Gist of EPW January Week 3, 2023

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. Foreign Universities in India

Introduction

- The government has released the draft regulatory framework for entry and operations of foreign higher educational institutions (FHEIs) in India.
- The University Grants Commission (Setting up and Operation of Campuses of Foreign Higher Educational Institutions in India) Regulations, 2023, gives freedom to foreign universities to operate in the country. They are allowed to run undergraduate, postgraduate, doctoral, and post-doctoral courses and award certificates, diplomas, and degrees in all disciplines.
- In order to ensure quality education, entry is restricted to Universities that are in the top 500 global rankings or institutions of repute.

Details

- The terms and conditions prescribed for the entry of foreign university in India is:
    - The quality of education should be the same as the country of origin.
    - There should be equal treatment of certificates and degrees in the corresponding qualification from the campus in the country of origin, and accreditation of a recognized body.

- The FHEI will be provided with the autonomy to decide eligibility criteria, number of seats, fee structure, etc.
- Similarly, autonomy is provided in recruiting teachers either from India or abroad. However, their qualification should be on par with those at the campus in the country of origin.
- Open and distance learning and online classes are not allowed.

Need for Foreign Educational Institutions

- One of the major causes for the internationalization of higher education is the expectation that entry of foreign universities will improve the quality of education in Indian Universities on par with global standards.
- The COVID-19 pandemic and Russia's invasion of Ukraine forced millions of students to return back to India. This highlighted the severe shortage and desperate need for larger higher education facilities in the country.
- Despite an increase in the last decade, the enrolment rate in higher education is still short.
- According to a survey, the population in the age group of 25-34 years shows a huge difference in the educational attainments in higher or tertiary education in India and other developed countries. For instance,
    - the share of people in South Korea in the age bracket of 25-34 with tertiary education is 69%.
    - It is 66% in Canada, 65% in Japan, 57% in the United Kingdom (UK), 54% in Australia, 50% in France, and 46% in Germany.
    - However, in India, it stands at just 21%.
- To become a knowledge economy in the world, India needs to double or treble its enrolment ratio and catch up with the advanced economies.
- The restricted growth of higher education in India has also prevented it from gaining a significant global share. For example, the number of foreign students in the higher education institutes of India is only 49000, whereas it is 69000 in Saudi Arabia, 112000 in South Korea, around 116000 in Argentina, approximately 125000 in the Netherlands, 185000 in Turkey, 223000 in Japan, 225000 in China, 551000 in the UK, and 957000 in the United States (US).
- India is the largest exporter or source of foreign students with more than a million students enrolled in foreign universities.
- There is a change in trend as a large number of undergraduate students are migrating abroad. It should be noted that earlier only postgraduate or doctoral students went abroad.
- The large-scale migration of Indian students negatively impacts available human resources in the country. It not only takes away the best talent of the nation but also drains the financial wealth.

- It should be noted that foreign education is affordable only to the most affluent section of society.
- Furthermore, the unlimited outflow of India's limited skilled human resources can be detrimental to human capital and the economy as a whole.

Associated concerns with the entry of Foreign Institutes

- It is argued that the opening of foreign universities may not deliver the desired outcomes as it will be difficult to transplant the entire ecosystem needed for their effective functioning.
- It is also said that foreign universities would exclusively cater to the more affluent sections of society and discriminate against the economically and socially underprivileged classes.

Conclusion

Though foreign universities have their own share of pros and cons, it is advised that India should give priority to its higher education sector and double or treble its capacity and improve the quality of education to become a knowledge hub.

2. National Logistics Policy

Context: The government has recently unveiled the National Logistics Policy in order to make India an attractive destination for investment.

What is meant by logistics?

- Logistics is the mechanism of coordinating and moving resources, people, materials, inventory, and equipment from one location to storage at the desired destination.
- In other words, logistics is the management of supply and transportation to deliver the goods on time
- **India's logistics cost is estimated to be around 14 percent of GDP, which is almost double what the costs are in developed countries.**
- High logistical cost reduces the competitiveness of Indian products and increases the price of Indian goods and services.

Need for a logistics policy:

- India is aspiring to become a global leader in the manufacturing sector. For this to happen, the logistics cost must be less at par with international standards.
- Logistics broadly **includes facilities crucial to trade, transport services for the movement of goods, storage facilities that are particularly essential for trade in**

perishable goods such as food items, fruits, and vegetables, and smooth functioning of government services.

