



CHINA-INDIA POLICY BRIEF

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Missing link in India's Growth Story: An Analysis of the Union Budget and Economic Survey Report 2018-19

This commentary seeks to provide a deeper insight into **three** key policy reform areas in India's macro-growth story, including performance in areas of Agriculture, Climate Change and Gender Equality. In light of this year's Union Budget and Economic Survey (released a few months ago), we analyse some of the key announcements and provisions made with respect to these three policy areas. This macroeconomic exercise further seeks to highlight the missing links in India's growth narrative.

Agriculture

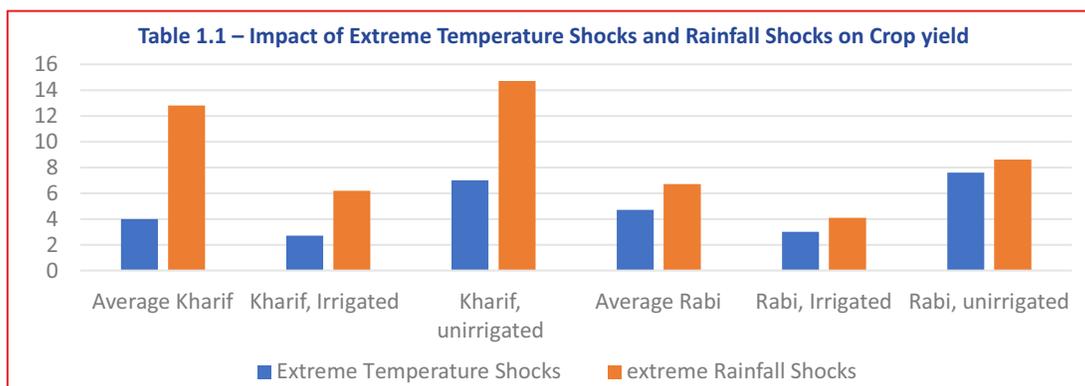
Economic Survey

The Agriculture sector contributes 16 percent to India's GDP and employs 49 percent of the total workforce. The Economic survey points out that poor agricultural performance in the coming years can lead to higher inflation (based on consumer price levels); exacerbation of farmer distress in areas of credit allocation and repayment of existing (farm) loans, which in turn leads to social and political disaffection. The biggest challenge for the agriculture sector has been to increase productivity and reduce the proportion of people dependent for work in the sector as there is lack of alternative employment opportunities in rural areas. Structural transformation theories for growth in developing countries often push people (employed in the agriculture sector) to move towards higher wage and skilled opportunities in areas of manufacturing and tertiary sector.

Another problem highlighted by Economic survey was that Indian agriculture is dependent on rain fed irrigation. In India, the performance of the agriculture sector continues to be highly volatile with 52 percent of net sown area (73.2 million hectares out of 141.4 million hectares) still continues to be unirrigated and rain fed. Unfavourable monsoon patterns often change the yield (total output) across states. The report analyses, in case of drought-like conditions, kharif yields would be 18 percent lower in unirrigated areas than if rainfall was normal. It estimates that during *Kharif* season, average impact on revenue could be 12.8 percent and 6.2 percent in irrigated parts and 14.7 percent in the unirrigated parts.

Irrigated Rabi and, Unirrigated Rabi are impacted by 4.1 percentage points and 8.6 percentage points respectively by the average rainfall. The difference in impact on Kharif and Rabi crops exist because of the kind of crops and likeliness of unexpected rainfall in the season.

The following figures show the impact on crops due to extreme temperature shocks which are similar in both Kharif and Rabi seasons.



Source: Economic survey 2017-18 Vol 1, pg no. 94

The Economic survey had the following observations:

- The productivity of land and crop yield are affected only when temperatures are much higher, rainfall significantly lower, and the number of “dry days” greater, than normal.
- Economic survey pointed out that parts of Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Chattisgarh and Jharkhand are not well irrigated while most parts of North India are well irrigated
- Economic survey also notes that most of the north India would have to face potential challenges posed by ground water depletion.

