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 Test No. /Name AIM ASSESSMENT TEST 15 Date
 TC 316

(Economy)

(For filling by Examiners only)

S.No.	Max. mark	Max. Obtained	S.No.	Max. mark	Max. Obtained
1.	10		11.	15	
2.	10		12.	15	
3.	10		13.	15	
4.	10		14.	15	
5.	10		15.	15	
6.	10		16.	15	
7.	10		17.	15	
8.	10		18.	15	
9.	10		19.	15	
10.	10		20.	15	

Total Marks Obtained:

Mentor's Comments:

- Note:
1. This booklet is to be used for attempting assessment tests and revision tests only.
 2. This page needs to be attached as first page of every uploaded test.

Q1.

What do you understand by windfall tax? Do you think windfall taxes can effectively redistribute wealth and promote greater socio. equality?

Windfall tax is the tax levied on specific industries in a sector which make unexpected, sudden gain on account of external factors eg - war. Recently, the government of India taxed diesel, ATF fuel and other exporters who profited immensely post Russia-Ukraine war.

WINDFALL TAX - REDISTRIBUTION OF WEALTH AND PROMOTING EQUALITY

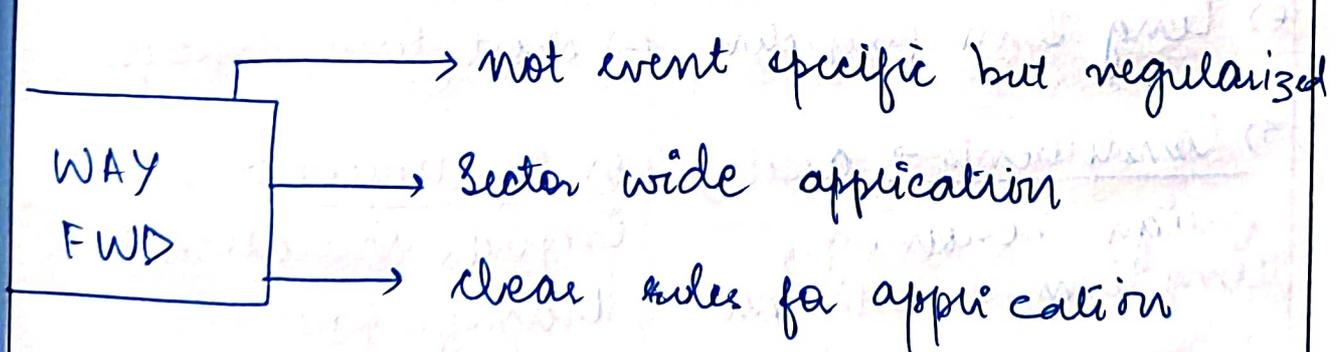
(A) Arguments in Favour

- (1) Achieves wealth distribution by taking away excessive profits from a few and distributing
- (2) Achieve social benefits by using money from tax for social schemes during crisis.
- (3) Inflation indexing - Private firms with excessive profits are not allowed to (a) destabilize economy with massive profits (b) tax used as a buffer to subsidise goods during war induced inflation.
- (4) Helps curb global uncertainty
 - due to tax, reduced reliance on FDI
 - can build strong foreign exchange portfolio.

(5) Can achieve social justice (Rawlsian theory of equitable distribution) and not allow a few firms to profit at expense of was/uncertainty.

(B) ARGUMENTS AGAINST

- ① Tax doesn't translate to social good immediately
- ② Not a sector wide tax and uncertainty as to application
- ③ Can create confusion, retroactive application
- ④ Deter foreign investment as taxing norms are not clear
- ⑤ Can lead to tax evasion, under-reporting of profits, misappropriating funds.



Thus, windfall tax, despite issues, is an equitable means of achieving goal of social justice prescribed in Constitution.

Q. Elaborate on difference b/w capital a/c and current A/c as components of BOP. Suggest a few measures to balance BOP deficit in India.

Capital account refers to those transactions which reflect changes in assets and liability holding of a company while current account refers to transactions dealing with day to day income, exports & imports within a year. These are essential components of BOP.

DIFFERENCE BETWEEN CAPITAL A/C AND CURRENT A/C

CAPITAL A/C	CURRENT A/C
1) Focuses on increase in overall assets and liability of a country with respect to foreign transaction.	1) Focus on net exports and trade balance.
2) Long Term perspective	2) short term perspective
3) <u>Constituents</u> → assets, foreign borrowings, long term investments	3) <u>Constituents</u> → exports, import, unilateral transfer payment.
4) Indicates a change in capital of the country	4) Doesn't indicate any change in capital but concerned with trade balances.

5) For investors - indicate long term borrowings, financial position of a country.

5) For investor - indicate Current A/c deficit, trade competitiveness.

Few measures to balance BOP deficit in India

- ① Reduced Imports - import substitution, focus on Renewable energy, sunrise sectors
- ② Increased exports - increase in overall production - make in India, production linked incentive, Export Subsidies.
- ③ Attract FDI in greenfield and Brownfield for reduced reliance on outside capital, technology transfer
- ④ Strict capital control - shouldn't allow any flight of capital eg during Fed tapering
- ⑤ Strict monetary policy - promote stable interest rates, shouldn't change whimsically.

Thus, to balance BOP deficit should holistically work with fiscal & monetary policies.

Q.3. Discuss the perceived successes and challenges of implementing inflation targetting w/ new Monetary Policy Committee regime. [10]

The Monetary Policy Committee was formed in 2016 on the recommendation of Ujit Patel Committee comprising of equal representation from govt and RBI, its role is crucial in maintaining inflation target of 4% in country.

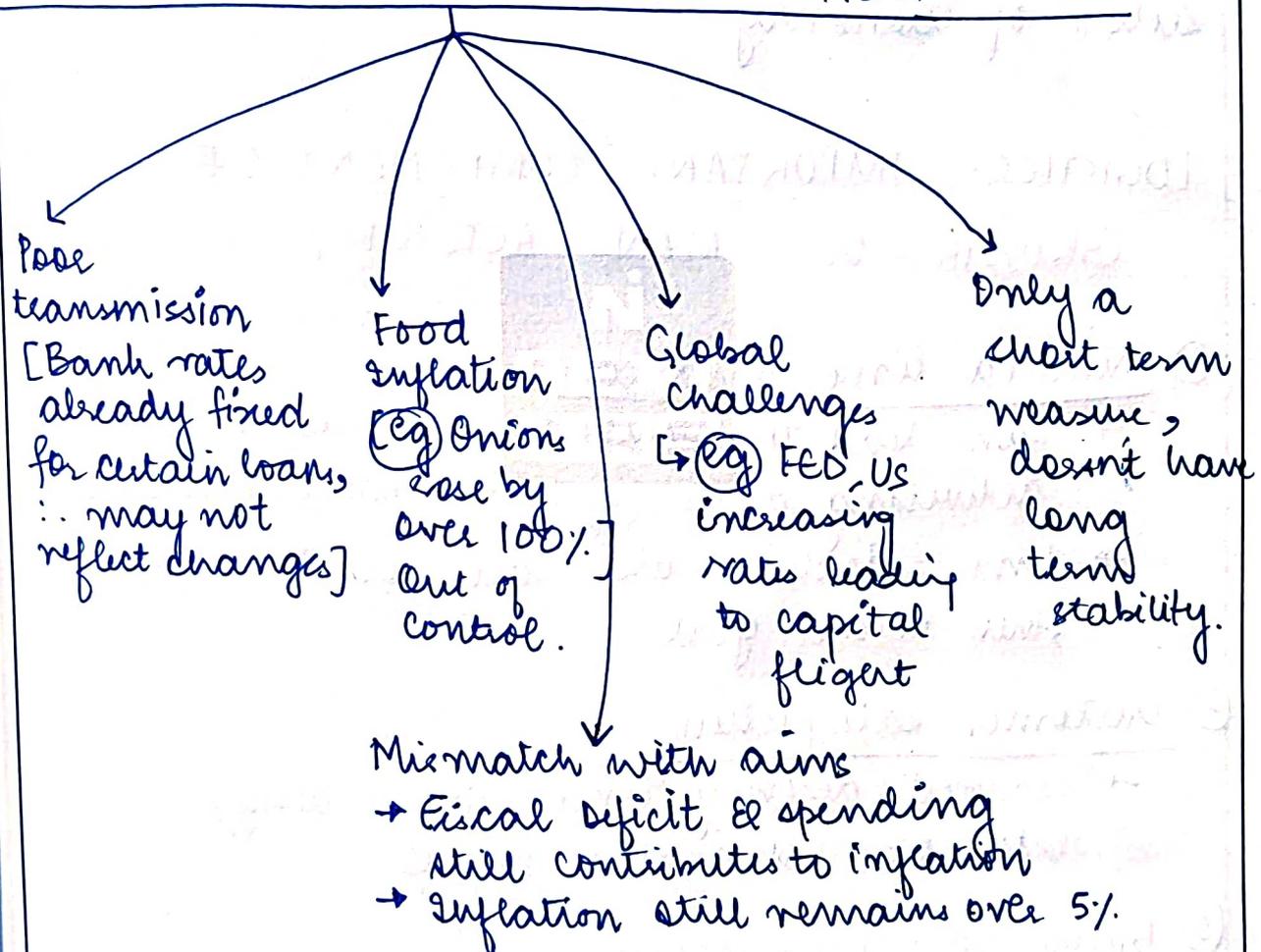
PERCEIVED SUCCESS IN IMPLEMENTATION

- ① Helped to maintain tighter control at times of inflation (eg) since May 2022 has increased repo rate because of looming inflation.
- ② Promote investment
 - certainty to investors as decision are not knee jerk unlike Fed in USA.
 - In times of recession, allow proper infusion of liquidity.
- ③ Resilience in uncertainty
 - is against recession in Europe, India's MPC ensured steady growth with fairly calculative policies (~7% in 2023)
- ④ Soak up excess liquidity and also prevent rupee depreciation

→ RBI undertakes LTRO and OMO to soak up excess foreign exchange from market to prevent rupee from falling (Dirty float)

⑤ Also uses other Qualitative tools like moral suasion, credit limits to check inflation.