- It also plays an important role in attracting investment in the country and encouraging startups to look to this area for business activities.
- Sustainable logistics cost also plays an important role in ensuring equitable development of every region.

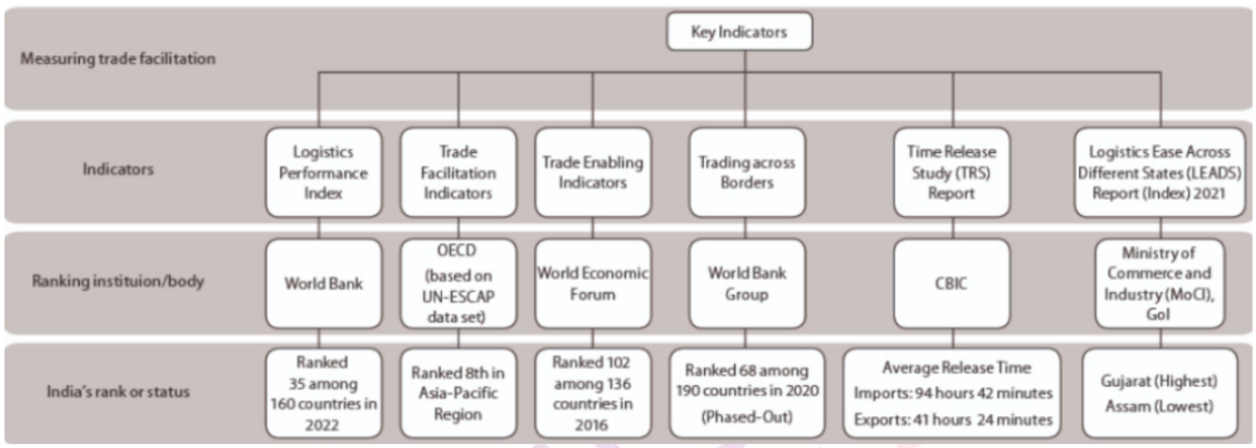


Image source: EPW

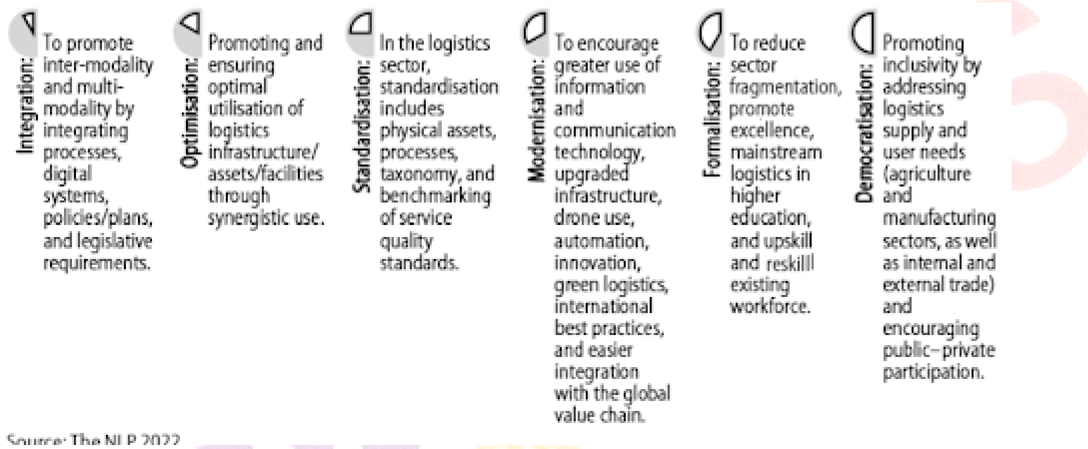
National Logistics Policy:

The new logistics policy has four features:

- **Integration of Digital System (IDS):** Under the IDS, 30 different systems of seven departments would be integrated including data from the road transport, railways, customs, aviation and commerce departments.
- **Unified Logistics Interface Platform (ULIP):** Unified Logistics Interface Platform or ULIP will "bring all the digital services related to the transportation sector into a single portal."
- **Ease of Logistics (ELOG):** New digital platform Ease of Logistics Services (E-Logs) has been started for industry associations to resolve issues by reaching out to the government.
- **System Improvement Group (SIG).**
- The new scheme to facilitate a modal shift in logistics —
    - From the current over-dependence on roads, over 60% share currently as against 25% globally
    - To railways (30% currently, around 60% globally)
    - To waterways that currently have only a 5% share in the modal mix

