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Insights into Editorial: Banks Board Bureau: Old wine in a new bottle?

02 May 2016

Article Link

Summary:

Finance minister Arun Jaitley announced in August 2015 the plan to set up the Banks Board Bureau (BBB) as part of the Indradhanush programme to revamp state-run banks. In February 2016, the proposal of the Department of Financial Services (DFS) for the constitution of the Banks Board Bureau was approved and thus the bureau was established. Former CAG Vinod Rai was appointed as the first chairman of the bureau.
About BBB:

The bureau was set up as an **autonomous body**. It will have three ex-officio members and three expert members, in addition to the Chairman.

Important functions performed by the Bureau:

- Recommend appointments to leadership positions and boards in PSBs and advise them on ways to raise funds and how to go ahead with mergers and acquisitions.
- Constantly engage with the boards of all 22 public sector banks to formulate appropriate strategies for their growth and development.
- Search and select heads of public sector banks and help them develop differentiated strategies of capital raising plans to innovative financial methods and instruments.
- Be responsible for selection of non-executive chairman and non-official directors on the boards.
- Steer strategy discussion on consolidation based on the requirement.

Background:

This idea was first mooted by a **committee set up by the RBI to review the governance of bank boards**. The committee was headed by former chairman and managing director of Axis Bank Ltd P.J. Nayak. In May 2014, the committee suggested the formation of the bureau as a first stage in a three-phase process to empower the boards of public sector banks.

- The committee noted that the bureau would advise on all board appointments, including the whole-time directors and the top bank management, to professionalize and depoliticize the appointment process.
- The members of the bureau would have a tenure of three years or until powers are passed on to the bank investment company, whichever is shorter, and their remuneration would at least be on a par with the senior bank chiefs, the panel had recommended.

Why this was a good idea?

The bureau has been set up at a time when public sector banks are grappling with a huge problem of bad loans with their collective gross NPAs (Non Performing Assets) approaching Rs. 4 lakh crore level. Saddled with a large pile of bad assets, public sector banks need dollops of capital. They also need to focus on sharpening efficiency and strengthening corporate governance. The Bureau is mandated to play a critical role in reforming the troubled public sector banks.

What else needs to be done now?

- Create a holding company to manage the government’s stakes in the public sector banks and facilitate consolidation in the sector.
- Open up the banking sector further and explore options of allowing different types of banks to set up shops.
- The bureau should also have a say in the selection of independent directors of boards without which it will be difficult to help these banks develop strategies and raise capital as many directors on the boards of various banks neither understand strategy nor do they lend credibility to their institutions.
Challenges:
The investment company can be set up only after legislative changes. For instance, the Bank Nationalisation Acts of 1970 and 1980 and the SBI Act and the SBI (Subsidiary Banks) Act need to be repealed and all banks need to be incorporated under the Companies Act ahead of this. This is a long-drawn process.

Conclusion:
It will not be easy to raise capital unless the government plans to overhaul the way public sector banks operate and this cannot be done by merely asking the bureau to select bankers for the top jobs. The government must clarify whether it is an intermediate step towards setting up the investment company, and if it is, then the scope of work must be widened to include the appointment of independent directors of the board, as envisaged by the Nayak committee. It also must look at the tenure of the managing director and the chief executive and the compensation of senior bankers, among other things. Finally, the process of appointment must also change.

Insights into Editorial: Divestment: More than just revenue

03 May 2016

Article Link

Summary:
Divestment in India is a by-product of the economic reforms initiated in 1991. Although the objective of redefining the role of the government versus the market started in 1991 and there was considerable discussion on the role of PSUs, the process of divestment was formalized only after the Divestment Commission was set up in 1996 to examine and suggest withdrawal from non-strategic sectors.

- The department of divestment was formed in December 1999, which later was made the ministry of disinvestment in September 2001. In May 2004, it was shifted to the ministry of finance as one of the departments under it. Now, the department has been renamed as Department of Investment and Public Asset Management (Dipam).

Why divestment was necessary then?
- Through divestment the role of the government versus the market was sought to be redefined and market discipline was sought to be injected in PSUs’ decision-making.
- Through divestment loss-making public enterprises were also sought to be revived and additional resource needs for containing the fiscal deficit and capital expenditure generated.

Current Policy on Disinvestment:
The current Government policy on disinvestment envisages people’s ownership of CPSEs while ensuring that the Government equity does not fall below 51% and Government retains management control. Keeping this objective in view of disinvestment policy, the Government has adopted the following approach to disinvestment:
Already listed profitable CPSEs (not meeting mandatory shareholding of 10%) are to be made compliant by ‘Offer for Sale’ (OFS) by Government or by the CPSEs through issue of fresh shares or a combination of both.

Unlisted CPSEs with no accumulated losses and having earned net profit in three preceding consecutive years are to be listed.

Follow-on public offers (FPO) would be considered in respect of profitable CPSEs having 10% or higher public ownership, taking into consideration the needs for capital investment of CPSE, on a case by case basis and Government could simultaneously or independently offer a portion of its equity shareholding in conjunction.

Since each CPSE has different equity structure; financial strength; fund requirement; sector of operation etc., factors that do not permit a uniform pattern of disinvestment, disinvestment will be considered on merits and on a case-by-case basis.

CPSEs are permitted to use their surplus cash to buy-back their shares; one CPSE may buy the shares of other CPSEs from the Government.

Why a relook at divestment policy is necessary now?

Over the years, the policy of divestment has increasingly become a tool to raise resources to cover the fiscal deficit with little focus on market discipline or strategic objective.

Why divestment is good?

- Reduces financial burden on the Government.
- Improves public finances.
- Introduces competition and market discipline.
- Funds growth.
- Encourages wider share of ownership.
- Depoliticizes non-essential services.

Why divestment is not so good?

- Government’s dividend income will decline and hence fiscal deficit will increase.
- If government’s role is reduced, the goal of equal distribution of resources for all classes cannot be achieved.
- In future, this might also lead to private monopolies.

What policy changes are necessary now?

- **Define the priority sectors** for the government based on its strategic interests. Considering the limited resources with the government and its diverse role, it is evident that the government has a low capacity to manage PSUs. Use of scarce resources, including land and financial capital, has high opportunity cost and the justification for investment in PSUs has to be in terms of generation of adequate social and strategic returns.

- Financial return cannot be the sole reason for investment in PSUs. They have to serve social/strategic purposes. The key role of a PSU is to maintain competition in the sector and limit excessive monopoly.
Government ownership is required for sectors with strategic relevance such as defence, natural resources, etc. The government should, therefore, exit non-strategic sectors such as hotels, soaps, airlines, travel agencies and the manufacture and sale of alcohol.

The outlook towards strategic divestment should move from the current policy of emphasizing on public ownership and retaining majority shareholding to looking at the strategic interest. As per the current divestment policy, government has to retain majority shareholding, i.e., at least 51% and management control of the PSUs. The policy thereby limits the scope to create divestments that would allow easy exit for the government from non-strategic sectors. Allowing ownership of less than 51% will be the first step in the right direction. Eventually, the objective of divestment should be to limit the government ownership to strategic sectors.

It is important to realize that ownership is not a substitute for regulation. Therefore, instead of creating PSUs in non-priority sectors, the government should look into strengthening the regulatory framework that ensures efficient market conditions. The regulations should also ensure that the basic necessities of the consumers are met.

Conclusion:
It is time that divestment is not seen as an option to cover for short-term fiscal gains; instead, it should be part of a strategic plan to improve the production of goods and services in India.

**Insights into Editorial: A taxing agenda**

**Summary:**
India’s income tax department recently released time series data for the period 2000-01 to 2014-15. This was an attempt to enhance transparency and encourage analysis which could provide insights for policymakers. This is also being seen as an attempt by the government to sensitize many on the need for the affluent to contribute more at a time of growing disparities.

**Worrying trends shown in the data:**
- There are just 18,359 individuals who have reported earnings in excess of Rs 1 crore in 2011-12 and paid tax on it.
- Just 1% of individuals, who declared their income in assessment year 2012-13, accounted for almost 20% of the taxable income.
- Among corporates, a little more than 5% of the companies accounted for a whopping 94% of the taxable income.
- Direct tax collections have fallen drastically in the last five years, growing at an average annual rate of 8.5% between assessment years 2011-12 and 2015-16, compared to the 14.1% over the previous five years.
- The drop in the growth rate of direct tax collections was accompanied by an equally dire slowdown in the growth of corporate tax. Corporate tax grew at an average annual rate of 7.1% between assessment years 2011-12 and 2015-16, down from the heady 15.6% seen in the previous five years.
Hence, it can be concluded that Indian income-tax base is very narrow. The problem of large-scale evasion or avoidance continues.

Limitations of Indian tax structure which result in tax evasion:

- High rate of taxation.
- Failure to curb bribery.
- Lack of simplified procedures.
- Existence of large number of taxes.
- Complex tax laws and loopholes in the existing taxation policy.
- Lack of unorganized and systematic administrative structure.
- Deficiencies in implementing penalty provisions.

What can be done to improve the tax base?

- The focus has to remain on widening the income-tax base, and recent efforts to phase out exemptions must be speeded up. Meanwhile, the narrowness of the tax base should lead to some introspection on the part of the tax authorities.
- The tax department has to work out more up-to-date methods of identifying potential taxpayers.
- The streamlining of various data sources already accessible to the government must be carried out through cross-checking of information from various sources.
- Using big data techniques, multiple streams of data can be mined for individuals who have consistent spending patterns in excess of their declared income. This will allow for more focused audits.
- I-T form for those with several sources of income should be made even simpler. Online and paperless filing of returns and payment of tax should be made possible.
- The government’s approach to tax amnesty must be re-examined in light of this data. The government needs to push through meaningful reform like taxing large farm incomes and rationalising bounties enjoyed by the well-off, to widen the base.

Conclusion:

For a country like India, which needs to spend on health, education and social security and also build social and physical infrastructure, it is critical to address the challenges on the tax policy front swiftly. These include both the widening and deepening of the tax base, whittling down of exemptions and improving compliance, especially by leveraging technology. The release of data offers an opportunity to policymakers to engage in a wider public debate on the current tax policy, including on the capital gains tax — on which the government has kicked off a corrective step in this year’s budget.

**Insights into Editorial: NOTA on my ballot**

05 May 2016

[Article Link]
Summary:
With the announcement of latest round of assembly elections, discussions surrounding NOTA have once again come to the fore. The last option on the electronic voting machine carries a symbol of a big, fat cross mark to denote “none of the above”, or NOTA. It was designed by Ahmedabad’s National Institute of Design.

What is NOTA?
The Supreme Court, in September 2013, upheld the right of voters to reject all candidates contesting the elections, saying it would go a long way in cleansing the political system of the country. The apex court directed the Election Commission to have an option of ‘None Of The Above’ (NOTA) on the electronic voting machines (EVMs) and ballot papers in a major electoral reform. The EVMs have the NOTA option at the end of the candidates’ list and a NOTA vote doesn’t require the involvement of the presiding officer. In 2009, the Election Commission of India had asked the Supreme Court to offer this option on electoral ballots, but the government had opposed to it.

There was a similar provision before NOTA. What was it?
Before the NOTA option came in existence, people casting negative votes were required to enter their names in a register and cast their vote on a separate paper ballot. Under Section 49 (O) of the Conduct of Elections Rules, 1961, a voter could enter his electoral serial number in Form 17A and cast a negative vote. The presiding officer would then put a remark in the form and get it signed by the voter. This was done to prevent fraud or misuse of votes. This provision was, however, deemed unconstitutional by the SC as it did not protect the identity of the voter.

Why NOTA would make a little or no difference?
In its landmark judgment in September 2013 ordering the inclusion of the NOTA option, the Supreme Court had clarified that a NOTA count would not invalidate an election and the highest-polling candidate would be declared elected. With this, the voter only gets a method to register discontent.

Why have NOTA if there’s ‘no electoral value’?
NOTA gives people dissatisfied with contesting candidates an opportunity to express their disapproval. This, in turn, increases the chances of more people turning up to cast their votes, even if they do not support any candidate, and decreases the count of bogus votes. Also, the Supreme Court has observed that negative voting could bring about “a systemic change in polls and political parties will be forced to project clean candidates”.

Why NOTA is good?
- NOTA option will force the political parties to select the honest candidates, i.e with no criminal records.
- NOTA ensures people’s ‘right to freedom of speech and expression’.
- The disadvantage of 49-O will be overcome with the implementation of NOTA.
- This will increase the polling percentage.

Why it is bad?
- Even if majority people vote for NOTA, the next highest majority candidate will be elected. So, in the strictest sense it does not give any chance to reject or disqualify candidates.
Which other countries allow NOTA?
Colombia, Ukraine, Brazil, Bangladesh, Finland, Spain, Sweden, Chile, France, Belgium and Greece allow their voters to cast NOTA votes. The US also allows it in a few cases. The state of Texas in the US permits the provision since 1975. The option, however, has faced opposition there.

Conclusion:
Though NOTA option has no effect on the results, it is definitely a good step because it gives people the right to express their opinion regarding the contestants. It would also lead to decriminalization of politics. Hence, NOTA should be considered as the first step in the right direction.

Insights into Editorial: No longer at sea
06 May 2016
Article Link

Summary:
With the United Nations Arbitration Tribunal’s latest verdict, the stage is all set for both India and Italy to jointly move ahead and find a solution in the marine case which involved killing of two Indian fishermen off Kochi in February 2012. The incident had also resulted in a long festering bilateral dispute that had soured relations between India and Italy since 2012.

