GS SCORE

CURRENT Q&A

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Content

CURRENT Q&A

1
POLITY
&
GOVERNANCE

1.1 SHOULD POLITICAL ACTIVITIES BE RESTRICTED IN UNIVERSITY CAMPUS?

Make 'POINTERS' for 'REVISION'

(Q) If the goal of a university is not myopically defined to train students only in a particular subject, but is to prepare students for unforeseen and unimagined things that life has to offer, then politics is very important, as a part and parcel of college. Comment in the light of recently released TSR Subramanian committee report.

Context

A government panel entrusted with making suggestions for the new national education policy has recommended restrictions on political activities in universities and colleges across the country. The committee, headed by former cabinet secretary T S R Subramanian, has also said that educational institutions should consider derecognising student groups based explicitly on caste and religion and also restrict the period for which students can stay on campus.

Argument in favor of banning Political activities in campus

- The increasing number of student protests "Agitations, disturbances, gheraos and other disruptive movements are being increasingly witnessed on campuses in recent years with potential to interfere with normal academic activities. As a result of this, examinations often get delayed or postponed. These disturbances are generally caused by a small section of politically active students and work to the detriment of the majority of serious students.
- **Colleges have become proxy battlefields for the CPM-Congress-BJP:** In the battle between these three elephants and expectedly it is the grass (the students) that always gets trampled upon.
- **Students are forced to adopt "identity politics":** The youth is a free bird and can choose what it wants to be. Students are supposed to be a clean slate and take whatever path they fancy. Sometimes this choice is not made even after the completion of the education process. It's a journey to discover who you really are. However, when you become part of a student body you are forced to adopt an identity you may not be comfortable with. After that, you will be defined by that label. It will guide your actions and ideology. That is extremely unhealthy for an impressionable developing mind.
- **Leads to violence which is brushed under the carpet:** In most education institutions in the world, violence is discouraged and those indulging in it are immediately thrown out. That is not the case in India. If you indulge in violence on the goading of your political masters, you know they will save you when you are in trouble.This, in effect, gives a free license to indulge in violence. As compared to education institutions in the West, we have far more cases of vandalism, deaths and general indiscipline. We cannot afford that.
- **Leads to tremendous inefficiency:** College heads are scared to act owing to political interference. Professors are wary of doing anything radically different and will take the beaten path. Agitations overshadow studies. Man hours are lost as a result of umpteen strikes, debates and confrontations.

Arguments against banning

- Article 19 of the Indian Constitution gives all Indian citizens the right to freedom of speech and expression, the right to assemble peacefully and without arms and the right to form associations or unions. These are fundamental rights, and cannot be taken away unless there is a situation of declared emergency. Therefore, as citizens of this country who have full voting rights, students (or any group of citizens, for that matter) have the right to form associations and unions.
- Historically, campuses have been crucibles of leadership. College and university students are active citizens with voting rights to general, assembly and local body elections. It is absurd and even undesirable to expect them to be immune to, and insulated from, political ideas and debates.

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- Equally, the political behavior and modes and language of organizing of students are likely to be influenced by the political activity outside the campus. The fact is, caste and religion are markers of political identity in India and parties, covertly and overtly, mobilise around them. What is often labelled "casteist" politics has provided valuable space for the expression and assertion of interests of historically disprivileged groups.
- In its best version, campus politics is a platform for questioning congealed inequalities and prejudices and a force for greater social inclusion. In fact, the absence of debate and agitation over larger social and political issues on campus in an argumentative democracy ought to be viewed as abnormal.
- If the goal of a university is not myopically defined to train students only in a particular subject, but is to prepare students for unforeseen and unimagined things that life has to offer, then politics is very important, as a part and parcel of college activities, for the overall development of an individual's personality and character. It must be remembered that character building is the first step to nation building.
- Also, politics is needed in institutions not only because it is present everywhere but to produce better leaders instead of having leaders foisted upon us because of their money/muscle power, or by virtue of their lineage. Since college politics has direct links with national and state level politics, it becomes a good launching pad for new faces that otherwise would not have had a chance to enter the political arena. Therefore, student politics institutionalises the merit-based search for future leaders.

Way Forward

Restricting or banning political activity in campus would undermine Fundamental rights and would also adversely affect supply the future political leaders. However, currently only a politics of disruption and destruction is practiced both in the national parliament and in college campuses. This adversely affects the legislative process and academics respectively. The need of the hour therefore is that the leaders of tomorrow must rise to the occasion and devise new and innovative ways of dissenting and protesting through their writings, movies, plays, songs, using the power of social media and the internet without disrupting the academic discipline of the institution. Also, they must not deprive others of their right to study in a peaceful environment.

1.2 OFFICE OF PROFIT ISSUE IN THE CONTEXT OF RECENT CONTROVERSY RELATED TO PARLIAMENTARY SECRETARY IN DELHI

(Q) In the light of recent debate related to disqualification of the parliamentary secretaries in India, discuss why are such criticisms being raised. Does the Constitution of India provide for the appointment of PS? How can the debated be settled? Is such a move justified in ensuring smooth functioning to ease the burden of legislators?

Context

- The President recently refused assent to a Delhi government Bill to exclude the post of Parliamentary Secretary from the office of profit. This has put a question mark over the membership of 21 Party MLAs of the Delhi Legislative Assembly, who have been appointed Parliamentary Secretaries by the Delhi government.
- The matter now lies with the Election Commission.

Background

The Delhi government had appointed 21 of its MLAs as parliamentary secretaries in various ministries to speed up public work.

- Following criticism by members of the opposition, who called it unconstitutional, the government passed a bill which was intended to provide security cover for those legislators appointed as parliamentary secretaries.

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- Through the bill, the Delhi government had sought an amendment to the Delhi Members of Legislative Assembly (Removal of Disqualification) Act, 1997. The bill aims to exclude the post of parliamentary secretary from the office of profit and exempt the post from disqualification provisions.
- The bill was forwarded to the centre, which in turn was sent to the President with its comments. The President has now refused to give assent to the bill.

What are the issues raised by the debate?

- It raises two issues. First, the Constitution specifies conditions which disqualify MPs, MLAs, Municipality and Panchayat members from membership of their respective institutions. The first is holding an "Office of Profit" under the state or central government. The essence of this disqualification is that there should be no conflict between the duties and interests of an elected member. MPs and MLAs hold the government accountable for its work, and if they held an "Office of Profit" under the government, they might be susceptible to government influence and might not discharge their constitutional mandate fully.
- Second, the Constitution caps the number of members in the union and state cabinet. Article 164(1A) specifies that the number of ministers including the Chief Minister has to be within 15% of the total number of members of the Assembly. (10% in the case of Delhi, which is not a 'full' state) Over the last few years, courts across the country have struck down the appointment of Parliamentary Secretaries for violating the Constitution.

What is an "Office of Profit"?

- There are basically four principles for determining whether an office attracts the constitutional disqualification.
- First, whether the government exercises control over appointment, removal and performance of the functions of the office.
- Second, whether the office has any remuneration attached to it.
- Third, whether the body in which the office is held has government powers (releasing money, allotment of land, granting licences etc.).
- Fourth, whether the office enables the holder to influence by way of patronage.

Are there any exemptions to the Office of Profit rule?

The Constitution specifies that Parliament and state Legislative Assemblies have the power to enact laws and keep certain offices out of the preview of Office of Profit. In 1959, Parliament enacted a law specifying offices that would not attract disqualification under the Constitution. This law has been amended on several occasions.

Who is a parliamentary secretary?

A Parliament Secretary is similar to a Minister of State who assists a Minister in his or her duties.

Why President did not give his assent to the Bill?

The President takes note of Section 15 of the government of NCT of Delhi Act, 1991. It says a person shall not remain an MLA if he or she holds any office of profit under the Centre or government of a state or UT. Also, according to the president, parliamentary secretaries come under the purview of 'office of profit' criteria. Besides, the Lt Governor had said the office of parliamentary secretary is defined as an "office of profit if one looks at the statutes of Delhi" and that as per the GNCT Act, the city can have **only one parliamentary secretary attached to the office of the Chief Minister**.

Controversies in other states

- Appointments in many states have been challenged. A Telangana government order appointing Parliamentary Secretaries was stuck down in 2015 by the High Court in Hyderabad. Also last year, the Calcutta High Court junked a law enacted by the West

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Bengal Assembly which provided for the appointment of Parliamentary Secretaries. In 2009, such appointments were held unconstitutional in Goa, and in 2005 in Himachal Pradesh.

- In the case of Delhi, even though the Parliamentary Secretaries have not been given the status of Ministers with salaries and perks, 21 of them make up as much as 30% of the House.

Why appointing MLAs as Parliamentary Secretaries is not a good move?

- No particular organ of state should have a concentration of powers. Different institutions act as a check on the actions of others. However, this move weakens the power of legislative bodies by governments, and thus **weakens the principle of separation of powers**.
- Every legislator should be able to carry out legislative duties without any obligation to the government of the day. The latest move is in contradiction with this principle.
- This move raises questions over the ability of the Assembly to exercise its oversight role over the government. The role of legislators is not to help the government do its job better, but to ensure that it functions in a proper manner. That is, the legislator exercises the role of a watchdog over the government on behalf of citizens and not as an agent of the government.

What can be done now?

The legislator can escape disqualification only if the office is declared - by law made by Parliament, state legislature or UT -as a post that does not attract loss of membership. The fate of the MLAs will now be decided by the Election Commission that is considering a petition seeking their disqualification.

Conclusion

The role of legislators is critical in a democracy. They are elected by citizens, and have the task of ensuring that the government is acting in the best interests of the public. In this, they are expected to exercise their independent judgements on what constitutes public and national interest. They act as a bulwark against autocratic actions of the executive. Therefore, it is imperative that their independence is protected. Actions that impinge on such independence, such as excessive appointments to executive positions, the anti-defection law and MPLADS, should be reversed. Otherwise, there is a risk of a slow erosion of the institution of legislatures, which could put at risk the very existence of our democratic structure.

1.3 DOING AWAY WITH RAILWAY BUDGET

(Q) The NITI ayog has suggested for scrapping of railway budget and that it should be made a part of the financial budget. Give your opinion if the scrapping of railway budget is justified or not.

Context

- Recently the NITI Aayog has argued that the convention of presenting a separate railway budget every year be done away with. Is this a good idea to implement?
- The proposal states that the separate budget had failed to be of use to the sector and had become a mechanism to announce popular measures.

Background

- A separate budget for rail started in 1924 after Acworth committee recommendations during the British rule. Railway was considered a great asset of that time so a separate budget made sense, but as the Indian economy grew exponentially, the Rail Budget seemed quite smaller than the main budget. But the government has not yet abolished the separate budget for Railway.
- Critics have questioned the relevancy of a separate budget for railway as it has a very small expenditure as compared to the main budget.

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Why a separate budget for Railways still exists?

- As per a consensus of government employees by All India Audit and Accounts Association in 2009, 44 per cent of civilian employees, employed by central government come under Ministry of Railways.
- Indian Railways has a network comprising of 115,000 km of tracks and a route of over 65,000 km.
- Lack of reforms and investment has hurt the growth of facilities and infrastructure of the railway. Indian Railways is completely owned by the central government and private investment is almost negligible.
- Indian Railways carries almost one third of the country's cargo which directly affects the production and development.
- There are other 14 subsidiary public undertakings under the direct control of Indian Railways. Container Corporation of India Limited (CONCOR) and Indian Railway Catering and Tourism Corporation (IRCTC) are two most known names of those 14 companies.
- The management of such a large organization, infrastructural development, salaries of employees and passenger services definitely require a separate budget. It also aims to take burden off from Finance Ministry that is already responsible for world's third largest economy.

Arguments for scrapping railway budget

- It has led to a stream of populist measures as it attracts lot of media and public attention. This has made it a routine affair to announce new trains, new facilities etc without looking in its utility and cost for benefit analysis.
- It has failed to address issues pertinent to railways, be it poor financial situation or high freight charges or heavy cross subsidization.
- On comparing, it can be seen that railway budget is not among the highest. Defence has even higher spending but not separate budget.
- **Timely action and Responsiveness:** Railway cannot afford to wait for annual changes. It needs to react more swiftly, and with greater flexibility, to be rapid in terms of raising or lowering fares, adapting to new technologies or improving safety standards.
- **Expert committee recommendations:** Rakesh Mohan committee and Bibek Debroy committee has also suggested that it should be mergers with general budget in next 5 years.

Criticisms

- Media visibility is necessary to impose accountability and should not be a reason for separate budget.
- Inefficiency can be reduced by restricting political interference in decisions on new trains, halts, routes etc.

Way forward

- Merging of railway budget with finance budget would definitely reduce fiscal deficit and induce fiscal consolidation. It will bring harmony in policy framework if budget is prepared by one organisation viz Ministry of Finance. It will reduce burden on Railway ministry which can focus on improving its poor status for example by rationalising passenger fair which has not been increased fearing political backfire etc.
- What is needed is to chart out roadmap to ensure railways intensive participation in budget as Railways is lifeline of India and different from other subjects. It has huge social and economic significance for crores of passengers, 14 lac employees and corporate. Railway board needs to be strengthened and railways ministry needs to explore other ways of meeting its financial needs and focus on policy issues which remain untackled like services offered, security issues, tailing it with dedicated freight corridors and Sagarmala projects among others.

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1.4 MAKING AND UNMAKING OF UGC

(Q) Has the UGC failed to evolve according to the changing dynamics of higher education, and fallen short of achieving its original mandate? Critically comment in the light of recent recommendation of TSR Subramniam committee to scrap UGC.

Context

Recently TSR Subramniam committee has recommended that the UGC Act should be allowed to lapse and replaced by a new National Higher Education Act. It brings up an important question—has the UGC failed to evolve according to the changing dynamics of higher education, and fallen short of achieving its original mandate?

Background

- The University Grants Commission (UGC) of India is a statutory body set up in 1956, and is charged with coordination, determination and maintenance of standards of higher education.
- UGC was formed in 1946 to oversee the work of the three Central Universities of Aligarh, Banaras and Delhi. In 1947, a Committee was entrusted with the responsibility of dealing with all the then existing Universities.
- The UGC was however, formally established in November 1956, by an Act of Parliament as a statutory body of the Government of India.

Functions

- It provides recognition to universities in India.
- It oversees distribution of grants to universities and colleges in India.
- It provides scholarships/fellowships to beneficiaries.
- It monitors conformity to its regulations by universities and colleges.

How has UGC failed over the years?

- Appointment at the Top management level have been politicized which have led to the infringement of the autonomy of the organization.
- The UGC has been permitting large number of deemed Universities as a part of the mission to reach every corner of the country but became unsuccessful in guaranteeing the quality of education.
- The lack of consultation with the academia and other stakeholders before issuing directives have led to many universities approaching the court against UGC decisions which lowered its stature.
- The inefficiency in the distribution of grants on time to the research scholars especially the weaker sections have led to a social imbalance in Higher education.
- UGC has deviated from its core goal of being a watchdog for ensuring excellence in education.
- Constituted by all kinds of members other than academics, UGC operates in an ad hoc working structure with no coordination due to lack of knowledge about regional offices, bureaus, disciplines and activities.
- Policies made by the UGC to keep pace with the changing dynamics of higher education are ill-considered, as well as lacking in research and consultation with stakeholders.

Measures to reform UGC

- Easing the UGC of its regulatory functions and letting it function for grant of fellowship only.
- Making UGC evolve an objective criteria for grant of fellowships.
- Making stakeholder discussions mandatory for its decision making.
- Proper staffing at the lower levels and at the higher level on the basis of merit only.

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- UGC should resolve its many problems with respect to placements—nepotism at the top of the ladder and understaffing at the lower rungs.
- It should focus on the more relevant issue of quality education.

Way ahead

- It is doubtful if scrapping UGC or any institution is the remedy needed for India's higher education system. The Higher Education and Research Bill, 2011, introduced in the UPA regime, was discarded for non-consultation with states, violation of institutional autonomy and so forth. Unless a foolproof system is made addressing these issues, the new proposal would be akin to renaming a scheme or creating a new institution on the ruins of an old one to earn the government extra brownie points for the next elections.
- As suggested by TSR Subramniam committee UGC could be revamped, made considerably leaner and thinner, and could be the nodal point for administration of the proposed National Higher Education Fellowship Programme, without any other promotional or regulatory function.

1.5 MINISTERS, DEPARTMENTS CAN CLEAR BIGGER NON-PLAN PROJECTS

- The government has revised the financial limits of ministers and departments to clear non-Plan schemes and projects, to expedite project approvals.
- According to the revised norms, ministries and departments can appraise non-Plan schemes and projects of less than Rs. 300 crore against the earlier limit of Rs. 75 crore.
- Financial powers of the ministers concerned to approve the schemes have also been raised. A minister can now approve schemes and projects costing less than Rs. 500 crore against the earlier limit of less than Rs. 150 crore.
- The finance minister will be the relevant financial authority for approving scheme and projects having financial implications of Rs. 500 crore to Rs. 1,000 crore.
- A proposal having financial limits of Rs. 1,000 crore and above will require the approval of the Cabinet or the Cabinet Committee on Economic Affairs.
- With this, the financial powers of ministries and ministers over non-Plan projects and schemes have been brought on a par with Plan ones.

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2
INTERNATIONAL RELATION

2.1 BREXIT

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(Q) Britain has decided to leave EU after the referendum held to decide its future with EU. What will the impact of this exit on Britain, EU and world.

(Q) How will Brexit affect India? Give positive and negative impacts on India-EU and India-Britain relations.

Context

The United Kingdom has opted for leaving the European Union in a closely-fought referendum held recently. 52% people voted in favor of leaving the EU.

- The referendum saw a turnout of 72%. 'Leave' won 17,410,742 votes and 'Remain' 16,141,241, with all but the regions of London, Scotland and Northern Ireland voting to remain.
- This is the second referendum on Britain's relationship with the European project. In 1975, in a referendum on whether the U.K. should stay or leave the European Community (Common Market) Area, the country voted for staying in with a resounding 67.2% vote.

What is Brexit?

It's a short form for Britain exiting the European Union (EU) i.e. Britain + Exit = Brexit in a same way as a Greek exit from the EU was dubbed Grexit in the past.

What is a referendum?

A referendum is basically a vote in which everyone of voting age can take part, normally giving a "Yes" or "No" answer to a question. Whichever side gets more than half of all votes cast is considered to have won.

What is the European Union?

- The European Union – often known as the EU – is an economic and political partnership involving 28 European countries. It began after World War Two to foster economic co-operation, with the idea that countries which trade together are more likely to avoid going to war with each other.
- It has grown to become a "single market" allowing goods and people to move around.
- It has its own currency, the euro, which is used by 19 of the member countries, its own parliament and it now sets rules in a wide range of areas.

Why Britain wanted to leave EU?

- Many believed that EU threatens British Sovereignty.
- Some didn't like that many foreigners (from other EU countries) were moving to Britain after EU was formed. During 2008 crisis, people from those countries who couldn't find jobs at home, went to countries like UK. This puts an extra burden on existing resources of UK- Immigration issue.
- It will be able to secure trade deals with important countries such as China, India and America.
- It can save money which could be used for scientific researches and for building new industries.
- Leaving will return control over areas like employment, law, health and safety.
- Currently, Britain has little influence within the EU. By leaving EU, it can have a stronger influence for free trade and cooperation.
- Leaving the EU would result in an immediate cost saving, as the country would no longer contribute to the EU budget, according to those who thought that Britain had to suffer because it has to contribute a significant amount to EU budget.

