

Mains Master

The mystery about investment

Context:

- The Indian economy has witnessed a concerning decline or stagnation in investment rates since 2010, even predating the current government's tenure.
- This trend stands in stark contrast to the official narrative of a resurgent and buoyant economy, creating a disconnect between perception and reality.
- Interestingly, this also stands in contrast to the behavior of the stock market, highlighting how it's not always a reliable indicator of overall investment or economic health.

Background:

- Investment plays a crucial role in any economy, fueling growth, development, and job creation. It encompasses various forms, including:
 - Public sector investment: Driven by government and public companies, this often focuses on infrastructure development and social welfare initiatives.
 - Private corporate investment: Undertaken by businesses, this targets expansion, innovation, and production capacity enhancement.
 - Household sector investment: This includes personal investments in dwellings, as well as investments by unregistered small and micro enterprises, forming a significant backbone of the informal economy.

Benefits of Investment-Led Growth:

- Robust economic growth:** Increased investment translates to more capital available for businesses, leading to expansion, job creation, and higher production.
- Infrastructure development:** Investment in infrastructure like roads, bridges, and energy grids improves connectivity, logistics, and overall operational efficiency.
- Technological advancements:** Investment in research and development fosters innovation, propelling the economy towards new technologies and improved productivity.
- Higher standard of living:** As the economy grows, living standards improve for citizens through better job opportunities, increased income, and access to essential goods and services.

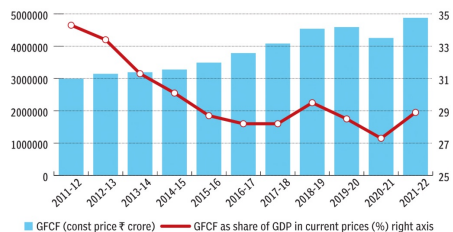
Present Status of Investment in India:

- The overall investment rate currently sits below its peak levels observed in 2011-12, indicating a concerning slowdown.
- Household sector plays a surprisingly significant role, contributing nearly 40% of total investment, highlighting the importance of the informal economy.
- Public investment has seen a gradual increase in its share over the past decade, indicating efforts to bridge the gap.

- Private corporate investment, despite various incentives, has remained stagnant, raising concerns about its responsiveness to policy measures.

Declining trend

Gross fixed capital formation since 2011-12



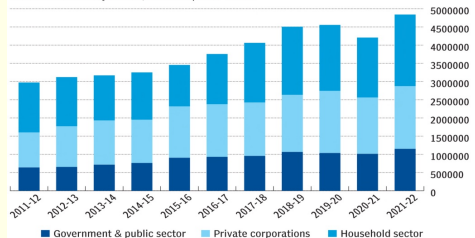
- While investment in manufacturing shows encouraging signs of an uptick, real estate investment has stagnated, indicating uneven sectoral distribution.

Challenges:

- Widespread inequality:** A major factor hindering investment growth is the stark economic disparity in India. As a sizeable portion of the population struggles with low incomes, the potential for a robust domestic market remains unrealized.

Household surge

Fixed investment by source, constant prices ₹ crore



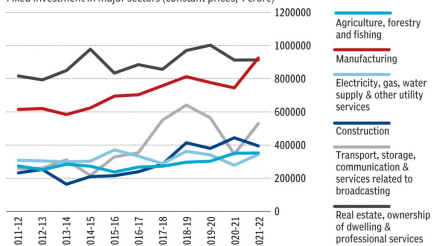
- Limited domestic market:** Due to insufficient income growth for a large part of the population, the size of the domestic market for mass consumption goods remains limited, discouraging large-scale investments.
- Challenges for private investors:** Many private investors struggle to find economies of scale due to limited domestic demand and face flat or declining demand in certain sectors, further dampening their investment enthusiasm.