CHALLENGES IN IMPLEMENTATION



Thus, MPC have been revolutionary in achieving aims of inflationary stability. It needs to work in tandem with govt to achieve desired results.

Q4.

Logistics sector is one of the imp. components of growth of manufacturing industry. Discuss. Also mention various components of recently announced NLP, 2022.

Logistics contribute to 14% of GDP and employs 22 million people. Its importance is immense

not just for itself but for synergy of all other sectors of economy.

LOGISTICS - IMPORTANT COMPONENT OF GROWTH OF MANUFACTURING

① Reduced time and cost

- can lead to reduction in overall time of delivering goods. (eg) Multi-modal connectivity
- Time reduction - also saves cost of transport, thus cheaper goods

② Customer satisfaction

- Reduced delivery time, easy returns, better communication models.

③ Building infrastructure

- contributes to growth of Tech parks, connecting corridors, (eg) Choa Sham Marg
- Building digital infra like fibre lines, wifi systems for interconnectivity.

④ Also Attract foreign investment

- ↳ ease of doing business because increased

last mile connectivity, infrastructure
 ↳ @ \$87 bn FDI received in India in 2022
 ↳ Improves global position.

⑤ Promote export growth

- Post and hinterland connectivity (PM yatir shakti & sagarmala scheme)
- improved quality of services.
- Better people-to-people connectivity, improves export of services.

COMPONENTS OF NATIONAL LOGISTICS POLICY, 2022

- (1) Integrated Logistics Performance Index - a database.
- (2) Standardisation of physical assets and benchmarking service quality standards.
- (3) Logistics Human Resource Development & Capacity Building.
- (4) state wise logistics - for making state & city wise plans
- (5) Export - Import (EXIM) Logistics
- (6) Sectoral Plan for logistical efficiency

The National Logistics Policy, 2022 will be a game changer in Amrit Kaal of Bharat and help achieve all pillars of progress.

Q5. Diff b/w CPI & WPI. Do you think CPI is a better measure of inflation compared to WPI? Substantiate.

Consumer Price Index (CPI) and Wholesale Price Index (WPI) are 2 measures used to check inflation in country. They operate in different domains and are key to policymaking.

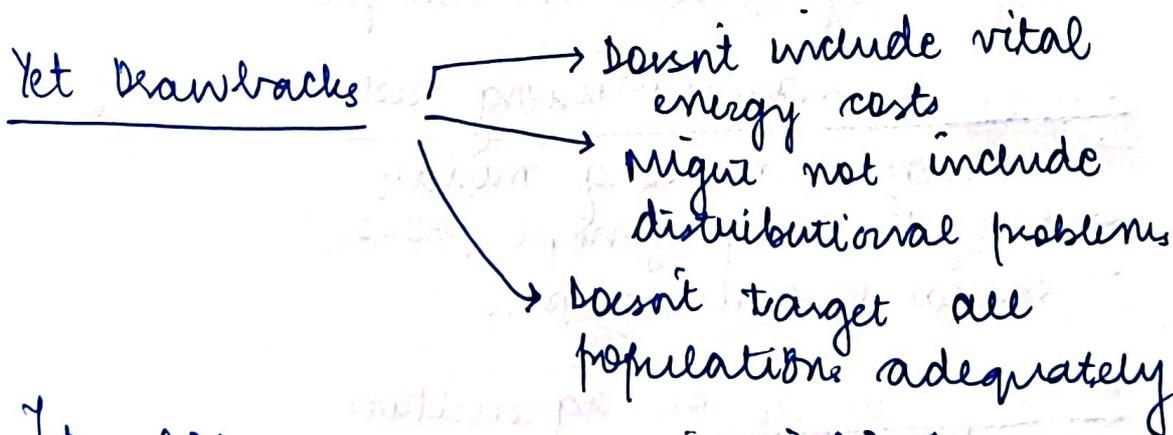
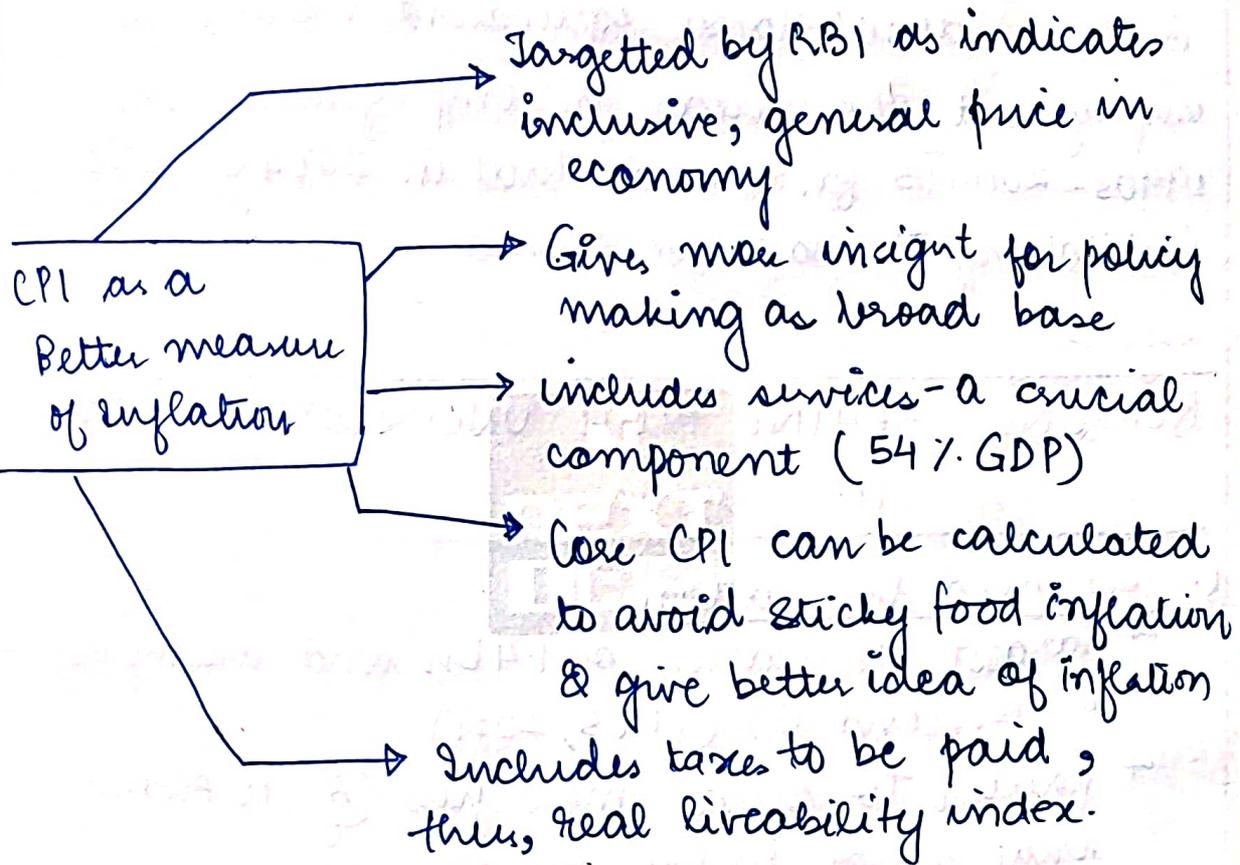
DIFFERENCE B/W CPI & WPI

CPI	WPI
① measures inflation in consumer goods & services	① measures inflation in wholesale goods.
② Includes both goods & services	② doesn't include services.
③ Includes 460 urban & 448 rural items	③ include ~680 items.
④ calculated by Central Statistical Office, MOSPI	④ calculated by Office of Economic Advisor, Min of Commerce
⑤ <u>Methodology</u> - Geometric mean for elementary items & Laspeyres index for others	⑤ <u>Methodology</u> - uses Weighted Arithmetic mean.
⑥ <u>Taxes</u> - include all indirect taxes	⑥ doesn't include any tax

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① Is a measure of inflation on hands of final consumer, general inflation level.
 ② More weight to food items

③ Indicates how costly goods are being produced
 ④ More weight to manufactured goods



Yet, CPI remains a solid indicator of inflation, giving insights of 'burdens of common person' & producing targetted policies.

Q6. Jobless growth is an inherent feature of India's growth trajectory. What are the main reasons behind high unemployment rate? Suggest remedial measures to improve overall employment growth rate in India.

Jobless growth is the phenomenon of increase in GDP without and equivalent increase in employment. The increase in employment from 1990s-2004-05 far exceeds that in 2004-05 to 2020-21, indicating the same in India.

