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An Institute for Civil Services

MAINS TEST SERIES 2023

GS MAINS Q&A

TOPICAL TEST - 33

(5 QUESTION)

ECONOMY

Sectors of Indian Economy

ECONOMY - 4

Time Allowed: 50 Mins. *Max. Marks: 75*

1. **Public private partnership (PPP) offers the public sector potential cost, quality and scale advantages in achieving infrastructure service targets. However, it is not a panacea for all the public sector's funding and infrastructure problems. Analyse.**

2. **Proponents of privatization assert that selling large companies can raise billions of dollars that can bolster the government's resources. Argue.**

3. **Tourism has become an important sector in India that has an impact on development of the country's economy. Discuss.**

4. **Manufacturing sector in India is still not living up to its expectations. What are the hindrances faced by this sector? Assess the success of Make in India programme in strengthening India's manufacturing sector.**

5. **The MSME sector constitutes the spine of the nation and has been one of the major pillars of India's economic development strategy since its Independence. In this light discuss the role of MSME in propelling economic growth, sustaining livelihood and in promoting equitable regional development in India.**

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ECONOMY - 4

1. Public private partnership (PPP) offers the public sector potential cost, quality and scale advantages in achieving infrastructure service targets. However, it is not a panacea for all the public sector's funding and infrastructure problems. Analyse.

Approach

1. ***The question requires the analysis of Public private partnership***
2. ***The demand of the question is to examine the benefits of PPP***
3. ***In intro define PPP***
4. ***Then elaborate on benefits PPP offers and limitations of PPP***
5. ***Conclude, by suggesting way forward***

Hints:

According to World Bank, public-private partnership (PPP) is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. Public-private partnerships typically are long-term and involve large corporations on the private side. Some of the commonly adopted forms of PPPs include build-operate-transfer (BOT), build-lease-transfer (BLT), design-build-operate-transfer (DBFO), operate-maintain-transfer (OMT), etc. A key element of these contracts is that the private party takes on a significant portion of the risk.

Various advantages of public-private partnership in achieving cost, quality and scale

- India has a very large infrastructure need and an associated funding gap. PPPs can help both to meet the need and to fill the funding gap. This frees the public sector from the need to meet financing requirements from its own revenues (taxes) or through borrowing.
- They result in faster project completion and reduced delays on infrastructure projects by including time-to-completion as a measure of performance and therefore of profit.
- This relieves the public sector of the need to meet financing needs through its own revenues (taxes) or borrowing and it is advantageous in countries where the public sector's ability to raise capital is limited, such as India.
- The release of information into the public domain, for use in the media and by interested and concerned individuals, NGOs, and private sector participants themselves, is critical to increasing transparency and reducing opportunities for corrupt practices.
- PPs can be structured to create a whole-of-life focus, in which the private partner designs the project to account for the link between construction and operation in order to reduce costs over the life of the project.
- The allocation of risk, as well as the associated performance rewards and penalties, create incentives in the PPP contract that encourage the private partner to achieve efficiency at each stage of the project and to implement efficiency improvements wherever possible.

However it is not a panacea for all the public sector's funding and infrastructure problems because

- Not all projects are feasible for various reasons: political, legal, commercial viability, etc.
- The private sector may not take interest in a project due to perceived high risks or may lack technical, financial or managerial capacity to implement the project.
- A PPP project may be more costly unless additional costs (due to higher transaction and financing costs) can be off-set through efficiency gains.
- Change in operation and management control of an infrastructure asset, as has been the traditional BOT model.
- In many sectors, PPP projects have turned into conduits of crony capitalism. It is worth noting that a large chunk of politically connected firms in India are in the infrastructure sector, which has used political connections to win contracts in the past.
- While private firms accept stringent terms of PPP contracts initially, they lose no opportunity for renegotiating contracts, in effect garnering a larger share of public resources than originally planned. Rather than being an exceptional clause, renegotiation has become the norm in PPP projects in India.