Sectoral outlook

Fixed investment in major sectors (constant prices, ₹ crore)

CHART 3



Way Forward:

- **Reduce inequality:** Bridging the income gap and ensuring sufficient incomes for the bottom half of the population is crucial. This will create a larger domestic market, attracting more investment and boosting economic activity.
- **Shift in perspective on wages:** Viewing wages not just as costs to be minimized, but also as a source of demand that fuels economic growth, can encourage policies that support wage increases and improve living standards.
- **Policies for a dynamic mass market:** Focusing on policies that create a dynamic mass market by expanding access to education, healthcare, and essential services can empower the bottom half of the population and unlock their potential as consumers and contributors to the economy.

Myanmar's civil war and India's interests

Context:

- **Elected Government Ousted:** In February 2021, Myanmar's military staged a coup, removing the democratically elected government led by Aung San Suu Kyi. This triggered widespread resistance and armed conflict.
- **Ethnic Armed Groups (EAOs) and People's Defence Forces (PDFs):** Various ethnic groups with longstanding grievances against the central government formed alliances and armed groups to oppose the military junta. Additionally, civilian groups formed PDFs to fight the military.
- **Arakan Army:** One prominent EAO is the Arakan Army, operating in Rakhine State and bordering Chin State. They have clashed with the military and gained control of several areas, including Paletwa in Chin State.

Background:

- **Paletwa Dispute:** Historically, the Chin and Arakan ethnicities have differing claims to Paletwa. While Chin consider it part of their homeland, some Rakhine groups claim it belonged to their historical territory during colonial rule. This unresolved dispute poses challenges for inter-ethnic cooperation against the military.
- **Inter-Ethnic Solidarity:** For effective resistance against the military, EAOs need to overcome historical differences and build solidarity. Finding common ground on sensitive issues like territorial claims is crucial.
- **Kaladan Multimodal Transit Transport Project (KMTTP):** This India-Myanmar infrastructure project aims to improve connectivity between northeast India and Myanmar's Sittwe port through Chin State. Delays due to the conflict and unclear stakeholder positions hinder its progress.

Issue:

- **KMTTP Uncertainty:** The capture of Paletwa by the Arakan Army raises concerns about their stance on KMTTP. If they oppose the project, it could face further delays and jeopardize India's connectivity goals.
- **Chinese Influence:** The Arakan Army is part of a group receiving alleged support from China. Concerns exist that China might use such groups to influence developments in Myanmar and potentially slow down Indian projects like KMTTP.
- **Growing Chinese Footprint:** China is expanding its economic presence in Myanmar, particularly in Rakhine State near Kyaukpadaung port, raising concerns about their strategic intentions and potential competition with India's interests.

Myanmar's border State and India's strategic interests

Map 1 shows the route of India's proposed Kaladan Multimodal Transit Transport Project, with Map 2 showing Chin State where current tensions are playing out. Chin State abuts Mizoram and Manipur in India. Table 1 outlines details of the Kaladan project



Impact on India-Myanmar Relations:

- **Strained Relations:** KMTTP delays and uncertainty regarding the Arakan Army's position create friction in India-Myanmar relations, hindering economic cooperation and trust-building.
- **Limited Engagement:** Complexities like the Arakan Army's stance and potential Chinese influence make it challenging for India to engage effectively with different stakeholders in Myanmar.
- **Geopolitical Competition:** China's growing economic and military presence in Myanmar puts pressure on India to assert its interests and counter China's potential influence.



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Impact on Indian States Bordering Myanmar:


- **Refugee Influx:** The ongoing conflict displaces people, leading to a refugee influx into northeastern Indian states, straining resources and infrastructure.
- **Security Threats:** Spillover violence and instability from Myanmar pose security concerns for bordering Indian states, requiring increased vigilance and border management efforts.
- **Economic Hindrance:** KMTTP delays hamper economic development opportunities in northeastern India, hindering trade and connectivity potential.


Way Forward:


- **Cautious Engagement:** India needs to carefully navigate its engagement with EAOs, considering their diverse interests and avoiding fueling internal conflicts in Myanmar.
- **Broader Assistance:** Scaling up humanitarian and development assistance in coordination with a wider spectrum of ethnic groups and local communities can foster goodwill and understanding.
- **Strategic Monitoring:** Closely monitoring evolving ethnic relations, military-EAO dynamics, potential Chinese influence, and security threats is crucial for informed decision-making.
- **Dedicated Expertise:** Establishing a dedicated team within the Indian government to oversee various connectivity and development projects in Myanmar and its neighborhood could help expedite progress and address complex challenges.