REASONS BEHIND HIGH UNEMPLOYMENT RATE IN INDIA

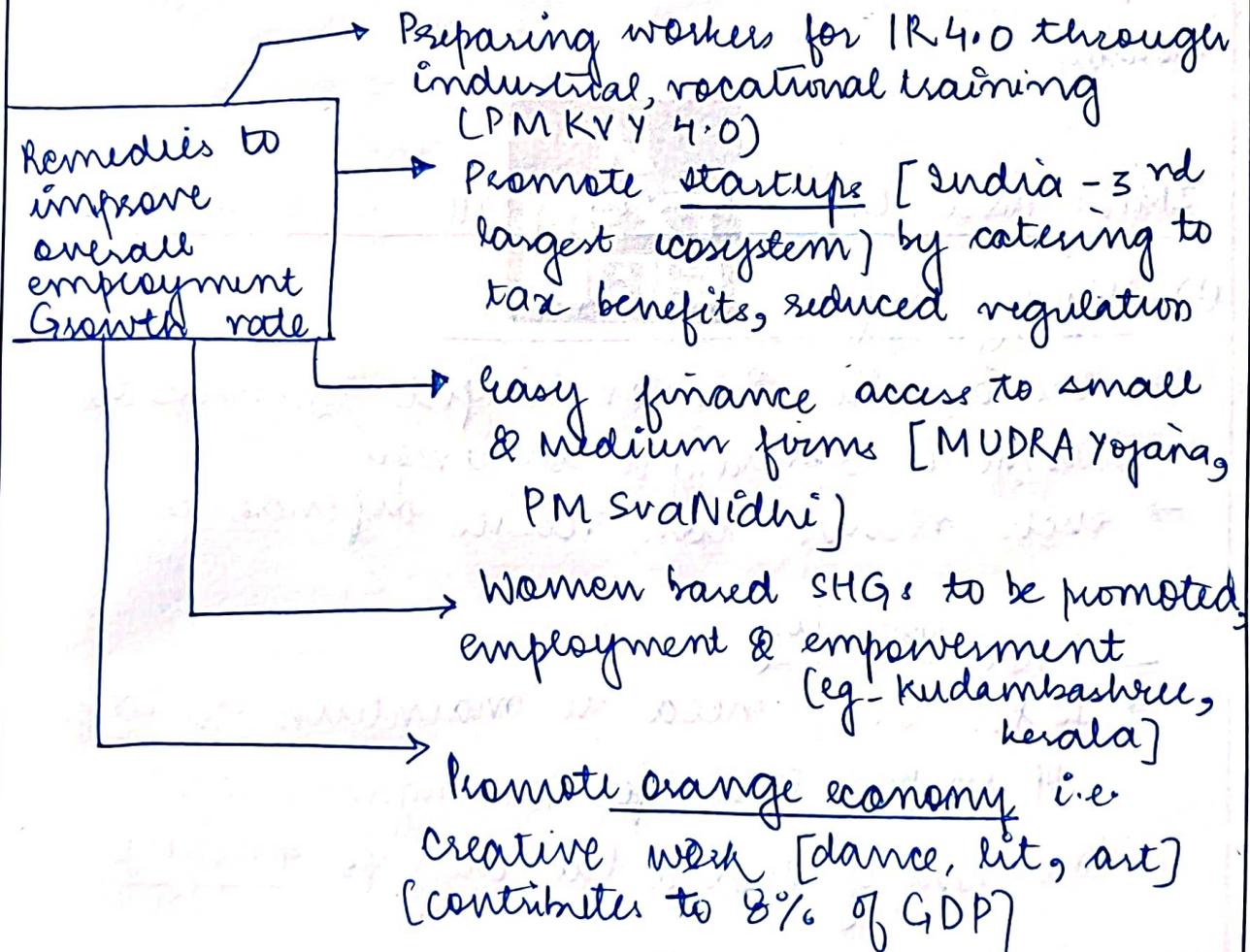
- (1) Increased population
 - largest population of 1.4 bn and unemployment of around 6%. (PFLS, 2021)
 - failure to create more jobs (eg PM promised creation of 10 lakh mn new jobs).
- (2) Failure of manufacturing sector to take off
 - problem of missing middle
 - only 12% employment (ES-23)
 - Threat of automation.
- (3) Overdependence on agriculture
 - Over 50% people relied (↑ in COVID-19)
 - Reduced agricultural productivity (GDP not more than 8% from this sector).

(4) Lack of skilled labour

→ As per India Skills Report, 2023 - less than 5% of labour is skilled and only half the graduates are employable.

(5) Gender gap

→ Over 58% post-graduate women unemployed
 → As per ILO, women earn 63% of men earn
 → women face burden of care work, patriarchy
 [spend 12.5bn hrs a year in unpaid care work = \$10 bn work]



Thus, growth without 'inclusion' is meaningless and need to incorporate everyone in Amrit Kalid Ka Bharat.

Q7. Recently, GOI evaluating prospect of ~~set~~ developing salt based cavern strategic oil reserves to increase India's strategic oil capacity. Critically analyse imp^o strategic oil reserve to strengthen India's energy security & capacity to mitigate supply disruptions in global market. (10)

GOI has recently decided to develop salt caverns in Rajasthan after having them in Vishakhapatnam, Paddur & Mangalore. These caverns help to store crude oil essential for energy security.

IMPORTANCE OF STRATEGIC OIL RESERVES

(1) Highly import dependant

- India relies 83% on import of crude oil and is 3rd largest consumer
- such reserves can reduce dependence

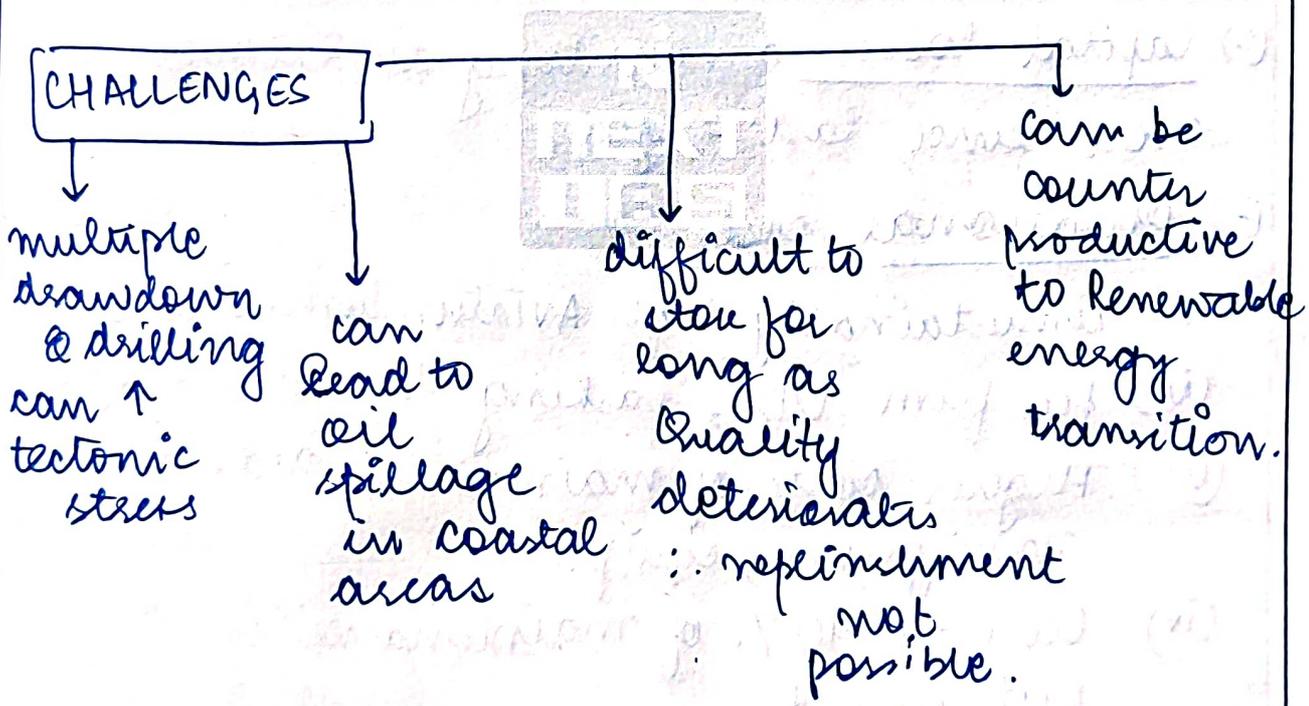
(2) Energy security

- For OPEC, need to maintain 90 days of import cover for contingencies while currently India has only for 9.5 days

(3) save costs during emergencies

- (eg) During COVID-19 pandemic, relying on reserves, India saved ₹5000 ~~crore~~

- (4) Can help with exports (eg) recently India exported from Mangalore reserves.
- (5) Security in times of fragile supply chain (eg) recent standoffs with China as a looming threat when it can use One Belt Initiative to block access
- (6) can act as transition buffer for renewable energy switch
- (7) Can develop bilateral initiatives to build strategic reserves (eg) USA



Oil security is crucial for India's sustainable growth and these reserves have the potential to make us less vulnerable to outside shocks.

Q 8. Aviation sector infamously known as graveyard of investment. Issues? suggest reforms to revitalize the sector.

Aviation sector in India is the 7th largest in the world, catering to over 140 million people. As per ICAO, \$1 investment in aviation leads to \$3 output across market. Yet the sector in India is in deep distress.

ISSUES OF AVIATION SECTOR

(1) Capital losses amounting to ₹24000 crore since last 2 years

(2) Operational costs

- (i) unsustainably high Aviation Turbine Fuel (ATF)
- (ii) fees from VDF, parking etc not enough
- (iii) Higher costs of maintaining aid, navigation, equipment.
- (iv) Close to 90% of maintenance is outsourced.
- v) over stressed airports (eg) Indira Gandhi, Delhi

(3) Competition

- (i) monopoly with intense competition
- (ii) predatory pricing and unpredictability
- (iii) unable to raise costs & charges (unviable)

(4) Law and Regulation

- (i) Outdated aircraft act, 1934 & rules, 1937
 - (ii) DGCA - overworked, over 100s of issues to be catered, delay in approvals.
- (5) Safety
- (i) multiple incidents of failure (eg recently in Mangalore)
 - (ii) ~280 issues by ICAO on safety.
- (6) Regional connectivity - still poor → inability to function over 130 airports milt w/ Udan scheme.