- The new policy aims at reducing India's logistics cost to be comparable to global benchmarks by **2030 and aims to be among the top 25 countries by 2030 in the Logistics Performance Index (LPI).**
- The policy also aims to equip people who are intending to explore employment opportunities in logistics with skills. Moreover, it aims to equip the existing human power with the best logistics management practices to enhance efficiency and effectiveness in logistics operations.

Objectives of the National Logistics Policy



Source: EPW

Recent steps taken to improve logistics cost:

- **Pradhan Mantri Gati Shakti National Master Plan** for multimodal connectivity. The Gati–Shakti Government-to-Government (G2G) portal is an ambitious project aimed at faster bureaucratic clearances, decision-making and addressing the red tape and (mis)governance issues.
- **Sagarmala for shipping**
- **UDAN** for aviation, **Bharatmala** for roads
- Dedicated Freight Corridor for railway
- Multi-Modal Logistics Parks for warehousing, inventory control, order processing

Shortcomings of the new policy:

- All the stakeholders in the Indian trade supply chain are not included in the proposed ULIP.
- The database of the RBI and the export data processing and monitoring system (EDPMS) and the import data processing and monitoring system (IDPMS) are not integrated into the proposed ULIP.

- The NLP 2022 focuses on the creation of logistical assets, that is, roads, ports, terminals, warehouses, and logistics parks but is missing logistics services, which are crucial for the effective utilisation of even the existing available capacity.

3. Widening Current Account Deficit

Introduction:

- According to India Ratings and Research (Fitch Rating Services), during the first quarter of the current fiscal year 2022–23, India's Current Account Deficit widened to a nine-year high of 3.4% of gross domestic product (GDP).
- CAD comprises the trade account (imports and exports of merchandise goods), services account (imports and exports of services), and net income from abroad (such as remittances).
- Out of these three components, the trade account is the largest.
- As per the latest data, the surplus in the services account and net income from abroad are smaller in comparison to the deficit in the trade account.
    - The trade deficit for the first quarter of the current fiscal year (April–July 2022) is $96.5 billion.
    - The trade surplus on account of services during the same period is $35.8 billion (RBI 2022).
        - Services trade refers to exports and imports on account of travel, transportation, insurance, and miscellaneous services, such as software, business, financial, and communication services.
    - During 2020 and 2021, India received $83.15 billion and $87 billion, respectively, as remittances from abroad.

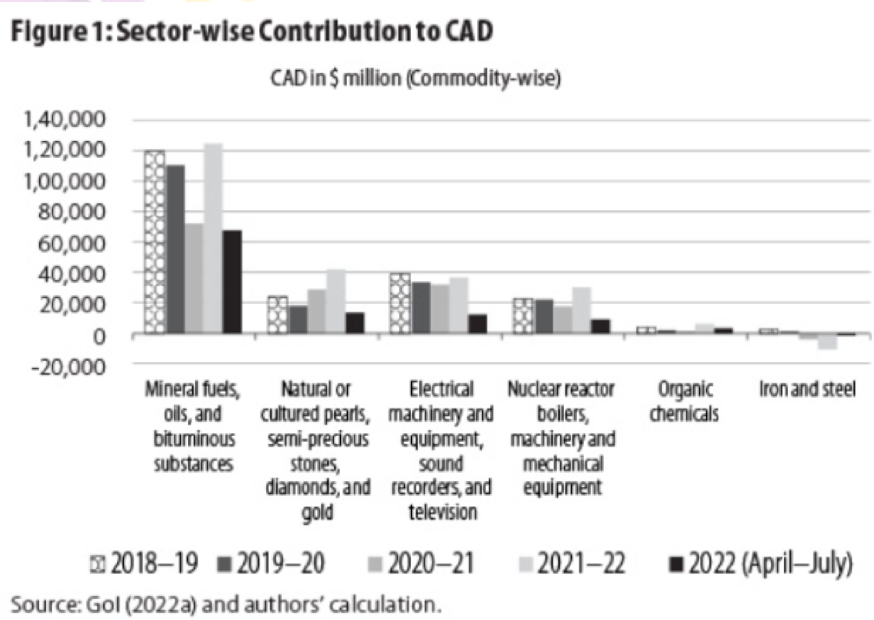


Image Source: EPW

Intra-industry Trade and CAD:

- India began its reform of the external sector in July 1991 by devaluing its currency by almost 19% followed by an explicit dual exchange rate regime in March 1992, where exporters received the free market rate.
- The exchange rate was unified in March 1993 left to be determined by market forces. Peak tariffs came down from the high of 150% to 10% during early 2000.
- The newly ushered globalisation led to an increase in trade, most of which took the form of intra-industry trade.
- India's entry into several regional trading agreements (RTAs), trade facilitation measures such as harmonisation of "rules of origin," and participation in the global value chain network also complemented the growth of intra-industry trade.
- Intra-industry trade leads to a higher trade deficit because of higher absorption in the domestic economy.
- Among the top six items that India trades in, there is a deficit for most of the items.
    - The exception is iron and steel recording both trade deficits and surpluses over the last five years.
- Since 2004–05, India never had a current account surplus. India had current account surpluses for three consecutive years: 2001–02, 2002–03, and 2003–04.
- Prior to 2000, India had a current account surplus in only two years: 1972–73 and 1976–77.
- Current account surpluses during the early part of the 2000s prompted India to join several RTAs. However, this step has backfired as India's trade deficit has widened from $40.5 billion in 2005 to $155.6 billion in 2019.
    - The trade deficit as a percentage of GDP increased from 3.7% in 2005 to 5.7% in 2019.
- To prevent a further rise in the trade deficit, India pulled out of several RTAs and raised simple average tariff rates from 8.9% in 2010 to 16.3% in 2020. However, the trade deficit continued to widen.
- During the first seven months of 2022, the trade deficit due to the imports of mineral fuels, oils, and bituminous substances, which forms the largest component of India's imports, has outweighed the proceedings from total services exports.
    - This is mainly due to a rise in the price of crude oil in the international market and a stronger US dollar.
    - Additionally, the value of the Indian rupee depreciated by more than 7%, breaching a historic low of 80 rupees to a dollar on 19 July 2022.
- Imports of pearls, diamonds, and semi-precious stones suffered because of the Russia–Ukraine war which resulted in increased CAD.
    - Due to a shortage in supply from Russia, India had to import similar items from high-cost supplying countries in Africa and the United Arab Emirates.

- Import of organic chemicals also contributed to widening the trade deficit.
    - During the pandemic, India was heavily dependent on raw materials or active pharmaceutical ingredients (APIs) used for manufacturing medicines, from China.
    - The percentage share of APIs from China increased from 1% in 1991 to 70% in 2019.
    - Organic chemicals also find usage in the making of personal protective equipment kits and other dyes used during the pandemic.

Possible Reasons for a Widening CAD:

- The absorption approach to CAD states that a country will be able to reduce its trade deficit if its production of output increases more than what it consumes or absorbs in the domestic economy.
- Another reason for an increment in CAD could be that the country is exporting low-technology-intensive goods while importing high-technology-intensive goods.
- There are two ways to capture a country's export competitiveness.
    - First is through price competitiveness, which means for similar technology-intensive items, a lower price in the international market will fetch more demand.
    - Second is that a more technology-intensive product will have more demand. Therefore, a country can be export-competitive due to a cost or productivity advantage.
- India is not price-competitive in the world market. The average annual three years data between 2019 and 2021 suggests that China, Thailand, South Korea, and Russia are more competitive in selling products than India.
- A lower price competitiveness may affect some of India's price-sensitive exports.
- Another reason for an increase in trade deficit has to do with the low-technology-intensive nature of exports.

Policies to Reduce CAD:

- Controlling CAD is important as it has significant implications for growth, due to its close relationship with national investment and saving.
- To control CAD, it is essential to control fiscal deficit and inflation rates.
    - The fiscal deficit in 2022–23 is estimated at 6.4% of GDP.
- CAD may also affect exchange rates with an implication on foreign exchange reserves, as may happen when the RBI intervenes in the foreign exchange market to prevent the rupee's value from falling.
- A way to control the widening CAD is through increasing exports, in particular, merchandise exports.
    - A targeted reduction in imports (category-wise) may help.

