituency.

Q2. With respect to Narcotic Drugs and Psychotropic Substances Act, 1985, which of the following statements is/are correct? (Level – Moderate)

1. The Act extends to the whole of India and it applies also to all Indian citizens outside India
2. Central Bureau of Investigation (CBI) helps in the implementation of counter measures against illicit traffic under the various international conventions.

Options:

A. 1 only
B. 2 only
C. Both
D. None

Answer: A

Explanation:

- **Statement 1 is correct,** The Act extends to the whole of India and it applies also to all citizens of India outside India and to all persons on ships and aircrafts registered in India.
- **Statement 2 is not correct,** The **Narcotics Control Bureau (NCB)** was constituted in 1986 under the provisions of the NDPS Act.
    - The NCB is a nodal agency that is responsible for coordination with various ministries, other offices & State/Central enforcement agencies with regard to drug law enforcement and also in respect of matters relating to drug abuse.
    - The NCB also helps in the implementation of the obligation in respect of counter measures against illicit traffic under the various international conventions.

Q3. Consider the following statements: (Level – Difficult)

1. Red Sanders is a flora-species that is endemic to a distinct tract of forests in Eastern Ghats region of Andhra Pradesh
2. It is listed as ‘endangered’ in the International Union for Conservation of Nature (IUCN) Red List.
3. Under the foreign trade policy of India, the import of Red Sanders is prohibited, while export is restricted.

4. It is Listed under Schedule VI of The Wildlife Protection Act

Which of the statements given above is/are correct?

A. 1, 2 and 3 only
B. 2, 3 and 4 only
C. 1, 3 and 4 only
D. 1, 2, 3 and 4

Answer: A

Explanation:

- **Statement 1 is correct, Red Sanders (Pterocarpus santalinus)** which is also known as red sandalwood, is an endemic tree species with distribution restricted to the Eastern Ghats in India.
    - The tree largely found in the State of Andhra Pradesh is said to be one of most exploited tree species in the country.
- **Statement 2 is correct,** The species is listed as "Endangered" in the International Union for Conservation of Nature (IUCN) Red List
- **Statement 3 is correct,** Under the foreign trade policy of India, the import of Red Sanders is prohibited, while export is restricted.
- **Statement 4 is not correct,** The species is listed under **Schedule IV** of The Wildlife Protection Act.

Q4. With respect to Enhanced Defense Cooperation Agreement, which of the following statements is/are correct? (Level – Easy)

1. It is an agreement between the United States and South Korea
2. The agreement commits the two countries to provide mutual aid if either faces external armed attack and allows the United States to station military forces in South Korea

Options:

A. 1 only
B. 2 only
C. Both
D. None

Answer: D

Explanation:

* **Statement 1 is not correct,** The Enhanced Defense Cooperation Agreement (EDCA) is an agreement between the **United States and the Philippines.**
* **Statement 2 is not correct,** The EDCA supports combined training, exercises, and interoperability between the forces of the United States and the Philippines.
  * Further, EDCA will allow more rapid support for humanitarian and climate-related disasters in the **Philippines**, and respond to other shared challenges.

Q5. Which one of the following cities does not have the same clock time as that of the other three cities at any given instant? (Level – Difficult) PYQ (2007)

A. London (UK)
B. Lisbon (Portugal)
C. Accra (Ghana)
D. Addis Ababa (Ethiopia)

Answer: D

Explanation:

* London, Lisbon and Accra cities are situated approximately on the same longitude **away from Addis Ababa** showing the same clock time.

I. UPSC Mains Practice Questions

1. Discuss the impact of a reduced budget allocation towards the Mahatma Gandhi National Rural Employment Guarantee Programme in 2023-24. (250 words; 15 marks) (GS-2; Social Justice)
2. Improved trade within South Asia may hold the key for India's economic resurgence. Do you agree? Critically analyze. (250 words; 15 marks) (GS-3; Economics)