Measures to revitalize the sector

- ① Sujit P. Panel Report :-
 - (i) no need to gold plate airports
 - (ii) ATE rationalized as per global standards and w/ GST
 - (iii) Focus on regional and remote connectivity
 - (iv) Increase regional tourism to increase demand
 - ② Building alternative airports (eg) in Noida to support IGI, Delhi
 - ③ Can alternatively finance - real estate near airport monetized, viability gap funding
 - ④ Focus on security concern (NITI Aayog - India@75)
 - ⑤ e-clearance w/ e-CGA
- Aviation sector has the potential to unlock benefits of inclusive and faster growth. There's a need to revitalize it for economy.

Q9. What is Digital Public Infra? What are the advantages of DPI development in India? What are the impediments to realising full potential of DPI in India? Substantiate.

Digital Public Infrastructure (DPI) includes all physical and digital goods which are open source, open code, open AI, open standard for delivery of efficient digital goods to people. India is complemented by WB to have achieved 47 years of DPI in just 6 years.

ADVANTAGES OF DPI DEVELOPMENT

① India's complete digital infrastructure

Account Aggregators

Digital Identity

UPI

- first in ~~the~~ world to achieve completely
- "India-stack" - India's open source code - fundamental in development of UPI, Ahaar enabled payment, Ayushman Bharat.

② Lower cost to develop and low gestation period compared to physical infra.

③ Customer reach

- can reach remote corners
- inclusive growth
- UPI transactions crossed 11 bn mark

- ④ Development of e-commerce and online-retail
(eg) ONDC platform
- ⑤ GST registration and tax streamlined - ease of doing business
- ⑥ E-services for governance
 - land records titling, SWAMITVA for land mapping, e-PAN, e-Passport service
 - CPGRAMS for online grievance redressal.

IMPEDIMENTS TO REALIZING FULL POTENTIAL

- ① Digital Divide :- (eg) 70% population in rural areas and only 40% use internet.
- ② Security and privacy concern
 - (i) Over 13.7 lakh cyber security incidents in 2022
 - (ii) Recent Apple data breach notification.
- ③ Inability to access by marginalized groups
 - will take 132 years to bridge gender gap (Global Gender Gap report, 2023)
- ④ Fintech facing issues of fraud (eg) Mahadive gambling

DPI have created revolution and placed India at top of the world as 'Vishwa Guru' in digital space. Need to have free, fair, continuous supply of DPI for achieving SDG goals.

Q10. Evaluate the potential of PLI scheme in fostering innovation & enhancing competitiveness in targeted sectors & suggest measures to ensure sustainability & scalability of scheme.

PLI scheme is launched by govt to enhance manufacturing and export competitiveness. It is an incentive linked scheme (4-6%) on incremental sales [based on 5 year's data] in 14 sectors.

POTENTIAL OF PLI :-

① Economic

- (i) Improve GDP, ^{through} incremental revenue to 4%
- (ii) export competitiveness, logistics improvement
- (iii) niche areas like semiconductors, drones, advanced battery cells

② Social

- (i) Increased jobs and employment
- (ii) promotion of women led startups & employment in sectors like textiles.

③ Trade balance

- (i) (eg) mobile phone manufacturing - exports ↑ to 11 bn and imports reduced to 1.2 bn → close to 9.8 bn surplus.

- ④ Attract FDI in newer sectors since incentives also available to them.
- ⑤ Promote environmental benefits
↳ shift to renewable energy - help in tripling capacity by 2030. (eg) solar cells, PLI.
- ⑥ can have a multiplier effect on other sectors
(eg) ↑ in transport, communication, customer service.

Measures to ensure sustainability & scalability

- ① Presently, piece rate method and restricted incentives - need to liberalize
- ② Not just quantitative enhancement, focus on quality improvement.
- ③ R&D = merely 0.25% GDP, need to upscale
- ④ skilled workers - merely 5%. (India skills Report, 2023) → need to transform workforce i.e. AI, ML efficient.
- ⑤ Address disputes relating to WTO concerns over incentives.
- ⑥ Address design issues and nudge firms to invest more in design (eg) especially in semiconductor.
- ⑦ Need to reduce coordination issues.
Thus, PLI is the 'need of the hour' to incentivise flight of manufacturing sector in India and achieve vision of developed India by 2047.

Q11. Electricity Amendment Bill 2022, brings several adv for consumers, DISCOMs as well as env. elaborate - Also list out its shortcomings & measures to overcome.

Electricity Amendment Bill, 2022 was launched to ~~enact~~ amend Electricity Act, 2003 and aimed to modify relevant provisions with goal of achieving One Nation, One Grid.

ADVANTAGES OF THE AMENDMENT :-

(A) FOR DISCOMS

- ① Allowing multiple discoms to share one network after entering into concession agreement
- ② State electricity Regulatory Commission to oversee these agreements
- ③ Costs :- of using the network in lieu of Power Purchase Agreement shall be borne by all the discoms using the network \therefore no burden on one discom.
- ④ Cross - Subsidy Rationalisation Fund
 - ↳ A common fund to be maintained to wherein firms with surplus can deposit and others can use to offset costs
- ⑤ Discoms allowed to be operated in multiple states - after permission from

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CERC.

⑧ CONSUMERS

- ① Availability of multiple discoms.
- ② Improved quality and availability of electricity, lesser cuts.
- ③ SERC can revise tariffs at beginning of year but cannot change mid-way. Prescribes minimum & maximum tariff.
- ④ Avoids predatory pricing

⑨ ENVIRONMENT

- ① Discoms have an obligation of Renewable Energy Purchase [RPO] to be fulfilled every year as a certain % of procurement
- ② Boosts Renewable energy production.
- ③ Boosts schemes like KUSUM Yojana etc

SHORT COMINGS IN THE ACT① Issue of jurisdiction

- 'electricity' in concurrent list
- tussle between centre and state over applicability of amendment act.

② Cost efficiency → Power procurement costs about 70% - 80% of DISCOMS costs and

are part of long term PPA, thus, cost efficiency benefits of sharing in long term limited.

③ SERC v/s CERC → CERC not suitable and well-versed with ground realities to decide for multiple state operation of DISCOMs.

④ No emphasis on quality of infrastructure improvement for Renewables.

⑤ Agreement between DISCOMs for sharing, headed over by SERC - takes away agency of private parties

Measures to overcome problems

CERC to be given overall jurisdiction, SERC to handle other things

More focus on improving & increasing Renewable energy.

More certainty in tariffs for consumers & DISCOMs

Improve fund. generation for DISCOMs
(eg) DAY scheme

Thus, Electricity Act, 2022 amendment is a step in right direction for becoming a self reliant and power efficient nation.

SEBI plays an imp role in regulation of share market & safeguarding interests of investors in light of fees, highlight challenges faced by SEBI & suggest reforms.

SEBI was established in 1992 in the aftermath of financial crisis faced due to unscrupulous share market activities. It has held a high position amongst India's regulators to safeguard national interest.

ROLE OF SEBI

- ① Regulatory function → acts as a regulator for stock exchanges, registering brokers, institutional investors, disclosure
- ② Protective function → prohibit insider trading, restrict on use of unpublished price sensitive information (UPSI).
- ③ Educatory function → train and educate consumers about rights, enlighten about options, release handbooks.
- ④ Adjudicatory functions in cases of :-
 - in case of failure to disclose
 - misleading information given
 - siphoning off funds
- ⑤ To protect consumers, led the movement of dematization of shares - to end

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all problems associated with physical shares.

- ⑥ Leverage technology and expertise to increase efficiency of working and catching misleading provisions.
- ⑦ Regulate credit rating agencies to help investors know standing of firms.

CHALLENGES FACED BY SEBI

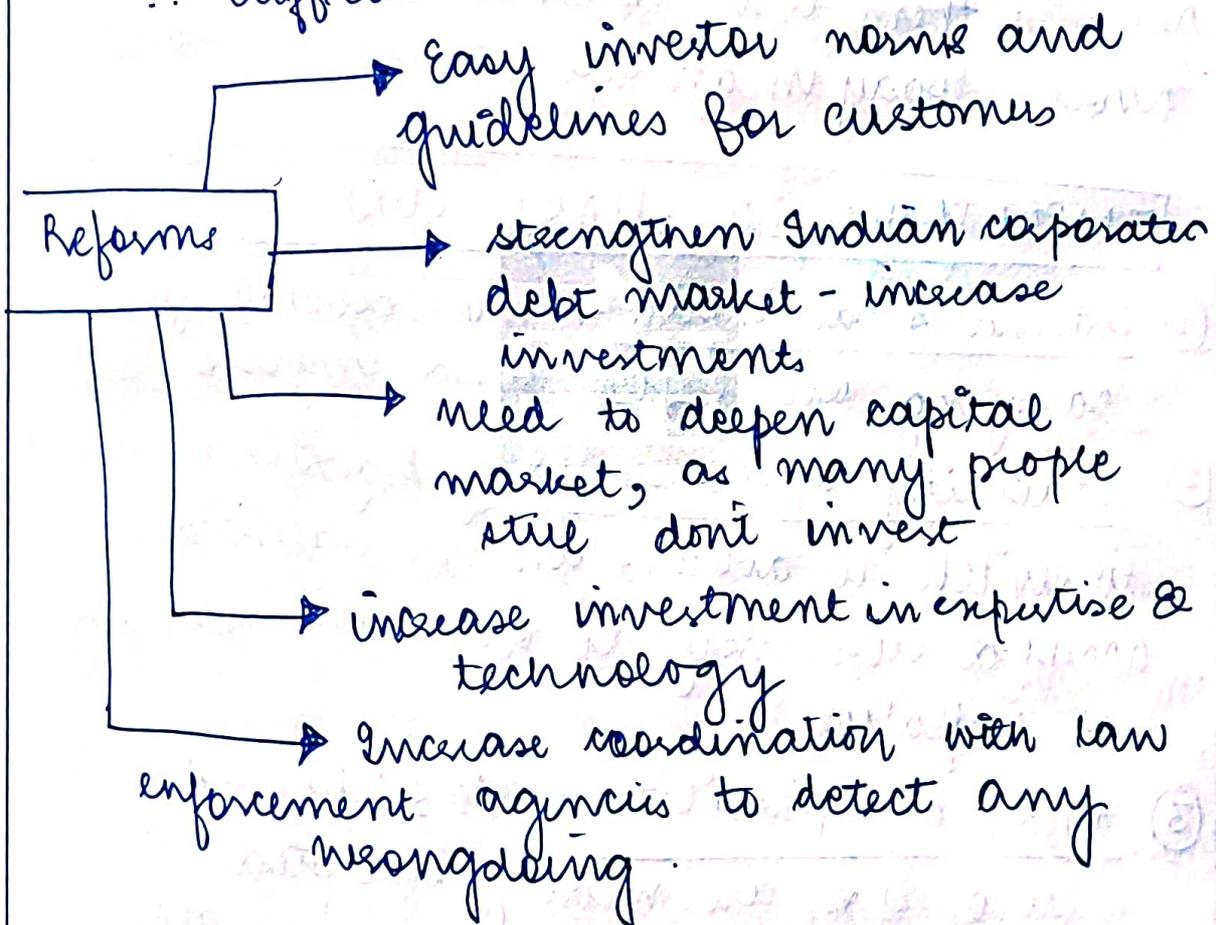
- ① Algo Trading
 → involves use of algorithm to predict, manipulate pricing or give insights
 → difficult to detect and promote unfair play.
- ② Lack of expertise - Even though officials presents, lack of specific experts to handle complex nature of trading.
- ③ Inability to leverage technology to increase efficient functioning. (eg) Adani issue couldn't be detected!
- ④ SAT scrutiny
 → many decisions of SEBI are overturned in appeal at Securities Appellate Tribunal. ∴ reduces efficacy
- ⑤ Rise of Finfluencers - who mislead retail consumers on investing. Inability