How Italy defends its marines?
The Italian position is that the two marines positioned on board a merchant tanker had opened fire to thwart what they perceived as a pirate attack 20.5 nautical miles off Kochi.

- It is further argued that the death of the two Indian fishermen occurred in the course of the discharge of their operational duties, and hence functional immunity could be invoked as related to the military personnel of any nation.
- And that even if charges of death by accident were to be prosecuted against the marines, this would have to be done within the ambit of Italian law and jurisdiction as harmonised with the UN Law of the Sea [UN Convention on the Law of the Sea (UNCLOS)].

India’s position:
India has steadfastly rejected this formulation and has invoked its sovereign right to prosecute the accused under the provisions of Indian law, thereby resulting in an impasse. India had also ‘asserted’ its sovereignty and sought to claim its sole jurisdiction in prosecuting the marines in a special court.

United Nations Arbitration Tribunal’s latest verdict:
With the International Tribunal for the Law of the Sea (ITLOS) rejecting its plea, Italy had approached the UN tribunal to “take such measures as are necessary to relax the bail conditions on Italian marine in order to enable him to return to Italy, under the responsibility of the Italian authorities, pending the final determination of the Annex VII Tribunal.” The tribunal has accepted the Italian plea and allowed the marine in India to return, but the wording is significant. It notes: “Italy and India shall cooperate, including in proceedings before the Supreme Court of India, to achieve a relaxation of the bail conditions of Sergeant Girone so as to give effect to the concept of considerations of humanity, so that Sergeant Girone, while remaining under the authority of the Supreme Court of India, may return to Italy during the present Annex VII arbitration.”

Differing interpretations:

India’s view: The Indian government has interpreted this decision as affirming the authority of the Supreme Court of India in the matter.

Italy’s view: Italy sees the tribunal’s order as a vindication of Italy’s position. It argues that the order had paved the way for Italian Marine to return home until the arbitration process is over.

Way ahead:

However, the provisional order only addresses what has been termed by Rome as the “humanitarian” dimension of an intractable bilateral dispute between the two countries – and in many ways the bitterly contested legal haul has just begun.

Going ahead, both parties should approach the Indian Supreme Court for a relaxation of the bail for Sergeant Girone. Hence, Rome’s unambiguous acceptance of the conditions attached, including the fact that even while being in Italy the accused would be “under the authority of the Supreme Court of India” will be critical.

Conclusion:

Given that the Tribunal is only deciding on jurisdiction rather than criminality, it does not appear that the case is about to end anytime soon. Stripped of its legal accoutrements, this case is about two innocent Indian fishermen who lost their lives and two Italian naval officers who, justifiably or unjustifiably, killed them. The endless complexities of the law have meant that justice has proved hard to come by both for the families of the victims and the accused. Hence, the courts, the governments and the law should not continue to muddle along as they have done this far. Both countries should jointly try and find a solution as soon as possible.
Forest fires in the hills of Uttarakhand have damaged valuable natural resources. Forest fire is a common phenomenon during summer in Uttarakhand. However, this time, the fire started in February and spread to most forest areas of the state. A number of theories are circulating on what would have caused such gargantuan fires in Uttarakhand, reportedly the worst the state has seen in recent times.

Background:

In terms of the incidences of forest fires, this year is particularly bad. According to data from the environment ministry, a total of 18,451 incidents of forest fires were reported from across the country in 2013, compared with 19,054 in 2014 and 15,937 in 2015. This year has seen a jump, with at least 20,667 fires already reported as on 21 April.

- In December 2015, the environment ministry released the India State of Forest Report. According to the report, India’s forest cover is 701,673 sq. km which is about 21.34% of the country. As per the Forest Survey of India data, almost 50% of India’s forest areas are fire prone but this does not mean that fires affect 50% of the country’s area annually.
- The major forest fire season in the country varies from February to June. Reports have estimated that about 6.17% of Indian forests are subjected to severe fire damage annually.

What led to early forest fires?

- The major reasons for forest fires in Uttarakhand are the **highly inflammable material of dry chir pine needles** and the **dry-leaf litter of broad-leaved trees** on the forest floor associated with chir pine. Chir pine covers a significant forest area (about16%) in the state and, every year, encroaches on the mixed species area due to its hardy nature as well as the ban on green felling above 1,000 metres.

- **Mass migration of villagers** is also to be blamed. In recent years, migration from the state has checked the local utilisation of the needles, leaving more fuel for forest fires. Himalayan forests are spread over difficult and inaccessible terrain, which forest officials cannot access without the help of locals. It’s difficult even for the forest department to cope with the situation.

- **Scant rains, with a dry spell in winter, El Nino and climate warming** have also led to early forest fires. High atmospheric temperatures and dryness offer favourable conditions for a fire to start. In many forest ecosystems, reduced precipitation before and during the dry season can reduce fuel moisture and lower humidity near the surface, allowing fires to more easily escape from human control, and spread more rapidly over the landscape.

How can early forest fires be prevented?
The pine needles, the main fire hazard, need to be converted into a resource for the community by extending capital, technological and industrial support for their effective utilisation and as a livelihood opportunity. They can be used in briquettes, compost, boards, tiles, etc.

Some of the measures can be tried through the creation of forest self-help groups (FSHGs) or local forest special purpose vehicle (FSPV) — with an industrial linkage to the removal of dry needles with the help of villagers for making bio-briquettes, compost or vermicompost, composite boards, panels, etc.

This activity can also be linked with employment generation schemes like MGNREGA, Skill India and Make in India, as well as women’s empowerment schemes. This will provide a double benefit — removing the pine needles from the forest and generating employment and incomes. It’s a bio-fuel and bio-energy resources are always welcome.

Migration is an indirect issue that needs to be addressed to control forest fires. The willingness of local village communities to stay in the state can be strengthened by an assurance of employment and basic facilities like healthcare, education and communication. They can be motivated by nature-related activities with a market tag, for example, organic crops and products like millets, milk, mushrooms, fruits, colourants, fibres, etc. All these activities make people vigilant and also protect their surroundings.

The conventional centuries-old method of making fire lines or firebreaks (also used as inspection paths) and burning and clearing them before the summer is also not practised properly due to a lack of manpower. Usually, a forest guard or beat guard would look after a large forest area, which is difficult to cover even over several days on the tough terrain. Therefore, the forest department needs to exclusively recruit forest-fire-fighting staff acquainted with modern technologies.

There can be other approaches to reducing the fire hazard in the monoculture/pure chir pine forest, like the inclusion or plantation of indigenous broad-leaved, moisture-conserving species, particularly banj oak, Myrica, Alder, Rhododendron, etc at higher elevations and sal, khair, Harad, Baheda, Arjun, sissoo, etc at lower elevations. The selection of species must be done after understanding the local ecology and public needs. Besides, it’s necessary to strictly follow scientific and advanced borehole methods for resin extraction.

Modern fire-fighting techniques like the Early Forest Fire Detection Using Radio-Acoustic Sounding System, Doppler radar, etc can also be used. Further, the use of modern forest fire detection and monitoring systems with help from the Forest Survey of India (FSI) and Isro, as well as creating awareness among locals along with their participation, can be a better solution.

On the scientific forestry front, a gradual arrest of the spread of chir pine forest, specially above 1,000 m, is leading to a change in forest composition. The selective green-felling of chir pine, as silvicultural thinning and improvement thinning to help the deodar-oak forests, needs to be done by presenting the case in the Supreme Court.
Dry-spell periods are increasing and the moisture regime is gradually depleting. This needs to be **redressed by proper soil and water conservation measures to maintain soil moisture and recharge the natural springs.**

A **participatory approach** is key to success in all initiatives, which reflects on joint forest management (JFM) areas by strengthening JFM committees. Similar approaches are needed in strengthening van panchayats and other local bodies.

**Communication** — via print or electronic media, social media, community radio, Doordarshan — can also boost public awareness and action. Communication measures should be activated at the start of summer and some reward and recognition should be announced to motivate locals. This job can only be done with the active participation of local communities who need to be trained, equipped, authorized and supervised by local staff of the forest department.

In the US and Canada, specialised aerial fire-fighting aircraft are used to drop water, foam- and gel-based water enhancers, and other fire retarders. Hence, provision of helicopter-squads and watch towers would certainly help, especially during a crisis.

**Conclusion:**

Though fires have been ravaging Uttarakhand’s forests for nearly three months, central and state authorities have woken up to the damage far too late. Only after several of these localised fires coalesced and damaged flora and fauna in six Uttarakhand districts, has the issue received the attention it deserved. Hence, in fire control strategy, emphasis should be put on prevention rather than curing. Curing is of no use after the loss of biodiversity, forest wealth and lives.

**Insights into Editorial: Ignore the demagogy**

**09 May 2016**

**Article Link**

App-based taxis are in news again for imposing surcharges that is charges which are often above the government prescribed limit. Various state governments, including Delhi, have stepped in to solve the issue.

What is a surcharge?

Surcharge is the “peak-time” fare. It is a business practice in which companies increase the rates of cabs when the demand goes up. However, the fixed peak hours are fluid i.e., they are not fixed.

Why they are imposed?

A surcharge is levied based on dynamic pricing. This is usually charged during holidays like New Year, and is done to encourage more driver partners to sign on during this period.

Why it should not be imposed?
• **Surcharges distort the level playing field.** A higher than normal price is inefficient because some cabbies and some customers can negotiate a mutually beneficial trade at a lower price thereby distorting the level playing field.

• They are usually three times to five times higher than the usual rates in rush hours. Hence, the commuters will have no option other than paying the extra amount or waiting for the prices to go down. Therefore, consumers are the worst affected by this.

Why governments should not interfere in this matter?

Few experts argue that surcharges are economically rational. They say, given exogenous factors such as the weather and the time of day, the instantaneous demand and supply of taxis vary with the price, and hence aggregators should be permitted to charge higher prices during peak hours.

How states limit taxi market?

• By mandating a permit for operating a taxi, thereby making the supply of taxis very inelastic.

• By fixing the price of the service. However, these fixed prices do not take into account changing exogenous factors which move demand and supply, leading to a fluctuating equilibrium price.

What is the proper role of the state in this market?

It is certainly not right move to ban flex-price cabs or regulate prices since this market is very competitive. Trade at market-determined prices is a remarkably resilient institution with far greater embedded intelligence and creativity than any state authority. Not only are bans and pricing fiats generally counter-productive, they are also ineffective if the targets of such coercive actions have the means and motives to subvert the state’s directives. So, the state should concentrate on its legitimate functions of implementing quality-of-service standards, and more generally, enforcing traffic laws.

Why app-based taxis are good?

• They provide a common platform for both taxi-seeking customers and customer-seeking taxis.

• They solve bargaining problem thereby save a significant cost in terms of time and psychological distress.

• They implement the mutually beneficial trades implied by demand-supply mismatches. While prices increase when demand is greater than supply, they also fall when supply is greater than demand.

• They also make taxi markets more competitive. They end the monopoly of traditional taxi stands.

• Other than legal and administrative barriers, entry into the taxi market is easy because the required software is easily acquired and the entrant does not have to invest in a car fleet, since one only needs to incentivise car owners to acquire an appropriate license and become part or full-time cabbies.

• This makes the ability of the supply-side of the market to respond flexibly to price signals makes the taxi supply far more elastic than under a rigid permit regime.

• With this, there is also a marked improvement in the quality of service relative to the neighbourhood taxi-stand benchmark. This should enable a switch away from private cars to public taxis, leading to lower congestion and pollution.
• Off-peak prices are much lower than those of traditional cabs.

Conclusion:
It is time now for the government to cautiously proceed ahead in this matter and take suitable actions which do not hamper the app-based taxi market. The government should also make sure that the given space is not misused by the service providers.

**Insights into Editorial: A licence to kill innovation**

**10 May 2016**

**Article Link**

The Ministry of Home Affairs recently released a draft of “The Geospatial Information Regulation Bill, 2016.” The draft Bill came under scathing criticism on social media and other online platforms for its draconian features. In the light of this, the government now has proposed to review this bill.

• The Bill basically aims to regularize critical information on Maps services that affect “the security, sovereignty and integrity” of the country.

**Highlights of the Bill:**

• According to the draft, it will be mandatory to take permission from a government authority before acquiring, disseminating, publishing or distributing any geospatial information of India.

• The draft Bill will ensure that online platforms like Google will have to apply for a licence to run Google Maps or Google Earth in India.

• The bill also says that no person shall depict, disseminate, publish or distribute any wrong or false topographic information of India including international boundaries through internet platforms or online services or in any electronic or physical form.

• Also, any addition or creation of anything that has to do with any geospatial information – or location – within the territory of India will need the permission of the government or, in this case, a Security Vetting Authority.

• The bill also imposes hefty fines for illegal acquisition, dissemination, publication and distribution of geospatial information of India.

**What does Security Vetting Authority do?**

It grants licenses to organisations/individuals who want to use geospatial data. It will check the content and data provided and make sure it is well within national policies, “with the sole objective of protecting national security, sovereignty, safety and integrity”

**What does “geospatial information” mean?**

According to the draft it means:
Geospatial imagery or data acquired through space or aerial platforms such as satellite, aircrafts, airships, balloons, unmanned aerial vehicles.

Graphical or digital data depicting natural or man-made physical features, phenomenon or boundaries of the earth.

Any information related thereto including surveys, charts, maps, terrestrial photos referenced to a co-ordinate system and having attributes.

Why this is a not so good move?

The proposed bill brings back licence raj. For each map of India or its regions created by any company will have to be vetted by a committee. There will a fee that will have to be paid and the licence will have to be sought.

The proposed bill makes “every person” associated with the business offering map service an accessory to a crime in case of any violation, intended or unintended.