Fiscal policy measures:

- To reduce the dependence on foreign imports and increase export competitiveness, the Union government launched programmes such as the National Manufacturing Policy in 2011, Make in India (2014) and the Atmanirbhar Bharat Abhiyan (2020).
- Additionally, several policy instruments were introduced, such as the Focus Market Scheme (FMS) and production-linked incentives (PLI).
  - Under FMS, the government is providing incentives for exports that can be used later to settle against future import duties on raw materials to be used for exports.
- To lower trade and logistics costs, in the Union Budget 2022–23, the union government has offered a 50-year interest-free loan of Rs 1 lakh crore to various state governments in India to enable them to spend on capital investments, especially in infrastructure.
  - Such allocation of funds is expected to provide impetus to the Gati Shakti project, a master plan to improve multimodal connectivity in India.
- Policymakers are also trying a few other micro measures to reduce the widening CAD. For instance, India continues to buy cheap oil from Russia.
  - Between April and May 2022, India imported $3.2 billion worth of crude oil from Russia, compared to zero imports during April and May 2021 at $16 less than the average price of $110 per barrel.
  - The share of Russian mineral fuel imports in India's trade basket went up from 1% in February 2022 to 18% by June 2022.
- India banned the export of 100% broken rice in September 2022. Broken rice can be used for producing ethanol, an alternative source of fuel.
- To reduce gold imports, India increased customs tariffs on gold imports from 7.5% to 12.5% in July 2022.

Monetary policy measures:

- A depreciating currency increases import costs and widens CAD. A way to control a fall in the value of the rupee is to control domestic inflation.
- Following the definition of a real exchange rate, a higher domestic inflation rate will lead to the depreciation of the national currency.
- RBI is following the policy of quantitative tightening to control inflation.
- In 2022, the RBI increased the repo rate four times. The repo rate increased from 4.4% in May 2022 to 5.9% in September 2022.
- The RBI also intervened aggressively in the foreign exchange market, buying dollars, to prevent a further fall in the value of the rupee.
- In addition to raising the repo rate further, the RBI also took various steps to get foreign currency reserves.
  - For example, the RBI temporarily permitted commercial banks to open foreign currency non-resident (FCNR) accounts (held in foreign currency) and

non-resident external (NRE) deposits from Indians residing outside India without any cap on the interest rate.

- The RBI also opened a special dollar window for the oil marketing companies, so that these companies can buy dollars in exchange for rupees for a fixed period directly from the RBI rather than buying dollars from the foreign exchange market.
  - This will not increase demand for the dollar in the foreign exchange market preventing the value of the rupee from falling further.

Conclusion: The data show the bulk of the reason for a widening trade deficit originates from India's dependency on energy and fossil fuel imports. The ongoing Russia-Ukraine war has led to an increase in the price of crude oil, with a negative fallout on the trade balance and a falling value of the rupee. To reduce CAD, there is a need to improve the productivity of India's exports. At a multilateral level, there is a need for negotiations to include extra-trade issues such as giving market access to the services trade in which India has a comparative advantage.

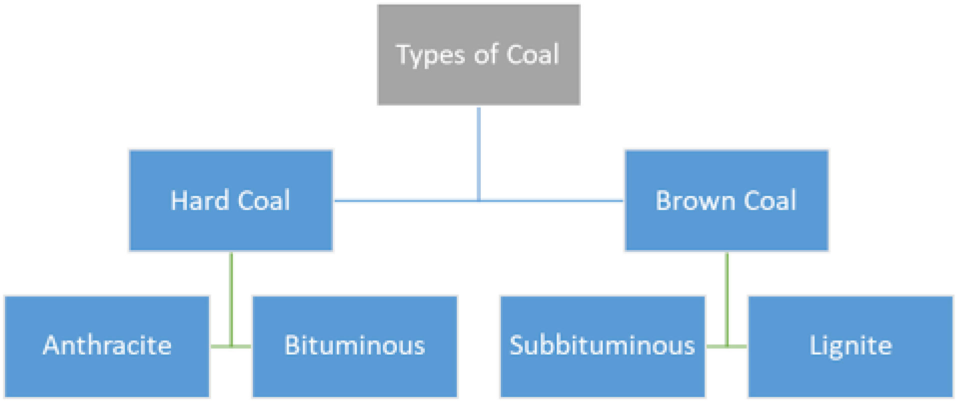
4. Coal for Electricity Generation in India