Key recommendation on Climate change and weather conditions affecting the crop yield

Economic survey recommends an increased focus on science and technology to overcome the problems with irrigation via technologies like drip irrigation, sprinklers, and innovation in water management

Union Budget

In 2018, the allocation for the Ministry of Agriculture and Farmers Welfare increased from Rs. 44,500 crore in 2017-18 to Rs. 57,600 crore in 2018-19, i.e 0.1 percent increase from last year. The biggest highlight for the agriculture sector in this year's budget was announcement of MSP of 50 percent over cost of production. MSP or Minimum support price is a minimum amount promised by the government to the farmers for their produce before a cropping season is about to begin. But there were multiple problems with the announcement on MSP in this budget.

- First and foremost, the Swaminathan committee's¹ recommendation which was included by BJP in their manifesto in 2014 was to ensure that MSP was one and half times the C2 costs) but the government is going to calculate MSP based on A2 costs.
- A2+FL or Actual cost and family labour is the actual paid out cost plus imputed value of family labour . While C2 or comprehensive cost is A2+FL+ the rental value of owned land and interest on owned fixed capital
- To put things into perspective, if we look at data from 'Commission of Cost and Pricing' for the Rabi season 2018-19 the 'A2+FL' for wheat comes out to be Rs 817/quintal and a 50 percent over A2+FL as promised in the budget would be Rs 1225.50/quintal.
- Surprisingly, MSP for wheat in this Rabi season was Rs 1700/ quintal suggesting the new MSP calculation mechanism could even lead to a reduction in MSP than an increase.
- The comparison of past and current MSP calculation mechanism helps us understand that the current MSP prices could be lower than previous ones due to the method. This analysis also illustrates that government announcement of '50 percent over the production costs' doesn't hold true.

Other important observation

- As mentioned earlier, India needs to focus on increasing amount of land under irrigation. Allocation for Rashtriya Krishi Vikas Yojana registered a decline in the current budget, it was allocated Rs 8443 crores when it was initiated in 2014-15, this year it has been allocated less than half of that, Rs 3600 crores.
- There has been a continued focus on insurance schemes for farmers. This year Pradhan Mantri Fasal Bima Yojana (PMFBY) received Rs. 13000 crore, an increase of Rs 3000 crore from previous year.

Missing Gaps

- The Shanta Kumar committee² had found out that only 6 percent farmers in the country are able to sell their produce at MSP, in that case the announcement does not benefit the rest 94 percent farmers. The government should instead focus on cost cutting measures which would benefit a larger proportion of farmers.
- Around 50 percent of the total area under agriculture continues to be unirrigated and highly dependent on monsoon, the focus needs to be shifted to improving the situation.
- The expenditure on rural development has also decreased in this year's budget which would have an overall negative impact on the farmers and the agriculture sector.

Climate Change and its impact on Agriculture

Economic Survey

On climate change, the survey pointed out that there is a strong correlation between rising temperature, declining average precipitation and increase in extreme precipitation events. It was adduced that climate change would result in reducing agriculture income in both irrigated and unirrigated areas. The estimate projected on long term weather patterns imply that climate change can reduce agriculture income between 15 percent to 18 percent on average and upto 20 percent to 25 percent in unirrigated areas.

It was observed climate change has a significant impact on the agriculture revenue. Crops grown in rain-fed areas are prone to weather shocks compared to other areas which are relatively immune. Another important factor which affects agricultural productivity is that of “dry days” during the monsoon season. Each dry day during the monsoon season reduces the yield by 0.2 percent on average and 0.3 percent in unirrigated areas.

The climate change model developed by Inter-governmental panel on Climate Change (IPCC) suggests that there will be rise of 3-4 degrees Celsius by the end of 21st Century. Based on the model it is assessed that farm income will fall by 12 percent on average in the coming years. Unirrigated areas will be most severely affected with potential losses going up till 18 percent of annual revenue.