The proposed bill effectively ends crowd-sourcing. This means when you see your area in Google Maps and want to fix a mistake, you won’t be able to do that. The proposed bill also affects the real-time gathering of geo data. This too will make the map services almost useless.

Companies such as Google, Microsoft and Apple, which have millions of Indians using their maps, would be hit directly by the legislation if it is pushed through. Firms that depend on these maps to provide their services, such as Uber, Zomato and Ola, too would be affected.

The security vetting authority removes sensitive zones from the data and takes about two-three months or even more to respond, which is an unrealistic timeline for people working with digital data. There is also apprehension that the Bill will undermine rescue and humanitarian efforts, such as during disasters like the Nepal earthquake.

Also of concern is the lack of court’s jurisdiction in matters related to the proposed legislation.

It’s not just app developers that will require a license. As per the current draft, every end user of these apps who does things like shares their location with a friend, posts a status update, or uploads a photo with meta-data, is effectively creating mapping information and will have to get one too.

It’s also likely to do little to stop terrorist attacks. Since the rules in the bill only apply within India and to Indians outside the country, it won’t restrict foreign military forces and terrorists beyond India’s borders from sourcing map data from elsewhere.

What is worrisome is that it provides for stringent punishment ranging from a fine of up to 100 crore rupees to a 7-year jail term, for as much as publishing a wrong map of India. Since the print, electronic and digital media use a lot of easily available data, the new regulations could spell doom for the industry as it would push up the costs of acquiring such basic information and also make media liable for heavy fines and imprisonment in case of even an oversight.

The new law also conflicts with the provisions of the Information Technology (IT) Act 2000, because both it and the earlier IT Act deal with not just physical but also digital data. Furthermore, the IT Act is a special law and states that in case of conflict between it and any other law, then it will prevail. However, the draft geospatial bill has also
been given special status under Section 33, stating that its provisions will have effect over inconsistencies in other laws. In other words, the interplay between the new law and the IT Act has not been properly worked out.

What can be done?

- An alternative modality that can serve national security purposes would involve switching to a simple registration-based system that doesn’t make the acquisition of a licence a precondition to using data. However, such a registration-based system is also fraught with danger in a framework that insists on scrutinising the credentials of every end user.

- A clear distinction must be made between the producers and consumers of geospatial data. In order to not constrict the innovation ecosystem, the definition of consumers must be as wide as possible.

- It may be okay to require all publishers of geospatial data to register with the security-vetting authority and provide an online window through which the authority can conduct an audit of their data. The vetting authority can go through the data and raise an objection if it finds anything objectionable, and it can do this in its own time. In the meantime the data can be used by end users and updated by the publisher as required.

Conclusion:

Hence, the government now has to strike a balance between the protection of its national interest and ensuring that the data gets used for the propagation of e-commerce and m-commerce.

**Insights into Editorial: Job growth at a snail’s pace**

11 May 2016

**Article Link**

**Jobless growth** in India has been more dramatic in the last two years. It is probably the main issue of the Indian economy today. It is largely responsible for demonstrations by young Patels of Gujarat and Jats of Haryana in the name of reservations. Since they can’t get jobs in the private sector, they fall back on government jobs.

- It is true that there will be no demographic dividend without growth in industrial and service sector jobs. The underlying logic behind a dividend is that as jobs grow, incomes rise and so do savings. Based on higher savings, the **investment rate to GDP grows**, resulting in faster GDP growth.

- This was the reason behind the phenomenal growth in savings to GDP from 24% in 2002-2003 to 38% in 2007-2008 and investment from 25% to 39% of GDP.

**Job growth in India since 1999:**

Between 1999-2000 and 2004-2005, around 12 million people were joining the labour force every year. However, only 7 million have been added to the labour force annually since 2005. This is due to a **declining population growth rate and rising educational levels.**
Also, 7.5 million new non-agricultural jobs were created annually between 1999-2000 and 2004-2005. An additional 7.5 million new industrial and service sector jobs were created annually between 2004-2005 and 2011-2012.

What led to higher Employment Rate between 1999 and 2005?

Increase in infrastructure investment was the main factor behind this growth. Starting with the Golden Quadrilateral Highway network which began construction in 2001, infrastructure investment picked up. As a result, the number of workers in construction rose from 17 million in 1999-2000 to 26 million in 2004-2005.

- Investment in infrastructure rose strongly thereafter, and during the 11th Five Year Plan, infrastructure investment in the public and private sector together grew by $475 billion. The result was that employment in construction jumped from 26 to 51 million in 2011-12, trebling from the turn of the century.

Job growth since 2004:

After 2004, real wages increased significantly until 2012 and share of agricultural jobs came down. The combined effect of non-agricultural job growth plus real wage growth led to a boom in consumer demand in both rural and urban areas. The combined demand and supply effects of investment plus job growth resulted in sustained economic growth at a rate unprecedented in India’s economic history.

- However, job growth has been much slower since 2012. According to Labour Bureau’s latest figures, 1.35 lakh jobs were created in 2015, the lowest figure since 2008, lower than the 4.9 lakh new jobs in 2014 and 12.5 lakh in 2009.

- Also, according to the report underemployment remains a major problem in the country. Only 60.5% of persons aged 15 and above who were available for work for all the 12 months were able to get work during 2015.

- More worrying is the fact that for the 7 million young people who are joining the labour force, the open unemployment rate is 10 times higher than that for those 30 years and above. Unemployment for 15- to 17-year-olds is 10.2% and for 18- to 29-year-olds is 9.4% in 2013, but 0.8% for over-30-year-olds.

Reasons for slow pace:

- While the share of organised sector jobs is increasing, most of the job increases are still taking place in the unorganised segment of industry and services, and in informal jobs.

- While construction had been booming from 2000 to 2012, its growth dipped since 2012, and has begun to revive only since late 2015 as infrastructure investment revived.

- Since 2004-2005, for the first time in Indian history, 5 million agricultural workers have been leaving agriculture per annum. They are mostly absorbed in low-skilled construction employment.

- With infrastructure investment tapering off during the fiscal years 2012-2013, 2013-2014 and 2014-2015, construction employment growth is likely to have fallen sharply, compounding the already greater rural distress caused by drought in 2014 and 2015.
Education enrolment levels of youth joining the labour force have been increasing every year since 2010 or so. As a result, secondary gross enrolment ratio has increased from 62 to 79% between 2010 and 2014. The educated youth are unlikely to join agriculture and will look for non-agricultural jobs in urban areas.

Efforts by the government to revive the growth rate:

- The Ministry of Labour is finalising the scheme to offer to pay 8.33% of the salary as contribution for a pension scheme for new employees getting formal sector jobs. The scheme will be applicable to those with salary up to Rs.15,000 per month.
- The Ministry of Commerce is customising incentives for labour-intensive export sectors. It has already initiated an Interest Equalisation Scheme and the Merchandise Exports from India Scheme to support declining exports, given that exports have been declining for 15 months.
- Under the Stand Up India scheme, Scheduled Castes, Scheduled Tribes and women entrepreneurs will get support such as free pre-loan training and facilitating loan and marketing. There will be a Rs.10,000 crore refinance window to the Small Industries Development Bank of India (SIDBI), and the National Credit Guarantee Trustee Company will create a corpus of Rs.5,000 crore. SIDBI will engage with the Dalit Indian Chamber of Commerce and Industry and other institutions to take the scheme forward.

What else needs to be done?

As we all know, government schemes rarely create many jobs. International evidence is that when consumer demand grows consistently, whether from domestic or international markets, that is when jobs grow. That requires an industrial policy. Also, ease of doing business improvement and infrastructure investment increases should improve the economic environment.

Conclusion:

Economic growth is meaningful only as long as it creates new non-agricultural jobs. Job growth leads to an increase in consumer demand which has the effect of sustaining GDP growth and reducing volatility in the output growth rate. India has already demonstrated an ability to generate at least 7.5 million new jobs annually over a 12-year period from 1999-2000 to 2011-2012 — or at least the same number as new entrants to the labour force. Going ahead, the revival of infrastructure investment will certainly create more construction jobs.
Insights into Editorial: Managing India’s freshwater

Article Link

12 May 2016

India, with 2.5% of global landmass, has 4% of the world’s freshwater resources. This has however come under increasing demographic stress since India is home to about 16% of world population and the distribution of freshwater is skewed spatially and temporally. Also, the usage has been inefficient and wasteful.

- Besides, the current drought in several parts of the country has made it necessary to manage the country’s water resources efficiently.

Why there is increased pressure on freshwater resources?

- The Ganga-Brahmaputra-Meghna basin with 33% of the landmass has 60% of total water flows and the western coastline with 3% of the area has another 11%. This leaves just 29% of water resources in the remaining 64% of the area in peninsular India where drought is common and farmer suicides routine.
- Most rainfall is received over a relatively short duration during the monsoon. This leads to temporary flooding. Huge amounts of surface water quickly drain into the sea.
- Agriculture is also the culprit here. It accounts for 80% of all freshwater usage. Flood irrigation, prevalent in more than 95% of the irrigated area, damages both ecology and farm economics.
- Freshwater is also being extracted at levels exceeding the natural rate of recharge. While surface water and the phreatic water table have always been utilized for consumption, humans have only recently developed the technology to tap deep aquifers. This can completely empty them within a relatively short period of time.
- Groundwater depletion in urban areas is largely due to poor piped drinking water supply. In rural areas, regions away from river systems, or disadvantaged by the scarce availability of surface water bodies, are constrained to fall back on groundwater for agricultural expansion, as in large parts of western, central and peninsular India. These are mostly areas of dry land cultivation, where agricultural productivity has expanded in recent times through massive, unsustainable exploitation of deep aquifers.
- The drilling rig and electric pump revolution has permanently depleted groundwater reserves in several areas, with water and power subsidies compounding the problem through inefficient use of a scarce resource. Excessive drawal has also led to increasing concentration of toxic elements such as fluoride, arsenic and salinity in several areas.

What can be done to reduce the scarcity of water?

- The river-linking scheme to transfer water from surplus to deficit basins may address the spatial imbalance to some extent. The pace of the run-off can be reduced through inter-basin transfers, new storage reservoirs, desilting, reviving traditional water storage structures such as ponds, dissemination of groundwater recharge technologies, and water harvesting structures such as check dams, open draw wells and rooftop devices.
- A time-bound plan to bring the entire cropped area under controlled irrigation (sprinklers, underground pipes and other water conservation devices) should be undertaken.
Modern science and technology can be leveraged to artificially increase the rate of recharge of aquifers, thereby enhancing the sustainable exploitation of deep aquifers.

It is also imperative to have a good database updated in real time on the size and sustainable levels of exploitation of our freshwater resources. The beginning made through the National Hydrology Project needs to be extended and made more comprehensive, including through mapping of deep aquifers in the country and determining rates of recharge.

Also, extraction rates would need to be capped, calibrated to recharge. In this regard, a major legislative change which puts water on par with other natural resources is required.

Subsurface water resources belong to the property owner. Where private property sits on a deep aquifer, the owner is within his rights to drain the entire aquifer that may extend far beyond the boundaries of his property. This needs to change. Landowners should be free to tap the annually rechargeable phreatic water table through open wells on their property, but deep aquifers need to be treated as a common resource.

Policy coordination is also essential to improve the management of the country’s scarce water resources. Departmental fragmentation of water management needs to change, both in the centre and the states.

Conclusion:
Water poses a more intractable problem for the world including India. Addressing this core problem holds the key to dealing with other challenges because of water’s nexuses with global warming, energy shortages, stresses on food supply, population pressures, pollution, environmental degradation, global epidemics and natural disasters. Effective water management can help transform economies and power security.

Insights into Editorial: Closing the tax bolthole

13 May 2016

Article Link

India and Mauritius recently signed a landmark protocol to amend the Double Taxation Avoidance Agreement (DTAA) treaty.

What the protocol says?
The protocol confers India with taxation rights on capital gains arising on the sale of shares acquired on or after April 1, 2017, in a company resident in India. This is effective from financial year 2017-18.

The protocol also provides for a ‘limitation of benefit’ clause for the transition period (April 1, 2017 to March 31, 2019), during which the capital gains tax rate will be 50% of the normal rate. This clause also requires companies
based in Mauritius to spend at least Rs.27 lakh in the preceding one year to benefit from the tax treaty. There was no such clause earlier.

- Under the amended treaty, the right to tax capital gains will be available to the country where the income arose. With this, both countries are now moving into a source-based taxation of capital gains from the adopted residence-based taxation methodology for capital gains taxation.

**Background:**

What is DTAA and what was the problem with Mauritius?

DTAAs are bilateral treaties signed between governments to prevent companies from being taxed twice over.

- Mauritius, and other tax havens, has almost negligible taxes. This was encouraging companies to route their investments in India through “shell” companies (those that exist only on paper) in Mauritius and avoid paying taxes.

What’s good about this treaty?

The treaty amendment brings about a certainty in taxation matters for foreign investors. It reinforces India’s commitment to OECD-BEPS (Base Erosion of Profit Sharing) initiative to stop ‘double non-taxation’ enjoyed by companies.”

- With this, capital gains on shares for Singapore can also now become source-based due to the direct linkage of the Singapore DTAA Clause with the Mauritius DTAA. This would also lead to a surge in investment flow.

- The move is expected to prevent misuse of the three-decade-old pact from paying taxes, curb round tripping of funds, prevent double non-taxation, streamline investments and lift tax uncertainty.

**Negative implications:**

- Singapore and Mauritius, the two most popular jurisdictions for routing investments, would lose their advantage. This is expected to impact funds and companies from the US who used to come through Singapore/Mauritius to avoid double taxation.