Conclusion:

The success of Public-Private Partnership to a large extent depends on optimal risk allocation among stakeholders, the environment of trust and robust institutional capacity to timely implementation of PPP projects. To foster the successful implementation of a PPP project, a robust PPP enabling ecosystem on the lines suggested by the Kelkar Committee is essential.

2. Proponents of privatization assert that selling large companies can raise billions of dollars that can bolster the government's resources. Argue.

Approach

1. ***The question focuses on Privatisation.***
2. ***The tone of the question is critical as it is suggesting us to argue on privatisation and is asking us to highlight various dimensions related to it.***
3. ***The introduction should clearly sum up basic information about Privatisation.***
4. ***Further elaborate your answer with an explanation of what are the features of privatization and what do the proponents and opponents suggest***
5. ***Conclude the answer by explaining the importance of the planned privatization while keeping the socialist principles as well in mind.***

Hints:

The transfer of ownership, property, or business from the government to the private sector is termed privatization. Privatization as a concept in India started after the historic reforms in budget of 1991, also known as New Economic Policy or LPG reforms.

Proponents of Privatization argue:

- **Private companies often operate more efficiently than public companies:** This is due to the fact that publicly owned companies often do not have any price pressure and can operate in a rather slow manner while private companies have to compete in a fierce free market
- **Acceleration of technological progress:** Since private companies have to compete in fierce markets, they are often required to invent new technologies and products in order to stay competitive in the long run.

- **Improvement in product quality**: Since private companies have to face fierce competition on a regular basis and have to act in a profit-maximizing manner, they have to ensure that their products are as good as possible to stay competitive in the long run.
- **Develops and deepens the capital market through the spread of equity culture:** Privatisation would benefit the small investors and employees as it would lead to a wider distribution of wealth in the form of public offerings of privatized companies.
- **Tax Reductions and Job Creation**: By providing public services more efficiently and at a lower cost by privatizing them, governments can lower the taxes they impose on residents.

Opponents of Privatization argue:

- **Challenge of valuation:** For instance, about 65% of about 300 national highway projects have been recording significant toll collection growth; any valuations of such assets will need to ensure they capture potential growth in toll revenue, as NHAI's highway expansion bears fruit and the economy recovers.
- **Social consequences:** There were about 348 CPSUs in existence in 2018, with a total investment of 16.4 trillion and about 10.3 lakh employees in Central Public Sector Enterprises (in 2019). Push for massive privatization resulting in mass layoffs in a period of low job creation
- **Concentration of wealth:** A greater concentration of public assets in select private hands is also a medium-term concern. About 70% of all profits generated in the corporate sector in FY20 were with just 20 firms.
- Across sectors, a whiff of oligopoly is emerging – cigarettes continue to be dominated by a single player, paints have one entity with ~40% in FY21, airports now have a new operator with about six airports plus a 74% stake in Mumbai's international airport, while telecom has just three players left.
- Such concentration, mixed with the privatization of public assets, is likely to lead to higher usage fees (already being seen in telecom) and inflation, coupled with a loss of strategic control.
- Opponents of privatization say public sector enterprises were formed with all kinds of objectives, and profit-making is not among the primary goals.

Conclusion:

Privatisation should not be done in a way that leads to the conversion of public monopoly to a private monopoly; it will only result in inefficiency being replaced by private profits. Value subtracting enterprises, where restructuring or even ensuring an additional infusion of funds and other resources in PSEs have not produced results, should be disinvested or can follow the exit route through the new Insolvency and Bankruptcy Code. Government should go for planned privatization while keeping the socialist principles in mind.

3. Tourism has become an important sector in India that has an impact on development of the country's economy. Discuss.

Approach

1. ***The question requires the analysis of Tourism sector in India.***
2. ***The demand of the question is to analyze the importance of tourism sector and its impacts both positive and negative on the growth of Indian Economy.***
3. ***In the introduction, define tourism by giving relevant data.***
4. ***Then elaborate on importance and impacts of tourism sector in India.***
5. ***Conclude on the lines that the travel and tourism industry offers significant opportunity for fulfilment of key national growth.***

Hints:

Tourism is vital for the success of many economies around the world. There are several benefits of tourism on host destinations. Tourism boosts the revenue of the economy, creates thousands of jobs, develops the infrastructure of a country, and plants a sense of cultural exchange between foreigners and citizens.