to catch them and detect online presence.

⑤ Enforcement Mechanism - weak as many directions not enforceable.

⑥ Impossible to know issues of insider trading or UPSI beforehand (eg) Jaypee cements case.

⑦ Diversified segments with 19-20cr investors
∴ difficult to monitor



SEBI has truly emerged as watchdog of Indian capital markets. In the march towards 'techade', need to make it more technologically robust

Q13. Intl trade centred on dominant currency paradigm. Analyse imp of hard currencies in intl trade and discuss potential of rupee acceptance in global trade as an alternative to dollar imperialism (15M)

Hard currencies refer to those currencies which are issued by nations and are considered politically and economically stable. It is around them that international trade revolves today in an ever-connected world.

IMPORTANCE OF HARD CURRENCIES

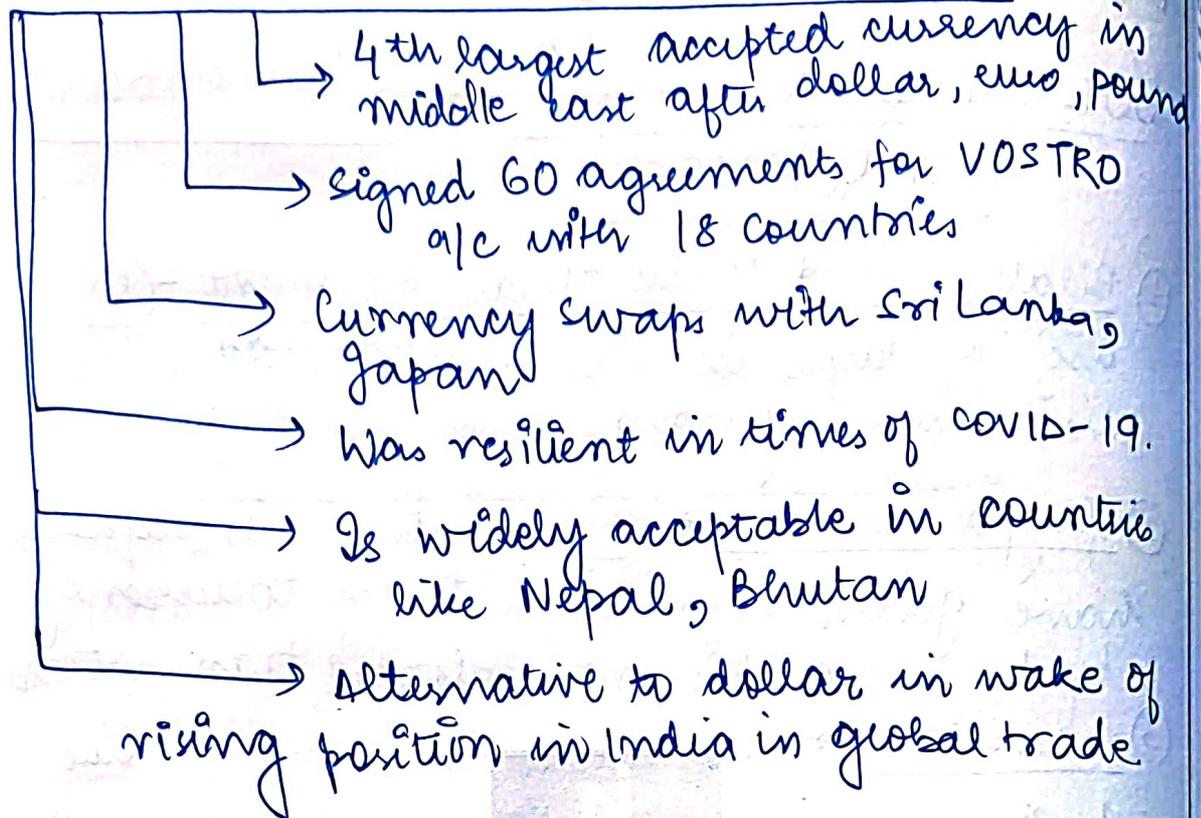
- ① International trade → most crucial for carrying out exports and imports
- ② stability of economy → (eg) Argentina's desire to switch to dollar, an internationally accepted currency to overcome problem of inflation.
- ③ wide acceptability → US \$, pound, euro, yen are widely accepted
↳ part of reserve system at IMF.
- ④ Forms part of SWIFT payment system.
- ⑤ Can help a country to tide over financial crisis - (eg) forex with India at peak during COVID = helped

the nation in wake of crises.

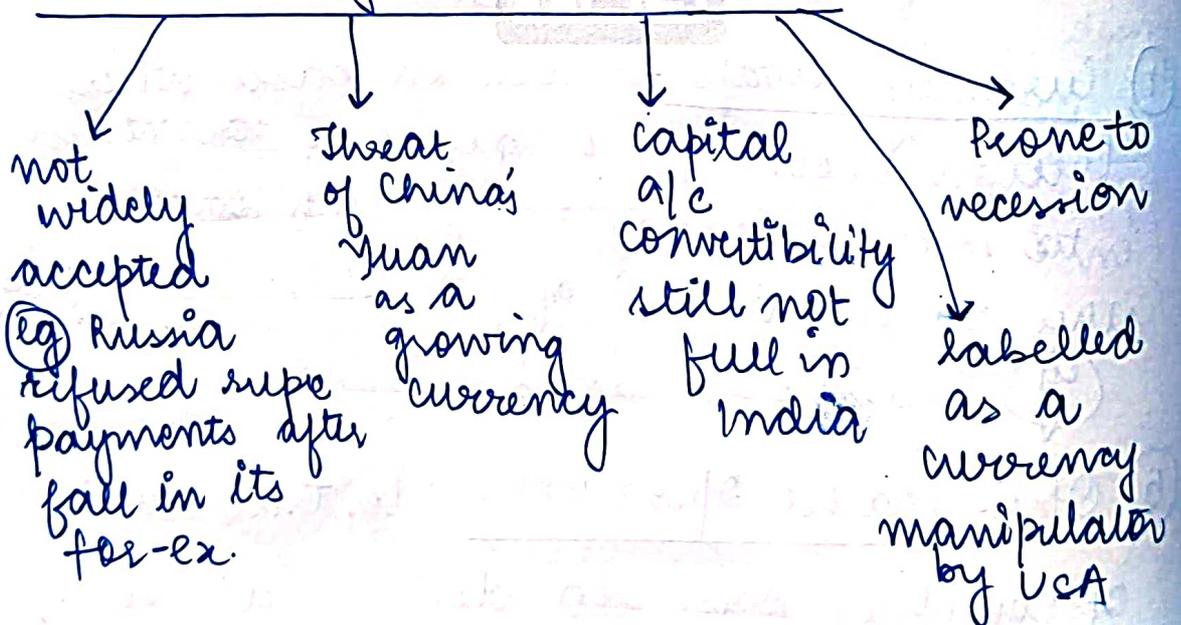
BUT, REDUCING IMPORTANCE OF HARD CURRENCIES:

- ① Bilateral and Multilateral agreement - (eg) use of rupee in transaction with Russia, Sri Lanka by India.
- ② Crypto currency → (eg) countries like Ecuador have given legal tender to cryptocurrency to be used for international transactions.
- ③ Recession → ~~countries~~ currencies like \$, Euro, pound hard hit by recession and values of currencies dropped.
- ④ Currency swaps - even in case where foreign exchange is depleted, countries enter into currency swap with each other to promote use of each other's currencies
(eg) India - Sri Lanka
- ⑤ Open Market Operations - Central Banks of countries can do dirty float i.e. sell foreign currencies to bolster strength of their currency & prevent depreciation
(eg) RBI's OMO.

POTENTIAL OF RUPEE AS AN ALTERNATIVE



Yet challenges remain



India should slowly pursue the process of internationalization without hurry.

China's currency is still only 3% of global trade. slowly & steadily, India can make its mark.

