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Shankar IAS Academy™
Door No 18, New Plot No 259 /109,
AL Block, 4th Avenue, Shanthi Colony,
Annanagar, Chennai - 600040.

I N D E X

EPW DECEMBER 2020

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1. WORKERS' PROTEST AMIDST INDUSTRIAL APATHY

Why in news?

- Workers at the Wistron factory in Kolar district of Karnataka staged a protest recently, demanding delayed and unpaid wages.
- It soon turned out to be a violent one.

What was the reason behind?

- Taiwan-based Wistron set up this facility in February 2020, assembling Apple's signature product, the iPhone.
- The protest was product of workers' dissatisfaction and frustration, owing to accumulated demands such as delayed payment of wages, deductions in wages without explanation, compulsory 12-hour shifts, non-payment of overtime wages, and improper records of workers' attendance.
- Factory management claims that it hires four-fifths of its 10,000 employees through contracting agencies.
- Workers claim that this system leaves no avenue for grievance redressal; instead, the company and contractors appear to be passing the buck to one another.
- Contract labour, symptomatic of industrial hiring for the last many decades, is often a convenient way of avoiding responsibility towards workers' entitlements.
- The lack of a clear employer–employee relationship often leaves workers quite helpless and deeply frustrated.
- It is evident that an elaborate system of contracting and sub-contracting, both at international and domestic levels, ensures that liability in the case of statutory compliance becomes a confusing matter, weakening and diluting the position of workers.
- It also allowes businesses to continue to violate labour norms.

What should be done?

- The current government needs to recognise that unrest among workers cannot be dealt with by force; it needs to pay heed to their grievances.
- The suspension of core labour laws during the lockdown, along with an already weak labour-inspection mechanism, point to an absence of oversight over employers' practices.

2. SURGING RESERVES

Why in news?

The country's foreign exchange reserves (FER) have continued to surge for the second consecutive year.

What is the status of the reserve?

- In 2019–20, India's FER went up by $65 billion taking the total stock of reserves to $478 billion.
- The current fiscal year has seen reserves bloat by another $97 billion, to cross the half a trillion figure, and touch $575 billion by end November.

- Most probably, annual FER inflows in 2020–21 will exceed the record of $111 billion set during the global boom.

What is the history behind?

- It was only in the late 1960s that FER first touched the one-billion-dollar mark.
- And it took almost another quarter century for the reserves to reach $10 billion.
- Then partly aided by the global boom, reserves accelerated and hit $100 billion in just a decade and then in another decade and a half it shot up above half a trillion dollars.
- India's FER is the fifth largest in the world, with China topping at $3.2 trillion, followed by Japan with $1.3 trillion, Switzerland with around $952 billion and Russia with $583 billion.

What are the advantages?

- The reserves offer effective protection from both domestic and external shocks.
- It also help achieve monetary and exchange rate policy goals.
- India's FER can now pay for more than one year of imports or repay around 90% of the external debts.

How stable is the reserve?

- But despite these gains, annual inflows into India's FER have been erratic causing the reserves to even decline four times in the last two decades.
- The reason for such volatility is that India's FER is qualitatively way different from that of the top four countries.
- FER of China, Japan, Switzerland and Russia is mainly from the huge surplus earned in their current account i.e the excess of exports of goods and services over their imports and remittances from non-residents.
- India had to depend almost entirely on capital inflows, mainly foreign investments, external commercial borrowings and bank deposits of non-resident Indians, to build its FER.
- This dependence on capital flows is the main factor that causes instability to India's FER as these flows are relatively more volatile as foreign investors, commercial lenders and bank deposits often flee at the first sign of a major crisis.

What are the other issue?

- Apart from erratic capital inflows, another issue is the low returns from the huge FER.
- To secure maximum returns, the RBI normally invests FER funds in gold or other multi asset portfolios, mainly in dollars, euro, yen or the renminbi.
- Around 93% of India's FER is held in foreign currency assets and 6% in gold.
- But unfortunately, any other alternate use of FER, like for financing infrastructure or setting up a sovereign wealth fund, remains a big no-no, basically due to the instability factor and also the need for safety.
- However, lately there have been some occasional exceptions made to this rule.
- For instance, the RBI now has the mandate to invest up to $5 billion in bonds of the India Infrastructure Finance Company Limited (UK)

to finance acquisition of energy assets and it has already invested $1.9 billion there.

3. INDIAN STATE AND THE FUTURE OF AGRICULTURE

What is the issue?

The government intervention puts Indian agriculture in the grip of corporates.

What is the history of Agriculture in India?

- At the time of independence, Indian agriculture was an example of everything that was wrong with the economy of an "underdeveloped" country.
- Even when nearly three-fourths of its working population worked on its vast farmlands, served by an extensive spread of rivers and a wide range of climatic conditions, India could not produce enough food for its population.
- The newly independent country had to import a considerable amount of foodgrains from the "developed" countries of the First World.
- The food-surplus countries of the Western world eagerly agreed to sell, or even give away food as aid.
- But their supplies came with "conditions," unfavourable to a nation trying to restore its lost dignity after a long history of colonisation.
- Though confined to a few promising pockets, the state investment in agriculture provided an accelerator.
- Subsequently the country was producing enough food for its rapidly growing population.
- The green revolution was made possible not only by the enterprising farmers but also by the kind of investments the Indian state made in building agricultural infrastructure.
- The neo-liberal reforms of the early 1990s fundamentally changed the orientation of the Indian state towards agriculture and its farming populations.
- Unlike industrialised nations, even when the share of India's agriculture declined rather rapidly, a much larger proportion of the workforce remained employed in agriculture.
- The growing size of the urban middle class and its increasing aptitude for consumption provided a sure source of demand for processed food.
- To the neo-liberal policymakers of the Indian state, this appeared to be the most desirable solution for an agricultural sector complaining of crises for a long time.
- The only mode available for their entry into agriculture was through contract farming.
- Post-liberalisation India also saw global agro and food processing corporates expanding their operations.
- While they were already invested in supplying seeds and pesticides, they began to expand their operations to consumer goods, ranging from potato chips and tomato sauce to processed cereals and dairy products.
- Contract farming operations are thus not new to India.
- They are legalised by the state governments under their Agricultural Produce Market

Committees (APMC) or Agricultural Produce and Livestock Market Committees (APLMC).