The World Economic Forum's Travel and Tourism Development Index 2021 is a direct evolution of the Travel & Tourism Competitiveness Index, which has been published biennially for the past 15 years.

Importance of the tourism sector in India:

- **The World Travel and Tourism Council** calculated that tourism generated 17 lakh crore (US$240 billion) or 9.2% of India's GDP in 2018 and supported 42 million jobs, 8.1% of its total employment. The sector is predicted to grow at an annual rate of 6.9% to 32 lakh crore (**US$460 billion) by 2028 (9.9% of GDP).**
- **India's medical tourism** sector is projected to grow to US$7–8 billion by 2020. In 2014, 1.85 lakh foreign patients travelled to India to seek medical treatment.
  - **For example**: Tamil Nadu, Maharashtra, and Uttar Pradesh are the most popular states for tourists. Delhi, Mumbai, Chennai, Agra, and Jaipur are the five most visited cities in India by foreign tourists
- **India has good air transport**, particularly given the country's stage of development, and reasonable ground transport infrastructure. The country also has high natural and cultural resources. However, there exists the potential to increase this growth rate to 30% – and when that happens tourism will **contribute around 25% of our GDP.**
- **Tourism creates a cultural exchange** between tourists and local citizens. Exhibitions, conferences, and events usually attract foreigners. Organizing authorities usually gain profits from registration fees, gift sales, exhibition spaces, and sales of media copyright. Furthermore, foreign tourists bring diversity and cultural enrichment to the hosting country.

How tourism helps in development of India?

Positive Impacts of Tourism

- **Generating Income and employment:** Tourism in India has emerged as an instrument of income and employment generation, poverty alleviation and sustainable human development.
  - It contributes 6.23% to the national GDP and 9.3% of the total employment in India. More than 20 million people are now working in the India's tourism industry.
- **Source of Foreign Exchange Earnings:** Tourism is an important source of foreign exchange earnings in India. This has favorable impact on the balance of payment of the country.
- **Preservation of National Heritage and Environment:** Tourism helps preserve several places which are of historical importance by declaring them as heritage sites.
  - For instance, the Taj Mahal, the Qutab Minar, Ajanta and Ellora temples, etc. would have been decayed and destroyed, if the efforts had not been taken by Tourism Department to preserve them.
- **Developing Infrastructure:** Tourism tends to encourage the development of multiple-use infrastructure that benefits the host community, including various means of transports, health care facilities and sports centers, in addition to the hotels and high-end restaurants that cater to foreign visitors. The development of infrastructure has in turn induced the development of other directly productive activities.

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- **Promoting Peace and Stability:** The tourism industry can also help promote peace and stability in developing country like India by providing jobs, generating income, diversifying the economy, protecting the environment and promoting cross-cultural awareness.

Negative Impacts of Tourism:

- **Undesirable Social and Cultural Change:** Tourism sometimes led to the destruction of the social fabric of a community. The more tourists coming into a place, the more the perceived risk of that place losing its identity.
  - A good example is Goa. From the late 60's to the early 80's when the Hippy culture was at its height, Goa was a haven for such hippies. Here they came in thousands and changed the whole culture of the state leading to a rise in the use of drugs, prostitution and human trafficking. This had a ripple effect on the country.
- **Increase Tension and Hostility:** Tourism can increase tension, hostility, and suspicion between the tourists and the local communities when there is no respect and understanding for each other's culture and way of life. This may further lead to violence and other crimes committed against the tourists.
  - The recent crime committed against Russian tourist in Goa is a case in point.
- **Creating a Sense of Antipathy:** Tourism brought little benefit to the local community. In most all-inclusive package tours more than 80% of travelers' fees go to the airlines, hotels and other international companies, not to local businessmen and workers.
- **Adverse Effects on Environment and Ecology:** One of the most important adverse effects of tourism on the environment is increased pressure on the carrying capacity of the ecosystem in each tourist locality.
  - Increased transport and construction activities led to large scale deforestation and destabilization of natural landforms, while increased tourist flow led to increase in solid waste dumping as well as depletion of water and fuel resources.