Consequences – For Britain

- In the short run, uncertainly about Britain's future relationship with the EU, its largest trading partner, could push the UK into a recession.

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- Falling value of currency may have great implications on its imports and exports, it may increase no. of tourists, students etc
- Britain products could lose its easy entry into other European markets (currently about 45% of UKs trade is with EU).
- IMF forecasts UKs economy to be 5% smaller by 2019 due to leaving EU market.
- It will become tougher for people to move across the borders.
- It may trigger job crisis in UK (At present about 3 million jobs are tied to EU).
- Brexit could encourage disintegration of United Kingdom.

Consequences – For EU

- This might be the first of many political expressions of discontent among other EU countries, potentially causing the disintegration of EU.
- People from other EU countries may find it difficult to access UK's jobs. It might affect students who wish to pursue their studies in esteemed institutions of UK.
- There may be a large scale dislocation of people which may cause chaos.
- EU made trade with European countries much easier for the world, and it also made it easier to negotiate with Europe for geo-political help. Now Britain may not be a part of such negotiations and discussions.

How Brexit affects India?

- Brexit affects global financial market. Markets across the world will be affected. The pound will depreciate against most major economies. Sensex and Nifty might fall in the short-run.
- India is presently the second biggest source of FDI for Great Britain. Indian companies that would set up their factories in the UK could sell their products to the rest of Europe under the European free market system. However, now it will not be an attractive destination for Indian FDI as before.
- With Brexit, India will lose its gateway to Europe. This might force India to forge ties with another country within the EU, in order to access the large EU market.
- With Britain cutting off ties with the EU, it will be desperate to find new trading partners and a source of capital and labour. With migration from mainland Europe drying up, Britain would be able to accommodate migration from other countries, which will suit India's interests.
- Britain is one of the most important destinations for Indians who want to study abroad. Presently, British universities are forced to offer subsidized rates for citizens of the UK and EU. With Brexit, however, the universities will no longer be obliged to provide scholarships to EU citizens, which will free up funds for students from other countries. Many more Indian students may be able to get scholarships for studying in the UK.

Negative effects of Brexit on India

- Loss of market in EU: due to breakdown of single monetary union of EU, varied custom duties of different nations will result in increased export and import costs of essential items.
- Possibility of taking advantage of superpowers like Germany, France, will get restricted. Since, collaboration with Britain reflected consensus among EU-bloc nations.
- Regional agreements to bilateral relations: India will now have to customize its diplomacy exclusively with respect to Britain's interests unlike the issues affecting EU in the past.

What will happens now?

- For the UK to leave the EU it has to invoke an agreement called **Article 50 of the Lisbon Treaty.**
- **Article 50** of the Treaty on European Union establishes the procedures for a member state to withdraw from the EU. It requires the member state to notify the EU of its withdrawal and obliges the EU to then try to negotiate a withdrawal agreement with that state.

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- Once Britain invokes Article 50, it will have a two-year window in which to negotiate a new treaty to replace the terms of EU membership. Britain and EU leaders would have to hash out issues like trade tariffs, migration, and the regulation of everything from cars to agriculture.

Conclusion

In summary, it can be said that a Brexit would have damaging effects on the economic development in the entire EU along with some positive effects. Apart from economic disadvantages, a Brexit would also cause severe political damage and would weaken Europe geopolitically.

2.2 SCO

(Q) What are key objectives of SCO? How will joining of SCO help India in realizing its Connect Central Asia policy?

Context

The SCO annual meeting was recently held in Tashkent, Uzbekistan. This was a very important meeting from the Indian perspective, because for the first time, India participated in the meeting as a full Member.

What is SCO?

- SCO emerged from Shanghai Five (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan) which was founded in 1996 after demarcation of China's borders with the four newly independent States that appeared after the collapse of Soviet Union in 1991. Shanghai Five was established to continue the momentum of friendship in the post-settlement phase. This was transformed into SCO with induction of Uzbekistan at Dushanbe in 2000.

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- It was created with an aim to strengthen mutual confidence and good-neighbourly relations among the member countries.
- The Heads of State Council (HSC) is the highest decision-making body in the SCO.
- It meets annually to take decisions and give instructions on all important issues of SCO activity. SCO has two permanent bodies - the Secretariat in Beijing and the Regional Counter-Terrorism Structure in Tashkent. SCO Secretary-General and RCTS Executive Committee Director are appointed by the HSC for a period of three years.
- The official working languages of the Shanghai Cooperation Organization are Chinese and Russian. The SCO member states occupy a territory of around 30 million 189 thousand square kilometers, which makes up three fifths of the Eurasian continent. Member nations have a population of 1.5 billion, which makes up a quarter of the planet's population.
- Since its establishment, SCO has concluded several wide-ranging agreements on security, trade and investment, connectivity, energy club, SCO Bank, culture etc. Their implementation, however, remains uninspiring. This is partly because SCO lacks coherence. Having been created at China's behest with Russian support, SCO is still grappling to evolve as a well-knit entity. Nevertheless, the significance of SCO cannot be underestimated because of the presence of large territorial and economic powers like Russia and China as also due to its geopolitical space.

Why India matters to SCO?

Membership of India will add further heft and muscle to the Organization particularly in the backdrop of continuing weak international economy. India today is the fastest expanding global economy with annual GDP growth of 7.5%. It represents the third largest economy (USD 8 trillion) in PPP terms and seventh largest (USD 2.3 trillion) in nominal dollar terms. It inspires confidence on other indicators like FDI, inward remittances, savings rate, the pace of economic reforms etc. Its large market, favourable demographics and technological prowess augur well for economies of the world as well as of the grouping. Its growing energy demand will provide an assured market to resource-rich Central Asia and Russia.

SCO & INDIA

India had become Observer to the Organization at its 5th Summit in Astana, Kazakhstan in 2005.Since then India had subtly indicated its interest in playing a more substantive role in the development of the Organization. SCO decided in 2009 to focus on its vertical consolidation before embarking on a horizontal expansion. Moratorium on expansion was lifted two years ago after which India formally applied to join the Organization. In 2015 the SCO was expanded and India and Pakistan became full members of the SCO.

What's in it for India?

(A) Geo-political and strategic cooperation

- Economic agenda of SCO adopted in 2005 has not delivered impressive results. This will also receive an impetus. Terrorism and radicalism are the most formidable challenges confronting international community today. India has been a victim of terrorist attacks for the last 30 years in which it has lost several thousand innocent children, women and men. Battling with terrorism has provided invaluable experience to Indian security establishment in intelligence gathering, training, foiling terrorist operations etc which it can share with SCO partners. The threat of terrorism to the region is particularly grave on account of continuing violence in Afghanistan which can embolden regional groups like Islamic movement of Uzbekistan, Hizb-ut-Tahrir etc to destabilise governments in Central Asia.
- Scourge of radicalism also looms large over the region with expansion of influence by Islamic State (IS) and reported desertion of several cadres of Taliban, Al Qaeda etc to join the jihadi IS ranks. Several hundred young men and women have fled their homes in Central Asia to bolster ISIS forces that are spreading their tentacles to Central Asia, Pakistan and Afghanistan. India has an enviable track record in handling these twin scourges. It can share its experience and best practices with SCO members to mutual benefit and advantage.

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- In future SCO will need to step up to the plate and assume responsibility to provide security in Afghanistan in the aftermath of the withdrawal of US and Nato ISAF forces. By Joining SCO India will get an opportunity to play its due role in stabilising the situation in Afghanistan which is assuming disturbing proportions on account of expanding the power of Taliban.

(B) ECONOMIC & TRADE COOPERATION

- Central Asia is part of India's extended neighbourhood. Its relations with these countries have however failed to realise the enormous potential in enhancing ties in security, political, economy, trade, investment, energy, connectivity, capacity development etc because India does not share common land borders with the region and also because of infrequent visits at the highest level between India and Central Asian States.
- India's membership will provide a welcome opportunity to Indian Prime Ministers to meet with Presidents from Central Asia regularly and frequently. India's potential participation in the Eurasian Economic Union (EEU) will be an added advantage to make this partnership more fruitful.
- Central Asia represents the ''near-abroad'' for Russia. Both India and Russia can collaborate to reciprocal benefit in all above areas. India's development experience particularly in promoting agriculture, SMEs, pharmaceuticals, IT etc can be of immense benefit to these countries.

What did India say in the recently held Tashkent summit of SCO

- India highlighted India's historical linkages with the region to drive home the point that the country's membership to the SCO would stretch the region's boundaries from the Pacific to Europe; and from the Arctic to the Indian Ocean.
- India also vowed to adopt zero tolerance and a comprehensive approach in fighting terrorism at all levels. Pointing to Afghanistan, PM Modi said a stable, independent and peaceful Afghanistan is necessary for greater security and stability in SCO region.
- The PM commented that India's membership of SCO would contribute to region's prosperity. It would also strengthen its security. Our partnership will protect our societies from the threats of radical ideologies of hate, violence and terror."
- PM remarked that India's membership of the SCO will help drive the region's economic growth.

2.3 INDIA THAILAND TO BOOST TIES

- During the recent visit of Thailand PM to India, both sides agreed to enhance cooperation on defence and maritime issues, along with counter-terrorism, cyber security and human trafficking.
- Both sides expressed keen interest in enhancing cooperation in the maritime domain, including anti-piracy cooperation, security of sea lanes of communication, coast guard cooperation to maintain peace and ensure safety and security of navigation in the Indian Ocean.

- They also agreed to work towards completion of negotiation for signing of the White Shipping Agreement.
- The early conclusion of a balanced Comprehensive Economic and Partnership Agreement is a shared priority for both countries.

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3

ECONOMY

3.1 NATIONAL CIVIL AVIATION POLICY

Make **'POINTERS'** *for* **'REVISION'**

(Q) Many critics believe that some provisions of the National Civil Aviation Policy revamp the License permit raj era. Critically comment.

Context

The Minister of Civil Aviation Recently released the National Civil Aviation Policy 2016.

The policy aims at:

- India to become 3rd largest civil aviation market by 2022 from 9th.
- Domestic ticketing to grow from 8 crore in 2015 to 30 crore by 2022.
- Airports having scheduled commercial flights to increase from 77 in 2016 to 127 by 2019.
- Cargo volumes to increase by 4 times to 10 million tonnes by 2027.
- Taking flying to masses – Enabling Indians to fly at Rs. 2,500 per hour under Regional Connectivity Scheme at unserved airports.
- Requirement of 5 years of domestic flying for starting international operations removed.
- Flexible and liberalized 'open skies' and 'code share' agreements.
- Incentives to MRO (Maintenance, Repair and Operations) sector to develop as hub for South Asia.
- Ensuring availability of quality certified 3.3 lakh skilled personnel by 2025.
- Development of green-field airports and heliports.
- Enhancing ease of doing business through deregulation, simplified procedures and e-governance.
- Promoting 'Make In India' in Civil Aviation Sector.

Key Features of the Policy

- **Scrapping of the decade-old 5/20 rule and replacing it with 0/20 norm:** Earlier, a domestic airline could start international operations only after five years of domestic operations and having a fleet of at least 20 aircraft. As per new rules, they will be required to deploy 20 aircraft or 20% of the total fleet size, whichever is higher on domestic routes to get international flying rights.
- **Regional Connectivity Scheme:** Airlines will no longer be able to charge more than Rs. 2500 for a 1-hour flight connecting two small cities.The government will provide financial support to fund airlines' losses on such un-served routes. A 2% levy has been proposed on all domestic and international flights on metro routes to boost regional connectivity. 50 No frills Airports, also called low cost airports, will be revived in the next three years. Airlines operating from these airports will get concessions on landing, parking charges and other expenses.
- **Private Security Agencies:** Private security agencies comprising of retired personnel from military and para-military forces will be encouraged for non-core security functions at the airports.
- **Code sharing agreements:** Indian carriers will now be able to enter into such agreements with foreign carriers for any destination within India on a reciprocal basis.
- **Open Sky Policy:** India will have this policy for countries beyond the 5000 km radius from Delhi on a reciprocal basis. This means that airlines from European or SAARC countries, will have unlimited access, in terms of number of flights and seats, to Indian airports, leading to increased flight frequencies with these countries.
- **Growth of helicopters:** This will be supported to provide connectivity to remote and inaccessible areas. Separate regulations for helicopters will be notified by DGCA.

- **DGCA:** Necessary administrative and financial flexibility will be provided to Directorate General of Civil Aviation (DGCA) for an effective aviation safety oversight system and for creating a transparent single-window system for all aviation safety related issues.

Analysis

Significance of the New Policy

- Since independence, this is the first time that an integrated Civil Aviation Policy has been instituted by the Ministry.
- By all accounts, The new policy has used broad strokes as well as done smaller tinkering to make the aviation policy more attractive for new and existing airlines as well as alleviate some of the problems experienced by consumers.
- For producers, the government has decided to junk the much-criticised "5/20" clause. It essentially required that a domestic airline must have operated for five years and must have at least 20 aircraft before it could offer overseas services. This patently policy-induced hurdle was seen to favour existing private players over new airlines which could have entered the market and provided greater choice to consumers. The new policy strikes down the five-year requirement. This is a decision in the right direction as it should attract new entrants in the aviation sector.
- The policy's attempt to improve services for domestic consumers by ramping up regional connectivity must be lauded. The regional connectivity scheme under NCAP will connect India's remote unconnected regions, boost tourism, create jobs and stimulate the economy in tier 2-3 cities. Subsectors like MRO, Cargo, helicopters, general aviation and Make in India will get a fillip with liberalised operational norms and tax breaks.
- It is creditable that the government has decided to invest in developing 50 no-frills airports in order to promote connectivity in "unserved areas", mostly in Tier 2 and Tier 3 cities.
- India is the fastest growing aviation market with 21% plus growth in the domestic sector in 2015-16. The National Civil Aviation Policy (NCAP 2016) is likely to enhance that further by taking flying to the masses through a slew of policy initiatives and fiscal and monetary support. The key focus of NCAP 2016 is on affordability, connectivity and ease of doing business.

Criticism/Challenges of the New Policy

- The government's decision to dilute the rule that required airlines to fly on domestic routes for five years and have a fleet of 20 aircraft before they could fly abroad is at best a halfway reform. While it has done away with the five-year stipulation, the 20-aircraft norm stays very much in place. This has ostensibly been done to ensure that domestic flyers are not under-served. This defies logic. Carriers will deploy capacity wherever there is traffic, and by all indications India is a booming market. So coercing them to fly more on domestic routes, even if they don't want to, doesn't make sense.
- The accompanying diktat of a price ceiling — Rs. 2,500 for a one-hour flight ticket — harks back to the licence-permit raj. What makes it worse is that the government has offered to subsidise private airlines in case the ticket prices exceed this per-determined rate. This subsidy will reportedly be financed by yet another cess.
- The NCAP is silent on other important issues like formation of an independent Civil Aviation Authority (CAA), privatisation of Air India, market-listing of AAI, hive-off of Air Navigation Services (ANS) from AAI.

Conclusion

Making the first-ever integrated aviation policy was tough. The NCAP is high on intent but the new policy has gaps that need to be plugged. The road ahead will be tougher as we go for its implementation in letter and spirit. If the government, industry and end-users work together keeping India's national interest in mind, there's no reason why India can't achieve its vision of becoming the third largest aviation market by 2020 and the largest by 2030.

3.2 DRAFT SOLAR HYBRID POLICY

Make 'POINTERS' for 'REVISION'

(Q) Inefficient and sub-optimal utilization of the solar transmission infrastructure is one of the major issues faced by the solar power sector. How will draft solar Hybrid policy improve the state of affair?

Context

The government has sought for public comments for draft National Wind-Solar Hybrid Policy which aims at providing a framework to promote large grid connected wind-solar PV system for optimal and efficient utilization of transmission infrastructure among others.

Goal: To reach wind-solar hybrid capacity of 10 GW by 2022.

Objectives of the Policy

- To provide a framework for promotion of large grid connected wind-solar PV system for optimal and efficient utilization of transmission infrastructure and land, reducing the variability in renewable power generation and thus achieving better grid stability.
- To encourage new technologies, methods and way-outs involving combined operation of wind and solar PV plants.

Key features of the Policy

(i) Wind-Solar Hybrid Systems:

- These systems will be configured to operate at the same point of grid connection.
- Optimal and efficient utilization of transmission infrastructure and better grid stability by reducing the variability in renewable power generation.
- The size of the solar PVs capacity to be added as the solar-hybrid component could be relatively smaller.

(ii) Implementation:

The implementation of wind solar hybrid system will depend on different configurations and use of Technologies like Wind-Solar Hybrid-AC integration, Wind-Solar Hybrid-DC integration, Hybridisation of existing wind/solar PV plants along with New Wind-Solar Hybrid Plants.

(iii) Incentives:

- The Government will encourage development of wind-solar hybrid systems through various incentives.
- All fiscal and financial incentives available to wind and solar power projects may also be made available to hybrid projects.
- Low cost financing for hybrid projects may be made available through IREDA and other financial institutions including multilateral banks.

(iv) Research and Development:

- Government will support the technology development projects in the field of hybrid systems. Besides, support will be provided for development of standards for hybrid systems.
- The policy will remain in force unless withdrawn or superseded by the Government. The Government can undertake a review of the Policy as and when required.

Analysis

Significance of the Draft Policy

- The government's draft National Wind-Solar Hybrid Policy is a step in the right direction for promotion of renewable energy sector on a larger scale.
- Given that critical infrastructure such as land and evacuation network for wind or solar project accounts for about 10-12 per cent of overall project cost, hybrid projects would benefit from a reduction in capital cost to some extent due to common infrastructure and land use in place.

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- Further, the variability in generation profile is likely to be reduced to some extent by the hybridization of wind and solar projects at same site, given that generation from both the sources is at different intervals and in complimentary seasons. This in turn would partially address the concerns of distribution utilities over the grid stability arising due to the intermittent nature of wind or solar generation.

Criticism of the Policy

- The government's draft policy for wind and solar hybrid plants is a good step, but it is restrictive as it puts a cap on the size of such units.
- The policy lacks in details relating to tariffs. While hybrid systems are viewed as a good step forward for the renewable energy sector as they stand to facilitate the efficient use of both land and transmission infrastructure, the draft policy is not detailed enough when it comes to tariff structures and financial incentives.
- The draft policy aims to facilitate hybridisation of existing solar or wind systems, besides new hybrid projects However, it is restrictive in suggesting that hybrid capacity addition, for existing plants, must be limited to the sanctioned transmission capacity, This could pose a problem for areas where transmission capacity is not enough to cater to the energy potential.
- The draft policy is not clear about the financial incentives for hybrid systems and merely refers to the existing incentives for solar and wind projects.