- Many foreign investors will have to redraw their strategies. The incentive to route investments through Mauritius will cease to exist once the new rule kicks-in. This could raise their tax outgo.

- It could hurt short-term foreign investor inflows into India, particularly from companies whose investment strategies are guided by minimising taxes. This could pull down markets initially.

- With this, Mauritius will lose its edge as a popular jurisdiction for routing investments into India. Mauritius currently has ‘nil’ tax rate on capital gains.

**Why this amendment was necessary?**

DTAA had made Mauritius the biggest source of foreign direct investment into India. According to data from the Department of Industrial Policy and Promotion, India received about $93.6 billion of FDI from Mauritius between April 2000 and December 2015. This is 34% of the total FDI inflows into India. Many private equity and venture capital firms also invest in India through funds registered in Mauritius.
Mauritius-registered entities account for a fifth of the assets held by foreign portfolio investors in the country and about a third of all FDI received since 2000.

People used this route to avoid taxes. This was done through round tripping and treaty shopping.

Conclusion:

For a country keen to play a greater role in global decision-making, the move to seal a key route for the round-tripping of capital generated out of tax-dodging enterprises will help boost both revenue and confidence in the rule of law in India. It is beyond doubt that ensuring a level playing field for all international investors, irrespective of domicile, can only serve to enhance India’s attractiveness as an investment destination in the long run.

Insights into Editorial: Renewables are not enough

14 May 2016

Article Link

Summary:

World leaders, on April 22, ratified the global climate agreement reached in Paris last December. The agreement requires 195 countries to limit global warming to well below 2°C above pre-industrial levels, with the goal of not exceeding 1.5°C. The countries have also committed to “intended nationally determined contributions” (INDCs) to limit or reduce greenhouse-gas emissions by 2030.

About the agreement:

The Paris Agreement on climate change is a milestone in global climate cooperation. It is meant to enhance the implementation of the Convention and recognizes the principles of equity and common but differentiated responsibilities and respective capabilities in the light of different national circumstances.

- The agreement acknowledges the development imperatives of developing countries. The Agreement recognizes the developing countries’ right to development and their efforts to harmonize development with environment, while protecting the interests of the most vulnerable.
- The Paris Agreement recognizes the importance of sustainable lifestyles and sustainable patterns of consumption with developed countries taking the lead, and notes the importance of ‘climate justice’ in its preamble.
- It seeks to enhance the ‘implementation of the Convention’ whilst reflecting the principles of equity and common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.
- The objective of the Agreement further ensures that it is not mitigation-centric and includes other important elements such as adaptation, loss and damage, finance, technology, capacity building and transparency of action and support.
- Pre-2020 actions are also part of the decisions. The developed country parties are urged to scale up their level of financial support with a complete road map to achieve the goal of jointly providing US $ 100 billion by 2020 for
mitigation and adaptation by significantly increasing adaptation finance from current levels and to further provide appropriate technology and capacity building support.

What’s good about this agreement?

- Shared responsibilities: Unlike previous agreements which put all the responsibility for reducing emissions on rich countries, in the Paris Agreement, all 196 signatories agreed that every country must take action, while acknowledging that richer countries should start immediately and cut emissions more steeply, while poorer countries’ contributions will depend on their individual situations.

- A “ratchet mechanism”: This is the technical term for the agreement to submit new pledges by 2020. It’s the most important victory within the agreement, as many large developing nations, like India and Indonesia, were reluctant to agree to a system that would pressure them to up their ambition within the next decade. The ratchet mechanism requires countries to return to the table in 2020 and spell out their plans for 2025 to 2030. This creates the opportunity for the world to potentially put itself on a course to stay below 2°C.

- Ambitious abstract goals: The Paris Agreement includes the goal of keeping warming below 2 degrees C. But at the behest of the most vulnerable countries, such as the small island states, it also goes further, calling for efforts to stay below 1.5°C. It even requests that the Intergovernmental Panel on Climate Change produce a report on how we could stay below 1.5°C.

However, this agreement is far from sufficient. Why?

- Various studies show that even if all INDC targets were achieved, the world would still be heading towards eventual warming of some 2.7-3.4°C above pre-industrial levels.

- Over the past decade, energy productivity has grown by only 0.7% annually, and the share of zero-carbon energy rose by only 0.1 percentage point per year. Moreover, even if the INDCs were fully implemented, these annual growth rates would reach only 1.8% and 0.4 percentage points, respectively.

What needs to be done?

- To keep warming well below 2°C, emissions in 2030 must be more than 30% below those envisaged in the INDCs. We must also reduce energy-related emissions by 70% from 2010 levels, with further cuts needed to achieve net zero emissions by 2060.

- This will require both an improvement in energy productivity (the amount of income produced per unit of energy consumed) of at least 3% per year and the rapid decarbonization of energy supply, with the share of zero-carbon energy increasing by at least one percentage point each year.

- Solar power can make a difference here. Solar power costs have fallen 80% since 2008. In some places, new supply contracts have set prices as low as $0.06 per kilowatt hour, making solar power fully competitive with coal and natural gas.

- Investments in renewable capacity need to be matched by accelerated progress in battery technology, or by other tools to match electricity demand to intermittent supply.
Road transport and aviation, which currently rely almost entirely on liquid fossil fuels, account for 30% of total energy consumption. Decarbonization of these activities will require electrification or the use of hydrogen or biofuels.

Heating buildings is another area where major changes are needed. Here, the more widespread use of zero-carbon electricity, instead of fossil-fuel-based energy, could have a major impact. But there are also important opportunities to design and construct buildings and cities that are substantially more energy-efficient.

Energy use by heavy industry presents challenges that are often ignored. Metals, chemicals, cement and plastics are vital building blocks of the modern economy, and involve processes that cannot be easily electrified. Decarbonization may instead require the application of carbon capture and storage technologies, while newly designed building materials could reduce demand for carbon-intensive inputs.

Governments have a vital role to play, but so, too, do incumbent fossil-fuel-based energy companies and new-entrant companies deploying or developing new technologies. NGOs can help to identify required policies and hold governments and companies to account. Individual consumers are also important, because their behaviour shapes energy demand.

Conclusion:
The challenge now is to find an economically sensible path that enables emerging economies to fulfil their growing energy needs, while ensuring that the world meets its climate objectives. It is technologically possible. But it will require action by many very different actors. Unfortunately, climate change isn’t waiting. As the global temperature rises, glaciers are retreating, shrinking polar ice is threatening Arctic species, river and lake ice has been breaking up earlier, plants and animals are shifting ranges, and flowering cycles for trees are occurring earlier in the season. The signing of the accord, while historic, won’t solve those problems. It merely starts the world on the right, though very belated, path. The world needs to accelerate the pace.
Insights into Editorial: All you need to know about the new IPR Policy

16 May 2016

Article Link

Finance Minister Arun Jaitley recently released India’s new National Intellectual Property Rights (IPR) Policy.

• The Policy which is in compliance with WTO’s (World Trade Organisation) agreement on TRIPS (Trade Related aspects of IPRs), aims to sustain entrepreneurship and boost ‘Make in India’ scheme.

• It also aims to create awareness about economic, social and cultural benefits of IPRs among all sections of society.

What are IPRs?

Intellectual Property Rights (IPRs) are legal rights, which result from intellectual invention, innovation and discovery in the industrial, scientific, literary and artistic fields. These rights entitle an individual or group to the moral and economic rights of creators in their creation.

Why have an IPR?

IPR is required to safeguard creators and other producers of their intellectual commodity, goods and services by granting them certain time-limited rights to control the use made of the manufactured goods. It gives protection to original ideas and avoids the commercial exploitation of the same.

What is the National IPR Policy?

According to the government, the National IPR Policy is a vision document that aims to create and exploit synergies between all forms of intellectual property (IP), concerned statutes and agencies.

• It sets in place an institutional mechanism for implementation, monitoring and review.

• It aims to incorporate and adapt global best practices to the Indian scenario.

Seven objectives of IPR Policy:

1. IPR Awareness: To create public awareness about the economic, social and cultural benefits of IPRs among all sections of society.

2. Generation of IPRs: To stimulate the generation of IPRs.

3. Legal and Legislative Framework: To have strong and effective IPR laws, which balance the interests of rights owners with larger public interest.

4. Administration and Management: To modernize and strengthen service-oriented IPR administration.

5. Commercialization of IPRs: Get value for IPRs through commercialization.

6. Enforcement and Adjudication: To strengthen the enforcement and adjudicatory mechanisms for combating IPR infringements.

7. Human Capital Development: To strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRs.

Highlights of the policy:
The new policy calls for providing financial support to the less empowered groups of IP owners or creators such as farmers, weavers and artisans through financial institutions like rural banks or co-operative banks offering IP-friendly loans.

The work done by various ministries and departments will be monitored by the Department of Industrial Policy & Promotion (DIPP), which will be the nodal department to coordinate, guide and oversee implementation and future development of IPRs in India.

The policy, with a tagline of Creative India: Innovative India, also calls for updating various intellectual property laws, including the Indian Cinematography Act, to remove anomalies and inconsistencies in consultation with stakeholders.

For supporting financial aspects of IPR commercialisation, it asks for financial support to develop IP assets through links with financial institutions, including banks, VC funds, angel funds and crowd-funding mechanisms.

To achieve the objective of strengthening enforcement and adjudicatory mechanisms to combat IPR infringements, it called for taking actions against attempts to treat generic drugs as spurious or counterfeit and undertake stringent measures to curb manufacture and sale of misbranded, adulterated and spurious drugs.

The policy will be reviewed after every five years to keep pace with further developments in the sector.

**Why this policy was need of the hour?**

- Global drug brands led by US companies have been pushing for changes to India’s intellectual property rules for quite some time now. They have often complained about India’s price controls and marketing restrictions.

- Also, an IPR policy is important for the government to formulate incentives in the form of tax concessions to encourage research and development (R&D). It is also critical to strengthen the Make In India, Startup and Digital India schemes.

- The IPR policy comes at a time when India and other emerging countries faces fresh challenges from the developed world and mega regional trade agreements such as the Trans-Pacific Partnership (TPP).

**Issues associated with this policy:**

- According to the policy, India will retain the right to issue so-called compulsory licenses to its drug firms, under “emergency” conditions. Also, the government has indicated that there is no urgent need to change patent laws that are already fully World Trade Organization-compliant. So India has resisted pressure from the US and other Western countries to amend its patent laws.

- The policy also specifically does not open up Section 3(d) of the Patents Act, which sets the standard for what is considered an invention in India, for reinterpretation.

**Benefits of this policy:**

- The new policy will try to safeguard the interests of rights owners with the wider public interest, while combating infringements of intellectual property rights.
By 2017, the window for trademark registration will be brought down to one month. This will help in clearing over 2.37 lakhs pending applications in India’s four patent offices.

It also seeks to promote R&D through tax benefits available under various laws and simplification of procedures for availing of direct and indirect tax benefits.

Unlike earlier where copyright was accorded to only books and publications, the recast regime will cover films, music and industrial drawings. A host of laws will also be streamlined — on semi-conductors, designs, geographical indications, trademarks and patents.

The policy also puts a premium on enhancing access to healthcare, food security and environmental protection.

Policy will provide both domestic and foreign investors a stable IPR framework in the country. This will promote a holistic and conducive ecosystem to catalyse the full potential of intellectual property for India’s growth and socio-cultural development while protecting public interest.

It is expected to lay the future roadmap for intellectual property in India, besides putting in place an institutional mechanism for implementation, monitoring and review. The idea is to incorporate global best practices in the Indian context and adapt to the same.

**Why the US would not be happy with this policy?**

Last month, the US Trade Representative kept India, China and Russia on its “Priority Watch List” for inadequate improvement in IPR protection. However, brushing aside concerns of the US on India’s IPR regime, the government said its intellectual property rights laws are legal-equitable and WTO-compliant. Thus, the government has not yielded to pressure from the United States to amend India’s patent laws.

**TRIPS:**

TRIPS is an international agreement administered by the World Trade Organization (WTO), which sets down minimum standards for many forms of intellectual property (IP) regulations as applied to the nationals of other WTO Members.

- It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994.
- TRIPS requires WTO members to provide copyright rights, covering content producers including performers, producers of sound recordings and broadcasting organizations; geographical indications, including appellations of origin; industrial designs; integrated circuit layout-designs; patents; new plant varieties; trademarks; trade dress; and undisclosed or confidential information.
- The agreement also specifies enforcement procedures, remedies, and dispute resolution procedures.
Insights into Editorial: A blow against free speech

17 May 2016

Article Link

In a landmark verdict, the Supreme Court recently turned down a clutch of petitions challenging provisions of criminal defamation under the Indian Penal Code. The Supreme Court has ruled that the provisions are valid and do not violate the Constitution. The apex court’s verdict will have a significant effect particularly on politicians, activists and journalists.

Important observations made by the court:

- The court has observed that the law is constitutionally valid and said the law has a “chilling effect” on free speech.
- It observed, “Sections 499 and 500 of the Indian Penal Code make defamation a criminal offence. A person’s right to freedom of speech has to be balanced with the other person’s right to reputation and therefore the two Sections are necessary.”
- It also rejected an argument that defamation could become a criminal offence only if it incited to make an offence. It said that defamation had its own independent identity, which has enabled the state to maintain a balance between fundamental rights.
- The court also pointed out the distinction between sections 499 and 500 on one hand and section 66A (prosecution for obscene social posts) of the Information Technology Act on the other, saying the latter was struck down by the apex court on the ground of vagueness and procedural unreasonableness.