Conclusion:

As a travel destination, few other nations can offer the diversity of products and experiences found in India. The travel and tourism industry offers significant opportunity for fulfillment of key national growth imperatives including employment generation across all regions of the country, and growth in the sector can contribute to overall economic development in the country.However, tourism in India, though growing consistently, is yet to realize its full potential due to several challenges that plagued the sector. Alleviation of these challenges will be essential for the industry to realize its full potential.

4. Manufacturing sector in India is still not living up to its expectations. What are the hindrances faced by this sector? Assess the success of Make in India programme in strengthening India's manufacturing sector.

Approach

1. ***The question focuses on the manufacturing sector and the challenges it faces in realising its full potential.***
2. ***The tone of the question is critical as it asks us to reflect on the loopholes in the secondary sector.***
3. ***The introduction should clearly sum up basic information about the manufacturing sector and its contribution in the economy.***
4. ***Further elaborate your answer with a holistic explanation of why the manufacturing sector not able to live up to its expectations and what are the problems faced by the sector in doing so. Further, assess the success of the Make in India initiative and its contribution to the manufacturing sector.***

5. Conclude the answer by explaining the importance of the Manufacturing sector and the need for an aggressive push to accelerate the growth in this sector.

Hints:

Manufacturing is among the major economic activities that involve value addition that has consequential positive multiplier effects on the economy. India has the fifth largest manufacturing base in the world.

Despite impetus by the government, the manufacturing sector is not able to live up to the expectations. The manufacturing sector is plagued by several inefficiencies which limit the development of this sector.

Why is the manufacturing sector not able to live up to its expectations?

- **Lack of Certified Factories:** Corporations around the world increasingly prefer to source goods from factories that are ISO or BSI certified. In China, a huge majority of factories are ISO or BSI certified, but finding similar operations in India can prove to be an uphill task. Majority of them do not even meet any basic inspection standards.
- **Weak Infrastructure:** India's weak infrastructure continues to be a fatal flaw for the manufacturing sector. India uses only 3% of its GDP for infrastructure construction each year, as compared to China's 20% of its GDP.
- **Inadequate Power Supply:** Poor and erratic electricity supply is yet another drawback that puts the country's manufacturers at a distinct disadvantage. India's annual power gap is more than 10% and it has among the lowest per capita power consumption around the world.
- The bulk of the manufacturing-related schemes rely too much on foreign capital for investments and global markets for production. This created an inbuilt uncertainty, as domestic production had to be planned according to the demand and supply conditions elsewhere. Also policymakers neglected the implementation of schemes.

Several initiatives have been launched by the Government in the last few years, such as 'Make in India', Start up India, Digital India etc. with an aim to make India the number one destination for global FDI and to improve 'Ease of Doing Business in India.

The three major objectives of Make in India were:

1. To increase the manufacturing sector's growth rate to 12--14% per annum in order to increase the sector's share in the economy
2. To create 100 million additional manufacturing jobs in the economy by 2022
3. To ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (revised to 2025) from the current 16%.

The policy approach was to create a conducive environment for investments, develop modern and efficient infrastructure, and open up new sectors for foreign capital.

Evaluation of Make in India

1. Gross fixed capital formation, a measure of aggregate investment, declined to 29% of GDP in 2017--18 from 34% in 2011--12. Part of this problem can be attributed to the decline in the savings rate in the economy.
2. With regard to output growth, we find that the monthly index of industrial production pertaining to manufacturing has registered double -digit growth rates only on two occasions during the period 2012 to 2019
3. Employment, especially industrial employment, has not grown to keep pace with the rate of new entries into the labour market. NSSO has pointed out that unemployment rate is 6%, highest in four decades.

Thus on all three counts, 'Make in India' has failed. However, grand initiatives such as 'Make in India' usually have long gestation periods and assessments of such initiatives in a short span can be premature.

What can be done to promote the manufacturing sector in India?