Introduction

- Despite the emission of Greenhouse Gases (GHGs) contributing to global warming, Coal-based electricity generation is crucial for India's development atleast for two more decades.
- Coal in India is majorly used for producing electricity, steel, cement, iron, and fertilizers. About 80%–85% is used at thermal power plants.
- Moreover, coal in India is mostly extracted from open-cast mines and has a gross calorific value (GCV) of approximately 3,500 kcal with high ash content of 40%–50%. However, Indian coal has a low sulfur content, which is a positive point.

Types of Coal

- Coal can be categorized as:



- Coal can also be categorized as ***sedimentary*** and ***metamorphic***. The majority of the Indian coal reserves are of sedimentary origin, whereas the coal from Australia and Indonesia is metamorphic.
- As the washing of coal requires density separation, the quality of metamorphic coal improves when it is washed. On the other hand, the quality of sedimentary coal improves marginally on washing.
- On the basis of usage, coal is classified as:
  - ***Non-coking coal*** is utilized for electricity production apart from fulfilling the heat requirements in the manufacturing of cement and fertilizers. Non-coking coal is classified into 17 grades (G1 is the highest grade of coal with GCV exceeding 7,000 kcal/kg).
  - ***Metallurgical-grade coking coal*** is used in steel and iron manufacturing.

Sources of Electricity generation in India

- Electricity in India is generated through:
  - Fossil fuel-based non-renewable sources like coal, gas, and diesel.
  - Non-fossil fuel-based renewable sources like biomass, bagasse, and waste to energy.
  - Renewable sources that do not require fuel such as solar, wind, and hydroelectric power plants.
- Coal has remained the main source of electricity generation and its share has always remained constant.
- Renewable sources were first introduced in India in 1994 and their share has increased manifold. For instance, from 2009-2010 to 2021-22,
  - The installed capacity of solar power increased from 2 MW to 53997 MW.
  - Similarly, wind power has risen from 9344 MW to 40358 MW
  - Thermal capacity was raised from 102454 MW to 236108 MW

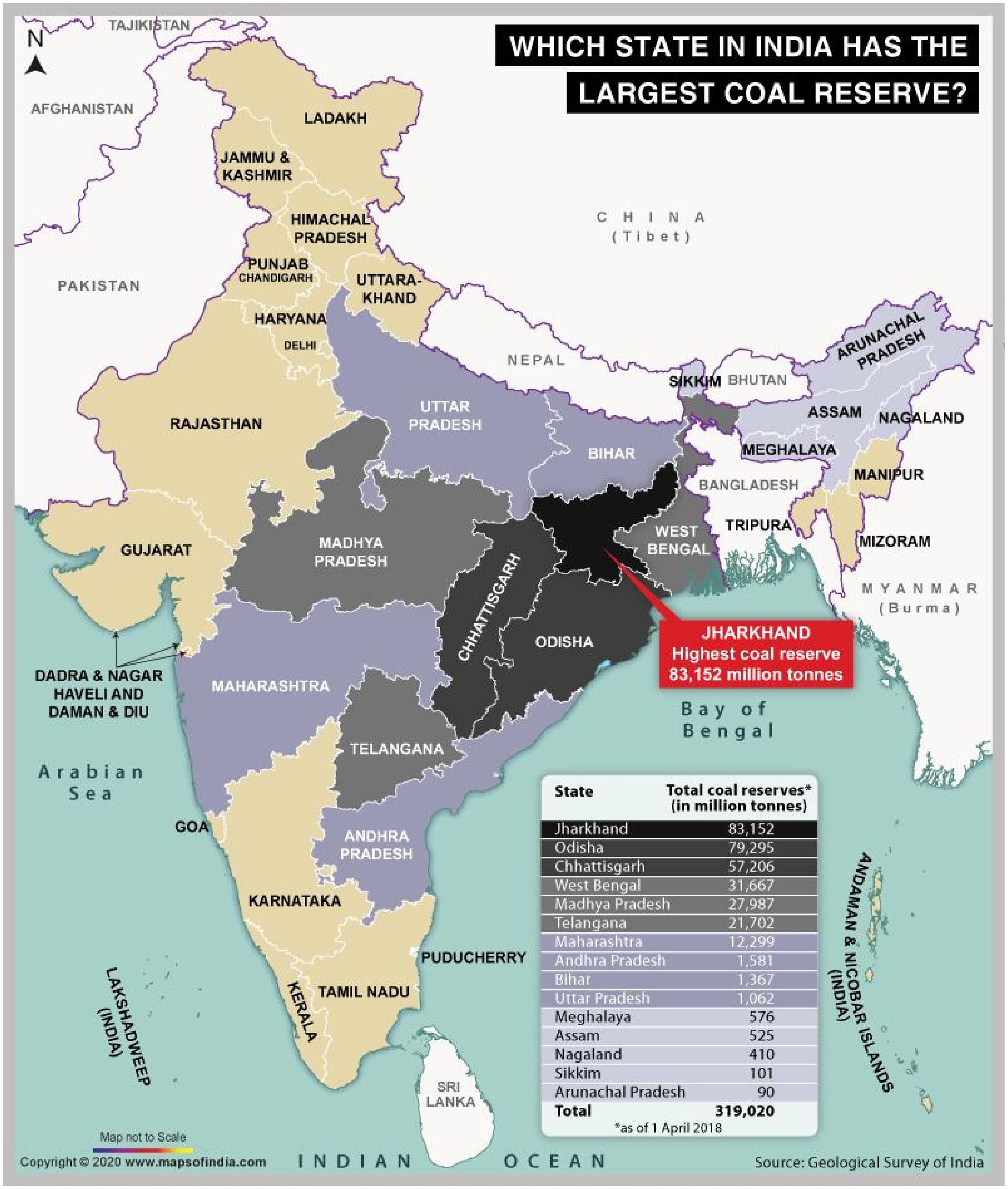
- The Indian government is promoting renewable sources to achieve the targets set under Intended nationally determined contributions and net-zero emissions by 2070.