- Beginning with the production of seeds to procurements of tomatoes and potatoes, a good number of corporates have been working in different parts of the country.
- Ranging from global companies like Nestle, Monsanto and Pepsi to the Indian corporate houses such as ITC, Reliance, Tata Rallis, Mahindra, Hindustan Unilever and Adani Group, many companies have been slowly expanding their operations. Profit in the food business has spurred an expansion of their operations in the agricultural sector.
- The new agricultural laws must be seen in this context. However, the farmers' experience of contract farming has at best been mixed.
- The available evidence tends to suggest that while it is easier for big farmers to work with corporate entities, the smaller farmers find it hard to benefit from contract farming and are often at the mercy of bureaucratic business arrangements.
- The farmers perhaps also see the new laws disturbing the existing marketing ecosystem, with which they are familiar and have easy access.

4. POLITICS OF LAW AGAINST INTER-RELIGIOUS MARRIAGES

Why in news?

Uttar Pradesh Prohibition of Unlawful Conversion of Religion Ordinance, 2020 has been recently passed.

What is its legality?

- It gives the impression that it is a law.
- Even though it has been issued by the governor of Uttar Pradesh (UP) as an ordinance, it is unfair on so many grounds that one must question if it is a law at all.
- It is not a law in the sense that a democratic polity with a rule of law governance or constitutional government can recognise one.
- It is as much "law" as the discriminatory laws that were active against the Blacks in the history of the United States (US) and Jews in Germany.
- To add to its infamy, it has been passed as an ordinance without even attempting to seek a modicum of democratic legitimacy through the UP Legislative Assembly and the Legislative Council.

What is the inference?

- This law seeks to streamline the social relationship into one single hole within which social religious groups could permanently be frozen into the patri-archal grip.
- Any doubts about what this ordinance is really about, have been removed by the UP police who have used the ordinance to exclusively target marriages between Hindu women and Muslim men, even if the marriage was between two consenting parties.
- In a country where inter-caste and interreligious marriages constitute only a negligible proportion of such relationships, it might seem perplexing as to why the bogey of "love jihad" has even been raised in public discourse.
- When Justice Anand Narain Mulla of the Allahabad High Court, back in 1961, called the police in India an "organised gang of

criminals" in a judgment, the UP government filed an appeal before the Supreme Court against such observations.

- Supreme Court expunged Justice Mulla's observations on the ground that it might "undermine the efficiency of the entire police force."
- In hindsight perhaps, the Supreme Court's order had the opposite effect.

5. CRUMBLING FIREWALLS

Why in news?

An internal working group of RBI has recommended allowing industrial houses to promote commercial banks.

Why were the industrial houses notallowed in the past?

- The opening up of the banking sector to the corporate sector has been a work in progress for almost a decade now.
- The late Pranab Mukherjee, in his budget speech, spoke about the need for giving additional banking licences to more aspirants, including non-banking financial companies.
- RBI followed this up with a discussion paper listing out, among various other matters, the pros and con.
- However, the final licencing guidelines issued in 2013 effectively stymied this move by clearly stating that private and public sector entities and non-banking financial companies will be eligible to set up a bank only if they pass the fit and proper test of the central bank.
- It should have a past record of sound credentials and integrity and are financially sound with a successful track record of running their business for at least 10 years.

Is it viable to allow industrial houses now?

- Ownership of banks by business groups has always been a contentious idea the world over.
- Many countries opted to build strong firewalls between banks and other businesses.
- Advanced economies like the United States disallow such ownership almost completely, while many others allow it in varying degrees.
- The reason for such onerous restrictions on bank ownership by industry groups is that only a stand-alone bank, with no connections to business houses or other powerful partisan groups, can effectively screen loan applicants to overcome the problems of adverse selection.
- Only they can efficiently monitor the implementation of funded projects to minimise moral hazards, and thus ensure efficient allocation of funds to accelerate overall growth of the economy.
- Industry-group-owned banks, on the other hand, will be under constant pressure to favour group companies, at the expense of more deserving ones.
- Labelled as **connected lending**, this will not only erode the bank's role as an effective financial intermediary and deter efficient fund use but also affect its profitability and solvency.
- Funding group companies, at cheaper rates from connected banks, effectively transfer the

project risks from the business group to the banks, with the costs finally being borne by the other shareholders of the bank or even by the taxpayers in the case of a bank collapse.

- Another risk associated with banks owned by industry groups is **circular lending**.
- Here, corporate bank X funding projects of an industry group, which owns corporate bank Y, and corporate bank Y funding projects of an industry group owning bank Z, and finally, corporate bank Z funding projects of industry group owning bank X, which is hard to track on a real-time basis.
- And available legal structures, like front and shell companies and onshore and offshore ownership, also make it much easier to dodge regulatory restrictions.
- Finally, new banking licences would only add more muscle to big industry groups, which already dominate many important sectors of the economy, including telecom, organised retail, aviation, software and e-commerce
- This will lead to the emergence of new big power centres that would soon throttle the government's ability to steer the economy in the right direction.