- **Infrastructure Investments:** A multi-pronged approach should be adopted to support manufacturing with the focus largely on large-scale infrastructure investments as it will itself create enormous growth opportunities.
- **Policy Interventions:** A final conceptual piece of India's manufacturing strategy has to be the design of policies to increase workers 'skills and to increase access to finance for its firms.
- **Judicious Import Policy:** Through judicious use of import policy, production within the country can be regulated with the objective of generating greater employment in the economy.
- **Eliminating 'Policy Casualness':** The spate of policy announcements without having the preparedness to implement them is 'policy casualness'. The government needs to take into account the implications of implementation deficit in its decisions.
- **Imparting Skill:** The quality of teaching in schools and colleges must be improved. The high-quality vocational training must be provided within the education system.

Conclusion:

Jobs are not the only reason why India needs to focus on boosting the manufacturing sector. Focusing on boosting the sector is also important for the country's future growth potential, which could face stagnation if it continues to depend on agriculture and exports besides services. India's manufacturing sector needs up-gradation and reforms for becoming globally competitive. The government needs to address the core problems for the landmark initiatives like Make in India and Skill India to work and manufacturing sector to grow.

5. The MSME sector constitutes the spine of the nation and has been one of the major pillars of India's economic development strategy since its Independence. In this light discuss the role of MSME in propelling economic growth, sustaining livelihood and in promoting equitable regional development in India.

Approach

1. ***The question focuses on the importance of MSMEs and their contribution to economic development of the nation.***
2. ***The tone of the question is critical as it is mentioning the MSME sector the spine of Nation.***
3. ***The introduction should clearly sum up basic information about the MSMEs and their contribution in India's economic development.***
4. ***Further elaborate your answer with a holistic explanation of MSMEs, their role in economic development and how did they propel economic growth, help in sustaining livelihood and promoted equitable regional balance.***
5. ***Conclude the answer by explaining the importance of the MSMEs in short and how to utilize them for further development.***

Hints:

The concept of MSME was first introduced by the government of India through the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006.MSME sector is considered to and one of the major pillars of India's economic growth. MSMEs contribute nearly 8% of the country's GDP, around 45% of the manufacturing output, and approximately 40% of the country's exports. According to the annual report by the Government (2018-19), there are around 6,08,41,245 MSMEs in India.

Role of MSMEs in Indian Economic Growth:

- MSMEs contribute nearly 8% of the country's GDP. MSME ministry has set a target to up its contribution to GDP to 50% by 2025 as India becomes a $5 trillion economy.
- Exports: It contributes around 45% of the overall exports from India.

Role of MSMEs in sustaining livelihood:

- **Employment:** It is the second-largest employment generating sector after agriculture. It provides employment to around 120 million persons in India.
- **Inclusive growth:** MSMEs promote inclusive growth by providing employment opportunities in rural areas, especially to people belonging to weaker sections of society. For example, Khadi and Village industries require low per capita investment and employ a large number of women in rural areas.

Role of MSMEs in regional development:

- Maximum Opportunities for both Self-employment and Wage-employment in rural areas.
- MSMEs are usually labour-intensive, they have the ability to create more jobs thus they help in absorbing the unemployed rural population and check rural-urban migration while providing them better avenues to livelihood.

Government schemes to promote MSMEs:

- **Udyami Mitra Portal:** launched by SIDBI to improve the accessibility of credit and handholding services to MSMEs.
- **MSME Sambandh:** To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
- **Digital MSME Scheme:** It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure
- **Prime Minister Employment Generation Programme:** It is a credit linked subsidy program under Ministry of MSME.
- Rev**amped Scheme of Fund for Regeneration Of Traditional Industries (SFURTI):** organizes traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
- **National Manufacturing Competitiveness Programme (NMCP):** to develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.

Conclusion:

MSMEs contribute to approximately 8% of India's GDP, employ over 60 million people, have an enormous share of 40% in the exports market. Therefore, the government should continue to put concerted efforts for holistic development of MSMEs in key areas like human capacity development, knowledge services, access to finance, technology, infrastructure, market access, and ease of doing business.

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