Background:

Sections 499 and 500 in the IPC deal with criminal defamation. While the former defines the offence of defamation, the latter defines the punishment for it.

1. **Section 499:** Whoever, by words either spoken or intended to be read, or by signs or by visible representations, makes or publishes any imputation concerning any person intending to harm, or knowing or having reason to believe that such imputation will harm, the reputation of such person, is said, except in the cases hereinafter expected, to defame that person.

2. **Section 500:** Whoever defames another shall be punished with simple imprisonment for a term which may extend to two years, or with fine, or with both.

What is defamation all about?

Defamation refers to the act of publication of defamatory content that lowers the reputation of an individual or an entity when observed through the perspective of an ordinary man. If defamation occurs in spoken words or gestures (or other such transitory form) then it is termed as slander and the same if in written or printed form is libel. Defamation in India is both a civil and a criminal offence.

- In Civil Law, defamation falls under the Law of Torts, which imposes punishment in the form of damages awarded to the claimant (person filing the claim).
Under Criminal Law, Defamation is bailable, non-congnizable and compoundable offence. Therefore, the police cannot start investigation of defamation without a warrant from a magistrate (an FIR cannot be filed). The accused also has a right to seek bail. Further, the charges can be dropped if the victim and the accused enter into a compromise to that effect (even without the permission of the court).

**There are certain basic requirements for a successful defamation suit:**

- First, the presence of defamatory content is required. Defamatory content is defined as one calculated to injure the reputation of another by exposing him to hatred, contempt or ridicule. However, the test for such content is the ordinary man test where meaning of the content is considered to be what a common, ordinary man will comprehend it to be.
- Second, the claimant should be identified in the defamatory statement. The content must be clearly addressing a particular person or a very small group for it to be defamation. General statements like “All lawyers are thieves or all politicians are corrupt” are too broad a classification and hence no particular lawyer or politician can consider it to be personally attributed to them. Therefore, such statements are not defamation.
- Third, there must be a publication of the defamatory statement in either oral or written form. Unless the content is published – made available to someone other than the claimant, there can no defamation.

Under a civil suit, once all these conditions are satisfied, a defamation suit subsists, and the defendant has to plead a privilege or take up a defense. If the defendant fails to do so satisfactorily, the defamation suit is successful. Under a criminal suit, intention to defame is an important element. In the absence of intention, the knowledge that the publication was likely to defame or is defamatory becomes essential. All this is further subject to the normal standard of proof in criminal cases: beyond reasonable doubt.

Why defamation should remain a criminal offence, according to the centre?

- Defamation should remain a penal offence in India as the **defamer may be too poor to compensate the victim** in some cases.
- Since there is no mechanism to censor the Internet from within, **online defamation could only be adequately countered by retaining defamation as a criminal offence.**
- Also, criminalisation of defamation is part of the state’s “compelling interest” to **protect the right to dignity and good reputation of its citizens.**
- Unlike the U. S, defamation in India cannot be treated only as civil liability as there is always a **possibility of the defamer being judgment free, i.e., not having the adequate financial capability to compensate the victim.**
- Besides, Sections 499 and 500, framed in 1860, **cannot be said to obsolete in a modern democratic polity as there are 10 exceptions to Section 499 of the IPC.** These exceptions clearly exclude from its ambit any speech that is truthful, made in good faith and/or is for public good.

What are the valid legal arguments to ward off defamation charges?
‘Truth’ is generally considered to be a defence to defamation as a civil offence but under criminal law, **truth is a defence only in a limited number of circumstances**. Besides the statement or writing being demonstrably true, it also requires to be proved that the imputation was made for public good.

Critics argue that **defamation law impinges upon the fundamental right to freedom of speech and expression** and that civil defamation is an adequate remedy against such wrongs.

Many countries worldwide are in favor of treating **defamation as a civil wrong**, not as a criminal offence. Also, in 2011, the Human Rights Committee of the International Covenant on Civil and Political Rights called upon states to abolish criminal defamation, noting that it **intimidates citizens and makes them shy away from exposing wrongdoing**.

The **misuse of law as an instrument of harassment** is also pervasive in India. Often, the prosecutor’s complaint is taken at face value by courts, which send out routine notices for the appearance of defendants without any preliminary examination whether the offending comments or reports come under one of the exceptions spelt out in Section 499. Thus, the process itself becomes the punishment.

Criminal defamation has a **pernicious effect on society**: for instance, the state uses it as a means to coerce the media and political opponents into adopting self-censorship and unwarranted self-restraint.

The law can also be used by groups or sections claiming to have been hurt or insulted and abuse the process by initiating multiple proceedings in different places.

Also, criminal defamation should not be allowed to be an instrument in the hands of the state, especially when the Code of Criminal Procedure gives public servants an unfair advantage by allowing the state’s prosecutors to stand in for them when they claim to have been defamed by the media or political opponents.

**Defamatory acts that may harm public order are covered by Sections 124, 153 and 153A**, and so criminal defamation does not serve any overarching public interest. Even though Section 499 provides safeguards by means of exceptions, the threat of criminal prosecution is in itself unreasonable and excessive.

**Conclusion:**

All this is not to say that defamation must not be discouraged. But decriminalising it will bring the IPC in accord with Article 19(2), ensuring that the means used to discourage defamation do not end up damping legitimate criticism.
Insights into Editorial: The judiciary is shifting the balance of power

Article Link
18 May 2016

Summary:
Judiciary, in recent years, is increasingly being criticized for actively encroaching on the powers of legislative and executive authorities. “The judiciary has appropriated for itself a role far beyond its primary duties of dispensing justice and interpreting laws”, claim few parliamentarians. Few experts also claim, “step by step, brick by brick, the edifice of India’s legislature is being destroyed” by the judiciary. With the court recently ordering the creation of a National Disaster Mitigation Fund while national and state disaster response funds already exist, the issue has come to the fore once again.

What is Judicial Activism?
Judicial activism is an approach to the exercise of judicial review, or a description of a particular judicial decision, in which a judge is generally considered more willing to decide constitutional issues and to invalidate legislative or executive actions.

Causes of Judicial Activism:
The following trends were the cause for the emergence of judicial activism — expansion of rights of hearing in the administrative process, excessive delegation without limitation, expansion of judicial review over administration, promotion of open government, indiscriminate exercise of contempt power, exercise of jurisdiction when non-exist; over extending the standard rules of interpretation in its search to achieve economic, social and educational objectives; and passing of orders which are unworkable.

Evolution:
The judiciary in India is often called the most powerful among its tribe globally. While the creative interpretations of the text of law had started earlier, the post-Emergency phase marked a distinct turnaround in the Indian judiciary’s activism.

* After the ignominious failure to protect the fundamental rights of the citizens in ADM Jabalpur vs Shivakant Shukla (1976), the court believed a constitutional correction would be insufficient. So, the pursuance of constitutional legitimacy was replaced—in the words of Lavanya Rajamani and Arghya Sengupta—“by a quest for popular legitimacy”.

* A series of judgements, most notably S.P. Gupta vs President of India and others (1981), gave rise to a new legal instrument called public interest litigation. This instrument allowed “public-spirited individuals seeking judicial redress” on a variety of matters beyond what would be permitted by the traditional rule of locus standi, which specifically addressed the concerns of aggrieved citizens.

* Through several judgements thereafter, the judiciary has unhesitatingly shuffled into the roles of both the legislature and the executive. It assumed wide powers in matters of protection of the environment.

Why Judicial Activism is good?
There are many issues that are sensitive, which need to be handled with a certain amount of care that many laws don’t allow. Judicial activism allows a judge to use his personal judgement in situations where the law fails.

Judges have sworn to bring justice to the country. This does not change with judicial activism. It allows them to do what they see fit, within reasonable limits of course. It gives judges a personal voice to fight unjust issues.

It also provides a system of checks and balances to the other government branches.

It has its own system of checks and balances too. Even if a judge decided and ruled that certain law is unjust, it can still be actually overruled with an appeal to another court, even to the Supreme Court.

Why Judicial Activism is not so good?

While delivering any judgement in this regard, courts are often ill-equipped to weigh the economic, environmental and political costs involved.

When judicial activism is used, it is like the laws do not apply. The judges can override any law that there is, which technically means there are no laws in the judges’ eyes.

Sometimes when judicial activism is exercised it is done for solely selfish or personal reasons. They may be political, or the judge may have received compensation for his decision.

Judicial activism becomes a more profound subject for those who serve on the Supreme Court, as their rulings generally stand. With the power to have the final say on matters, their judicial opinions would also become standards for ruling on other cases.

It sees the letter of the law and politics as separate issues.

Conclusion:

In an ideal world, the judiciary would stick to interpreting the law and refrain from treading on the domain of the legislature or the executive. But in an environment where justice is constantly being subverted, it is arguable that the courts are left with no choice but to step beyond their traditional domain and prod the executive into discharging its constitutional responsibilities. However, this encroachment is clearly a matter of huge concern. Also, camouflaged phrases like “judicial overreach”, used often, have been incapable of instigating any self-correction by the honourable judges. Hence, it’s time for the courts to proceed ahead cautiously in this regard.
Insights into Editorial: The risks of creating giant banks

Article Link

20 May 2016

Summary:
The government has decided to push for the creation of a new banking giant by merging the State Bank of India with its associate banks. The quest to create an Indian bank that will be in the league of global giants is an old one. It has been talked about since the 1991 economic reforms. However, not many are happy with this move. Large banks have lost their charm in recent years, especially since the global financial crisis.

Why merger is good?

- The merger move comes at a time when the most important issue facing Indian banks—and the Indian economy—is the growing pile of bad loans with the banking system.
- If the merger of the five associate banks with the SBI goes through, the latter’s assets will jump from about 21.50 lakh crore to 28.25 lakh crore. The number of branches will increase from 16,500 to over 21,500.

The merger benefits include getting economies of scale and reduction in the cost of doing business.
- Technical inefficiency is one of the main factors responsible for banking crisis. The scale of inefficiency is more in case of small banks. Hence, merger would be good.
- 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.
- A better and optimum size of the organization would help PSBs offer more and more products and services and help in integrated growth of the sector.
- Consolidation also helps in improving the professional standards.
- 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.
- After merger, Indian Banks can manage their liquidity – short term as well as long term – position comfortably. Thus, they will not be compelled to resort to overnight borrowings in call money market and from RBI under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).
- 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.
- This will also help in meeting more stringent norms under BASEL III, especially capital adequacy ratio.
Synergy of operations and scale of economy in the new entity will result in savings and higher profits.

A great number of posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in savings of crores of Rupee.

This will also reduce unnecessary interference by board members in day to day affairs of the banks.

After mergers, bargaining strength of bank staff will become more and visible. Bank staff may look forward to better wages and service conditions in future. The wide disparities between the staff of various banks in their service conditions and monetary benefits will narrow down.

Customers will have access to fewer banks offering them wider range of products at a lower cost.

From regulatory perspective, monitoring and control of less number of banks will be easier after mergers. This is at the macro level.

Mergers can diversify risk management.

Why merger is not so good?

Merger will affect regional flavour and end regional focus.

The argument that size is going to determine the future of the bank in a globalised scenario is facile. Remember the fate of large global banks, which collapsed during the global financial crisis? On the contrary, small banks have survived the crisis due to their nimbleness and the niche areas they operate in.

Immediate negative impact would be from pension liability provisions (due to different employee benefit structures) and harmonisation of accounting policies for bad loans recognition.

There are many problems to adjust top leadership in institutions and the unions.

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.

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.

New power centres will emerge in the changed environment. Mergers will result in clash of different organizational cultures. Conflicts will arise in the area of systems and processes too.

When a big bank books huge loss or crumbles, there will be a big jolt in the entire banking industry. Its repercussions will be felt everywhere.

Also, India right now needs more banking competition rather than more banking consolidation. In other words, it needs more banks rather than fewer banks. This does not mean that there should be a fetish about small-scale lending operations, but to know that large banks are not necessarily better banks.

What should be ensured by the government?

The government shall not have any hidden political agenda, in bank mergers.
All stakeholders are taken into confidence, before the merger exercise is started.

After mergers, shares of public sector banks shall not be sold to foreign banks, foreign institutions and Indian corporate entities, beyond certain limit.

Whenever further divestment (dilution of government holdings) takes place, the government share holdings shall not fall below 51% under any circumstances. This will ensure that the ownership and control of public sector banks remain with the government.

The central government shall not rush through the process of bank mergers.

The decision with regard to selection of smaller/weaker banks for merger with larger/stronger banks is to be taken carefully and grouping of various banks for this purpose is the key issue involved. The government shall not yield to pressure from any political or social groups.

The acquiring bank shall not attempt to dominate or subsume the acquired bank. Good aspects of both the banks before merger shall be combined, in order to instil confidence in all stakeholders and to produce better results.

Personnel absorbed from the smaller bank shall undergo brief, intermittent training programs to get acquainted with the philosophies, processes and technology in the new environment. The management must be ready with a good roadmap for this and allot considerable budgetary resources for this purpose.

There shall be conscious and organized efforts to synthesize the differing organizational cultures, for the mergers to yield the desired results.

Various committees in this regard:

Various committees appointed by the government and RBI have studied in detail the aspects of consolidation through the process of mergers.

- Narasimham committee (1991 and 1998) suggested merger of strong banks both in public sector and even with the developmental financial institutions and NBFCs.
- Even the Khan committee in 1997 stressed the need for harmonization of roles of commercial banks and the financial institutions.
- Verma committee pointed out that consolidation will lead to pooling of strengths and lead to overall reduction in cost of operations.