Prelims Booster


Opposition raises breach of federal principles in RS


 Rajya Sabha debates during the Motion of Thanks to the President's address focused on issues such as unemployment, breach of federal principles, and communal divisions.


 A Motion of Thanks is a formal proposal presented in a legislative body to express gratitude or appreciation for something.


 In the context of the Indian Parliament, it refers to a debate and vote on the President's address to a joint sitting of the Lok Sabha and Rajya Sabha at the beginning of each session.


 The President's address outlines the government's policies and programs for the upcoming year.

 The Motion of Thanks provides an opportunity for members of Parliament to discuss and express their views on these matters.


 The debate can cover a wide range of issues, including the government's performance, legislation, and national and international affairs.

 The Motion of Thanks is ultimately voted on by the members of Parliament.

 If a majority vote in favor of the motion, it is considered to be an expression of support for the government.

 If a majority vote against the motion, it is considered to be a vote of no confidence in the government.


Highest in a decade, direct tax to GDP ratio to touch 6.6% in FY24: CBDT chief


-  Direct taxes, such as income tax, corporate tax, and wealth tax, are levied directly on individuals and entities, and the direct tax to GDP ratio reflects the proportion of the country's total economic output collected through these taxes.

Direct tax mop-up





Head	Collection (₹ lakh cr)			Growth (%)		% of GDP	
	FY24 BE	FY24 RE	FY25 BE	FY25 over FY24 RE	FY25 over FY24 BE	FY24 RE	FY25 BE
Personal income tax	9.01	10.22	11.56	13.1	28.4	3.4	3.5
Corporate income tax	9.23	9.23	10.43	13.0	13.0	3.1	3.2
Total direct tax	18.24	19.45	21.99	13.1	20.6	6.6	6.7

Source: Budget Documents





-  A higher direct tax to GDP ratio, like the 6.6% mentioned, indicates a significant portion of the country's revenue is derived directly from individuals and corporations, reflecting a well-established tax base, effective tax administration, and a robust system for collecting direct taxes.

-  A direct tax to GDP ratio of 6.6% suggests a substantial share of the overall economic activity contributes to the government's revenue through direct taxes, indicating a relatively strong and stable source of revenue for the government from a fiscal perspective.

Cool magnets

-  A new alloy has been discovered as an effective magnetic refrigerant, offering an energy-efficient and environment-friendly cooling technology to minimize greenhouse gas emissions and meet the global demand for higher energy efficiency in addressing global warming.
-  Magnetic refrigeration, as an alternative to vapour-cycle refrigeration technology, is being pursued for household, industrial, and technological applications due to its energy efficiency and environmental benefits.
-  The magnetic cooling effect (MCE) involves the reversible temperature change of a magnetic material when subjected to an external applied magnetic field, with magnetization and de-magnetization leading to the material either giving out or absorbing heat.
-  Current research focuses on developing new magnetic materials as refrigerants, with specific requirements such as high thermal conductivity, fatigue resistance, and response to lower magnetic fields to achieve giant magneto caloric effect (GMCE).

Green Coating

-  A new technique using high velocity air fuel spraying for synthesizing thin hard surface coatings has the potential to replace hard chrome plating, offering an environment-friendly and safer alternative for car parts, tools, and kitchen utensils.
-  Chrome plating, known for its hardness and wear resistance, contains carcinogenic elements, leading to the search for a safer alternative with equivalent or superior wear resistance and crack-free coating, while reducing the need for grinding processes and minimizing powder usage.
-  The high velocity air fuel (HVOF) technique allows for the deposition of thin coatings using finer-sized powders, resulting in reduced thickness build-up and the need for grinding and polishing operations, offering an economical and efficient alternative.
-  Scientists from ARCI, Hyderabad, have synthesized thin hard coatings made of a composite alloy of tungsten, cobalt, and chromium using the HVOF spraying method, enabling the deposition of smooth surface coatings with reduced post-coating finishing operations and better wear resistance than hard chrome plating.