Electricity Demand and Supply

- India is a power deficit country, as all the installed capacity is not available due to various reasons like:
    - Low fuel availability forces the plants to run on a low plant load factor
    - High fuel cost that increases the operating cost of the plants
    - Outage due to scheduled maintenance of power plants
    - Forced outage due to technical failures
    - Congestion of transmission corridor
- Apart from the above factors, 2021-22 recorded a good monsoon in Eastern India. As a result, most of the coal mines were waterlogged affecting the coal mining activities and reducing the supply of coal to power plants.
- However, learning lessons from 2021-22, necessary arrangements for uninterrupted coal supply to the power plants were made. For instance, 15.6% more coal was supplied by Coal India Limited (CIL) in April 2022.
- The early onset of summer and the Russia-Ukraine war that increased the prices of international coal worsened the situation.
- The price of electricity increased and the Central Electricity Regulatory Commission (CERC) had to intervene to cap the electricity prices.

Coal Reserves in India

- India has the fifth largest coal reserves in the world with a proven capacity of 184553 million tonnes (MT) of reserves.
- Most of the reserves are located in the eastern states of Jharkhand, Odisha, Chhattisgarh, and West Bengal.



Source: mapsofindia.com

- In India, nearly 60% of the coal is transported by rail.

Other Details

- The share of imported coal in the total receipts of coal to the power plants was 10% in 2018-19 and 11% in 2019–20.
- It is found that coal-based electricity generation is necessary to meet the growing power demand of India.
- The government of India has taken several steps to increase the production and supply of domestic coal. For instance,
    - The government auctioned 28 coal mines under its ambitious commercial auction scheme of coal on a revenue share mechanism.
    - The government has also allowed the states to use captive coal reserves up to 25%.
    - To address the logistic concerns, Indian railways has augmented its "own your wagon" scheme for electricity generation companies and mine owners.

Significance of coal

- Electricity is the prime mover of the economy and an uninterrupted supply of electricity is essential for various other sectors.
- There are limited natural gas reserves in India, which otherwise would have provided a low-carbon alternative to India's energy sector.
- India has good resource potential for coal.

Conclusion

- The government has announced the rapid expansion of renewable energy, but coal-based thermal power will continue to play a pivotal role in the coming decades.
- Climate change goals should be weaved with energy security.