Way Forward

- The government's draft policy for wind and solar hybrid plants is a good step however The policy implementation needs to done very carefully - the evacuation policy needs to be clear, transmission augmentation might need to be done in most cases, scheduling and forecasting of delivered power needs to be calculated accurately, and plant layout needs to make sure that wind mills don't cast any shadows on the solar panels.
- On the technology level, direct current (DC) integration of combined power needs to be designed carefully. Also tariff determination will be a key issue. Wind power currently works on feed in tariffs (FIT). (FIT is a payment made to households or businesses generating their own electricity through the use of methods that do not contribute to the depletion of natural resources, proportional to the amount of power generated, while solar works on competitive bidding). So the Central Electricity Regulatory Commission (CERC) needs to come up with an FIT for Wind Solar Hybrid framework.

3.3 INDIA'S TEXTILE INDUSTRY: ISSUES AND SOLUTIONS

(Q) Highlight the importance of textile Industry for Indian economy. What are the major issues faced by textile Industries in India? Will the recently released Government Package be able to solve the problems of the textile sector?

Context

Government recently approved a Rs 6,000 crore special package for textiles & apparel sector to create one crore new jobs in 3 years, attracting investments of $11 billion and generating $30 billion in exports.

Importance of the Textile Industry for India

- India needs to generate jobs that are formal and productive, provide bang-for-buck in terms of jobs created relative to investment, have the potential for broader social transformation, and can generate exports and growth. The apparel (or garment) sector meets all these criteria, making it an excellent vehicle for an employment creation strategy.
- Nearly every successful economic growth take-off in post-war history in East Asia has been associated with rapid expansion in apparel exports in the early stages. During their growth booms that averaged between 7 and 10 per cent growth, countries registered apparel export growth in excess of 20 per cent per year, sometimes closer to 50 per cent.

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- Given their high labour intensity — the highest in any manufacturing sector — apparel also have the greatest potential for employment growth. For example, as every unit of investment in clothing generates 12 times as many jobs as that in autos and nearly 30 times that in steel.
- Most significantly, from a social transformation perspective, apparel generate large number of jobs for women, substantially more than in any other sector.

Opportunities of textile exports for India in recent years

India has an opportunity to promote the apparel industry because of rising wage levels in China that has resulted in China losing market share. India is well positioned to take advantage of China's deteriorating competitiveness because wage costs in most Indian states are significantly lower than China.

Issues faced by textile Industry in India

The space vacated by China is being filled by Bangladesh and Vietnam, which have overtaken Indian apparel exports indeed; Indian apparel firms are relocating to Bangladesh, Vietnam, Myanmar, and even Ethiopia. Several factors are responsible for this:

- India's competitors enjoy better market access by way of zero or lower tariffs to the two major importing markets, namely the US and Europe. In the EU, Bangladesh's exports enter mostly duty free while Indian exports face an average tariff of 9.2 per cent. If the EU-Vietnam deal goes through, a similar disadvantage will arise for India vis-à-vis Vietnam. In the US, when Trans-Pacific Partnership goes through, Vietnam will enjoy duty-free access and India will be disadvantaged in that market too.
- Indian exporting firms face challenges of logistics that render them less competitive than their peers in competitor countries. On logistics, India is handicapped relative to competitors in a number of ways. The costs and time involved in getting goods from factory to destination are greater than those for other countries. Further, few large containers come to Indian ports to take cargo. So all exports have to be trans-shipped through Colombo, which adds to travel costs and hence reduces the flexibility for manufacturers.
- Indian export firm also face the challenge of labour cost. The problems are well-known: Regulations on minimum overtime pay; onerous contributions that become de facto taxes for low paid workers ,lack of flexibility in part-time work; and high minimum wages in some cases makes labour costly and therefore it makes our textile industry uncompetitive with respect to Bangladesh and Vietnam.
- Another challenge is that the world demand is increasingly shifting toward clothing based on man-made fibres while Indian domestic tax policy favours cotton-based production and the tariff policy shields an inefficient man-made fibre sector. These factors undermine the clothing industry's competitiveness.

Key features of the recently released Package

- Apparel exporters will be provided relief to offset the impact of state taxes embedded in exports, which could be as high as about 5 per cent of the exports. This is not a subsidy but really a drawback scheme that should be WTO-consistent because it offsets taxes on exports.
- Firms will be provided a subsidy for increasing employment. This will take in form of government contributing the employers' 12 per cent contribution to the EPF. The government is already committed to contributing 8.3 per cent, so the new measure will be additional to that.
- Among the measures to usher in flexibility in labour laws are increasing overtime hours for workers which are not to exceed 8 hours per week in line with ILO norms and introduction of fixed term employment looking at the seasonal nature of the garment sector. A fixed term workman will be considered at par with permanent workman in terms of working hours, wages, allowanced and other statutory dues.
- The package breaks new ground in moving from input to outcome based incentives by increasing subsidy under Amended-TUFS from 15% to 25% for the garment sector as a boost to employment generation.

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Significance of the Package

- The rationale of the package is to address the challenges described above. The policies suggested do not address all the challenges highlighted above but will definitely go a long way in strengthening India's apparel industry.
- The recently released package does away with a lot of red tapism to reduce costs, both in terms of time and money, and would enable Indian manufacturers to improve competitiveness. Enabling measures include additional incentives for duty drawback schemes for garments, flexibility in labour laws to increase productivity as well as tax and production incentives for job creation in garment manufacturing.
- There are changes which allow those earning less than Rs. 15,000 to forgo the employees provident fund. This would leave people with more disposable income. Further, to bring down the costs for businesses, the government has also pitched in to pay the employer's contribution to the EPF in other cases.

Conclusion

While these measures will help, far more needs to be done if India wants to corner a large part of the market share that China may relinquish. China, like most countries before it such as Japan or Korea, has reached a stage where factor costs have increased and this is forcing it to opt for more technology-intensive methods. India, with labour costs still low, has a decade in hand, at best. India must quickly improve its infrastructure — ports, roads, electricity — to ensure that these new measures come to fruition.

3.4 LIBERALIZATION IN FDI POLICY

(Q) Many economists believe that rather than promoting employment, the new FDI relaxations might accelerate the ongoing trend of jobless growth and rising inequality in India. Critically comment.

Context

The Union Government has radically liberalized the FDI regime recently, with the objective of providing major impetus to employment and job creation in India.

Detail of changes in FDI policy

Changes introduced in the policy include increase in sectoral caps, bringing more activities under automatic route and easing of conditionalities for foreign investment. These amendments seek to further simplify the regulations governing FDI in the country and make India an attractive destination for foreign investors. Details of these changes are given in the following table and paragraphs:

WHAT THE CHANGES MEAN

Sector	Proposed FDI regime	Existing FDI regime	Implication
Defence	100% FDI in defence via govt approval	49% for foreign entities under automatic route and beyond 49% on government approval on a case-by-case basis subject to access to state-of-the-art technology	Foreign defence firms can set up manufacturing facilities in India
Pharmaceuticals	74% FDI through automatic route in brownfield	100% FDI in brownfield through govt approval	More private equity deals in pharma as new regulation clears uncertainty over FIPB approvals
Aviation	100% FDI for foreign entities	49% for foreign entities	Local airlines can attract more capital
Broadcast ●Cable networks	100 % FDI allowed via automatic route	100% FDI allowed, only 49% allowed via automatic route	More investment opportunities
●Direct to home (DTH)			No FDI expected till cross-media ownership cap removed
●Headend-in-the sky (HITS)			

Source: Department of industrial policy and promotion

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- **Radical Changes for promoting Food Products manufactured/produced in India**

  It has now been decided to permit 100% FDI under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India.

- **Foreign Investment in Defence Sector up to 100%**

  Present FDI regime permits 49% FDI participation in the equity of a company under automatic route. FDI above 49% is permitted through Government approval on case to case basis, wherever it is likely to result in access to modern and 'state-of-art' technology in the country. In this regard, the following changes have inter-alia been brought in the FDI policy on this sector:

  - Foreign investment beyond 49% has now been permitted through government approval route, in cases resulting in access to modern technology in the country or for other reasons to be recorded. The condition of access to 'state-of-art' technology in the country has been done away with.
  - FDI limit for defence sector has also been made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959.

- **Review of Entry Routes in Broadcasting Carriage Services**

  FDI policy on Broadcasting carriage services has also been amended. New sectoral caps and entry routes are as under:

Sector/Activity	New Cap and Route
(1) **Teleports** (setting up of up-linking HUBs/Teleports) (2) **Direct to Home** (DTH); (3) **Cable Networks** (Multi System operators (MSOs) operating at National or State or District level and undertaking upgradation of networks towards digitalization and addressability); (4) **Mobile TV**;	**100% Automatic**
(5) **Headend-in-the Sky Broadcasting Service** (HITS) **Cable Networks** (Other MSOs not undertaking upgradation of networks towards digitalization and addressability and Local Cable Operators (LCOs)	
Infusion of fresh foreign investment, beyond 49% in a company not seeking license/permission from sectoral Ministry, resulting in change in the ownership pattern or transfer of stake by existing investor to new foreign investor, will require FIPB approval.	

- **Pharmaceutical**

  The extant FDI policy on pharmaceutical sector provides for 100% FDI under automatic route in greenfield pharma and FDI up to 100% under government approval in brownfield pharma. With the objective of promoting the development of this sector, it has been decided to permit up to 74% FDI under automatic route in brownfield pharmaceuticals and government approval route beyond 74% will continue.

- **Civil Aviation Sector**

  - The extant FDI policy on Airports permits 100% FDI under automatic route in Greenfield Projects and 74% FDI in Brownfield Projects under automatic route. FDI beyond 74% for Brownfield Projects is under government route.
  - With a view to aid in modernization of the existing airports to establish a high standard and help ease the pressure on the existing airports, it has been decided to permit 100% FDI under automatic route in Brownfield Airport projects.
  - As per the present FDI policy, foreign investment up to 49% is allowed under automatic route in Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and regional Air Transport Service. It has now been decided to raise this limit to 100%, with FDI up to 49% permitted under automatic route and FDI beyond 49% through Government approval. For NRIs, 100% FDI will continue to be allowed under automatic route. However, foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non-scheduled air-transport services up to the limit of 49% of their paid up capital and subject to the laid down conditions in the existing policy.

- **Private Security Agencies**

  The extant policy permits 49% FDI under government approval route in Private Security Agencies. FDI up to 49% is now permitted under automatic route in this sector and FDI beyond 49% and up to 74% would be permitted with government approval route.

- **Establishment of branch office, liaison office or project office**

  For establishment of branch office, liaison office or project office or any other place of business in India if the principal business of the applicant is Defence, Telecom, Private Security or Information and Broadcasting, it has been decided that approval of Reserve Bank of India or separate security clearance would not be required in cases where FIPB approval or license/permission by the concerned Ministry/Regulator has already been granted.

- **Animal Husbandry**

  As per FDI Policy 2016, FDI in Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture and Apiculture is allowed 100% under Automatic Route under controlled conditions. It has been decided to do away with this requirement of 'controlled conditions' for FDI in these activities.

- **Single Brand Retail Trading**

  It has now been decided to relax local sourcing norms up to three years and a relaxed sourcing regime for another five years for entities undertaking Single Brand Retail Trading of products having 'state-of-art' and 'cutting edge' technology.

Analysis

Significance of the new FDI policy

- The announcement about the FDI policy is very stimulating, especially in the wake of the exit of the Reserve Bank of India (RBI) Chief Dr Raghuram Rajan, the easing up on the FDI policy is likely to provide new avenues for business and employment opportunities. The move is also expected to benefit much awaited foreign companies, such as Apple, IKEA and a few more in the civil aviation and defence sectors.
- The latest policy announcements made by the government has positioned India as one of the most open economies. The various announcements convey the government's commitment to reforms and to making India a lucrative investment destination for corporate across the globe. With these structural shifts, apart from generating new employment opportunities, the country is here to witness rapid infrastructure development in the near future.
- It has removed ambiguities in the provisions and done away with an additional layer of approvals, this would improve the ease of doing business and would therefore boost FDI.
- The measures announced by the government regarding FDI as well as Real Estate Investment Trusts (REITs) will facilitate investments into the country. Higher investment volumes are likely to result in greater inflow of foreign investments and encourage domestic players in sectors such as manufacturing with cutting edge technology, civil and defence aviation, food processing and retail. The growth of these sectors will directly benefit the real estate market in India, especially office, retail, logistics and warehousing segments, among others.
- It will help India in realising the dream of self-reliance in the defence sector which has immense possibilities for attracting investments, setting up manufacturing facilities, obtaining technologies and capabilities and generating high skilled employment. It will also help in bringing investment and advanced technology into defence sector thereby leading to inflow of capital and setting up entities of original equipment manufacturers and their suppliers through transfer of technology.
- Foreign investors were reluctant to invest in India owing to the delays in getting the government approval in greenfield projects. They were interested in brownfield projects. The decision to permit upto 74 per cent FDI under automatic route in brownfield pharmaceuticals and continuing with government approval route beyond 74 per cent will attract more FDI inflows in the pharma sector.

- The new policy could bring in investments in food infrastructure in India by the global players and provide for a platform to them to sell those products manufactured in India, thus opening up the Indian food market. Further, this could enable some of the existing e-commerce players to attract FDI in food category where they are selling only products manufactured or produced in India.

Criticism

Many economists and experts have criticized the new FDI policy on following grounds:

- **Domestic economy, employment and economic security of people:** Rather than promoting employment, these FDI relaxations might accelerate the ongoing trend of jobless growth and rising inequality. With 100% FDI owned commercial entities, a much greater share of returns on investments will go outside India, decided based on business preferences of foreign owners. Therefore, multiplier effects of financial returns on the economy and employment will be limited. Relaxation of local sourcing restrictions will further add to the dampening of multiplier effects.
- **Infrastructure:** It is inexplicable why infrastructure cannot be improved without FDI relaxation. India's infrastructure in major sectors including civil aviation and broadcasting services has already been witnessing substantial investments, growth and modernisation. There are several Indian firms, both public and private, which have demonstrated a long experience of building facilities and networks with modern technology and systems, through either sole ownership or joint ventures. In infrastructure requiring the latest technology, growth could easily have continued through joint venture mechanisms.
- **Agricultural economy and families dependent on it:** Hundred percent FDI in animal husbandry, retail and trading of food products might lead to greater consolidation and control of farmland and other agricultural assets in the hands of large corporations. This will make a majority of small farmers and farm-dependent families more vulnerable and accelerate distress migration to cities. Alternately, the policy change should have been directed at improving economic security and technological skills of small farmers and farmers' cooperatives.
- **Small manufacturing and services industries:** Relaxation of local sourcing norms for state-of-the-art technology based retail trading companies will subdue opportunities for suppliers to increase their business and upgrade technology skills. Small industries, most of which are suppliers to larger firms, constitute an overwhelming majority of India's industrial base. A policy that goes against their interest is therefore detrimental to the 'Make in India' agenda.
- **Domestic R&D and manufacturing capability in state-of-the-art technology areas:** Removal of the condition of access to state-of-the-art technology in India in the defence sector and waiver of the minimum local sourcing condition in single-brand retail with state-of-the-art technology has directly hurt the opportunities for building those higher-end capabilities among Indian industries and entrepreneurs.

Conclusion

The big-ticket reforms in defence, pharmaceuticals, civil aviation, e-commerce in food products and single-brand retailing have enormous potential for promoting manufacturing and service sectors and creating a healthy mix of blue and white collar jobs — critical for ensuring inclusivity and in managing negative perceptions that reforms benefit only the rich and urban middle class. However along with this, Government should also pursue other more significant reforms like passage of GST and much awaited Labour reforms because without this the overall impact of the recent liberalization on ease of doing business would be limited.

3.5 CASHLESS ECONOMY

Make 'POINTERS' for 'REVISION'

(Q) What are the benefits of cashless economy? What are the major challenges faced by India in moving towards cashless economy? What steps have Government and RBI has taken in this regard?

Context

The Reserve Bank of India recently unveiled a document — "Payments and Settlement Systems in India: Vision 2018" — setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term.

Key details of the vision Document

- The broad contours of Vision-2018 revolve around five Cs — Coverage, Convenience, Confidence, Convergence, and Cost. To achieve these, Vision-2018 will focus on four strategic initiatives such as responsive regulation, robust infrastructure, effective supervision and customer-centricity.
- The vision document envisages that regulator wants to reduce the share of paper-based clearing instruments, increase growth of digital payments space, improve growth in acceptance infrastructure and ensure accelerated use of Aadhaar in payment systems.
- A key objective would be ensure a robust payments infrastructure in the country to increase accessibility, availability, interoperability and security.
- The oversight and supervisory framework would focus on strengthening the resilience of both large value and retail payment systems in the country.
- Customer centric initiatives envisaged include streamlining of customer grievance redressal mechanism and building customer awareness and education.

What is a cashless economy and where does India stands

- A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.
- India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. Less than 5% of all payments happen electronically.
- Some studies show that cash transaction dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

Benefits of Cashless ecomony

- Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
- Curb generation of black money.
- Will reduce real estate prices because of curbs on black money.
- It will provide universal availability of banking services to all as no physical infrastructure is needed other than digital.
- There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients.
- Efficiency will improve as transaction costs across the economy will also come down.
- Reduced cost of printing notes, instances of their soiled or becoming unusable, counterfeit currency.
- Reduced costs of operating ATMs.
- Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
- A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money.
- For farmers and other it will provide better knowledge of where they spend and how much they spend.

- **Challenges in making India a cashless economy**
  - Availability of internet connection and financial literacy.
  - Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying unoperational. Unless people start operating bank accounts cashless economy is not possible.
  - There is vested interest in not moving towards cashless economy.
  - India is dominated by small retailers. They don't have investment needed to have electronic infrastructure.
  - Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.
- **Steps taken by RBI and Government to discourage use of cash**
  - Licensing of Payment banks
  - Digital wallet
  - Promoting of e-commerce
  - No surcharge, service charge on cards and digital payments
- **What else needs to be done:**
  - Open Bank accounts and ensure they are operationalized.
  - Create a culture of saving and faith in financial system among the rural poor.
  - The Reserve Bank of India too will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money.
- **Conclusion**

  Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas as cashless areas. As 70% of India's GDP comes from urban areas. If government can convert that into cashless it will be a huge gain. Therefore different trajectories needs to be planned for migration to cashless for those having bank account and for those not having.

3.6 REITS

(Q) What do you understand by REITS? Discuss its pros and cons. Also highlight the significance of the recently released norms of REITS by SEBI.

- **Context**

  The Securities and Exchange Board of India (SEBI) has recently relaxed rules on Real Estate Investment Trusts (REITs) by allowing them to invest more in under-construction projects, rationalised unit holder consent on related party transactions and removed restrictions on special purpose vehicle (SPV) to invest in other SPVs holding the assets.
- **What is REITS? How does it work**
  - REIT stands for Real Estate Investment Trust. Let us try to explain about it in simple layman terms.
  - Let's say in my country the Real Estate market is booming, Residential Housing is appreciating in value massively & rental incomes are also very high. Other than this, there are many new shops and businesses coming up & they are constructing and/or occupying swanky new buildings and skyscrapers to run their businesses, for which they are also paying rent handsomely. Now, this looks like a great opportunity for an average person like me to invest in & make handsome returns. But then comes the big problem.