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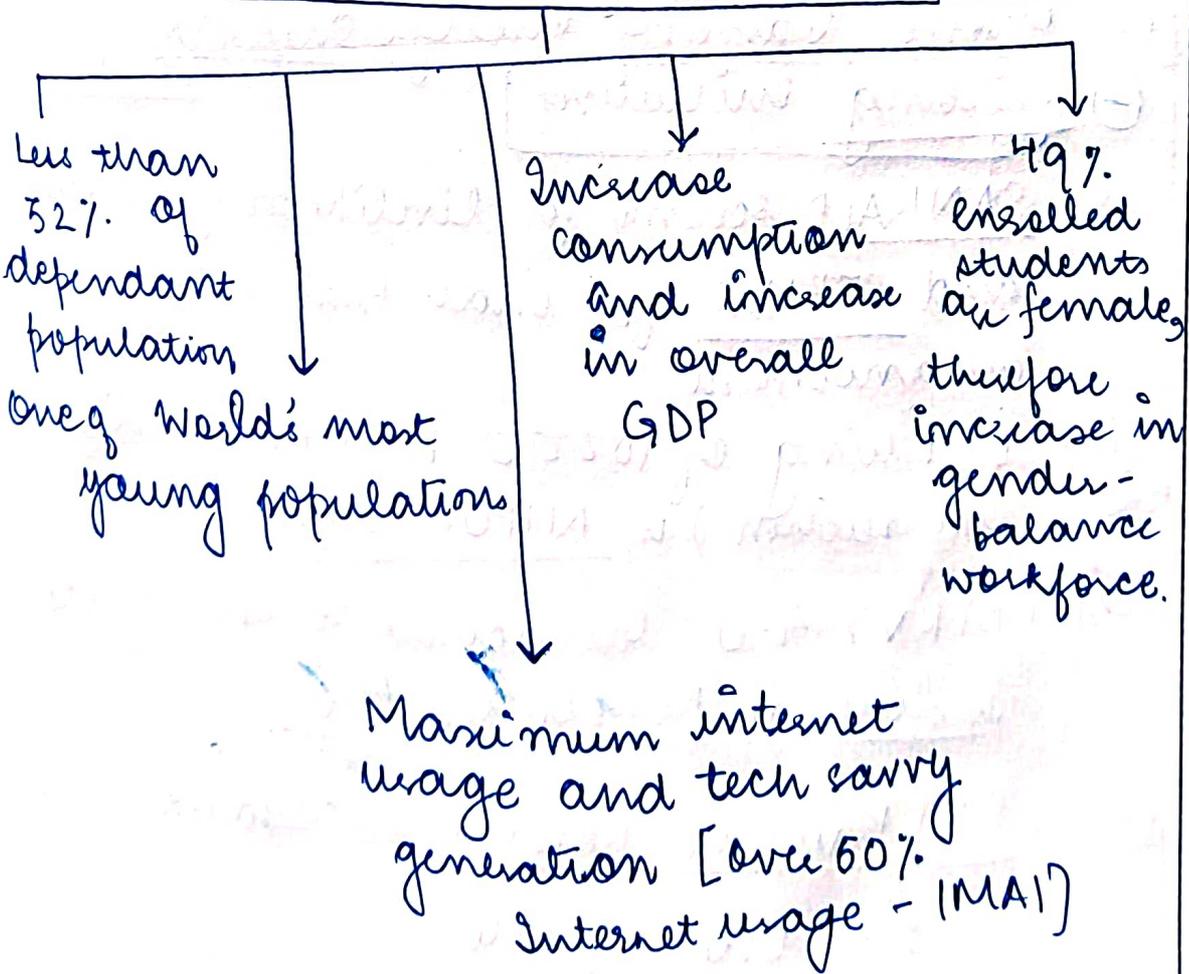
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Q14

Demographic dividend doesn't ensure growth; it only generates potential. Discuss steps made by govt to take opportunities of transition presented by demographic transition. [15M]

Demographic dividend refers to the working age population (15-64) years and its potential to contribute to economy. As per World Bank the period from 2018-2050 is golden age for India's demographic dividend is above 60% with mean age of country 28.4 years presently.

POTENTIAL OF DEMOGRAPHIC DIVIDEND



STEPS BY GOVERNMENT TO REAP THE BENEFITS OF DEMOGRAPHIC DIVIDEND

① Education initiatives

- (i) Establishment of PM SHRI schools and Eklavya schools (75) for tribals for inclusive and quality education.
- (ii) Rashtriya Uchchatar Shiksha Abhiyan for integrated education and skilling of students at risk of neglect.
- (iii) NEP, 2020 with an increased focus on vocational training and diverse disciplines & credit based learning
- (iv) Nai Roshni scheme → to promote educational outcomes amongst women
- (v) Online learning through SWAYAM portal

② Skilling initiatives

- (i) SANKALP scheme for livelihood generation and STRIVE for industrial value enhancement.
- (ii) upskilling of 10000 NIRMAN workers (construction) u/ NIPUN scheme
- (iii) PMKVY 4.0. launched to intergrate Industrial Revolution 4.0.
- (iv) PM Kaushal Kendra to train 1.5 crore people.

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(2) Bharat skills - a digital repository of skilling & training.

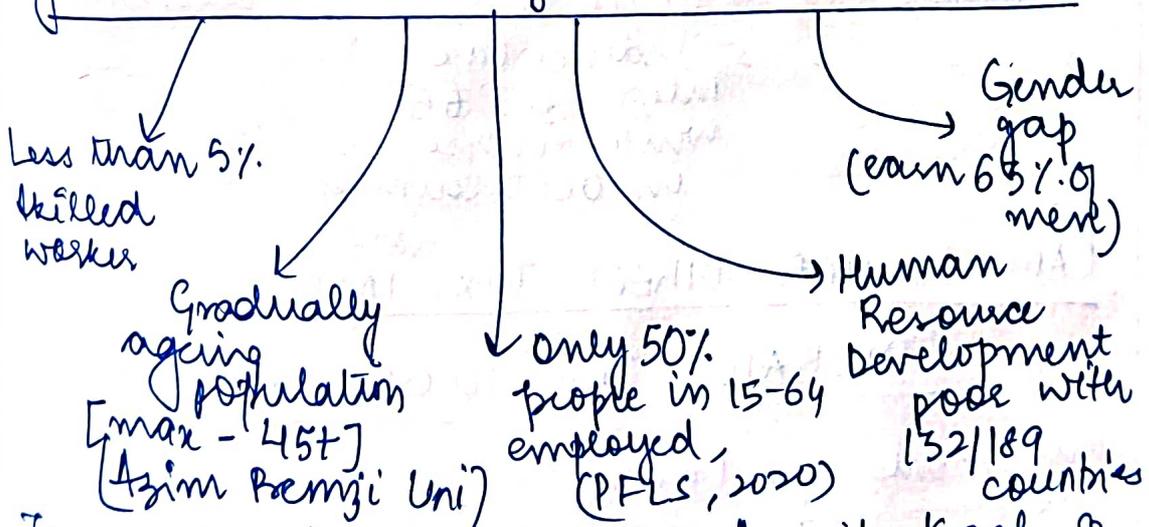
(3) **ENTREPRENEURSHIP**

- (i) Atal Innovation Mission for promoting research and innovation
- (ii) start up and stand up india to finance smaller startups
- (iii) Agriculture Incubation centre & Infrastructure fund
- (iv) PM Vishwakarma scheme, 2023- for promoting craftsmen & their goods.

(4) **HUMAN RESOURCE DEVELOPMENT**

- (i) Health - POSHAN, IDM, Ayushman Bharat
- (ii) Women related - SAMBAL (protection) & SMARTHYA (empowerment).

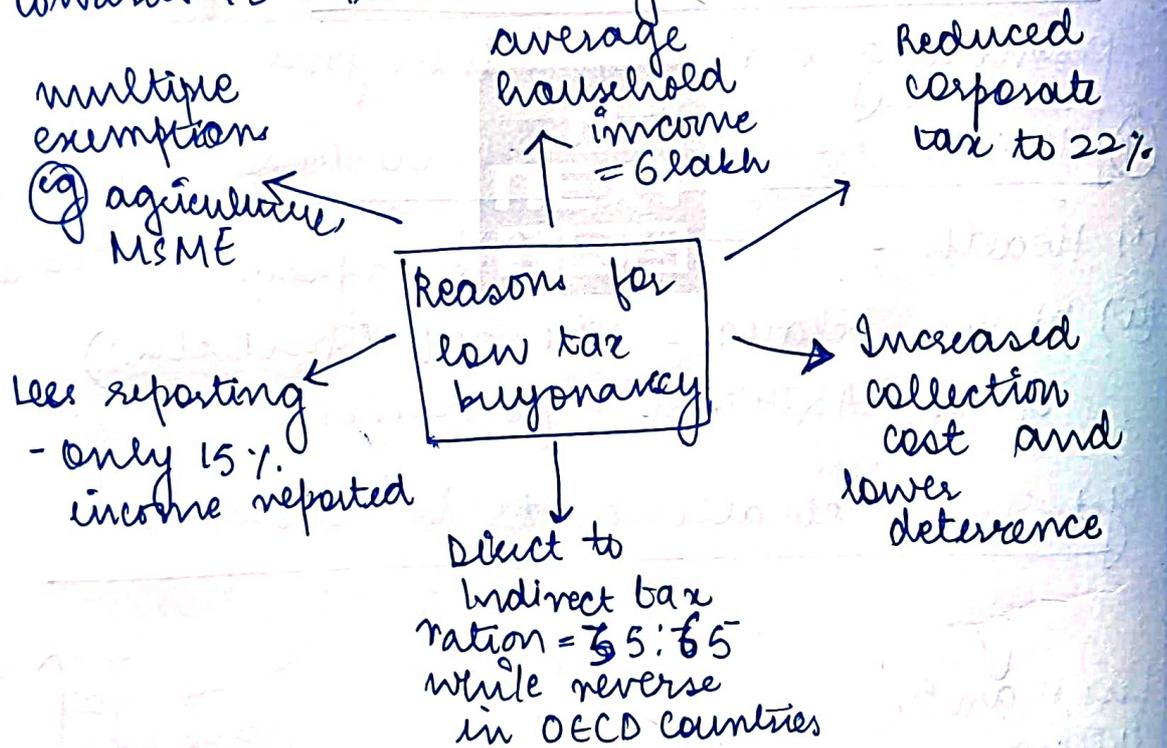
yet some challenges to be overcome:



Thus, India moves in Amrit Kaal & is the best time to reap full potential of demographic dividend.