Conclusion:

Merger is a good idea. However, this should be carried out with right banks for the right reasons. Underperforming 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.
Insights into Editorial: It’s time to regulate the auto industry

20 May 2016

Summary:
Recent Global NCAP crash tests have not only managed to highlight that cars made in India are unsafe, but have also pointed out the casual approach of automakers towards improving the quality standards of vehicles.

- However, the tests are not free from criticisms. They have drawn heavy criticism from across the industry. While some compared the agency’s test results with former French queen Marie Antoinette’s suggestion that those who couldn’t afford bread should have cake, few held that the crash test results was scare-mongering.

Why be concerned about this?

- The same automakers, who failed in tests, ship out around half a million cars to markets such as Europe, Japan and Australia, which follow the highest levels of vehicle standards. That is to say, crash test results prove safety quotient of Indian cars lower than the same model elsewhere.
- We also need to be worried because cars which failed in these tests are some of the most famous and highest selling cars in India.

What’s the problem?

India does not have a clear inspection regime in place yet. The mandatory crash testing norms will only come in place in October 2017 for new models and in October 2019 for existing models. Also, India will leapfrog to BS VI emission levels only in 2020 and the government has declined to have a mandatory vehicle recall policy in place. Besides, there is no way automakers could be held guilty in India for over-statement of fuel efficiency like they have been in Japan.

What needs to be done?

- Government should penalise the automakers if they are found guilty. A mandatory recall policy for the automakers in the event of defects should be brought in.
- Manufacturers should be made liable to pay compensation for damage due to crashes caused by manufacturing defect in vehicles.
- The government should also levy penalties on vehicle-makers for non-compliance in notifying manufacturing defects.
- No manufacturer anywhere in the world should be developing new models that are sub-standard. Car makers must ensure that their new models pass the UN’s minimum crash test regulations, and support use of an airbag.
- Finally, it’s really up to the manufacturers to lead from the front and offer the buying public the safest possible vehicles and make them aware about the products and the latest in safety technology that their cars offer.

Way ahead:
Indian automotive market is the sixth largest in the world currently and is poised to become third largest globally by 2020, and there are 196 countries in total. So, we’re a pretty significant lot by that measure. Plainly on that basis, the auto manufacturers should, by default, invest immensely in the Indian automotive landscape — not only on sales and marketing push because of the great scope here, but also from the perspective of global quality products.

Conclusion:
The automobile industry is one of the few success stories that India has and perhaps the only one in manufacturing. But if it has to keep growing it can’t be allowed to be lax on key parameters like quality, standards and safety regulations that developed markets follow. Clearly, the Indian government needs to step up and look at the industry minutely. And a sector regulator will only augur well to realise the sector’s potential as the lynchpin of Indian manufacturing. This will help the sector afford the bread as well as the cake.

**Insights into Editorial: India’s Chabahar conundrum**

**21 May 2016**

**Article Link**

**Summary:**
Prime Minister Narendra Modi is on his visit to Iran. PM Modi’s visit will be the first by an Indian Prime Minister in 15 years and comes four months after the sanctions on Iran were lifted and the international community is re-engaging with the nation.

This visit was necessary for the following reasons:

- To diversify and increase India’s oil and gas supplies.
- To enhance connectivity and trade with Afghanistan, Central Asia and beyond via Iran.
- To hedge Iran’s geopolitical bets in the region vis-à-vis other players, notably Pakistan, Saudi Arabia and the Gulf Cooperation Council members.
- To balance China’s growing influence and also to engage the US in ensuring that India’s interests are protected in the region.

To achieve all the above stated objectives, the port of Chabahar has become the crucial gateway to step up relations with Iran.

**All you need to know about Chabahar project:**

Where is Chabahar port?

It is located on the **Makran coast**, Chabahar in southeastern Iran. Its location lies in the **Gulf of Oman**. This coast is a relatively underdeveloped free trade and industrial zone, especially when compared to the sprawling port of Bandar Abbas further west. Also, it is the **only Iranian port with direct access to the ocean**.

For India, Chabahar is of strategic importance for the following reasons:
- It is the **nearest port to India on the Iranian coast**, which provides access to the resources and markets of Afghanistan and Central Asia.
- It is located 76 nautical miles (less than 150km) west of the **Pakistani port of Gwadar**, being developed by China. This makes it ideal for keeping track of Chinese or Pakistani military activity based out of Gwadar.
- Also, Chabahar port is suitably located to serve India’s outreach in the region to Afghanistan and beyond as well as **link with International North-South Transport Corridor (INSTC)** to which India is one of the initial signatories.
- The port will cut **transport costs/time** for Indian goods by a third.
- From Chabahar, the existing Iranian road network can link up to Zaranj in Afghanistan, about 883 kms from the port. The Zaranj-Delaram road constructed by India in 2009 can give access to Afghanistan’s Garland Highway, setting up road access to four major cities in Afghanistan — Herat, Kandahar, Kabul and Mazar-e-Sharif.

![Map of Chabahar and its location in the region](image)

Despite the strategic import of Chabahar for India, there has been very little progress on it for the following reasons:

- Iran’s unenthusiastic support for the project. Although the idea was first mooted in 2003, it was only in 2012 on the sidelines of the 16th Non-Aligned Movement Summit in Tehran that Iran conceded to set up a joint working group to operationalize the port project as part of the trilateral cooperation agreement between Afghanistan, India and Iran on investment cooperation, trade and transit.
- A key factor behind Iran’s reluctance to allow an Indian presence at Chabahar was the opposition by the Army of the Guardians of the Islamic Revolution (the so-called Revolutionary Guards), which reportedly uses the port to ship arms to Yemen and militant groups in the region.
- Its strategic significance notwithstanding, the economic viability of the project is suspect. India, which has had trouble raising funds for the project, has so far been able to invest only $85 million to build a couple of berths. While India recently indicated that it was willing to invest up to $20 billion—one of its largest overseas ventures—to develop the port, petrochemical and fertilizer plants in the Chabahar SEZ, it remains to be seen if it can raise the funds.
- Also, given the presence of Gwadar next door, where China has already invested over $1 billion and committed another $46 billion for the 3,000-km long economic corridor to link Gwadar to Kashgar in Xinjiang province and
Because of its One Belt, One Road project, it is unclear whether the Chabahar route will generate enough trade and traffic to justify the investment. Besides, so far the project moved slowly because of western sanctions against Iran.

**Developments so far:**
In May 2015, India inked a memorandum of understanding to develop the Chabahar Port. As per the MoU, India is to equip and operate two berths in Chabahar Port Phase-I with capital investment of USD 85.21 million and annual revenue expenditure of USD 22.95 million on a ten year lease. Ownership of equipment will be transferred to Iranian side on completion of 10 year period or for an extended period, based on mutual agreement.

The Union Cabinet, in February 2016, gave its approval to the proposal of the Ministry of Shipping for provision and operationalization of credit of 150 million USD from EXIM Bank for development of Chabahar Port in Iran.

**Way ahead:**
The Union Cabinet has now authorized the Ministers of Finance, External Affairs and Shipping to approve the final contract with Iran and for resolution of any issue arising in implementation of the project. The Union Cabinet has also authorized the Ministry of Shipping to form a Company in Iran for implementing the Chabahar Port Development Project and related activities.

**Conclusion:**
Chabahar port is crucial for India as it is easily accessible from Indian western ports of Mumbai and Kandla. While, Iran would benefit from increased trade, earn transit fees and witness major infrastructural investments and developments.

Also, development of Chabahar port will have a multiplier effect on the growth of its economy and boost foreign investments in the country. Hence, resolving the Chabahar conundrum is vital to securing India’s interests in Iran and beyond.

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**Insights into Editorial: Labour law reforms are a necessity**

23 May 2016

[Article Link](#)

**Summary:**
Over 25% of the world’s workers are Indian. And 300 million young people are set to enter the labour force by 2025. With an average age of 29, India’s population is in the middle of a demographic boom. By 2020, when the global economy is expected to run short of 56 million young people, India, with a youth surplus of 47 million, could fill the gap.

It is in this context that labour reforms are often cited as the way to unlock double-digit growth in India.

**Why reforms are needed?**
Because India still does not use its vast labour force productively or judiciously. In 2014, India’s labour force was estimated to be about 490 million, or 40% of the population, but 93% of this force was in the unorganised sector, ranging...
from vegetable vending to diamond trading. Also, over the last decade, the compounded annual growth rate (CAGR) of employment has slowed to 0.5%, with 13.9 million jobs created in 2012 when the labour force increased by 14.9 million.

Problems with Indian labour laws:

There are eight core ILO Conventions against forced labour. India refuses to ratify four of those: C87 (Freedom of Association and Protection of the Right to Organise Convention); C98 (the Right to Organise and Collective Bargaining Convention); C138 (Minimum Age Convention), and C182 (Worst Forms of Child Labour Convention). India also refuses to ratify another major convention, C131, or the Minimum Wage Fixing Convention.

The Annual Global Rights Index, published by the International Trade Union Confederation (ITUC), rates 141 countries on 97 indicators derived from ILO standards. The rating is on a scale of 1 to 5-plus, based on the degree of respect accorded to workers’ rights. In 2015, India had a rating of 5, the second-worst category. It denotes “no guarantee of rights”. Despite being a constitutional democracy, on the matter of worker rights, India is in the same club as Saudi Arabia, UAE and Qatar, all dictatorships.

What has been the government doing in this regard?

- India’s labour law regime has always been at loggerheads with industrial development and the ease of doing business. Since its inception, the government has attempted to reconcile this by amending the Apprentice Act (1961), making it more responsive to industry and youth, and substituting complex inspection regimes with technology friendly portals.

- ShramSuvidha, a unified labour portal scheme, has been launched to provide timely redress of grievances and facilitate self-certification by industry. This also encourages a more transparent labour inspection regime, with inspection reports uploaded within 72 hours.

- A focus on cutting down red tape, by amending nearly 40 Central and 150 State labour laws, has been launched, with significant consequences on hiring and firing.

- Proposals for exempting small-scale industries, employing up to 40 workers, from 14 basic laws, including the Factories Act, the Industrial Disputes Act and the Maternity Benefits Act, are being considered.

What else is needed?

- Labour reforms must be linked to the ease of doing business, creating a habitat where jobs can be fostered. Reforms must be linked to worker benefits, while simultaneously easing the compliance burden on small and medium enterprises.

- The labour law must be rationalised by defining minimum wages and linking them to inflation. Minimum wages ought to be revised annually, with penalties for their violation dramatically raised.

- With no labour laws applying to apprentices, care must be taken to ensure that they are not transformed into contract labour. MGNREGA should be restructured and linked to apprenticeship programmes in industry and agriculture.
Women workers require legislation too. Female employees of government schemes like Indira Kranti Patham or Anganwadi Worker remain out of the purview of laws.

Scheme-based workers should be treated as regular employees and offered decent wages and social security. Equally, contract labourers must be protected. They should be covered by the Workmen’s Compensation Act (1923) for accidents, with inflation-linked wages and limited social security benefits from the Employees State Insurance Act (1948) and Maternity Benefits Act (1961) extended to them.

While retrenchments are socially difficult experiences, India’s current labour policy provides little incentive for industrial employers to hire. Instead, to avoid complications, hiring contractual labour without social security benefits or termination protection is encouraged. A modern labour law that encourages employers to keep more workers in formal roles, with work-linked wages and social security benefits is vital. Flexibility to undertake layoffs, ensuring adequate benefits and a reasonable notice period, is needed.

Conclusion:
Given the current political and economic scenario, it is very difficult to expect a political consensus emerging at the national level. However, states such as Rajasthan, Madhya Pradesh and Gujarat have made positive moves with respect to labour reforms. Given the emerging competition between states to attract investments, one may hope that other states also are likely to follow suit sooner rather than later.

Insights into Editorial: Moving towards a water pricing regime

24 May 2016

Summary:
Water has now become a scarce natural resource in India. Two back-to-back droughts have further aggravated this problem. Water scarcity is both a natural and man-made phenomenon. Over the years, increasing population, growing industrialisation, expanding agriculture and rising standards of living have pushed up the demand for water. Many human factors influence the availability of water, including dams or other engineering, population, and consumerism – or our water use on an individual, business, and government levels.

How to tackle this crisis in the long run?
According to experts, water pricing is the only long-term, sustainable solution to promote efficient and equitable use of this precious natural resource.

Why water pricing is necessary?

According to a study, water subsidies provided through public utilities in India amounted to 0.6% of global gross domestic product in 2012. But, these subsidies were inequitable and disproportionately benefitted upper-income groups.
The inequitable consumption also operates along other dimensions. With 18% of the world population, India has only 4% of the world’s renewable water resources. Moreover, the distribution is geographically skewed and the majority of rainfall occurs over just a few months, leading to reckless consumption in well-endowed geographies and during those months.

Also, inefficient agricultural usage of water and exports of water-intensive crops make India a large virtual exporter of water. And the domestic scarcity of water has not been priced into the exports. However, moving towards an elaborate water pricing is not that easy. There are few challenges involved in it:

- The first challenge will be to make a case for water pricing at a time when the most vulnerable to water shortage are already reeling under severe economic hardship.
- The second challenge to introducing water pricing is the entrenched political economy in different parts of India. Severe water crisis in some parts of the country are in stark contrast to flourishing fields in some other parts. Besides, the public procurement policies also promote cultivation of water-intensive crops, sometimes in those very states where the usage is most inefficient.
- The third challenge is the inherent design problems associated with water pricing. This is because the government does not exercise control over the sources of water as it does over other natural resources.

What can be done?