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- The cost of a simple and good residential apartment is generally too large for an average salaried employee like me to afford. Hence I will need to take a home loan to purchase the house for which my monthly payment will have to be about 80% of my disposable monthly income and that too for a period of 20 years! Now, for a Commercial Complex, it would cost 10 times more than this... so overall, even though my returns would be massive, the initial investment I need to make are way beyond my reach. Hence it is difficult, if not impossible, for me to look to Real Estate as a feasible investment vehicle.
- This is where REITs come to my help. Just like how Mutual Funds work, REITs are basically Real Estate Agencies which own several of these residential and commercial properties; they collect small amounts of money from a number of interested investors and offer them returns equivalent to the amount of money they have invested in them. So, as a simple example, if I subscribe to a REIT which has 100 investors, then I don't need to take a huge loan and pay upto 80% of my disposable income each month - instead, I only need to make small monthly investments of 0.8% of my income (80% divided by 100 investors) and I will accordingly get 1% of the rental income from the REIT in the form of monthly dividend. Of course, I can increase this amount and get higher dividends as I wish to.

Pros of REIT

- **Diversification** – Over the long term, REITs show little correlation to the returns of the broader stock market. For small investors, REIT provides an opportunity to invest in large scale commercial properties, which was otherwise possible only for wealthy individuals or corporations. Also, investing in a REIT fund means you are investing in a portfolio of Real Estate which may comprise of IT parks, Commercial Office Space, Shopping Malls spread across multiple cities. This way you can earn stable returns with minimal risk.
- **Lesser Risk** – REITs are less risky compared to investing in under-construction property, as they invest in fully constructed and income generating properties. Investing in REITs can generate instant income and prevent you from going through agony of waiting for physical possession of the property. Also, REITs have restrictions on debt levels which reduces high leverage risks associated with Real Estate.
- **Low Entry Cost** – REITs have low cost of entry compared to direct Real Estate Investment. As per SEBI regulations, minimum investment in a REIT is kept at Rs. 2 lakhs which is significantly lower than the minimum cost for a commercial property in any urban area.
- **Liquid Investment** – A REIT investment works like a Mutual Fund investment. You can purchase and sell units at your will which makes entry and exit super easy. In comparison, a traditional Real Estate investment is perhaps the most illiquid investment. You may not be able to sell it when you actually need the money.
- **Tax Concessions** – Tax concessions on REITs ensure higher dividend payouts. Dividends are exempted from tax even at the hands of unit holders. Investors are also exempted from Capital Gains Tax if they hold REIT units for more than 36 months. These tax concessions make REITs even more attractive for retail investors.
- **Transparency** – REITs improve transparency in the real estate markets as information is periodically disclosed on average rents, occupancy levels, tenant profile, buying and selling rate etc. Availability of such information reduces information asymmetry, which is typically seen in real estate markets.
- **Professionally Managed** – Like Mutual funds, REITs are managed by qualified professional managers who rely on thorough market research before making buying, selling and renting decisions, unlike individual investors who do not have enough time and resources to conduct thorough research. Also, you do not have to take hassles of managing tenants, collecting rent and maintaining the property.

Cons of REIT

- **Market Volatility:** Given REITs are listed on stock exchanges, they are exposed to market volatility, and can significantly fall if the broader market falls. In comparison, physical property prices in India are more stable and generally increase in the long-run.

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- **Management Fees:** A REIT charges management fees, which could include sales commissions, manager fee, organization expenses, acquisition expenses etc. Thus, a part of your investment gets allocated towards these charges, which can significantly lower your overall returns.
- **Lower Returns compared to Direct Investment:** Given the fees associated with REIT investments the returns can be lower than actual commercial property investment. However, one needs to remember that managing commercial properties is difficult compared to managing residential properties and requires right skills. Also, as REITs present limited risks one should be willing to expect lower returns.
- **Lack of Control:** Unlike your direct Real Estate investments, you do not have direct control over properties managed by REIT. All investment and property management decisions are taken by the portfolio manager.

Recently released norms for REITS by SEBI

- Sebi will allow REITs to invest a larger corpus in under-construction assets. The current regulations cap investment of REITs' assets in under-construction projects at 10%, which will be raised to 20%.
- Sebi also proposed to raise the number of REIT sponsors, which is now capped at three. Additional relaxation is also proposed on clearing related-party transactions and the number of shareholders needed to pass a resolution.

Analysis

Significance of the new norms

- REITs could finally become a reality with SEBI proposing to relax its guidelines as even after Two years after the government announced REIT as a mode of fund-raising, the instrument is yet to become a reality. Experts point out that for REITs to be attractive, the returns from REITs must be higher than FD rates. Currently, its yields are not as attractive. By allowing 20 per cent investment in under-construction projects (up from 10 earlier), the higher returns from under-construction projects will enhance the overall return on the REIT which would make REITS attractive instrument for investment.
- The Indian real estate sector is going through a cash crunch and SEBI's decision will help increase flow of capital in this industry. It will make REIT a viable product for investors and a fund-raising instrument for real estate players. The decision will also help in attracting small investors to become a part of the real estate growth.
- By and large, Sebi's decision will have a positive impact in making REIT a viable product for investors and a fund-raising instrument for real estate players.

Criticism

The intent to allow REIT to invest more in under-construction assets may dilute the idea of a REIT. Globally, REIT is composed of only stable assets. Allowing more investments in incomplete projects may improve return on investment but on the flip-side it will also increase risks.

3.7 ISSUES WITH INDIA'S FTA

(Q) It is highlighted by many reports that most of the FTA signed by India has benefitted the other country more than India. Give reasons for this phenomenon. Also suggest what steps should be taken to prevent this phenomenon in future.

Context

India and South Korea recently reviewed their free trade agreement (FTA), with a view to further strengthen bilateral economic ties. The review meeting was important as with South Korea ,India had trade deficit of about $10 billion in 2015-16 and this trade deficit has increased since we have Signed with South Korea.

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What is an FTA?

- A Free Trade Agreement, or an FTA, is an agreement between two or more countries with the aim of liberalising the trade of goods and services and access to investment between those countries.
- By increasing trade and investment, it is intended that the economies will grow to the benefit of the countries involved.
- An FTA does this by removing barriers to trade, such as eliminating most (if not all) tariffs and removing quotas on goods that can be exported or imported. Many FTAs also address other barriers to trade, including:
  - Intellectual property protection
  - Restrictions on foreign service providers
  - Government procurement policies that favour domestic industry
  - Customs procedures
- Each FTA is negotiated separately and while there are common elements, each reflects the negotiating powers and the particular issues for the countries involved. As such, each is slightly different and care needs to be taken when identifying opportunities.

Issues with FTA signed by India?

- Since the mid- 2000s India's Free Trade Agreements have doubled to about 42 today. They have increased trade with FTA countries more than would have happened otherwise.
- India has so far implemented FTAs with countries like Japan, South Korea, Singapore and Asean. It is negotiating several such pacts with nations like the EU, Australia and New Zealand.
- The Recent Economic Survey has highlighted the fact that free trade agreements (FTAs) that India has signed so far have benefited its partners more.
- FTAs have led to increased imports and exports, although the former has been greater...Increased trade has been more on the import than export side, most likely because India maintains relatively high tariffs and hence had larger tariff reductions than its FTA partners.
- There is a sense that the Indian industry has not benefited as much as it should have from the existing FTAs we have. Over the years, India has signed many FTAs and RTAs, starting with the FTA with Sri Lanka in 1998 (which became operational in 2000), followed by CECA with Singapore, Thailand, Japan, ROK and CEPA with Malaysia and others. None of these helped India in expanding her exports to these markets. In fact, the trade deficit with these countries has grown after signing these agreements.
- India's trade deficit has widened with the ASEAN after signing FTA.
- Most of India's preferential trade agreements are shallow in terms of product coverage. For example, the India-Mercosur PTA doesn't include textiles and apparel items, which face prohibitive import duties of up to 35 percent.
- India's pharmaceutical exports have not benefited from tariff reductions under the India-Japan CEPA, mainly because it's too cumbersome to deal with Japan's drug regulator.
- India's trade pacts have exacerbated inverted duty structure - high import duties on raw materials and intermediates, and lower duties on finished goods - that discourage the production and export of value-added items. Thus, apparel can be imported into India duty free while its raw material – manmade fibres attract an import duty of 10 percent, which makes no sense. Similarly, finished products such as laptops or cell phones can be imported more cheaply than all their parts (imported) separately because of duty inversion.
- India has signed many trade pacts, more for geo-political reasons than commercial ones. The best example is the South Asian Free Trade Agreement, which has not resulted in any significant export gains despite the obvious logistical advantage and similar consumer preferences of the South Asian population.

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Way Forward

- **Addressing issue of non-tariff barriers:** Industry has missed out on addressing non-tariff barriers. Each sector will have to look into it. Sanitary and Phytosanitary (SPS) issues are taking a front seat in negotiations on agricultural and food products. India should bring SPS issues within the framework of FTA.
- **Initiate a Comprehensive Study to assess the FTAs:** Indian industry and government should consider undertaking a comprehensive study to assess how these FTAs have performed and where we have benefited and in which areas we have not been able to gain advantage. No study of this nature has been conducted so far, and it is high time that such an exercise is undertaken. The areas of focus could be:
  - Utilisation of India's FTAs by looking at both import and export sides,
  - India's FTAs and trade deficits by working out both price and income elasticity of our imports from and exports to those countries, and
  - How the relationship between trade and exchange rates is affecting India's trade.
- **Expand Indian cadre of international trade negotiators:** India needs to significantly enhance the strength of its international trade negotiators, who are working on these issues at global fora. This will enable India to take advantage of emerging opportunities and protect against risks.
- **Active involvement of all constituent groups in Trade Negotiations:** Industry, associations, policymakers, agriculture groups and other relevant stakeholders should be actively involved in all negotiations dealing with FTAs, RTAs etc. These constituencies need to drive the change towards economic development and growth of the country rather than merely coping with the FTAs handed to them by the Government.
- **Reporting and checking mis-declaration of goods:** Mis-declaration by importers is done to avail duty concessions under different FTAs, a problem that has been repeatedly highlighted by the domestic manufacturing industry to the concerned departments and enforcing authorities. Mis-declaration also causes losses to the exchequer by way of loss of revenue. It is therefore suggested that the government and industry associations red flag this as an area of concern and take steps to check anomalies.
- **Linking foreign policy with domestic and trade policy:** FTAs need to be with countries to whom· industry can export and those who have high trade tariffs. This is possible when the foreign policy commitments are in sync with the domestic issues at home and industry needs. Efforts must be to create structures where investments become attractive.
- **Review duty concessions:** Any product that has attracted anti-dumping or safeguard duty· should not be eligible for any duty concessions in any FTA negotiations. These trade remedial measures are resorted to whenever there is dumping of goods into the country that causes injury to the domestic industry. Duty concessions will only aggravate the problems and derail the Indian government's "Make in India" programme.

3.8 CURRENT ACCOUNT NEARS SURPLUS AS CAD NARROWS

(Q) Despite CAD decreasing to all time low in recent times, many economist believe that India is still vulnerable, discuss why. What should be done to reduce this vulnerability?

Context

India's current account came closer to recording a surplus with the March quarter current account deficit (CAD) narrowing sharply to 0.1% of Gross Domestic Product (GDP) on account of a lower trade deficit.

Current Account vs. Capital Account

BASIS FOR COMPARISON	CURRENT ACCOUNT	CAPITAL ACCOUNT
Meaning	An account which records the export and import of merchandise and unilateral transfers done during the year by a nation are known as Current Account.	An account which records the trading of foreign assets and liabilities during the year by a country is known as Capital Account.
Reflects	Net Income of the country.	Net change in ownership in national assets.
Deals with	Receipt and disbursements of cash and non-capital items.	Sources and application of capital.
Components	Trade in goods and services, investment income, unrequited transfers.	Foreign Direct Investment, Portfolio Investment, Government loans etc.

Current Account deficit

- A current account deficit means the value of imports of goods / services / investment incomes is greater than the value of exports. It is sometimes referred to as a trade deficit. Though a trade deficit (goods) is only part of the current account.
- If there is a current account deficit, it means there is a surplus on the financial/capital account.

Why a Current account is considered harmful to the economy

- If a current account deficit is financed through borrowing it is said to be more unsustainable. This is because borrowing is unsustainable in the long term and countries will be burdened with high interest payments. E.g., Russia was unable to pay its foreign debt back in 1998. Other developing countries have experience similar repayment problems. Brazil, African countries, etc., with large interest payments have little left over to spend on investment.
- A factor behind the Asian crisis of 1997 was that countries had run up large current account deficits by attracting capital flows (hot money) to finance the deficit. But, when confidence fell, these hot money flows dried up, leading to a rapid devaluation and crisis of confidence.
- If you run a current account deficit, it means you need to run a surplus on the financial / capital account. This means foreigners have an increasing claim on your assets, which they could desire to be returned at any time. For example, if you run a current account deficit, it could be financed by foreign multinationals investing in your country or the purchase of assets. There is a risk that your best assets could be bought by foreigners, reducing long term income.
- A current account deficit, may imply that you are relying on consumer spending, and are becoming uncompetitive. This leads to lower growth of the export sector. This is particularly a problem for countries in the Euro – who cannot devalue to restore competitiveness. It caused very large current account deficits and was a factor behind the EU recession of 2008-13.
- A Balance of payments deficit may cause a loss of confidence by foreign investors. Therefore, there is always a risk, that investors will remove their investments causing a big fall in the value of your currency (devaluation). This can lead to decline in living standards and lower confidence for investment.

- **Why CAD is narrowing down?**
  - Policy driven reduction in imports by increasing tariffs or imposition of anti dumping duty to reduce non-essential imports for example steel..
  - Massive fall in Oil and Commodity Prices which reduced import bill leading to improvement in CAD.
  - Successful mobilization of sizable foreign currency deposits under the swap scheme.
- **Despite Reduction in CAD we are still vulnerable due to following reasons**
  - Decrease in imports due to decrease in oil and mineral prices and also because of slack domestic demand which is not a good sign for the economy.
  - Improvement in CAD is due to import compression of about 5% of GDP From 27.4% of GDP in 2012-13 to 22.5% in 2014-15 mostly due to gold import restrictions, slowdown in demand due to low GDP growth and collapse of oil and commodity prices.
  - Improvement in CAD which is not due to export improvement which fell from 16.7% of GDP in 2012 to 15.4% in 2014-15.
  - No improvement in ratio of net invisible to GDP, it has in fact declined from 5.9% of GDP in 2012-13 to 5.7% in 2014-15 and substantially below peak of 7.5% in 2008-09.Remmitance may fall more if international oil prices decrease further.
  - Future rise in oil prices and commodity prices would raise import to GDP ratio and could worsen the CAD.
  - External debt which has grown by $70 bn has 40% short term component.
  - The other challenge for CAD will be redemption of $25 billion in foreign currency non-resident (FCNR) deposits that were raised in 2013 to protect the rupee. About four-fifths of these are unlikely to be rolled over, which could result in $20 billion in outflows in the September-November.

3.9 DRAFT MODEL GST LAW

(Q) Discuss the Key features of the draft model GST law. Highlight its significance for the economy and also the challenges in its implementation.

- **Context**

After getting an in-principle nod from the Empowered Committee of State Finance Ministers, the Union government recently rolled out a draft of the model goods and services (GST) law.

- **Background**
  - The Goods and Service Tax (GST) is a comprehensive nationwide indirect tax on manufacture, sale and consumption of goods and services throughout India. It will subsume excise, service tax, state VAT, entry tax, octroi and other state levies and it will be levied and collected at each stage of sale or purchase of goods or services.
  - To implement GST, parliament must amend the constitution and which should be supported by more than half of the states. The GST is pending since long due to differences between various parties and state governments. With determined effort, central government has tried to accommodate all demands of state governments and political parties and now all state governments (except Tamil Nadu) have extended their support to GST. In this background central government has released model GST law.
- **Key features of model GST**
  - There will be no constitutional cap on the GST rate and GST rate is not specified in the law.
  - India will have dual GSTs, i.e., central and state GSTs. States will draft their own State GST based on the draft model law with minor variations.
  - All forms of supply of goods and services such as sale, transfer, barter, exchange, license, rental, lease and import of services of goods and services made for a consideration will attract CGST (central levy) and SGST (state levy).

- The liability to pay CGST or SGST will arise at the time of supply. GST will apply on supply, the erstwhile taxable heads such as manufacture, sale, provision of services etc will lose relevance.
- With GST to be applicable according to whether a transaction is intra-state or inter-state, separate provisions are there to help an assessee determine the place of supply for goods and services.
- GST would be payable on transaction value, being the price actually paid or payable, and said to include all expenses in relation to sale, such as packing and commission.

Analysis

Problems addressed in the model GST:

- **Clearly defined goods or services:** At present, there are multiple areas/sectors wherein there is an ambiguity with regard to the jurisdiction they fall under – central or state. Some of these areas are sale of software (especially by way of download or transfer through electronic media), renting of goods, sale or supply of goods through e-commerce portals across the country. The model GST has a clause which states that the central and state governments would clearly notify as to what consists of supply of goods and not services, what constitutes supply of services and not goods and what consists of neither supply of goods nor supply of services.
- **Establishing a standard tax law across the country:** Ideally, a model GST should have subsumed all indirect taxes (including central and state taxes) into one GST and not as separate CGST, SGST and IGST. However, the proposed law is still a welcome step as it subsumes many different taxes into three GST's. This will bring down the overall compliance burden/cost and mitigate the problem of dealing with different government offices. Also, the model GST aims at a standard and supportive tax law across centre and all the states.
- **Covering latest concepts relating to e-commerce:** The GST law has introduced the concepts of 'Electronic Commerce' and 'Electronic Commerce Operator'. This seems to be a welcome step forward, wherein, we can expect more laws align with the changing business environment.
- **Removal of uncertainties:** At present, there are a lot of uncertainties as different state governments are coming up with ad-hoc laws and rules to tax online businesses. Further, the e-commerce giants are at times harassed to provide information which they are not even aware that they are required to maintain. This is primarily due to lack of clarity in the existing laws. With GST, we can expect defined and clear laws which would remove such uncertainties. Also, there has been a lack of clarity on the registration of sellers and service provider listed at e-commerce portals. The GST draft removes that ambiguity by mandating registration of all such suppliers/service providers.
- **Availability of input credits and avoidance of double taxation:** At present, the dealers are denied input credits of several legitimate input services/goods. Also, at times, both service tax and VAT are charged on a single transaction. This double taxation can now be avoided. This shall bring down the overall cost and add to the ease of doing business.

New challenges with the model GST:

- **Increased compliance:** Introduction of the GST regime will require shifting to the new regime. New rules have to be framed and new forms would be released. This will be an additional one-time compliance burden for businesses. Further, the proposed law has defined 'Aggregators' as deemed service providers and has fixed the responsibility of ensuring several compliances on 'Electronic Commerce Operators' – which covers almost all online based businesses and service providers.
- **Mandatory registration and compliance for small service providers:** The aggregators and the suppliers/service providers transacting through 'Electronic Commerce Operators' have not been provided the basic exemption limit up to a certain turnover for being a small service provider. Thus, all e-commerce suppliers/

service providers will have to get themselves registered and start complying with the laws right from the beginning. The same rule is applicable for new online portals and aggregators.