Union Budget

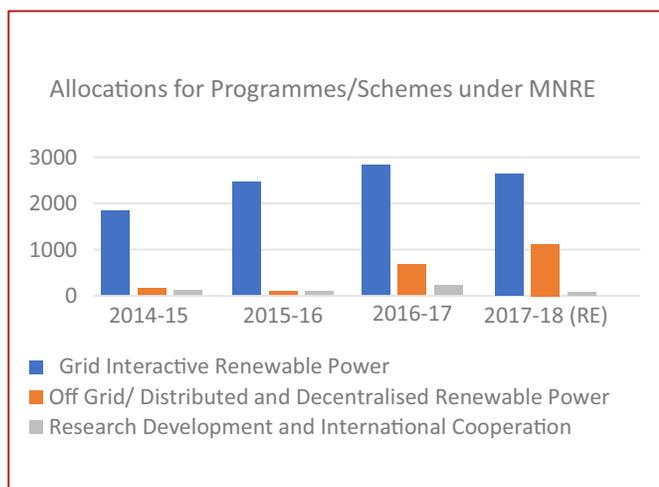
The budgetary allocations for climate change has been consistently low over the years. The allocation for MOEF & CC remains the same as last year at Rs. 2,675 crore even while the overall annual budget has increased significantly. Though the budget for MNRE increased by 8.5 percent to Rs. 10,317 crore. This showcases that relatively there is more focus on Renewable energy compared to environment conservation. But this thrust is not enough.

As of December 2017, India's renewable energy capacity stands close to 62.8 GW. The Wind energy has more than 50 percent share of it, the solar energy has around 26 percent share and is closely followed by other Renewable energy sources combined. This increase of 8.5 percent is not adequate for the pace needed for meeting the target of 175 GW renewable energy capacity target set for 2022. This year, Off Grid/Distributed and Decentralised Renewable Power allocation declined by 7.5 percent from previous year.

India was placed in bottom three on the Environmental Performance Index recently. It is a matter of concern that even after all this neither the Finance ministry has sanctioned any significant amount for environment preservation, nor were any schemes announced.

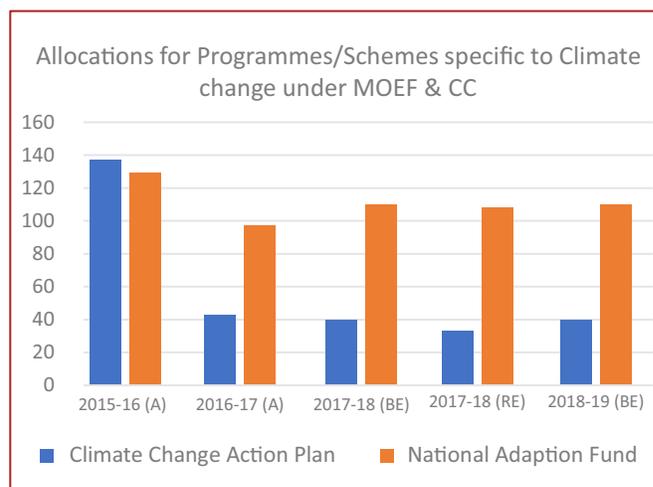
Following are two tables on allocations to MNRE and MOEF & CC for the year 2018-19

Table 1.4 Allocations for Programmes/Schemes under MNRE (in Rs. Crore)



Source: Hits and misses of the Budget, CBGA pg no. 63

Table 1.5 Allocations for Programmes/Schemes specific to Climate change under MOEF & CC (in Rs. Crore)



Source: Hits and misses of the Budget, CBGA pg no. 63

Missing Gaps

This section highlights the massive gap between the perspective of the Economic Survey and that of the Union budget. The budget while briefly discussing the climate change policy did not focus the impact of climate on agriculture. There is a dire need to focus on agriculture especially the unirrigated farm areas which rely heavily on rainfall. India has been talking big about its responsibility towards the environment and to meet the sustainable development goals and Paris climate agreement targets.