- The government should make people realize that without a price on water usage, it is they who will suffer the worst consequences of a drought.
- It is also important to target irrigation water for pricing purposes because it alone comprises more than 78% of the total water usage in India. Also, irrigation consumption is an area where the scope for increase in efficiency is very high.
- Groundwater has to be priced through proxies—electricity or diesel—used by farmers to pump the water. The strategy for pricing should be such that the cost of migration from one method of irrigation to another—or from electricity to diesel—offsets the difference in cost between the two.
- An important part of this effort will also involve the separation of electric feeders for agricultural and non-agricultural purposes—already a focus of the government under the Deen Dayal Upadhyaya Gram Jyoti Yojana.
- Additionally, there will be questions regarding whether the pricing should also take into account income distribution of water users and hence be accommodative towards poorer farmers or households.

Conclusion:

A counter-argument to water pricing is that it may erode India’s export advantage. But this argument ignores how the status quo continues to erode the competitiveness of farmers living in water-deficient parts of India—also some of the same regions where the incidence of farmer suicides is high. Water prices have rather negligible effects on income distribution within the farming sector and hence water pricing should be designed in order to promote efficiency, leaving
equity consideration to other policy tools. Several countries including rich ones such as Singapore and poor ones such as Burkina Faso have, within their own constraints, benefited from this regime. India needs to do the same.

**Insights into Editorial: Payments banks aren’t looking that lucrative anymore**

**25 May 2016**

**Article Link**

**Summary:**
Three firms—Tech Mahindra; Sun Pharma promoter Dilip Shanghvi and his partners IDFC Bank Ltd and Telenor Financial Services; and Cholamandalam Investment and Finance Co- have withdrawn their applications to start payment banks. These firms, along with eight other firms, had obtained in-principle approvals from the RBI in August 2015 to start payment banks. They have now started to realize that the business may not be easy to crack.

**What are payment banks?**
Payment banks are non-full service banks, whose main objective is to accelerate financial inclusion. These banks have to use the word ‘Payment Bank’ in its name which will differentiate it from other banks.

**Key facts:**
- Capital requirement: The minimum paid-up equity capital for payments banks is Rs. 100 crore.
- The payments bank should have a leverage ratio of not less than 3%, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).
- Promoter’s contribution: The promoter’s minimum initial contribution to the paid-up equity capital of such payments bank shall at least be 40% for the first five years from the commencement of its business.
- Foreign shareholding: The foreign shareholding in the payments bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.
- Apart from amounts maintained as Cash Reserve Ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75% of its “demand deposit balances” in Statutory Liquidity Ratio(SLR) eligible Government securities/treasury bills with maturity up to one year and hold maximum 25% in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

**What are the scopes of activities of Payment Banks?**
- Payments banks will mainly deal in remittance services and accept deposits of up to Rs 1 lakh.
- They will not lend to customers and will have to deploy their funds in government papers and bank deposits.
- The promoter’s minimum initial contribution to equity capital will have to be at least 40% for the first five years.
- They can accept demand deposits.
- Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.
• They can issue ATM/debit cards but not credit cards.
• They can carry out payments and remittance services through various channels.
• Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc. is allowed.

Why this is not an easy business?
• First, these entities can't undertake any lending businesses and the income stream is initially restricted to remittances. Eventually, they can cross-sell banking products through their reach and earn a fee. But neither of these two streams of revenue are high-margin businesses.
• RBI has put in place strict rules on how these banks can deploy the deposits they garner. 75% has to go into government securities. This limits their ability to earn from the deposit base as well. Garnering a strong deposit base in the first place will be a challenge as well. Besides, if these banks want to steal customers away from banks, they may have to offer more than the 4% interest rate that banks do. But to do that, payment banks need to be able to earn enough on deposits as well.
• Over the last few years, large banks, including private lenders, have significantly expanded their networks in rural areas. This means that these markets are no longer wide open for new business with limited competition. Banks are offering most services that payments banks can and hence, for payments banks to offer a new and differentiated proposition will not be easy.

Conclusion:
For the regulator, the payments banking model was an experiment. RBI said as much when it first issued the guidelines. The experiment is still underway and it may be too early for the regulator to be “aggrieved” at the decision of three applicants to withdraw their plans.

Insights into Editorial: NEET breather for States as President signs ordinance

26 May 2016

Article Link

Summary:
President Pranab Mukherjee recently gave his assent to the National Eligibility cum Entrance Test ordinance. According to this, all postgraduate (PG) admissions will be done through NEET this year. However, for undergraduate (UG) courses, an exemption has been made for ‘State quota’ seats in government medical colleges and private institutions for this academic session.
• The ordinance is aimed at “partially” overturning the Supreme Court order.
• States now have the option of either conducting their own exam or be part of the NEET to fill 85% of the Under Graduate (UG) medical and dental seats. 15% of the remaining seats will be filled through NEET route by all India counseling.

Background:
There was confusion, and anxiety, after the Supreme Court suddenly decided that the NEET should be the sole basis for medical and dental college admissions from this year onwards. Several State governments objected to NEET, arguing that its implementation would denude them of the power to regulate admission to institutions run by them, as well as to private institutions within their jurisdiction. Some States have their own legislation governing admission and had strong objections to the prescriptive approach underlying NEET. The Centre clearly had no option after the State governments brought pressure on it and hence brought this ordinance.

What is NEET?
In order to ensure that there is a common platform for all aspirants of graduate and undergraduate medical and dental courses across the country, a common examination for admission to all government, private, state, deemed universities/colleges of the country would be conducted under AIPMT. This examination would be conducted for 85% of the seats, whereas the remaining 15% would be reserved for management quota. Medical Council of India (MCI), in 2013, notified single entrance examination for admission to MBBS and postgraduate medical courses. Through the scores of NEET, aspirants could apply for admission to any college of their choosing across the country. This was, however, not applicable to the states of Andhra Pradesh and Jammu and Kashmir, Telangana and Tamil Nadu.

Recent controversy:
Several states including Andhra Pradesh, Karnataka, Kerala and Tamil Nadu, in 2013, opposed NEET saying it infringed on their rights as education is a subject in the state list.

• The Supreme Court passed a judgement calling the test ‘unconstitutional’ as it deprived state-run universities and colleges the right to evaluate students on criteria set by them.
• However, in April 2016, the Supreme Court decided to hear the MCI petition and, the apex court gave a green signal to a single common medical entrance test just before two days of the All India Pre-Medical/Pre-Dental Test (AIPMT), which is currently considered as NEET Phase 1.
• For the academic year 2016-17, the SC agreed on holding the NEET in two phases. For the students who did not appear in the first phase of examination, AIPMT examination will be considered as NEET 1 and NEET 2.
• The Central Board of Secondary Education (CBSE) conducted the first phase of NEET, at least six lakh candidates appeared for the examination.
• The SC cleared the confusion that private colleges would not be allowed to conduct separate exams for medical admissions.
• Also, the plea filed by the state governments and minority institutions, to allow them to hold separate entrance examination for MBBS and BDS courses for the current year, was rejected by the SC.
A common exam sounds like a good idea, so why oppose something that standardizes the procedure? Students in Tamil Nadu who seek admission to MBBS course are admitted on the basis of their 12th standard final examination marks. A similar criterion is followed in Kerala as well. These States believe that there's a huge difference, in terms of content, in the State and Central Board’s syllabus.

Hence, these states believe that the NEET “would adversely affect the interests of students in the State, in particular those from weaker sections and from rural areas and as it infringes upon the State’s right to determine the admission policies to medical educational institutions.”

**Why NEET is good?**

- Bottom line of NEET is One Nation, One Exam, One exam for admissions into all the Post graduate Medical courses in the country (except AIIMS, PGIMER, JIPMER).
- In NEET there is no difference in Syllabi for any of the State graduates as all MBBS graduates have a unified course curriculum.
- A student can write a single exam and apply to different Universities with same test score, where merit list will be prepared by the universities with all the students applied.
- Selling of Seats in Open market for Crores of rupees can be prevented as all the seats will only be filled through NEET.

**Then, is NEET in its present form fair?**

Clearly, ‘No.’ In its present form with the CBSE/NCERT syllabus as its backbone the NEET exam is clearly an unfair one for students from State Boards and from rural areas where the standards may be lower. The major grouse of various states opposing NEET is that a common syllabus must be worked out before implementing NEET and this is a valid argument. Further the exam must be held in multiple languages and this has been acceded to by the Government.

**Why are various State Governments opposing NEET?**

State Governments see NEET as an infringement on the rights of States. They also feel that it will be disadvantageous to students from state Board schools and those from rural areas where the standards may not be as high as CBSE. So States argue that NEET may end up hurting their students and benefiting the CBSE students who may not be from their states or may be urban elite.

**Way ahead:**

A common national test for professional courses is faultless, in principle. In this connection, it will address the problem of private institutions selling medical courses at astronomical prices to candidates who may lack aptitude. Yet, it is important that the ground is properly prepared before the implementation of a common test.

- State governments have to be convinced that their socio-economic priorities will not be affected by centralised regulation of admissions, and that regional disparities in syllabi and linguistic differences will be adequately resolved.
There is also a larger legal issue since there are Supreme Court judgments that have underlined the unfettered right of unaided, minority institutions to regulate their own admissions processes, subject to their being fair, transparent and non-exploitative. These contradictions need to be ironed out.

Also, the political executive has to be allowed to assess the feasibility of having a common national test this year instead of ruling on what is essentially an executive decision. A perfect pan-Indian medical admission system needs to be carefully crafted in the present environment, not rammed home by judicial fiat.

**Insights into Editorial: India and the NSG**

27 May 2016

Recently, India rejected China’s contention that it must sign the NPT to get membership of the Nuclear Suppliers Group, saying France was included in the elite group without signing the Non-Proliferation Treaty.

**All you need to know about the issue:**

**What is NSG?**

Nuclear Suppliers Group (NSG) is a multinational body concerned with reducing nuclear proliferation by controlling the export and re-transfer of materials that may be applicable to nuclear weapon development and by improving safeguards and protection on existing materials. Interestingly, the NSG was set up in 1974 as a reaction to India’s nuclear tests to stop what it called the misuse of nuclear material meant for peaceful purposes. Currently, it has 48 members.

**Background:**

India sought membership of the NSG in 2008, but its application hasn’t been decided on, primarily because signing the NPT or other nuclear moratoriums on testing is a pre-requisite. However, India has received a special waiver to conduct nuclear trade with all nuclear exporters.

India, Pakistan, Israel and South Sudan are among the four UN member states which have not signed the NPT, the international pact aimed at preventing the spread of nuclear weapons.

**Recent controversy:**

China had opposed India’s bid to get NSG membership on the ground that it was yet to sign the NPT. It had said all the multilateral non-proliferation export control regime including the NSG have regarded NPT as an important standard for the expansion of the NSG. And hence, members of the Nuclear Suppliers Group should be party to NPT.

**How India defends its move?**

It says, the NSG is an ad hoc export control regime and France, which was not an NPT member for some time, was a member of the NSG since it respected NSG’s objectives. Also, the NPT allows civil nuclear cooperation with non-NPT countries.

**Why India should be granted NSG membership:**
In this game of developing nuclear weapons India has not indulged in any dubious/clandestine activity and its programme has been developed solely by years of hard work indigenously. By this single act India has shown that developing a credible nuclear weapons programme through honest and civilian means is possible for any country having high-level scientific manpower and materials.

Besides, by declaring a voluntary moratorium on further underground nuclear tests India has effectively acted in sense and spirit of NPT/CTBT provisions. By steering its programme only as a minimum deterrence and pledging NFU unless faced with an attack of weapons of mass destruction (WMD), India has established itself as a responsible nuclear state.

**Benefits associated with NSG membership- Once admitted, an NSG member state gets:**

- Timely information on nuclear matters
- Contributes by way of information
- Has confirmed credentials
- Can act as an instrument of harmonization and coordination
- Is part of a very transparent process.

**Way ahead:**

NSG membership cannot be linked with NPT. But, it can be linked with International Atomic Energy Agency (IAEA). And India has closely cooperated with IAEA. Therefore, India’s case should be judged independently without prejudice or on requests to block it following lobbying from other countries. In 2008, China was among the last few countries to lift its objection to clean waiver by NSG to India. During American President Barack Obama’s visit to India in January 2015, the US had announced that India was ready to join the NSG. This position was reiterated by the US recently.

- However, to build support in the NSG, which operates by consensus, India will need to take additional steps to demonstrate its commitment to nonproliferation. India’s case is being pressed by the US and other influential countries based on the India’s record in non-proliferation and the India-US civil nuclear accord.
- Also, India is actively eyeing membership of the MTCR, the Wassenaar Arrangement and the Australia group along with the NSG.

**Conclusion:**

India’s nuclear doctrine is non-proliferation-oriented and is both sensible and responsible. Having accepted IAEA safeguards and Additional Protocol and having effectively subscribed to and practised the principles of non-proliferation, it is immaterial if India has formally signed the NPT, CTBT or any other such treaty. India has already acquired high-level expertise in the peaceful use of nuclear energy in industry, power, agriculture and health care. India’s membership of the NSG shall not only benefit it but also encourage civil nuclear trade globally without compromising on world peace and harmony.

**Other international treaties:**
**Missile Technology Controls Regime (MTCR):**
MTCR was established in 1987 by the G7 countries and aims to limit the proliferation of missile and other unmanned delivery systems that could be used for chemical or nuclear attacks. It is an involuntary partnership between 34 countries which urge each other to restrict their missile export and technologies capable of carrying a 500-kilogram payload a minimum of 300 kilometres.