- **Aggregators deemed as service providers:** Earlier, the aggregators needed to pay taxes only on their commission component. Then, service tax under reverse charge was imposed on the aggregators of services for the entire service value. Now, the new law deems aggregators to be the service providers for the entire service value.
- **Confusion around CGST-SGST-IGST:** The government blames the constitution and the federal structure of India for the confusion around the CGST-SGST-IGST structure . However, for businesses and especially startups, the segregation of GST and non-availability of input tax credits still remains a concern.
- **Lack of clarity on SGST:** Model SGST is suggestive for state governments. However, when would the state governments adopt the model GST and that too with what kind of amendments and variations is still a major concern of experts and businesses. Further, the not-so-cordial relations between several state governments and central government may lead to more harassment for the public at large.

Conclusion

Though introduction of GST is a welcome move, however, how the model GST is adopted by the states and how it fares with the tax payers at large is yet to be seen. Also, the model GST is in public domain for discussion. Thus, the inputs from stakeholders will definitely help in removing the associated concerns, so that we have the best possible indirect tax law in the country.

3.10 7TH PAY COMMISION

Context

Cabinet recently accepted the recommendations of 7th Pay Commission.

What is a pay commission?

- The Pay Commission is an administrative system/mechanism that the government of India set up in 1956 to determine the salaries of government employees. The government constitutes the Pay Commission almost every 10 years to revise the pay scale of its employees and often these are adopted by states after some modifications.
- The First Pay Commission was established in 1956, and since then, every decade has seen the birth of a commission that decides the wages of government employees for a particular time-frame.
- The second Pay Commission was set up in August 1957 and gave its report in two years. The third Pay Commission, set up in April 1970, submitted its report in March 1973.
- The recommendations of the Fourth Pay Commission covered the period between 1986 and 1996. The Fifth Pay Commission covered the period between 1996 and this year.
- The Union Cabinet, under the stewardship of Prime Minister Manmohan Singh, approved the setting up of the 6th Pay Commission to revise the payscales of central government employees in July 2006.
- The 6th Pay Commission was headed by its Chairman Justice B.N. Srikrishna, and has Ravindra Dholakia, J.S. Mathur and Sushama Nath as its other members.

Information about 7th Pay commission

Seventh pay commission It was formed by previous UPA Government. The commission, headed by Justice A.K. Mathur was formed in February 2014. The other members of the commission are Vivek Rae, a retired IAS officer of 1978 batch, and Rathin Roy, an economist. Meena Agarwal is Secretary of the Commission. The committee's recommendations are scheduled to take effect from 1 January, 2016.. Nearly 48 lakh central government employees and 55 lakh pensioners will be befitted by the pay commission.

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Key Recommendations of the 7th Pay commission

- 23.55 percent overall hike in salaries, allowances and pension involving an additional burden of Rs. 1.02 lakh crore or nearly 0.7 percent of the GDP.
- Average salary hike includes 14.27 percent increase in basic pay, the lowest in 70 years. The previous 6th Pay Commission had recommended a 20 percent hike which the government doubled while implementing it in 2008.
- Recommendations to be implemented from January 1, 2016.
- Minimum pay fixed at Rs. 18,000 per month; maximum pay at Rs. 2.25 lakh.
- The rate of annual increment retained at 3 percent.
- 24 percent hike in pensions.
- The Commission recommends abolishing 52 allowances; another 36 allowances subsumed in existing allowances or in newly proposed allowances.
- Recommendations will impact 47 lakh serving govt employees, 52 lakh pensioners, including defence personnel.
- One Rank One Pension proposed for civilian government employees on line of OROP for armed forces.
- Ceiling of gratuity enhanced from Rs. 10 lakh to Rs. 20 lakh; ceiling on gratuity to be raised by 25 percent whenever DA rises by 50 percent.
- Cabinet Secretary to get Rs. 2.5 lakh as against Rs. 90,000 per month pay band currently.
- Financial impact of implementing recommendations in toto will be Rs. 1.02 lakh crore - Rs. 73,650 crore to be borne by Central Budget and Rs. 28,450 crore by Railway Budget.
- Total impact of Commission's recommendation to raise the ratio of expenditure on salary and wages to GDP by 0.65 percentage points to 0.7 percent.
- Military Service Pay (MSP), which is a compensation for the various aspects of military service, will be admissible to the defence forces personnel only.
- MSP for service office rs. more than doubled to Rs. 15,500 per month from Rs. 6,000 currently; for nursing office rs. to Rs. 10,800 from Rs. 4,200; for JCO/O Rs. to Rs. 5,200 from Rs. 2,000 and for non-combatants to Rs. 3,600 from Rs. 1,000.
- Short service commissioned office rs. will be allowed to exit the armed forces at any point in time between 7 to 10 years rs. of service.

Analysis

Significance of the 7th Pay commissions recommendations

- **Boost in demand:** When over one crore government employees and pensioners will receive over a 23-per cent hike in salaries and pensions, it will boost the overall demand scenario in the economy, leading to more expenditure, thus benefitting the country's gross domestic product (GDP).
- **Increase in Government Revenue:** Both central and state government revenues are expected to get a boost from the implementation of this award, as a sizeable amount of the outgo in the form of pay will get ploughed back to government coffers in the form of income tax. Besides, with more money in their hands, people are going to spend and this increased consumption will directly add to the excise/VAT collections of central and state governments.
- **A savior amid global market turmoil:** The seventh pay commission has rendered a much-needed relief to the market, concerned over a spate of issues from Britain's verdict to leave the European Union, the prospects of US Federal raising interest rates, to concerns over FII outflows due to RBI Chief Raghuram Rajan's disinterest for the second term.
- **Increase in saving:** The consumption boost to the economy is estimated to be approximately Rs. 61,260 crore (0.39 per cent of GDP) and increased household savings are estimated to be another Rs. 40,840 crore (0.26 per cent of GDP). This will add to the savings-to-GDP ratio which, after reaching the peak of 36.8 per cent in 2007-08, declined to 30.1 per cent in 2012-13. This is also important from the point of view of the widening gap between savings-to-GDP and investment-to-GDP ratio which was reflected in the higher current account deficit.

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Challenges

Fiscal deficit may widen

While the Budget for 2016-17 did not provide an explicit provision for implementation of the 7th Pay Commission, the government had said the once-in-a-decade pay hike for government employees has been built in as interim allocation for different ministries.

The government's kitty is likely to have an additional burden of Rs 1.02 lakh crore, or nearly 0.7 per cent of GDP, which may make it troublesome for the government to meet its fiscal deficit target for the current financial year.

Inflation risk

RBI has repeatedly commented that it sees an upside risk to Consumer Price Inflation Index (CPI) inflation on the back of 7th pay commission. Now that the reward is out, all eyes will stare at RBI as to how much spike it estimates on the CPI in its monetary policy review scheduled to be out on August 09, 2016.

3.11 HYDROPOWER SECTOR IN INDIA

(Q) India has failed to perform good in the development of hydropower energy. Do you think it will be able to achieve the ambitious targets it has set?

(Q) What are the barriers to hydropower generation in India? What solutions would you suggest to tap India's hydropower potential?

Context

- A large number of hydro projects are facing time overruns of 5 or more years and despite having a significant hydropower potential India has not been able to effectively utilize this sector.
- Despite the advancement in civil engineering technology and the increasing pressure on governments to reduce the country's carbon footprint by harnessing clean energy sources, hydropower's share has plummeted to just around 15 per cent.

Introduction

India ranks fifth in the world in terms of usable hydroelectric potential, with an estimated potential of 148 GW (1 GW is equal to 1,000 MW), making it one of the most important potential sources to meet the energy security needs.

Hydro Power Project Classification

Class	Station Capacity in kW
Micro Hydro	Up to 100
Mini Hydro	101 to 2000
Small Hydro	2001 to 25000

Why is hydropower considered a preferred source?

Hydropower is a preferred form of clean energy due to the following reasons:

- Easily forecast and scheduled
- Round-the-clock availability for more than six months in a year
- Can serve as replacement for thermal generation
- Provides peak power support throughout the year
- Long life of power plant
- No risk of fuel price hike
- Can provide variable output to support wind and solar generation if some storage is provided
- Adds to grid stability due to large inertia
- Low long-term marginal cost
- Reduction in per capita emissions
- Easily forecast and scheduled
- Energy/MW is double compared to wind and solar

Barriers to hydropower generation

- Building a dam across a river floods the land that would otherwise be available for use, alters the landscape, affects the local community that would have lived and worked on the flooded land, alters the character of the river, and prevents the free movement of fish.
- Diverting a river affects the nature of the countryside and does not lend itself to use on a large scale.
- Complete or partial blockage of a river for energy conversion is adversely affected by variations in flow.
- Building large-scale hydro power plants can be polluting and damaging to surrounding ecosystems. Changing the course of waterways can also have a detrimental effect on human communities, agriculture and ecosystems further downstream.
- Hydro projects are unreliable during prolonged droughts and dry seasons when rivers dry up or reduce in volume.
- Environmental concerns, R&R issues and land acquisition are other problems slowing hydropower development.

How has Indian fared in comparison to other nations?

India has been able to tap 33 per cent of the potential. Countries such as Canada and Brazil had respectively harnessed around 69 and 48 per cent of the economically feasible potential back in 2009. Sri Lanka has harnessed a whopping 96 per cent of its hydro potential. From a regional perspective, over 93 per cent of the total potential in the north eastern region is yet to be tapped, primarily in parts of the Brahmaputra river basin.

What are the environmental effects of hydropower?

- The environmental consequences of hydropower are related to interventions in nature due to damming of water, changed water flow and the construction of roads and power lines.
- Flooding land for a hydroelectric reservoir has an extreme environmental impact: it destroys forest, wildlife habitat, agricultural land, and scenic lands.
- Hydroelectric power plants may affect complex interaction between numerous physical and biological factors in the environment affecting the growth of a particular species.

Why does India fare bad on the scenario?

- There is huge hydro power potential in Himalaya. Many mighty rivers like Ganga and Brahmaputra flows from Himalayas. But currently hydro power generation capacities addition has been dismal. There are various causes for these:
  - Large hydro power projects create situation of mass displacement. Displacements invite protests. This hampers progress on these projects.
  - Himalaya is seismically very active region, only second to pacific rim of fire. Large structure likes dams have concern of breakdown in case of earth quake. Concerns about landslides and Uttrakhand like situations cannot be denied.
  - Impact on biodiversity is major concern. Large dams change local ecology.
  - Green clearances are another problem. Huge amount of investment that are made in large dams want prompt clearances.
  - Politically river water sharing is also a major issue.
- Lack of technology and financial crunch to fund such big projects are also major obstructions.

Solutions to use hydropower potential in India

- Possible solution to such problems is small hydro projects according to needs of local communities which has minimum effect on the local environment.
- Comprehensive feasibility analysis can convince local communities of benefits of projects that might lessen the resistance against such projects. Alternative energy sources like solar and wind energy shall be emphasised more.

- Harvesting hydropower capacity of NE-states, Nepal and Bhutan with help of National Grid.
- Quick resolution to inter-state disputes
- Adopting advance technologies from foreign countries and availing loans from new banks such as AIIB & NDB.
- Providing proper rehabilitation and compensation to displaced person and allow their participation for selecting the area for construction to avoid obstruction in later stage.

Way ahead

- Government has proposed that it will soon come up with a proactive hydro power policy to push stalled projects and explore possibility of extending benefits for renewable sources like wind and solar to hydro projects beyond 25 MW.
- It has also sought to work out ways of reviving small (25 MW or less) stalled hydro projects with cooperation from the states in a bid to provide new thrust to the sector.

3.12 CABINET APPROVES MERGER OF 5 ASSOCIATE BANKS WITH SBI

(Q) Recently the Union cabinet has approved merger of five associate banks with SBI. What will the effect of such a decision on banking sector?

(Q) Discuss the pros and cons of the process of bank consolidation. Should India go for bank consolidation to economise the banking sector?

Context

- The cabinet has recently approved the merger of State Bank of India (SBI) and its associate lenders that would make the state-owned lender a global-sized bank.
- Associate banks to be merged are - State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore. Along with this, Bharatiya Mahila Bank will also be a part of the merger.

Rationale behind bank consolidation

- **SBI:**
  - There are significant overlaps between SBI and its associates.
  - They target similar client bases, at least in larger cities. Yet they run separate infrastructures from IT systems to treasuries to compliance and risk management systems.
  - Integrating these systems and eliminating the overlaps will save cost and capital.
  - The combined bank would have assets of $550 billion and put SBI in the league of the top 50 global banks. India needs at least one such lender.

Why merger is good?

- The merger benefits include getting economies of scale and reduction in the cost of doing business.
- Mergers help small banks to gear up to international standards with innovative products and services with the accepted level of efficiency.
- Mergers help many PSBs, which are geographically concentrated, to expand their coverage beyond their outreach and offer more and more products and services and help in integrated growth of the sector.
- The size of each business entity after merger is expected to add strength to the Indian Banking System in general and Public Sector Banks in particular.
- This will also end the unhealthy and intense competition going on even among public sector banks as of now. In the global market, the Indian banks will gain greater recognition and higher rating.
- The volume of inter-bank transactions will come down, resulting in saving of considerable time in clearing and reconciliation of accounts.

- The burden on the central government to recapitalize the public sector banks again and again will come down substantially.
- A great number of posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in saving of money and preventing unnecessary interference by board members in day to day affairs of the banks.
- Customers will have access to fewer banks offering them wider range of products at a lower cost.
- Mergers can diversify risk management.

Why merger is not so good?

- Merger will affect regional flavour and end regional focus.
- There would be negative impact because of pension liability provisions (due to different employee benefit structures) and harmonisation of accounting policies for bad loans recognition.
- Mergers will result in shifting/closure of many ATMs, Branches and controlling offices, as it is not prudent and economical to keep so many banks concentrated in several pockets, notably in urban and metropolitan centres which will increase the cost.
- Mergers will result in immediate job losses on account of large number of people taking VRS on one side and slow down or stoppage of further recruitment on the other. This will worsen the unemployment situation further and may create law and order problems and social disturbances.
- The weaknesses of the small banks may get transferred to the bigger bank also.
- Also, India right now needs more banking competition rather than more banking consolidation. In other words, it needs more banks rather than fewer banks.

What are the challenges in merger of banks?

- The need of the hour is to strengthen the banks by empowering them with operational flexibility be it in the area of recruitment, or in differentiation on core capabilities.
- Different banks have different technology platform which are developed by IT majors like Infosys and Tata Consultancy Services, to name a few. To merge two banks having different platform, could be a challenging task.
- Employee unions and the employees who may fear identity loss oppose such mergers.
- Merging two weak banks or a weak bank with a strong bank will create or make the merged entity unhealthy.
- This is not the right time for Indian banks merger as the entire banking sector is facing challenges because:
  - The operating environment is wobbling
  - The corporate sector is over-leveraged
  - Banks have bare minimum capital
  - The NPAs are increasing
  - Profitability is at the lowest level
  - There is a complete non-interest of investors in the PSU bank
  - Given the track record of PSUs, the new entities, say 5 or 6 large banks, could be a danger to financial stability. So any bank failure could create multiple problems for the system as well as for the economy.

Way ahead

Merger is a good idea. However, this should be carried out with right banks for the right reasons. Underperformance shall not be the only reason for merger. Now that the move has been initiated, the bigger challenge is consolidation in the rest of the banking system. This is tricky given the huge challenges banks face, including the bad loan problem that has plunged many public sector banks in an unprecedented crisis. Also, since mergers are also about people, a huge amount of planning would be required to make the consolidation process smoother. Piecemeal consolidation will not provide a lasting solution and what is required is an integrated approach from all stakeholders including the government.

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3.13 RURAL BILL PAYMENT CENTRES GET RBI'S IN-PRINCIPLE NOD

Reserve Bank of India has granted in-principle approval to the centres as Bharat Bill Payment Operating Unit.

Applications

- After this, People residing in rural areas would soon be able to make bill payments at common service centres (CSCs).
- The Bharat Bill Payment System will allow CSCs to operate the bill payment system with a single brand image providing convenience of 'anytime anywhere' bill payment.
- BBPS would include activities to facilitate collection of repetitive payments for everyday services such as electricity, water, gas, DTH, telecom services, etc.

What is Bharat Bill Payment System (BBPS)?

- Bharat Bill Payment System (BBPS) is an integrated bill payment system which will offer interoperable bill payment service to customers online as well as through a network of agents on the ground.
- The system will provide multiple payment modes and instant confirmation of payment.
- Initially, BBPS will cover repetitive payments for everyday utility services such as electricity, water, gas, telephone and Direct-to-Home (DTH). Gradually, the scope would be expanded to include other types of repetitive payments, like school / university fees, municipal taxes etc.

3.14 E-NIVARAN

- In a move to smooth and quicker resolution to tax payer grievances the Income Tax department has launched a special electronic grievance redressal system called 'e-nivaran'.
- It is a single-window, Online Grievance Monitoring System, under which any query relating to tax refunds, permanent account numbers (PANs), wrong filing of tax return, and appeals can be filed.
- 'e-nivaran' (electronic solution) will be a paperless procedure.

How 'e-nivaran' Scheme Works?

- The facility electronic solution, 'e-nivaran' will integrate all the online and physical complaints received by the department which will further be monitored by the Assessing Officer of the case up to the supervisory officers.
- The e-portal is also capable to ensure the related section or domain of the tax department to the concern grievances. And quickly transfer the issue to the concerned department like for refunds and for the other IT matter.

3.15 NRI CAN JOIN NPS NOW

- According to a notification by The Finance Ministry non-resident indians (NRIs) can now open National Pension System (NPS) accounts online if they have Aadhaar Card or PAN card.
- Till now, NRIs could open NPS accounts only through paper applications by approaching bank offices.
- The accounts can be opened both on repatriable and on non-repatriable basis. On a repatriable basis, an NRI will have to remit the amount through his/her NRE/FCNR/NRO account. For non-repatriable scheme, NRIs will be able to join NPS through their NRE/FCNR/NRO accounts at the time of maturity or during partial withdrawal, the NPS funds would be deposited only in their NRO accounts.

Why this has been done?

- India has the second-largest diaspora in the world, with around 29 million people living in over 200 countries and out of these 25 per cent live in the Gulf countries.

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- Most of the Indians going to the gulf and some other countries go for employment and return to India after having worked abroad for a certain period. NPS can provide a long-term solution to their old age income security.

What is National Pension System?

- NPS (National Pension System) is a defined contribution based Pension Scheme launched by Government of India with the following objectives
- To provide old age income.
- Reasonable market based returns over long run.
- Extending old age security coverage to all citizens.
- It is based on a unique Permanent Retirement Account Number (PRAN) which is allotted to each Subscriber upon joining NPS.
- The Government of India in exercise of their executive powers adopted 'National Pension System' (NPS) based on defined contributions in respect of all new entrants to Central Government services, except the Armed Forces, with effect from 1st January 2004.