Q15. = Low tax buoyancy translates to higher deficits and debts. Can a higher direct tax rate improve overall tax to GDP ratio in India? What other steps can be undertaken to revamp overall tax structure in India? [15]

Tax buoyancy refers to tax to GDP ratio i.e. tax collected as a percentage of GDP. In India, this has stagnated around 11-12% compared to 33% for OECD countries. Thus, low tax to GDP remains a big hindrance in progression towards \$5 trillion economy.



CAN HIGHER DIRECT TAX RATE IMPROVE

OVERALL TAX TO GDP RATIO ?

Arguments in Favour

(i) increase in collections as a direct result.

(ii) if coupled with lower exemption,

can lead to a wider net.

- (iii) without increase in costs of collection, can charge higher
- (iv) can tax wealthy more including windfall gains.

Arguments against

- (i) will lead to tax evasion
- (ii) all countries with higher tax to GDP ratio like Singapore, US have low tax to GDP ratio
- (iii) will hampers investment and automatically push down private consumption ∴ reduced GDP
[Thus, reducing overall ratio] and entering vicious circle.

Thus, instead of raising tax rate - which hasn't been favoured by Relkar or Akhilesh Kanyan committee, better to (i) increase base and (ii) increase compliance

STEPS TO REVAMP TAX STRUCTURE

① INCREASING TAX BASE

- (i) Rules on place of effective management for casting MNCs w/ net of tax
- (ii) Rationalize blanket exemptions for sectors like MSME.

- (iii) Avoid benefits and distinction for long term capital gains
- (iv) push for equalization levy for all e-commerce and other online sites.
- (v) General Anti-Avoidance Rules, 2017 be strengthened to avoid missing any onshore transaction.

② INCREASING COMPLIANCE

- (i) Nivadd or Vishwas scheme for allowing tax disputes to be settled on a lesser penalty after sub-moto disclosure.
- (ii) Abolishing wealth tax [Kelkar Committee] - reducing incentives to hide transaction
- (iii) enforcing simple and effective tax regime (eg) presumptive tax, common ITR form etc.

improving tax buoyancy is crucial to move past goal of \$5 trillion economy, increasing resilience to shocks and reducing fiscal deficit.

Q16

startups are the driving engines of the fast changing modern economy. Why have Indian startups failed to realize their potential? What steps can be undertaken to improve profitability & performance of startups in India? [15].

Hailing as the 3rd largest startup ecosystem with over 110 unicorns, India has been at the forefront of startup industry in the world. With entrepreneurial activity growing upwards of 20% (World Bank) Indian startups face several issues which hinder their take off.

REASONS FOR FAILURE TO REALIZE POTENTIAL

① Political and Regulatory hurdles

- Lack of conducive policies
- excessive taxes, compliances.
- (eg) out of 63 mn startups in India, only 1½ mn 'not dwarf' to avoid taxes.

② Lower contribution to ico growth due to dwarfism - (eg) employ 100 or less workers → reduced job output and increased stress on workforce employed.

③ Failure to cater to growing needs

- 48% startups from tier II & III cities
- haven't been able to understand demands of their customers well + failure to pivot.

④ Constantly loss making entities

- In a bid to attract customers, constantly price low (eg: free delivery or 10 minute delivery)
- 60% of 110 unicorns in loss.

⑤ International competition

- Failure to direct capital from outside (eg) High Angel-Tax
- better products from outside (eg) Uber more popular than Ola.

⑥ Lack of support

- despite some mentorship and incubation centres, reach to maximum startups limited due to administrative or technical barriers
- Lack of infrastructural support from govt. (eg) working space, technology.

STEPS TO IMPROVE PROFITABILITY AND PERFORMANCE OF STARTUPS

① Regulatory sandbox

- ↳ where startup at initial stage can be exempt from burdensome requirement
- ↳ can have tax concession without dwarfism.

② Initiating support and service

- ↳ launch new mentorship programs
- ↳ facilitating collaboration with established market players

- ↳ co-working space with facilities (eg) WeWork.
- ③ Increased exit strategies
↳ Paytm, Nykaa Fashion etc recently exited with lucrative offers after IPO.
 - ④ Increasing investor sentiments
↳ rationalising Angel Tax for VCs.
↳ promoting mergers and making entities more attractive.
 - ⑤ More incubators and mentorship programs
 - ⑥ Developing start-up cities with facilities - digital - and physical infrastructure for common use
 - ⑦ Promoting women led startup (presently 14%) - can venture into food, clothing, advance software, biochemicals, agriculture.

Startups have now become 'backbone of industry' and are slated to grow at an unprecedented rate. A nudge by govt in right direction will go a long way in realising this potential.

Q17.

What are the inherent challenges that telecom sector faced in recent times? How far does Draft Telecom Bill 2022 address such issues? Suggest measures to revamp Telecom sector. (15)

Telecom sector has remained one of the most formidable sectors by reaching every nook and corner of the country with 1.2 bn+ subscribers and contributing over \$ 400bn to GDP.

Yet, the sector remains fraught with Challenges

- ① Reduced growth rate :-
 - from 20% in 2017-18 to 10% in 2021-22
 - shrinking usage and rising costs.
- ② Higher debts and NPA
 - one of the most debt ridden sector
 - (eg) bail out packages to Bharti Airtel, Vodafone
- ③ Monopoly of players
 - the market's inherent unsustainable nature eliminated all barriers.
 - major rent seeking by monopoly players
 - (eg) Reliance and Bharti Airtel have been one of the largest donors to electoral trusts. (ADR, 2021)

④ The rising OTT challenge

→ Growth of OTT like streaming platform, calling
eg - Whatsapp, Facebook eat into revenues

Two main issues

Reduced revenue
from calling as
consumers use Whatsapp
call, video call etc

→ no extra charges
paid by OTT to use
spectrum ∴ increased
spectrum usage costs
for Telcos without
↑ revenue

⑤ Declining Average Revenue Per User

- One of the most expensive spectrum allocations
- one of the cheapest data in world.
- huge contributions to Telecom Development Fund
and variety of charges.

DRAFT TELECOM BILL, 2022

① Role of TRAI - reduced from regulatory to
recommendatory to reduce over-interference.

② OTT regulation

- Though specifics not given but diff players
OTT, internet service providers, telecom to be
regulated for equitable results.

③ Reshaping architecture and inculcating
possibilities for startup ecosystem

④ Consumer protection from spam/fraud
calls with each consumer now able to
know details of caller.

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⑤ Focusing on ARPU improvement

- swising tariffs
- rationalising costs.

⑥ Consolidation of various laws of u/ Telegraph Act, 1885 → Telegraph Wires Act, 1950.

OTHER MEASURES

- ① Allow infrastructure sharing among players to allow better realization/usage.
- ② OTT partnerships with telecom for (a) revenue and cost sharing & (b) consumer growth.
(eg) Facebook partnered with Airtel in Africa
- ③ Help OTTs Telecom clear balance sheet of debt presently
- ④ Rationalize duties and charges levied and adjust ARPU according to international standard
- ⑤ Partner with Telecoms to reach remote & rural region - (eg) Airtel in Andaman Nicobar

Telecom industry is one of most important pillar forming foundation of digital revolution in India. Its revival is crucial to promote inclusive growth.

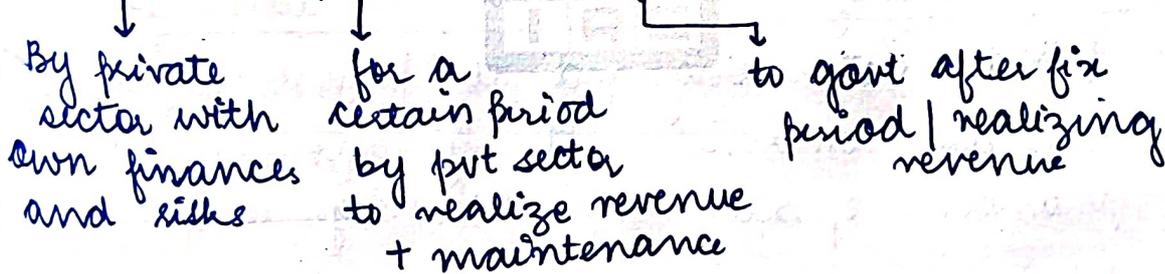
Q18

Analyze the advantages and disadvantages of various PPP models in terms of financing, risk allocation and service delivery [15M]

PPP is an agreement between government and private players to create infrastructure or joint development of projects. In the vision of 'maximum governance and minimum government', they are key to promoting private sector.