On Reducing Gender Inequality

Economic Survey

The Economic Survey in 2018 focused exclusively on discussing reforms to reduce widespread gender inequality and highlighted its rise as one of the main concern, in terms of meta-preferences of sons across the Indian Society. While dealing with a major question of whether development is an anti-dote to such a gender preference, the report largely highlights the existence of convergence effect where gender indicators are more responsive to the household wealth. India's score has improved over time.³

Findings :

- It was found that between 2005-06 and 2015-16, women's involvement in decisions about their own earnings were same, i.e. there was no percentage increase or decrease.
- When it came to women's involvement in decisions about contraception, there was a decrease of 1.7 percent in the surveyed period. The same was observed in using reversible contraception where the decrease was of 1.0 percent.
- Employment saw a drastic fall of 12.3 percent during the said period.
- It was found that in India all gender dimensions respond to wealth to a great extent, as compared to other countries
- The area where development is not proving to be an anti-dote is where there exists a "son-preference". This has led to a skewed sex ratio at birth and beyond and has raised the problem of "missing women" (63 million). Another phenomenon is that of having a "son meta-preference", which involves having children till the desired number of sons are born leading to having "unwanted girls" (estimated at over 21 million). It also leads to less number of resources being devoted to girls. One of the indicators for this is Sex Ratio of the Last Child (SRLC)The ideal benchmark is where there is no son preference.

While doing a state-wise comparison it is observed that Meghalaya is at an ideal stage where there is no "son preference". States such as Kerala do not seem to practice any sex selective abortions, however, they may have a meta-preference towards son, resulting in a skewed SRLC. States like Punjab and Haryana have a sex ratio which is male skewed and exhibits a meta preference towards son.

Union Budget

Union Budget 2018-19 provided for allocations to promote various women safety schemes. This included safety schemes with the Delhi Police to enhance the capability of the women police force. It also aimed at holding camps for self-defense training in schools/colleges with aim of giving women self-confidence.

The budget also provided for various schemes demanded by the Ministry of Women and Child Development like The National Nutrition Mission- EAP component aims at enhanced capability of mothers to look after own health and nutrition of child. The Scheme for Adolescent Girls aims at improving the nutritional status of adolescent girls and motivating out of school girls to join school thus improving enrolment and retention of girls in school. The scheme will be implemented across 508 selected districts across the country and aims to benefit 40.26 Lakh girls between the age of 11-14 years.

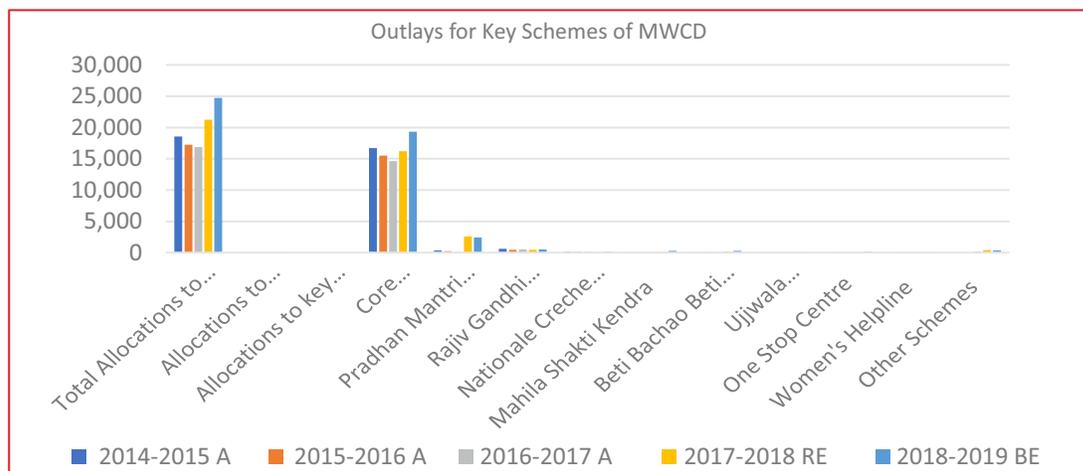
A total of 267.30 crores were allocated to the Mahila Shakti Kendra. The scheme involves setting up of State Resource Centre for Women (SRCW) under the respective state governments, 220 District Level Centre for Women set up in 220 districts and 500 blocks in 100 selected districts (5 block per district) to provide MSK convergent service for empowering women