3.16 MODEL FOR AIRPORT FEES MAY INCREASE PASSENGER FARES

- The civil aviation policy's adoption of a hybrid-till model for calculating airport fees could push up airfares, by raising airport charges for airlines instead of bringing them down.
- According to the new Civil Aviation Policy, future tariffs at all airports will be calculated on a 'hybrid-till' basis.
- So far, single-till model was adopted for determining aeronautical tariffs that can be set by airports, wherein passengers and airlines are charged less.
- Under the single-till model, both aeronautical and non-aeronautical revenues are taken into account to calculate passenger fee. The non-aeronautical side revenues include food and beverages, duty-free shops, advertising, car parking and hotels.
- Under hybrid-till model 30% of airport operator's non-aeronautical revenues would be used to subsidise airport costs.

Implications

- This move may marginally increase costs at 13 other major airports (with capacity of more than 15 lakh passengers) such as Ahmedabad, Calicut, Chennai, Hyderabad, Kolkata, among others.
- This move also may revive private developer interest in running airports as the model increases their revenue.

3.17 CAN BRITAIN OPT FOR NORWAY MODEL?

In the light of recent decision of Britain to leave EU, some economists have suggested that one of the options Britain could follow in the wake of a Brexit vote is the Norway model.

What is Norway model?

Norway, along with Liechtenstein and Iceland are members of the European Economic Area (EEA). They have access to the single market while staying out of the EU. They also make contributions to the EU budget. There is separate secretariat in Brussels to manage the relationship between the EU and EEA countries.

Likely impact

If Britain chooses to leave the EU but join the EEA, it will be a half-in-and-half-out arrangement, and the long-term impact on either side will be minimal.

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3.18 ARTICLE 50 OF LISBON TREATY: PROCEDURE TO LEAVE EU

- For the UK to leave the EU it has to invoke an agreement called Article 50 of the Lisbon Treaty.
- Once Britain invokes Article 50, it will have a two-year window in which to negotiate a new treaty to replace the terms of EU membership. Britain and EU leaders would have to hash out issues like trade tariffs, migration, and the regulation of everything from cars to agriculture.

What is article 50?

Article 50 of the Treaty on European Union establishes the procedures for a member state to withdraw from the EU. It requires the member state to notify the EU of its withdrawal and obliges the EU to then try to negotiate a withdrawal agreement with that state.

3.19 UNION CABINET APPROVED ESTABLISHMENT OF FUND OF FUNDS FOR STARTUPS

- The cabinet has approved the establishment of "Fund of Funds for Startups" (FFS) at Small Industries Development Bank of India (SIDBI) for contribution to various Alternative Investment Funds (AIF) which would extend funding support to Startups.
- The corpus of FFS is Rs.10,000 crore. An amount of Rs.500 crore has already been provided to the corpus of FFS in 2015-16 and Rs.600 crore earmarked in the 2016-17.
- The FFS emanates from the Start up India Action Plan, an initiative of Department of Industrial Policy & Promotion (DIPP).
- This would provide a stable and predictable source of funding for Start up enterprises and thereby facilitate large scale job creation.
- Start-ups face several challenges - limited availability of domestic risk capital, constraints of conventional bank finance, information asymmetry and lack of hand holding support from credible agencies. A dedicated fund would address these issues.

3.20 UNCTAD RELEASED WORLD INVESTMENT REPORT 2016

- The United Nations Conference on Trade and Development (UNCTAD) has released report for year 2016.
- The report has been entitled **World Investment Report 2016 – Investor Nationality: Policy Challenges**.

ABOUT UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body.

UNCTAD is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues. The organization's goals are to: "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis.

The primary objective of UNCTAD is to formulate policies relating to all aspects of development including trade, aid, transport, finance and technology. The conference ordinarily meets once in four years; the permanent secretariat is in Geneva.

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4

SCIENCE

&

TECHNOLOGY

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4.1 LAUNCHING OF PSLV C-34

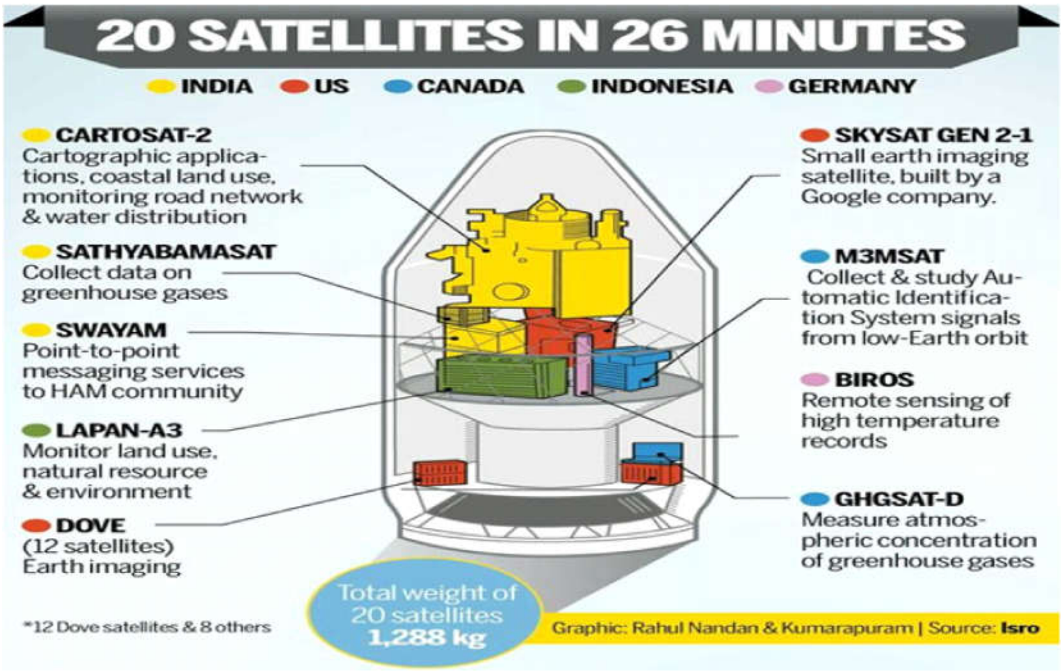
(Q) ISRO has set a new record by launching 20 satellites at a time. This will enable India to gain advancement in space technology and earn significant revenue by launching foreign satellites. Why is PSLV C-34 launch significant for India?

Context

The Indian Space Research Organisation (ISRO) recently launched 20 satellites through a single rocket, surpassing its 2008 record of launching 10 satellites in a single mission. Of these, 17 were foreign satellites. With this, it has set a new record.

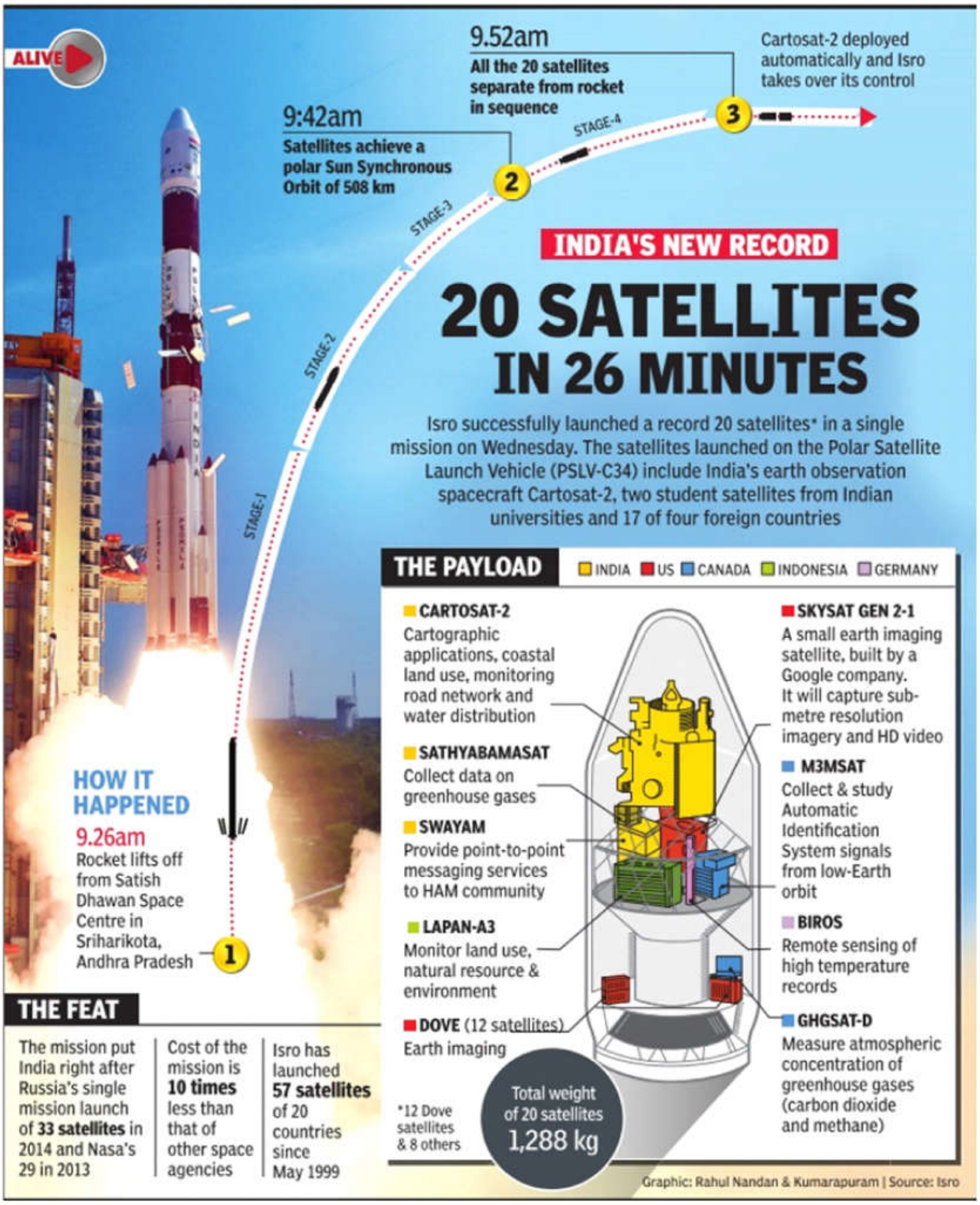
About PSLV C34

- PSLV C-34 rocket launched two satellites from Indian universities and 17 foreign satellites, including one for a Google company besides the primary **Cartosat-2 Series satellite.**
- The Cartosat-2 series satellite would be for Earth observation and its imagery would be useful for cartographic applications, urban and rural applications, coastal land use and regulation, and utility management like road networking.



Why is the launch significant for India?

- ISRO has never launched so many satellites in a single mission. In June 2008, the PSLV-C10 had carried 10 satellites with itself, which was a world record at that time. So, this launch gives ISRO a new name in the countries with advanced space technologies and will demonstrate India's capability to send multiple satellites to lower earth orbit on a single launch.
- Packing a rocket with a large number of satellites displays the utility and efficiency, and reduces mission costs.
- It leads to efficient utilisation of available space and economises the cost of the mission.
- Injecting 20 satellites into polar orbit at one times has reaffirmed ISRO's reputation as a bulk provider of cheap and reliable launches.
- With its emerging image as a commercial provider, ISRO can subsidise the Indian programme and to an extent, set a scientific interest and agenda for space.
- With the successful launch of this technology, ISRO could launch satellites for foreign and other third world nations, thereby bringing in revenue for ISRO.



4.2 LIVING BONE GROWN IN LAB FOR FIRST TIME

- The scientists have grown a living bone in the lab to repair defects in the patients with craniofacial defects.
- The technique uses autologous stem cells derived from a small sample of the recipient's fat and precisely replicates the original anatomical structure of the bone.

Significance of this discovery

- It is step forward in improving regenerative medicine options and treatments for patients suffering with craniofacial defects.
- It also opens path for new scientific research where researchers can use cartilage layer in the bio-engineered living bone tissue to study bone regeneration in complex defects of the head and face.

4.3 CHINA'S NEW COMPUTER IS FASTEST IN THE WORLD

- A new supercomputer from China has topped the latest list of the world's most powerful machines.

- The computer named Sunway TaihuLight is installed at the National Supercomputing Centre in Wuxi and can perform around 93,000 trillion calculations per second.
- It is twice as fast and three times as efficient as the previous fastest computer, Tianhe-2, also from China.
- Its main applications include advanced manufacturing, weather forecasting and big data analytics.

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4.4 ISRO PLANNING TO TEST SCRAMJET ENGINE BASED ON AIR PROPULSION

With the success of the technology demonstration flight of its Reusable Launch Vehicle (RLV- TD), ISRO is gearing up to test a scramjet engine based on air-breathing propulsion.

What is Scramjet engine?

- Scramjet engine is a system used mainly in jet engines running at supersonic speeds which take in oxygen from the atmosphere and compress it to further push it into the engine for combustion and thus generating the thrust required to move forward.
- Air breathing propulsion system provides an alternative to low cost access to space. Scramjet engine will use the atmospheric oxygen as an oxidizer from take off stage. In scramjet engine, air entering into engine is on supersonic speed, unlike other version of air breathing engine(Ramjet), in which air has to decelerated first.
- It will help to attain the hypersonic speed as the weight of engine will be go down due to non-requirement of liquefied oxygen.

Applications

- This technology could be used for next generation rockets which can carry more load than the present GSLV DIII and to launch Geosynchronous satellites in higher orbits.
- It could be used for launching future manned mission to outer space.

4.5 MOU SIGNED BETWEEN RURAL DEVELOPMENT MINISTRY & ISRO FOR GEO-TAGGING ASSETS

- A Memorandum of Understanding has been signed between the Rural Development Ministry and ISRO, Department of Space for geo-tagging the assets created under MGNREGA in each gram panchayat.
- The application of technology for rural development will go a great way in planning and execution of projects in a transparent manner.
- This will provide for monitoring of assets to check leakages and for effective mapping of terrain for future developmental works.

Other areas where ISRO is keeping track of assets

- **National Highway Authority of India (NHAI):** The use of satellite data and geospatial technology is to be used for providing inputs in highway and infrastructure projects for preparation of Detailed Project Report, prefeasibility status in new alignment, upgrade or road widening, monitoring of road segments under construction and Road Asset Management System.
- **Monuments:** The project looks at two main aspects. The first is an inventory of world heritage sites and nationally important monuments and using satellite data to create a geospatial database. The second is Predictive Locational Modelling which is a technique to predict the location of archaeological sites or materials in a region, based either on the observed pattern and evidence.
- **Housing:** ISRO is also collaborating with the ministry of housing and urban poverty alleviation's Pradhan Mantri Awas Yojana, or Housing for All, which plans to address a total housing shortage of 20 million between 2015-2022.
- **Watersheds:** A web geo-portal 'Shrishti' and mobile app 'Drishti' are being developed by NRSC for monitoring of watersheds through Bhuvan, ISRO's geo-portal website.

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4.6 HAL UNVEILS INDIGENOUS BASIC TRAINER AIRCRAFT HTT-40

- Hindustan Aeronautics Limited (HAL) has unveiled indigenous Basic Trainer Aircraft (BTA) HTT-40 in Bengaluru.
- HTT-40 has been designed to meet the current requirement of the IAF with the provision for role expansion to attach weapons to the trainer aircraft.
- HTT-40 stands for Hindustan Turbo Trainer-40. The aircraft weighs about 2,800 kg and has Turbo Prop engine of 950 shp class.
- HTT-40 will be used for the first-stage training for all flying cadets of the three services. The programme aims to achieve its operational clearance by 2018.

About HAL

- Started as Hindustan Aircraft Company by visionary industrialist Walchand Hirachand Doshi, HAL was acquired by the British in 1942 and consolidated in 1964 under the present name. HAL is now part of the Ministry of Defence.
- It is ranked 34 among the world's aerospace and is among the top four in Asia by turnover. It is also India's sole maker of military aircraft.
- HAL's production portfolio includes Sukhoi-30, Mirage 2000 fighters; the DRDO-ADA's Light Combat Aircraft that is in the final configuration; trainer aircraft including the British-make Hawks; transport aircraft for the Forces; and military helicopters.

4.7 K2-33B, A NEWBORN EXOPLANET AROUND A YOUNG STAR, DISCOVERED BY NASA

- Astronomers have discovered the youngest fully formed exoplanet using NASA's Kepler Space Telescope.
- It has been named as K2-33b.
- K2-33b is only five to 10 million years old which makes it one of a very few newborn planets found so far.
- It is little larger than Neptune and is about 10 times closer than Mercury is to the Sun.

Significance of Discovery

- The new-born planet K2-33B will help astronomers to better understand how planets form.
- It will also help in better understanding the processes that led to the formation of Earth.

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5
ENVIRONMENT

5.1 FORECASTING MONSOON

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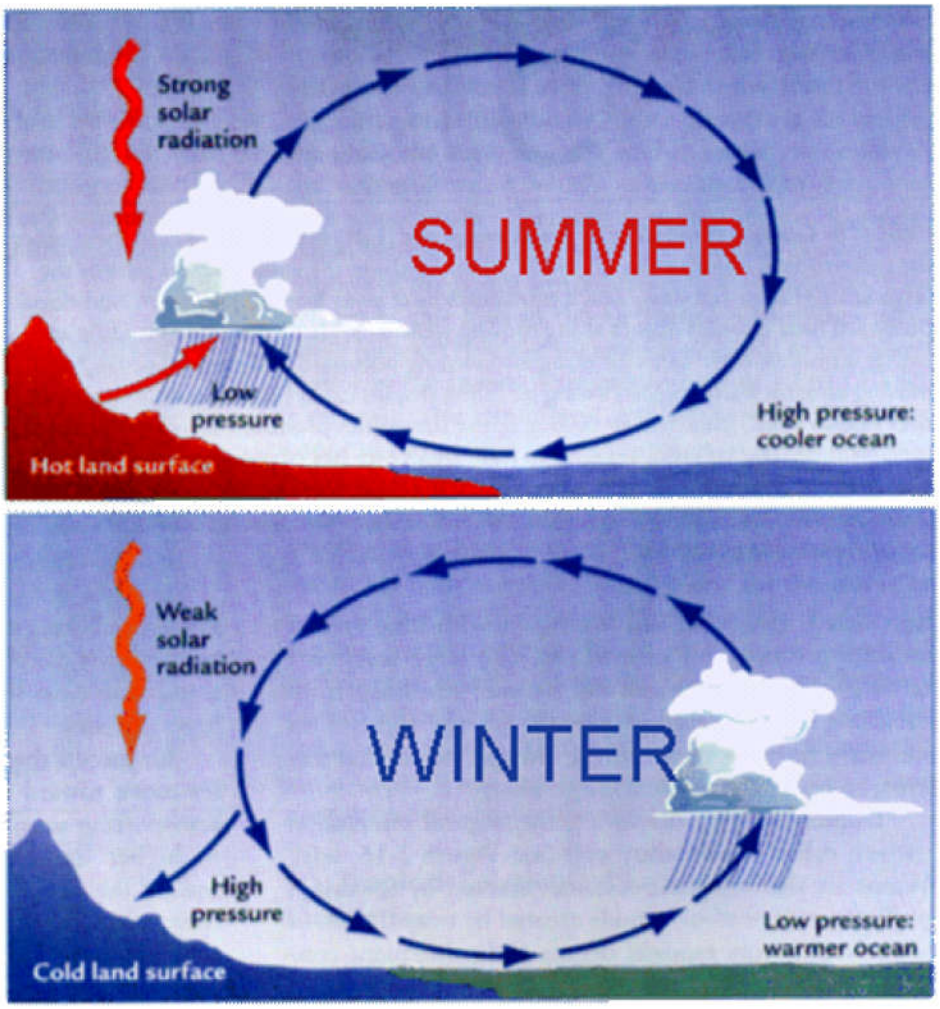
(Q) How is monsoon forecasted in India? Highlight the difficulties in forecasting Monsoon.