Various PPP models

① Build - Operate - Transfer (BOT)



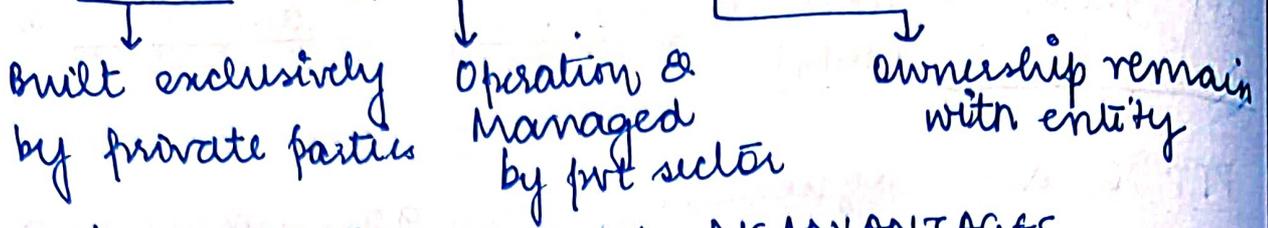
ADVANTAGE

DISADVANTAGE

- ① Financed entirely by pvt players, less restrain on govt resources
- ② Risks primarily on pvt players, less confusion
- ③ Expertise and efficiency of pvt players ∴ improved service.

- ① Higher risk of NPAs and projects being non-operational
- ② Can have different chain of command - govt & private, increasing confusion
- ③ Private players may increase costs to have revenue, leading to poor service overall.

② Build - Operate - Own



ADVANTAGES

DISADVANTAGES

- | | |
|---|--|
| <ul style="list-style-type: none"> ① Private financing, reduce govt burden ② Risks entirely transferred to pvt management ③ Better Quality of service delivery | <ul style="list-style-type: none"> ① Govt may lose ownership of critical infrastructure ② Private sector may increase costs to prevent failure risk ③ Increased costs can reduce service. |
|---|--|

③ Engineering Procurement Construction :-

- private sector engaged to finish a project,
- ownership remains with government, who finances, operates and manages it

ADVANTAGES

DISADVANTAGES

- | | |
|--|--|
| <ul style="list-style-type: none"> ① Financing by govt can be done creatively - (eg) NHA bonds. ② Risks are entirely born by govt, so private sector work free ③ Faster clearance by govt and quality work by pvt players | <ul style="list-style-type: none"> ① can remain poorly financed and long term delays. ② Entire risk borne by govt - strains resources ③ Increased scope of corruption by pvt players. |
|--|--|

NEXT IAS

- ④ HAM Annuity Model [combines BOT + EPC]
 → private player is paid 40% amount upfront and arranges rest itself.
 → ownership and risk entirely of govt

ADVANTAGES

- ① 60% only to be arranged by pvt player - incentivize plus reduced burden on govt
- ② Risk borne entirely by govt
- ③ Expense of pvt sector + low costs for public

DISADVANTAGES

- ① Risk Quotient increase as financing by pvt sector fail initially
- ② Higher chances of corruption
- ③ Missing management of pvt sector - enhances red tapism.

These PPPs can be further tailor made with different sharing arrangements. The rise of PPPs have contributed significantly to better financing and inclusion of private firms in development trajectory.

Q19

The EV industry is critically dependant on semiconductor for its sustainability. Challenges of Indian semi-conductor industry? Analyse and suggest measures to strengthen supply chain of semi-conductors in India. (15)

Semiconductor is a device used to regulate current in devices and today is hailed as lifeblood of modern information technology. It is estimated to reach to \$100 bn industry by 2025. Yet India is still in nascent stages of development and faces multiple challenges here:-

- ① Lack of manufacturing capability of firms to undertake design and production of semi-conductors.
- ② Almost 100% input dependence - on giants such as Taiwan, China.
- ③ Lack of funding -
 - even though PLI scheme launched in semi conductors amounting to ₹16000cr,
 - insufficient to even cover $\frac{1}{2}$ costs of 2 chip fabrication units.
- ④ Huge investment, long gestation period and lack of reliable credit deters private investment.
- ⑤ Global uncertainties in wake of COVID-19, Russia-Ukraine war - disrupts supply of

crucial elements like lithium, needed for its production.

⑥ Highly energy intensive

- requires hundreds of litres of clean water
- stable power supply to operate.
- has many negative environmental impacts

⑦ Lack of skilled labour for AI, ML.

- As per India Skill Report 2023 - less than 5% of workforce is skilled.
- lack of designing capabilities.

Measures to strengthen supply chain of semi conductors in India:

① Focus on Design

(i) In an ever changing and long gestation industry, better for India to utilize resources in design & R&D.

(ii) can utilize its competitive advantage in workforce & demographic dividend

② can collaborate with Lithium rich nations like Argentina - Bolivia - Chile (ABC)

③ can have skilled forces ready for

IR 4.0

→ P M Koushal Kendras to train

1.5 crore skilled workers.

- ④ Need to ramp up giant investment
→ must realistically assess needs and boost PLI.
- ⑤ Give regulatory relief to firms
→ tax breaks, SEZ set up, easy clearance
- ⑥ Encourage FDI and technological collaboration with Indian firms
- ⑦ Focus on MSME and SME to increase small scale design and fabrication capacities.
- ⑧ Strengthen National Semiconductor Program launched in 2022

Thus, it is crucial for India to carve its niche in semi-conductor industry by more investments to become a key player in dynamic geoeconomics.

Q20. Investment in infra is crucial for rapid and more inclusive growth. Discuss in light of Indian experience [15M].

Infrastructure investment includes rapidly investing money in expanding areas of transportation, communication, digital goods etc. to make economy more competitive and resilient. As per IMF, 1% increase in public investment leads to 10% increase in private investment, 2.5% increase in GDP and 1.2% increase in employment.

CRUCIAL FOR RAPID AND MORE INCLUSIVE GROWTH

(A) RAPID GROWTH

(1) Increase in economic activity

(i) Capital exp. in 2022-23 increased 67% from 5.5 lakh cr to ~7.5 lakh cr (ES-23)

(ii) Increased network of roads, railways
eg development of golden quadrilateral project.

(2) Spillover effect to other sectors

(i) Improvement in public goods leads to multi-fold growth in other areas as well.

(ii) eg increase in road connectivity increased farm to processing, port to hinterland connectivity.

(3) Increased job opportunities

- (i) creation of skilled and semi-skilled jobs
- (ii) (eg) - IT park in Bengaluru, increased jobs in GIFT city

(4) Increased FDI

- (i) Increase in SEZ, common multimodal logistic park have attracted more FDI
- (ii) (eg) :- Foxconn to build Apple mobiles in India, Japanese collaboration for trains.

(5) low variable cost per person

- (i) since infrastructure is durable, per person usage cost is low and cost can be easily recovered owing to non-cyclical nature
- (eg) Tolls on roads operate for decade without loss.

(B) MORE INCLUSIVE GROWTH① Regional connectivity

- (i) aim to connect remote parts from hinterland to major areas of country with multi modal approach
- (ii) (eg): Bharatmala scheme, PM Gati shakti

② Increased digital infrastructure

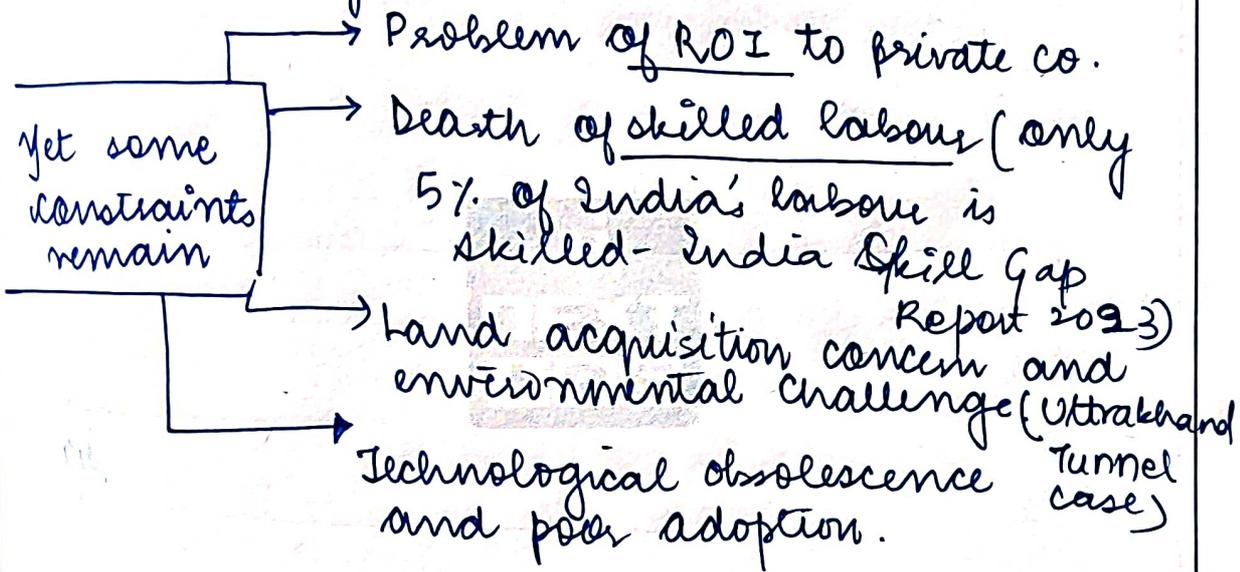
- (i) setting up of common service centres
- (ii) fiberization in rural areas
- (iii) PM Wani for WiFi access
- (iv) aim to make a digital economy worth \$ 1 trillion by 2025

Candidates must not write on this margin

③ Enhancing human development & Quality of life → building a healthy, sustainable workforce

④ Building resilience to disasters
 (eg) BPO making all weather roads in hilly states, Uwar Sham project, flood resilience

⑤ sustainable development
 (eg) Renewable energy projects, energy saving buildings.



To increase resilience and competitiveness need to follow a 4S strategy (EAC-PM) in infrastructure.

<u>social</u> progress	<u>shared</u> by all
<u>Environmentally</u> <u>sustainable</u>	<u>SOLID</u> to external shocks

Thus, investment in infrastructure is key to making dreams of \$ 5 trillion Atmanirbhar Bharat true.