The Swadhar Greh scheme aims to cover 18000 beneficiaries while providing an opportunity to support women in difficult circumstances by providing them with shelter, food, clothing and emotional support. It also aims at rehabilitation through education, awareness and skill upgradation.

The Ujjawala scheme aims to provide support to women who were forced into trafficking by ensuring rehabilitation and reintegration of the victim. The scheme aims to cover 6000 beneficiaries.

Working women hostel aims to promote availability of safe and convenient located accommodation for working women along with day care facilities for their children. The budget proposed to sanction for 45 new hostels which could accommodate 4500 women. The Beti Bachao Beti Padoo (BBBP) Campaign aims at closing the gender gap in terms of sex ratio and increased enrolment of girls in school. It also aims at providing girls toilet in every school in selected district.

Table 1.3 Outlays for Key Schemes of Ministry of Women and Child Development



Source: Hits and misses of the Budget, CBGA pg no. 40

Missing Gaps

- The budget even though extensively provided for welfare schemes for women, it did not focus on the central aspect of the Economic Survey, i.e. the Sex Ratio of the Last Child.
- With better implementation of laws which deter sex selective abortions, and female foeticides there has been significant shift towards the practice of reproducing till the family has desired number of sons. However, the focus also needs to be on increasing the campaigns like Beti Bachao Beti Padao and tackling social issues of son preference.
- The economic survey also stated that there is a significant fall in employment of women. No significant initiative has been taken in the Union Budget to increase employment of women.
- The Economic Survey on the other hand did not focus on self-reliance. Government has focused on self-employment in order to promote self-reliance. The government allocated 3 lakh crore for the Micro-Units Development and Refinance Agency Ltd. (MUDRA) scheme in the budget. The scheme provides first time entrepreneurs funds at a concessional rate of interest. The beneficiary of the scheme is mostly women (76 percent)
- A failure of expectation was seen in government's focus on hygiene and sanitation. The expectation was that the government would remove GST over sanitary napkins, however no such steps were initiated.

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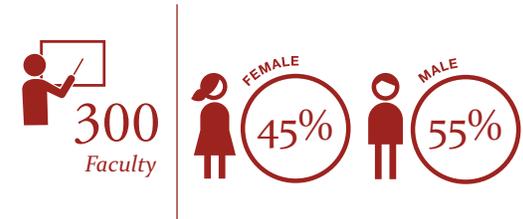
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End Notes

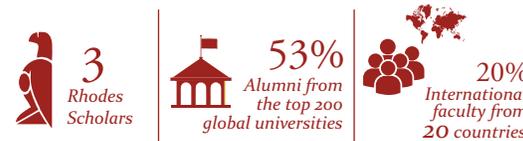
1. MS Swaminathan committee was setup in 2004 to look into the reasons for agricultural distress and recommend changes to improve the situation of farmers
2. Shanta Kumar committee was setup in 2014. It was set up to restructure Food corporation of India(FCI). It submitted its report in 2015
3. On 14 out of 17 indicators

O.P. Jindal Global University at a Glance

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Faculty



Students



Schools



Research



3 Research & capacity building institutes



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