- **Context**

In 2016 IMD predicted that Monsoon would be 106% of long term average. In this article we will explore what does this mean and how monsoon is predicted in India

- **What is monsoon?**



- A monsoon is a seasonal shift in the prevailing wind direction, that usually brings with it a different kind of weather. It almost always refers to the Asian monsoon, a large region extending from India to Southeast Asia where monsoon conditions prevail.
- During the winter monsoon, a persistent and large high pressure zone over Asia drives cool, dry air soutward toward the tropics. This provides the monsoon region with its dry season.
- Then during May and June of each year, the summer monsoon arrives with persistent southerly wind flow driven by a warm air mass with low pressure at the surface that forms over southern Asia as it is warmed by the sun. Air from the relatively higher pressure air mass over the Indian and tropical western Pacific Ocean flows northward toward the low pressure over land, bring with it torrential rains. A late arrival of the monsoon can be bad for agriculture, as the monsoon rains are necessary for summer crops.
- In India, for example, the dry northerly wind flow over India changes direction, and warm humid air from the Indian Ocean flows from the south, gradually overspreading the Indian subcontinent. Widespread torrential rains, and even severe thunderstorms, large hail and tornadoes can accompany the onset (arrival) of the summer monsoon.

What exactly does the IMD's monsoon forecast of "106 per cent of the Long Period Average" mean?

- India receives about 116 cm of rainfall every year. A large part of this, 89 cm, comes in the four-month monsoon season from June to September. These numbers are averages of rainfall received over a 50-year period between 1951 and 2001, called the Long Period Average or LPA, and are treated as 'normal'. This years forecast, therefore, says that the country as a whole is likely to get 106 per cent of the normal 89 cm of rain this monsoon, which works out to 94 cm of rain.
- For the purpose of classification, the IMD considers rainfall between 96 per cent and 104 per cent of the LPA as 'normal', between 104 per cent and 110 per cent of LPA as 'above normal', and anything above 110 per cent of LPA as 'excess'. Similarly, rainfall between 90 per cent and 96 per cent of LPA is considered 'below normal', and anything less than that as 'deficient'.
- By this categorisation, this year's monsoon rainfall is likely to be 'above normal'. Last year, and the year before, India had 'deficient' rainfall.

In a normal monsoon year, does the entire country get normal rainfall?

- Even in a year of excess rainfall, there can be pockets that experience drought. In a bad monsoon year, some areas may get good rain. Rainfall is not evenly distributed across regions.
- In 1918, often recalled as the worst drought of the last century in terms of its geographical spread, rainfall deficiency was only 26 per cent. In much recent memory, 2009 received 22 per cent below normal rainfall. Last year, the country had 14 per cent deficiency, and in the year before, 12 per cent.

Can the IMD forecast how much rain your district or town will get this monsoon season?

- Certainly not two months in advance. The long range forecast, the one that was issued on Tuesday, can only be done over a large geographical area, and for a prolonged period of time. Over a smaller area, forecasts can be done only for shorter periods of time.
- In its first seasonal forecast in April, the IMD, therefore, includes just one number: the probability of rainfall over the country as a whole over the entire four-month period. Only in late May or early June, much closer to the start of the monsoon season, does the IMD come out with its predictions for rainfall in every region and for every month.

What does the IMD base its forecasts on?

- The monsoon is impacted by a variety of land and ocean phenomena and their interactions. The first forecasts, in the late 19th century, used to be based only on an assessment of the amount of snow cover over the Eurasian region. Lesser snow cover meant a better monsoon. Progressively, the forecasts became much more sophisticated. By the 1980s, the IMD was using 16 predictors to make its forecast. But soon enough, it was realised that 16 were a few too many. The models were refined further, and currently, the IMD uses five predictors for its April forecast. It relies on two more predictors for its second-stage forecast in June.
- The predictors that IMD uses for the April forecast are: temperature difference between surface temperatures in the North Pacific and North Atlantic oceans; surface temperature of the Indian Ocean near the equator; mean sea level pressure in the Pacific Ocean near East Asia; land temperatures over northwest Europe; and the volume of warm water in the equatorial Pacific Ocean.
- The IMD uses statistical models to analyse these data and arrive at its forecast. 'Statistical models' try to match prevailing conditions with historical records to see how the monsoon had behaved in years when similar conditions had prevailed.
- The IMD has also been experimenting with a 'dynamical' model. This model makes continuous observation of some selected physical phenomena, and notes how the conditions for monsoon behave over a period of time. It then follows those changes to extrapolate for the future, and comes up with a forecast. Right now, the operational forecast comes out of the statistical model — the dynamical model, even though its results are announced, is being used for research.

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- **Why accurate Prediction of monsoon is difficult?**

Why monsoon prediction is hard...

The topography of the Indian subcontinent makes the monsoon system very complex

Good data are not available on many parameters, both over land and the sea

We do not understand how aspects of weather, like aerosols and clouds, influence the monsoon

Our computational resources are not good enough even when data are available

...& Why it is expected to improve

Experiments are being conducted to understand the influence of land, sea and aerosols on the Indian monsoon

More data collecting stations are being planned over land and sea

The government is executing a $600 million upgrade of the country's computing resources

Mathematical models are being continuously improved, adding newly-discovered features that influence the monsoon

5.2 DRAFT NATIONAL FOREST POLICY

(Q) Analyse the recent draft national forest policy framed by the ministry of environment.

(Q) Discuss the key features of draft national forest policy(NFP).

Context

- The environment ministry has come out with a **draft National Forest Policy (NFP)**. The policy has been prepared by the Bhopal-based Indian Institute of Forest Management (IIFM) and is aimed at facilitating ecologically responsible behaviour among stakeholders.
- The proposed NFP is going to be third such document after India's independence with first in 1952 followed by the second in 1988.

Background

Forests and trees constitute nearly one fourth of the geographic area of the country. Protection of this vast and valuable resource, improving and increasing the forest and tree cover requires adequate investment keeping in view the pressures on these forests, and the ecosystem services that they provide to the nation. Large tracts of forest area in the country have degraded due to immense biotic pressure and lack of adequate investment.

Key highlights

- Although the policy continues with the national goal of maintaining a minimum of one-third of the geographical area under forest or tree cover, hills and mountainous regions may not be required to maintain two-thirds of the geographical area under forest cover.
- The draft National Forest Policy (NFP) proposes the levy of a green tax for facilitating ecologically responsible behaviour and supplementing financial resources essential to address forestry woes.
- NFP ignores Forests Rights Act, 2006, which empowers local gram panchayats, especially in tribal areas close to India's forests, and proposes a joint forest management-like mechanism to enhance agro-forestry.
- The policy proposes to launch a new Community Forest Management Mission, bringing government, community and private land under the new proposed management system.

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- The policy states that forest land diversion projects related to mining, quarrying, construction of dams, roads and other linear infrastructure need to adopt special caution. Use of state-of-the-art technology which causes minimum pollution and damage should be promoted
- The policy states that a National Board of Forestry and State Boards of Forestry are to be established to ensure monitoring of the spread of the forest areas and management of forest cover.
- It calls for developing "sound ecotourism models" with the focus on conservation while supplementing the livelihood needs of local communities.
- It states that Climate change concerns should be effectively factored into all the forest and wildlife areas management plans and community ecosystem management plans.
- The draft policy indicates that CAMPA funds from diversion of forest land by industry are to be used for purchasing wildlife corridors from people.
- The policy also asks for management plans for city forests, parks, garden and woodlands to nurture and sustain urban health, clean air and related benefits.
- In a nod to the Union government's controversial decision to declare certain animals as "vermin" and implicitly sanctioning the slaughter of nilgai, wildpigs and monkeys in certain States, the forest policy recommends mitigating human-wildlife conflicts by taking up habitat enrichment, providing adequate and timely compensation in case of injury or loss of human life, property, crop damage or livestock casualties and developing teams of well-equipped and trained forest personnel.

Analysis

- Ignorance of the FRA, 2006 will bring back the forest department as the final authority over using forest resources instead of forest dwellers and communities dependent on them.
- The policy recommendation for the launch of a national forest streams revival programme in a mission mode to tackle intensifying water crisis in India in the last few decades is a good step.
- the levy of a green tax for facilitating ecologically responsible behaviour, supplementing financial resources essential to address forestry woes will act as a step to mitigate the effects of pollution.
- Besides specifying how to manage forests, the draft policy said, "Other ecosystems such as alpine meadows, grasslands, deserts, marine and coastal areas should be protected and managed as well" and this will help to make it comprehensive.
- It calls for developing "sound ecotourism models" with the focus on conservation while supplementing the livelihood needs of local communities which is appreciated.

5.3 SHAILESH NAYAK COMMITTEE ON REVIEW OF COASTAL REGULATION ZONE NOTIFICATION

(Q) Discuss the key recommendations of the Shailesh Nayak Committee on review of Coastal Regulation Zone notification. Analyse them and suggest what amendments can be suggested to them.

Context

Shailesh Nayak Committee has recently relaxed norms under coastal regulation zones. It has proposed for allowing housing infrastructure and slum redevelopment activities, tourism, ports and harbor and fisheries-related activities in coastal regulation zone.

What are CRZs?

- Coastal Regulation Zones (CRZ) are classified as the region between the outer limits of territorial waters (12 nautical miles) and a specified inward distance (inland) from the high tide line along coasts. These zones are recognised as fragile ecosystems and as such are accorded protection against unregulated human activities such as construction, sand mining etc.

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Coastal Regulation Zone

- Intertidal zone- area between HTL & LTL
- Defined regulation zone landward of the HTL on sea coast and on the banks of estuaries creeks and backwaters

- 500 m along sea & estuary coast
- 100 0r 150 m on banks of backwater, river

Prohibited activities in CRZ

- Prohibited activities in CRZ areas.
- Setting up and expansion of existing industries,
- Discharging of untreated waste,
- Dumping of waste by land filling,
- Land reclamation or bunding,
- Construction activity in CRZ - I in between Low Tide Line & High Tide Line,
- Alteration of sand dunes etc.

What are the recommendations of the committee?

- **Need to demarcate precisely:** There exists ambiguities in key baseline data, including the demarcation of high and low tide lines and the coastal zone boundary, which has affected the preparation of Coastal Zone Management Plans.
- **Shift in Governance:** Transferring control of development in the CRZ-II zone, the existing built-up area close to the shoreline, from the Environment Department to State Town Planning authorities, as proposed, would mark a radical shift in governance.
- **Construction Activities:** Proposed lightly regulated tourism in "no development zones". Construction and other activities could be taken up in CRZ-III zones just 50 m from the high tide line in densely populated rural areas under State norms (with the responsibility to rescue and rehabilitate during natural calamities left to local authorities) could be based on an over-estimation of the capacity in such bodies.
- **Pollution Control:** The plan should be to identify specific areas for such activity, assess its environmental impact, demarcate the area under the State's management plans, and fix responsibility for enforcement, particularly for pollution control.
- **Make it participatory:** Involving the local communities in the betterment of these areas has yet not been achieved and incorporating a community-based approach should be made a priority.

Analysis

The recommendation by committee has tried to establish a balance between development and coastal conservation. However there are certain areas of concern:

- The demarcation of high tide and low tide lines and coastal zone boundary affected the coastal zone management plans which are crucial for CRZ.
- The transfer of Developmental control of CRZ 2 from environmental department to town planning commiitee encourages local participation but it may disturbes the whole system of governance.
- Construction and other activities in CRZ 3 which is in the densely populated zone will hazards human settlement.
- The proposed lightly tourism activity in the No Development Zone would suffocate further biodiversity conservation.

5.4 UNION GOVERNMENT LAUNCHED INDIA'S FIRST PILOT PROGRAMME TO RUN TWO WHEELERS ON CNG

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- Union Government has launched a pilot programme to run two wheelers on Compressed Natural Gas (CNG) in New Delhi to curb air pollution in cities.
- The pilot programme involves 50 CNG retrofitted two wheelers.
- The performance of 50 CNG retrofitted two wheelers would be monitored during the pilot phase and the learning from the project would be used to develop the roadmap for introduction of CNG in two wheeler segment across the nation.
- The programme is being implemented by Indraprastha Gas Limited (IGL) and one of its parent companies, GAIL (India) Limited.

CNG

CNG vs. LNG Comparison

	CNG	LNG
Physical state	Gas	Liquid
Temperature in vehicle tank	Ambient	-162 °C
Typical pressures in tank	200 or 250 bar	5-8 bar
Density	175 kg/m^3 @200bar	435 kg/m^3
Energy content	27% petrol eq. @ 200bar 33% petrol eq. @ 2 50bar	67% petrol eq.
Typical usage	Cars/Busses	Trucks

CarEcology: New Technological and Ecological Standards in Automotive Engineering Antwerp, October 2009

Advantages of CNG over LPG

- 1.CNG produces less pollutants than LPG.
- 2.CNG is cheaper and cleaner than LPG.
- 3.The octane rating of CNG is high, hence the thermal efficiency is more.
- 4.It does not evolve sulphur and nitrogen gases.
- 5.It mixes very easily with air than the other gaseous fuels.
- 6.Noise level is much less than diesel
- 7.CNG vehicle limit 40% less of nitrogen oxide, 90% less of hydrocarbons, 25% less of CO_2

5.5 $500-M ADB LOAN FOR BRIDGE IN BIHAR

- Asian Development Bank (ADB) has approved a $500-million loan to build a bridge across the Ganga in Bihar.
- The 9.8-km road bridge in Bihar will be India's longest river bridge and will provide vital transport link between the northern and southern parts of the State and neighbouring Nepal.
- The new bridge will span both channels of the Ganga and serve as an alternate route to the existing Ganga bridge, which has begun to deteriorate.
- It is expected to benefit over nine million or ninety lakh people looking for job opportunities on both the sides of bridge.

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About ADB

- Asian development bank is a regional development bank established in 1966 and headquartered in Philippines.
- Aim: to facilitate economic development of countries in Asia. It also aims for an Asia and Pacific free from poverty.
- Currently, it has 67 members – of which 48 are from within Asia and the Pacific and 19 outside.
- ADB was modeled closely on the World Bank, it raises funds through bond issues on the world's capital markets and also relies on its members' contributions, retained earnings from its lending operations, and the repayment of loans.
- Japan holds the largest proportions of shares at 15.67%. The United States holds 15.56%, China holds 6.47%, India holds 6.36%, and Australia holds 5.81%.
- It offers both Hard Loans and Soft loans.

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6
SOCIAL ISSUES

6.1 UNIVERSAL BASIC INCOME DEBATE

Make 'POINTERS' for 'REVISION'

(Q) What do you understand by Universal Basic Income? Should inefficient subsidy system in India be replaced by the Universal Basic Income System? Critically analyse.

Context

In the first vote of its kind, Swiss voters have rejected the proposal to introduce a guaranteed basic income for everyone living in the country, irrespective of employment status or social contribution. Even though the proposal has been defeated it has sparked a debate that whether in countries like India where there is massive inequality and poverty, should universal basic income be provided to all the people.

What was the Universal Basic Income proposal in Switzerland

- The proposal was to guarantee every adult citizen and long-term resident 2,500 Swiss francs (Rs. 1.75 lakh, give or take a few) per month as a Universal Basic Income, irrespective of any other earnings they might have.
- In other words, it is the money a person is entitled to, whether he/she is rich or poor, whether or not he/she have a job that pays him/her enough to live on. It is what some people call an unconditional transfer — there are no strings attached.

Argument Against Universal Basic income

- **Unaffordable:** Assuming roughly 700 million people between ages of 18 and 60 will have to be provided Universal basic income of Rs 5000 in India that will be 3.5 trillion rupees, or about 3 per cent of the current GDP. That seems huge and unaffordable for a poor country like India.
- **Disincentive to work:** It provides a disincentive to work, which in the grand scheme of things means we produce less as a society. critics state that this system would lead to a reduction in labour, as more people would be motivated to be 'free loaders'.
- **Over-Migration:** If a country like India which do not have strong border controls, implements a guaranteed income, it will become a magnet for immigration. Inflow of migrants from countries like Nepal and Bangladesh would increase in India.
- **Impractical:** Funding it would require raising tax rates to levels that are not politically feasible. For instance, according to a UK study by Joseph Rowntree Foundation, direct tax rates might have to be 50 per cent.
- **Misuse:** The final argument against basic income is that the poor will use the money to fund personally or socially detrimental activities, such as gambling and alcohol consumption.

Arguments in favour of Universal basic income

- Being unconditional, it does not create any direct disincentives for those who want to work more and live better.
- By just letting people have the money and decide what they want to do with it, it gets away from the "nanny state" that so many Market economists despise.
- It makes a certain minimum standard of living a right rather than a reflection of the Generousity of the state.
- Many economists believe that a basic income is a means to provide equal opportunity and counter exploitation.
- In country like India there is the question of whether the current, multifariously fractured system of welfare, where multiple authorities give out different subsidies (money, food, housing, travel, education, healthcare), guided by their own priorities and targets (the young or the old, the mother or the child, the poor or the indigent), makes any sense. Why not have one universal basic subsidy that covers everything (perhaps except health and education) and let people decide how they will spend it, rather than trying to target subsidies based on our imperfect knowledge of what people need and deserve.

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- The number of extant government "welfare schemes" exceeds 350, though most of those programmes are not much more than a name, an office and a few underemployed bureaucrats. Moreover, many of our bigger schemes, like MGNREGS or PDS, are far from being well targeted or well run. Why not replace these 350 odd schemes by a single Universal Basic Income of, say, Rs 250 a week, which entitles every adult resident to a minimum weekly income as long as they verify their identity using Aadhaar (or in some other way) every week. The verification process will serve the dual purpose of making sure there is no fraud and discouraging the rich, who will find it unpleasant and a waste of time, from claiming a subsidy they don't need.
- At the very least, this will reduce poverty and free up the bureaucracy to do other things. But potentially, the benefits could be much larger. For example, the poor, liberated from having to worry about where their next meal or school fee will come from, might plan their lives better and invest more effectively in their children and their businesses.
- Assuming roughly 700 million people between ages of 18 and 60 are provided basic income of Rs 5000, that will be 3.5 trillion rupees, or about 3 per cent of the current GDP. That seems huge and unaffordable. But, the challenge may be surmountable. For instance, all the subsidies meant for the poor are more than 4 per cent of GDP (Centre plus states).Thus compared to subsidies it is a cheaper option.
- Experiences with direct cash transfers in a range of countries, including Ecuador, India, Mexico, and Uganda, have not provided much evidence of any misuse of cash transfers; in general, the cash is spent on worthwhile goods and services.

Conclusion

Proposals for a universal basic income, fancied by utopian socialists and libertarians, may be premature in the advanced countries. But such schemes should not be dismissed in the developing world, where conditions are such that they could offer an affordable alternative to administratively unwieldy and ineffective welfare programs. Basic incomes are no panacea; but for overworked developing-country citizens living in extreme poverty, they would certainly be a relief.

Pradhan Mantri Surakshit Matritva Yojana

- This scheme has been launched recently with the main objective to improve the health of malnourished women during their pregnancies to ensure the birth of healthy children.
- It aims at conducting free of cost health check-ups for pregnant women at which doctors will examine the health of mothers and babies both.
- It will also focus on decreasing the Maternal Mortality Ratio (MMR) of country.
- Under PMSMA free health checkup camps will be organized at various government and private hospitals in the country on 9th of every month.
- Eligible pregnant women will have to go to those camps where they'll be examined for potential health issues by the doctors. After checkup is done, they'll be issued a health card with a sticker placed on it. The color of sticker will vary depending on the severity of health issues found in any woman.

Sticker color	Meaning
Yellow	Minor problems
Blue	Mildly severe problems
Red	Serious case

Key features

- Special preference to women from semi-urban and rural areas or uneducated women from urban areas.
- Scheme available for pregnant women only.
- All checkups are absolutely free, which can take place in both government and private hospitals or clinics.
- Categorization of women based on severity of their health issues.

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- **Significance**
  - It can help in decreasing the number of malnourished children and women in India.
  - It can provide tremendous financial, and thus psychological support to people who can't afford the expenses of giving birth to a healthy child.
  - It can decrease the cases of maternal mortality.

6.2 MERCER'S COST OF LIVING SURVEY 2016 RELEASED; MUMBAI COSTLIEST IN INDIA

- Mumbai, has been ranked India's most expensive city (82nd out of 209 cities globally), according to data from Mercer's 2016 Cost of Living Survey.
- It has been ranked costlier than Seattle, Frankfurt, Canberra and Berlin.
- Hong Kong tops the overall list, as the **world's most expensive city for expats**.
- The report measures the comparative cost of more than 200 items in each location, including housing, transportation, food, clothing, household goods, and entertainment.
- Mumbai is followed by New Delhi (ranked 130) and Chennai (ranked 158). Kolkata (ranked 194) and Bengaluru (ranked180).

6.3 STATE OF THE WORLD CHILDREN REPORT-2016

- The State of World Children Report 2016 has been released recently by UNICEF.
- It identifies the widening gap between rich and poor countries when it comes to ensuring child survival.
- It highlights the patterns of child mortality, disparities in access to quality health care and recommends ways to meet the 2030 goals to improve prospects for the survival and good health of all children in every society.
- There is also a growing disparity in maternal, new-born and child health in high-mortality countries.
- The report recommends antenatal care, skilled care at birth and essential newborn care to improve prospects for safe pregnancy and child survival.
- It presents a disappointing picture of the state of children's education in the world saying that the number of children who do not attend school has increased since 2011.

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7
SECURITY ISSUES

7.1 CENTRAL MARINE POLICE FORCE

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(Q) Given the vulnerabilities faced by India with respect to maritime security, does India require a Central Marine police force?

Context

Union Home Minister Recently approved Maharashtra Chief Minister Devendra Fadnavis's proposal to set up a Central Marine Police Force to protect sea, coasts, ports and vital institutions along 7,516 km national coastline.

What would CMPF do?

- The central marine police force will have mandate to police waters upto 12 nautical miles from the coast, as it can operate without any jurisdiction limitations which is faced by the state police.
- A central marine police force unlike the Coast Guard would have powers to register FIRs and investigate coastal/marine crimes.

Why there is need for CMPF?

- Coast Guard is tasked with the defence of India and meant to deal with war situations. Unlike the police, they are not well-versed in nuances of Criminal Procedure Code and cannot be burdened with normal police duties such as appearing before the magistrate. Coast Guard patrols the Exclusive Economic Zone (EEZ), which is beyond 12 nautical miles from the coast and covers a large area of nearly 1 million square feet that houses vital economic installations. It cannot be burdened as well with policing the area closer to the coast. Thus for area upto 12 nauticle miles we need a specialized police force.
- Unlike land boundaries, water boundaries for coastal states are not easily demarcated. So jurisdiction could be a major issue for crimes such as smuggling and drugs trafficking that are committed in the waters closer to the coast. Constituting CMPF would solve this problem as it would have jurisdiction throughout the Indian coastline.

Why CMPF is not required?

- According to reports, the proposed CMPF shall have the powers to register FIRs and investigate crimes conducted at sea. If that be the case, then the proposed CMPF could not be on the lines of the CRPF as the latter does not have investigative powers. Moreover, the CRPF is deployed for accomplishing certain specified tasks and for specified durations of time, whereas the patrolling of coastal waters requires involvement over a sustained period of time. This means that the deployment of the proposed CMPF will be of a more permanent nature. That, in turn, would invariably result in creating the problems of multiplicity of command and lack of coordination between the State police and the CMPF, as demonstrated by experiences in various counter-insurgency theatres.
- Given the lackadaisical attitude of the State Governments towards coastal security and the poor performance of the marine police across all the coastal States and Union Territories, prudence dictates that the agencies of State governments should not be entrusted with the responsibility of patrolling coastal waters. However, creating a new organisation, such as the proposed CMPF, is not a solution either. Because, the CMPF would not only add another agency to the already crowded coastal security architecture but it would also introduce problems of coordination and turf wars.

Additional Information

Maritime Challenges for India

- **China's growing naval presence in the Indian Ocean** is a major challenge for India. Recently Chinese naval submarines docked in Colombo . From developing maritime infrastructure in Gwadar, Hambantota and Chittagong in South Asia, to building and revitalizing port facilities in Mombasa, Dar-e-Salam and Bagamoyo on the East Coast of Africa, China seems to be creating a Chinese trade-corridor in the Indian Ocean. The Maritime Silk Route is indicative of that. The all weather Sino-Pakistan alliance, with its strong anti-Indian slant complicates our security problems further.China's expanding naval footprint in the Indian Ocean would come into conflict with India's sphere of strategic influence, triggering a chain of events that could eventually lead to a larger strategic confrontation.

- India is perturbed as the sea is constantly under threat due to rampant **piracy, maritime terrorism, and inter-state tensions**. Open waters, crowded sea lanes, failed states have created a conducive environment for piracy. Fairchem Bogey, an Indian oil tanker was attacked near the port on 2011. Challenges such as the size of the surveillance area and reaction time have hindered navies from capturing pirates. Inadequate legal mechanisms for the trial of pirates has been an issue on land.
- The growing importance of maritime resources, sea-lane safety, concentration of economic boom zones along the coasts, has made maritime security more critical than ever. **Deep seabed mining** has emerged as a major new strategic issue. From seeking to tap sulphide deposits — containing valuable metals such as silver, gold, copper, manganese, cobalt and zinc — to phosphorus nodule mining for phosphor-based fertilizers used in food production, the inter-state competition over seabed-mineral wealth has increased dramatically. Competition over seabed minerals is intensifying in the Indian Ocean. China has secured an international deep-seabed block in southwestern Indian Ocean from the International Seabed Authority to explore for polymetallic sulphides.
- India shares maritime border with more countries than she does on land borders – Maldives, Sri Lanka, Myanmar, Indonesia, Thailand, Pakistan and Bangladesh. India has an **unresolved maritime border dispute with Pakistan – Sir Creek.** Where borders are delimited there also frequent instances of **illegal fishing, arrest of fishermen, arms-smuggling, terrorist infiltration, human-smuggling and drug-trafficking** takes place. All of these pose continuous threats to national security.
- Environmental problems such as sea level rise, desertification, and the submergence of islands have contributed to the environmentally-driven migration of millions and created a new set of migrants **"environmental refugees."** With a rise in environmental refugees, concomitant problems such as health issues, competition for scarce resources, social and ethnic tensions will surface.This is important while examining the strategic environment of the Indian Ocean.
- **US naval retrenchment** from the region means a reduced military capability to confront larger threats to peace and security in West Asia. Precisely this is why many other countries are rushing to fill in the vacuum created by the impending USA withdrawal. The UK's announcement of reviving its maritime presence in Bahrain needs to be seen in this light. While UK's decision to reopen its naval base in Manama, Bahrain, is a cause for worry mainly because it implies further **militarisation of the Indian Ocean Region**.
- After the reprehensible **26/11 attacks on Mumbai**, for which the terrorists used the sea route for ingress, Indian Navy has been designated as the overall co ordinator for maritime security, which includes coastal security. The Mumbai attacks showed us yet again the **vulnerability of our 7,517 km long coastline**.

What should be India's strategy?

- India should bolster her naval strength and expand maritime partnerships with other countries through bilateral, trilateral and multilateral means. **Naval modernisation, expansion of civilian maritime infrastructure, development of island territories, naval assistance** to other countries should be embarked upon. Joint exercises of navies like Malabar 2014 advance professional interaction and understanding between our sailors and help us to achieve better synergy to tackle common maritime challenges. Power projection is still a pejorative phrase in New Delhi. A **blue water navy** capable of power projection is a flexible strategic tool, but it requires diplomatic investment in forward bases and friendly ports in addition to the financial and human investment.
- The Coast Guard suffers from capacity constraints due to inadequate procurement and infrastructure. It is incumbent upon the respective state governments to recognize the exigency of sea-borne threats and take effective steps to **augment the capabilities of marine police**, which is one of the first respondents during crises.

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- India should maintain **congenial political relations** with its maritime neighbours like Sri Lanka and Maldives. They are allying with China to secure their interests, because India has been callous towards them in the past. India also needs stronger partnerships with other island states, like Seychelles and Mauritius, which are being wooed by China with a renewed vigour. Recent initiatives to provide security assistance to India's maritime neighbours – such as the Seychelles, Mauritius and contributing towards multinational anti-piracy efforts in the Gulf of Aden are steps in the right direction.
- India needs to deepen its military security cooperation in the Indian Ocean with USA, France, Australia and initiate a maritime security dialogue with China. India should engage more through **multilateral initiatives** such as the Indian Ocean Rim Association and the Indian Ocean Naval Symposium to convey her maritime strategy.
- The threats to navigation and maritime freedoms, including in critical straits and exclusive economic zones can be countered through **adherence to international laws** by all parties as well as through monitoring, regulation and enforcement.
- Rising competition for seabed minerals reveals the need for creating a regulatory regime, developing safe and effective ocean-development technologies, finding ways to share benefits of the common heritage, and ensuring environmental protection. It should be treated as a part of **global commons**.

The growing influence of India and her geo-strategic significance as a stabilising power in the Indian Ocean is acknowledged by the world. India needs to be adroitly prepared to shoulder the attendant regional responsibilities.

7.2 INDIA BECOMES FULL MEMBER OF MTCR

- India has joined the Missile Technology Control Regime (MTCR) as a full member.
- MTCR membership will enable India to buy high-end missile technology and also enhance its joint ventures with Russia.
- It aims at restricting the proliferation of missiles, complete rocket systems, unmanned air vehicles and related technology for those systems capable of carrying a 500 kg payload for at least 300 km, as well as systems intended for the delivery of weapons of mass destruction.

About MTCR

- Established in April 1987, the voluntary MTCR aims to limit the spread of ballistic missiles and other unmanned delivery systems that could be used for chemical, biological, and nuclear attacks.
- The MTCR regime urges its 34 members, which include most of the world's key missile manufacturers, to restrict their exports of missiles and related technologies capable of carrying a 500-kilogram payload at least 300 kilometers or delivering any type of weapon of mass destruction.
- Since 2008 India has been one of the five countries that are unilateral adherents to the MTCR. MTCR membership will enable India to buy high-end missile technology and also enhance its joint ventures with Russia.
- China is not a member of 34-nation MTCR.

(For More information on MTCR issue please refer to 1-15 june notes)

7.3 POLICE STATIONS TO HAVE WIDER JURISDICTION OVER COASTS

- 10 police stations located along India's coastline have been empowered to register and investigate crimes committed within the country's exclusive economic zones (EEZ) in order to provide better protection across Indian coasts.
- For this, the Union Home Ministry has now extended the jurisdictional limits for notified police stations from the existing 12 nautical miles to 200 nautical miles into the high seas.
- 10 police stations located on both east and west coasts can investigate any offence committed by any person within the EEZs to maintain security up to five nautical miles from the shore.

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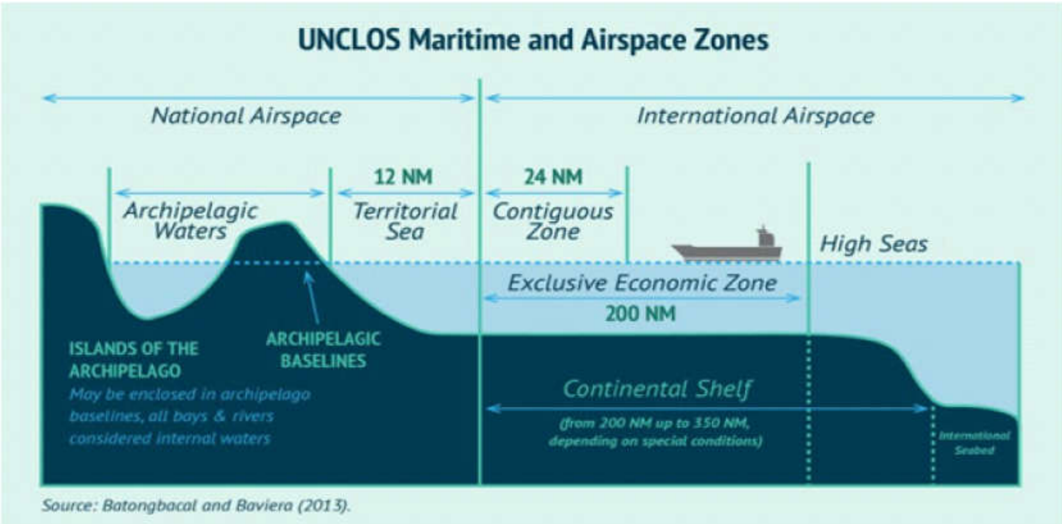
- This measure is expected to help local police while dealing with cases of smuggling and terrorism.

Additional facts

- India has a 7,517 km coastline, which is dotted with 12 major ports and 187 minor or intermediate ports. India's territorial waters end at 12 nautical miles while exclusive economic zone stretches to 200 nautical miles from the coast.



7.4 PATRIACH OF NAGA INSURGENCY DIES

- The patriarch of Naga insurgency, Isak Chishi Swu who played an important role in peace negotiations between National Socialist Council of Nagaland's Isak-Muivah (NSCN-IM) and government of India passed away recently.
- He headed the organisation and was an influential person of the group.

Background

- The government in August 2015 signed a peace accord with the Nationalist Socialist Council of Nagaland (Isak-Muivah), one of the largest insurgent outfits, which had been demanding a unified Naga identity and a separate 'Nagalim' State for over six decades.
- The Naga insurgency is six decades old. The NSCN-IM, one of the several separatist groups in the north-east, has been fighting for an independent, ethnic Naga homeland uniting parts of Manipur, Arunachal Pradesh, Assam and areas of Myanmar, with which it shares a border.

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8
DISASTER MANAGEMENT

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8.1 MENACE OF LIGHTENING IN INDIA

(Q) What do you understand by the phenomenon of Lightening? Highlight the threat faced by India from Lightening. Also explain the issues in Governance with respect to lightening in India.

Context

Over 300 people have been reportedly killed by lightning in India in June 2016. Officials and scientists say such a large number in such a short time is unheard of, even in a country that sees 2,000-2,500 deaths by lightning every year.

What is lightning?

Lightning is a bright flash of electricity produced by a thunderstorm. All thunderstorms produce lightning and are very dangerous. If you hear the sound of thunder, then you are in danger from lightning. Lightning kills and injures more people each year than hurricanes or tornadoes.

What causes lightning?

Lightning is an electric current. Within a thundercloud way up in the sky, many small bits of ice (frozen raindrops) bump into each other as they move around in the air. All of those collisions create an electric charge. After a while, the whole cloud fills up with electrical charges. The positive charges or protons form at the top of the cloud and the negative charges or electrons form at the bottom of the cloud. Since opposites attract, that causes a positive charge to build up on the ground beneath the cloud. The grounds electrical charge concentrates around anything that sticks up, such as mountains, people, or single tree. The charge coming up from these points eventually connects with a charge reaching down from the clouds and - zap - lightning strikes.

Lightning deaths in India

- It is a frequent occurrence, and accounts for the largest number of accidental deaths due to natural causes every year. India sees 2,000-2,500 deaths by lightning every year. Lightning is responsible for at least 10% of the total deaths caused by nature in most years in India.
- People are rarely hit directly by lightning. But such strikes are almost always fatal. The most common way in which people are struck by lightning are by 'ground currents'. The electrical energy, after hitting a tree or any other object, spreads laterally on the ground for some distance, and people in this area receive electrical shocks. It becomes more dangerous if the ground is wet, or there is conducting material like metal on it.

Prediction of Lightening

The Met office routinely issues warnings for thunderstorms. But this is a very generic advisory, for locations that are very large in area. Predicting a thunderstorm over a very precise location is not possible. Nor is the exact time that it is likely to strike.

Safety Precautions for Lightening

Here are some safety rules.

- Stay away from open spaces. Do not stand under a tree. The best place is inside a building.
- If you are swimming, get out of the water. Get out as soon as you see a storm coming. The storm may seem far away, but lightning can travel over 20 miles.
- During a thunderstorm, shut off or unplug all electrical items. Do not use the phone.
- Never walk in a thunderstorm carrying a metal pole. Don't even carry an umbrella.
- How will you know if a lightning strike is near you? You will feel the hair on your head or body start to stand up. If this happens, go to a safe place. Go quickly and if there is no safe place near, get as close to the ground as you can.

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Why east India is vulnerable to lightening?

Generally, lightning develops in uneven and hilly areas. This is why eastern parts of India are more prone to lightning. During pre-monsoon or monsoon season, the air coming from sea carries ample moisture. The hilly area creates a hurdle and adds additional heat to it. The air along with moisture rapidly uplifts due to intense heat and other synoptic conditions and develops cumulonimbus cloud, which is a thundery cloud that causes lightning.

Issues in Governance with respect to Lightening in India

- Lightning is responsible for at least 10% of the total deaths caused by nature in most years in India and, according to the National Crime Records Bureau data Still, lightning is not categorized as a natural calamity, meaning affected people or their families are not eligible for compensation from the government unlike in the case of floods or earthquakes.
- The problem with lightning, like earthquakes, is that it cannot be predicted, which makes it all the more challenging to issue timely warnings.
- The climatological data that scientists get from satellites is not enough, Lightning detection is also important for real-time storm tracking, warning, and short-term forecasting of weather conditions as well as rainfall.
- Steps to prevent deaths caused by lightning still remain a low-priority area for governments, as the extent of the fatalities are usually under-reported, unlike headline-grabbing death tolls in the case of earthquakes, floods or even the recent heat wave that claimed at least 2,000 lives across India.

Institution to Manage Lightening in India

Indian Institute of Tropical Meteorology,Pune has set up India's only lightning location network in Maharashtra.

Way Forward

- Lightening should be declared a natural calamity this will help families of those who died due to lightening to get compensation from the Government.It will also force the Government to give adequate attention to the problem of lightening.
- Government should devote more resources in promoting research related to understanding the phenomenon of lightening.
- More lightning location network should be established across India.

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