India formally applied for a MTCR membership in June 2015 which was eventually blocked by Italy in protest of India’s arrest of two Italian marines suspected of shooting an Indian fisherman. The membership would have immensely helped India in getting access to to world-class technology, according to a report by The Economic Times. It would have also allowed India to export its own technology to countries that comply with MTCR.

**Nuclear Suppliers Group:**
The NSG is a group of nuclear suppliers countries which promote non-proliferation of nuclear weapons. It attempts to control the exports and re-transfer of materials applicable to nuclear weapon development. It was founded in 1974 as to response to India’s ‘Smiling Buddha’. Countries already part of the Nuclear Non-Proliferation Treaty (NPT) saw the need to further limit the export of nuclear equipment.

India’s attempt to joining the NSG was blocked by several nations who considered signing of the NPT as an important standard for the NSG’s expansion. President Barack Obama, however, reaffirmed that US believes India meets the missile technology control regime and is ready for NSG.

**Wassenaar Arrangement:**
Wassenaar Arrangement was established to contribute to regional and international security and stability. It aims to promote transparency and greater responsibility in transfer of conventional arms and dual-use goods and technologies. It has 41 member states and was established in 1996 as an extension of Coordination committee for Multilateral export Controls (COCOM). The participating states ensure that transfer of materials do not contribute to the development or enhancement of military capabilities.

India is not a member of the Wassenaar Arrangement, but hopes to be one soon. The United States is likely to support India’s bid.

**The Australia Group:**
The Australia Group is an informal forum of countries that seeks to ensure that exports do not contribute to the development of chemical or biological weapons. It was established in 1985 and presently has 42 members.
Insights into Editorial: The new game changer in Pakistan

Article Link

28 May 2016

Summary:
Much hype has been created around the $46 billion China-Pakistan Economic Corridor (CPEC) project, since it was announced in April 2015. It is a game-changer and is expected to transform Pakistan into an Asian Giant, say some experts in Pak. This gains even more prominence when contrasted to the $5 billion investment made by the U.S. in the period 2009-15 in Pakistan.

What is this project all about?
The 3,000-km corridor linking China’s far-western region to Pakistan’s south-western Gwadar port on the Arabian Sea through Pakistan-occupied Kashmir (PoK) is massive project of road, rail, energy schemes, pipelines and investment parks.

- The corridor is also expected to serve as a terminal for China to pump oil procurement from Persian Gulf. It is also being seen as a project to strengthen China’s connectivity with neighbouring countries and an initiative set to aid strategic framework for pragmatic cooperation between the nations.
- The corridor would transform Pakistan into a regional hub and give China a shorter and cheaper route for trade with much of Asia, West Asia and Africa.
- The corridor — expected to be ready in three years and provide about 10,400 MWs of electricity — gives China direct access to the Indian Ocean and beyond.
- The corridor will pass through Pakistan’s poor Baluchistan province, where a long-running separatist insurgency that the army has vowed to crush will raise questions about the feasibility of the plan.

Developments so far:
In this regard, China has signed 51 Memoranda of Understanding and projects worth $46 billion in sectors which include energy, infrastructure, security, and broader economic development. For energy, $34 billion investment has been envisaged and $12 billion in infrastructure projects. It is estimated that $15.5 billion would be spent on coal, wind, solar, and hydroelectric projects.

- One of the key externalities to the Chinese investment is the fact that a “Special Security Division” of the Pakistan Army, consisting of perhaps 10,000 Pakistani troops and headed by a Major General, would be set up to guard the Chinese workers and their investment, particularly in Balochistan, given the militancy and insurgency in the province.
- An important indicator of the work in progress is the huge Chinese foreign direct investment (FDI) which has come into Pakistan over the last year. Pakistan has been an FDI-starved country for a host of reasons, but the first 10 months of the last fiscal year saw FDI increase by 5% on a year-on-year basis, to $1 billion, of which 55% came from China alone.
Also, China’s contribution to Pakistan’s FDI increased 152% over this period. The largest chunk of the FDI, 52%, has gone to the power sector, suggesting that work on CPEC-related infrastructure is underway.

Concerns:
However, some experts have questioned whether the Chinese investment in the country represents Chinese strategic and economic interests solely focussed on what will benefit China, much more than it does economic investment which might be of some benefit to Pakistan in the end.
Also, even a year after the initiation of the CPEC project, there continues to be much ambiguity about what the $46 billion project entails. There is little public information and disclosure as to what will be built, how it will be financed, and who will implement the various parts of the corridor, which includes roads, railway lines, pipelines and other infrastructure.

Benefits associated with this project:

The present Pakistan government can gain much with economic development linked to the corridor taking off, offering far greater prospects for re-election in 2018 when some projects come on stream. The Pakistani military is also an obvious beneficiary with its role in security and with its fingers in numerous infrastructure and economic projects around the corridor. Also, some underdeveloped regions in Balochistan and Khyber Pakhtunkhwa will also benefit.

India’s concerns:

China has maintained that it merely wants to develop infrastructure in the area without undermining India’s position on the Kashmir dispute. However, India has expressed its reservations to China over the project as it is laid through the PoK. But, China defended the project by saying it will help in the regional development.

Way ahead:

The development of the CPEC is not necessarily bad for India or the region. On the contrary, Pakistan’s young people who find meaningful work in the projects are unlikely to enter the jihad factories. India should also welcome the impending joint initiative by China and Pakistan to curtail terror groups along the corridor and in Afghanistan, provided the two countries are able to steer clear of an exclusionary agenda, limiting India’s legitimate interests in Kabul.

India should welcome this initiative. CPEC will no doubt boost Pakistan’s progress and prosperity. It will also help Pakistan tackle many social and other internal problems, including the menace of religious extremism and terrorism. It is in India’s vital interest to see a stable, prosperous, progressive, united and democratic Pakistan, which is at peace with itself and also at peace with all its neighbours.

Conclusion:

However, CPEC in its present form does not comprehensively capture the benefits of regional cooperation. It needs to be extended into landlocked Afghanistan, which is in urgent need of national reconstruction after several decades of war. It should also be extended into India through Kashmir and Punjab, the two provinces which are today divided between India and Pakistan. Its linkage with the Indian side of Kashmir is especially important. A better strategy would be to propose the construction of a sub-corridor bringing CPEC into the Indian side of Kashmir and beyond. In addition, sea transport linking Pakistan, the western coast of India, Sri Lanka, the eastern coast of India, Bangladesh and Myanmar should be strengthened.
Insights into Editorial: Enter the superbug?

30 May 2016

Summary:
Researchers have found a person in the United States carrying bacteria resistant to antibiotics of last resort. This has caused alarm among public health and infectious disease experts.

* The person was carrying coli bearing a new gene, mcr-1, which is resistant to even colistin, the last available antibiotic that works against strains that have acquired protection against all other medication.

What’s the main concern now?
Over the long term, experts are very worried that colistin resistance, which can spread easily to other bacteria, could lead to superbugs that could cause untreatable infections. Also, mcr-1 poses a threat of an entirely different order. In this case a small piece of DNA (plasmid) found outside the chromosome carries a gene responsible for antibiotic resistance. Since the gene is found outside the chromosome, it can spread easily among different types of bacteria, as well as among patients. The mcr-1 gene has been reported in other countries, including the United Kingdom in 2008.

Background:
The mcr-1 gene was first identified in China in November 2015, following which there were similar reports from Europe and Canada. The unchecked use of antibiotics in livestock is a major reason for the development of drug resistance. Indeed, given the widespread use of colistin in animals, the connection to the drug-resistant mcr-1 gene appears quite clear.

Also, according to a report, a significantly higher proportion of mcr-1 positive samples was found in animals compared with humans, suggesting that the mcr-1 gene had emerged in animals before spreading to humans. Besides being administered for veterinary purposes, colistin is used in agriculture.

What is a superbug?
A superbug, also called multiresistant, is a bacterium that carries several resistance genes. These are resistant to multiple antibiotics and are able to survive even after exposure to one or more antibiotics.

[Genetic Mutation Causes Drug Resistance]

What causes them to mutate like that?
Like any living organism, bacteria can mutate as they multiply. Also like any living organism, bacteria have a strong evolutionary drive to survive. So, over time, a select few will mutate in particular ways that make them resistant to antibiotics. Then, when antibiotics are introduced, only the bacteria that can resist that treatment can survive to multiply further, proliferating the line of drug-resistant bugs.

Why is Antibiotic Resistance a Big Deal?

The discovery of antibiotics less than a century ago was a turning point in public health that has saved countless lives. Although antibiotic resistance develops naturally with normal bacterial mutation, humans are speeding it up by using antibiotics improperly. According to a research, now, 2 million people a year in the US develop antibiotic-resistant infections, and 23,000 of them die of those infections.

Why is the medical community worried?

Basically, superbugs are becoming more powerful and widespread than ever. Medical experts are afraid that we’re one step away from deadly, untreatable infections, since the mcr-1 E.coli is resistant to that last-resort antibiotic Colistin. Antibiotic-resistance is passed relatively easily from one bacteria to the next, since it is transmitted by way of loose genetic material that most bacteria have in common.

The World Health Organization (WHO) is afraid of a post-antibiotic world, where loads of bacteria are superbugs. Already, infections like tuberculosis, gonorrhea, and pneumonia are becoming harder to treat with typical antibiotics.

What Can We Do?

First step would be to limit antibiotic use. If a patient has a virus, for instance, an antibiotic won’t work, so doctors shouldn’t prescribe antibiotics even if the patient insists. And when patients do need antibiotics, it’s important to make sure they take the full course to kill off every last infection-causing germ. Otherwise the strong survive, mutate, and spread. As a society, curbing antibiotic use in healthy animals used in human food production is another important step.

Recent developments:

According to few recent studies, nanotechnology holds the key to stopping antibiotic-resistant bacteria and the deadly infections they cause. Scientists have developed light-activated nanoparticles — each roughly 20,000 times smaller than the thickness of a single human hair and have shown in lab tests that these “quantum dots” are more than 90% effective at wiping out antibiotic-resistant germs like Salmonella, E. coli and Staphylococcus. With the emergence of this Colistin-resistant E.coli, the medical community is going to be working harder and faster to contain superbugs and develop new treatments for infections.

Conclusion:

The global community needs to urgently address the indiscriminate use of antibiotics in an actionable manner, and fast-track research on the next generation of drugs.
Insights into Editorial: Measuring Mudra’s success

31 May 2016

Article Link

Summary:
Prime Minister Modi, in a recent interview, indicated that his focus was to create a third sector—the personal sector—other than farms and factories wherein a person turns into a job provider through entrepreneurship rather than a job-seeker in the other two sectors. This statement assumes significance as it has many policy implications for the next few years.

- The government has already been active in translating this vision into reality. The Pradhan Mantri Mudra Yojana (PMMY) is one of the cornerstones of this policy.
- According to estimates, the total amount of loans disbursed under the PMMY programme crossed Rs.1.25 trillion as of March 2016.

About the Pradhan Mantri MUDRA Yojana (PMMY) scheme:
The PMMY Scheme was launched in April, 2015. The scheme’s objective is to refinance collateral-free loans given by the lenders to small borrowers.

- The scheme, which has a corpus of Rs 20,000 crore, can lend between Rs 50,000 and Rs 10 lakh to small entrepreneurs.
- Banks and MFIs can draw refinance under the MUDRA Scheme after becoming member-lending institutions of MUDRA.

Significance of this scheme:

- It will greatly increase the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs.
- Existing small businesses, too, will be able to expand their activities.
- Under the scheme, by floating MUDRA bank, the Centre has ensured credit flow to SMEs sector and has also identified NBFCs as a good fit to reach out to them.
- People will now be able to get refinance at subsidised rate and it would be passed on to the SMEs. Moreover, it would enable SMEs to expand their activities.

There are three types of loans under PMMY:
1. Shishu (up to Rs.50,000).
2. Kishore (from Rs.50,001 to Rs.5 lakh).
3. Tarun (from Rs.500,001 to Rs.10,00,000).

MUDRA Yojana has to address the following challenges:
• One of the most persistent problems that Indian economy is facing is the inequitable distribution of funds. The larger portion of the capital is available to the bigger companies whereas too little of the capital is distributed to micro, small and medium business sector.

• At present the non-profit micro financing institutes (MFI’s) are not able to provide enough support to small businesses. The commercial banks are also hesitant to provide funds to small and medium entrepreneurs. They avoid exposure to this particular segment because they consider it highly risky in nature with no performance history.

• Even within the organized sector in India, it is the larger units that are deploying the most capital, providing the most jobs, wages and emoluments and generating the most output. Also, only 2% of the factories covered by the ASI generate net value-added (NVA) of over Rs.50 crore. They employ a quarter of the total employed in factories, provide 40% of all emoluments; generate half the total output from factories and 71% of NVA. Small businesses hardly come into picture.

• Another problem is that as firms age in India they fail to employ more people. Even as firms become more than three decades old, they do not employ more people. If anything, employment size, relative to the size of employment at the birth of the firm, goes down.

Way ahead:
The government should measure the success or failure of its interventions including Mudra Yojana by the extent of reduction in informal employment, the rise in formal employment and the extent of mobility of firms to medium and large sizes. Objective criteria will help in making these decisions in an apolitical fashion. For that, one of the conditions of the loans must be that entrepreneurs start to maintain books of accounts on employment, output, revenues, expenses and taxes. Government should also bring in policy measures to create incentives for firms in India to increase their size.

The aim of policy must be to make them grow out of their sizes at birth.

Conclusion:
Under this scheme, Rs.1.25 trillion disbursements have been done in the space of less than a year. If such rates of growth were maintained, they would constitute a sizeable chunk of total non-farm credit in the economy. Therefore, given its importance to the future evolution of the economy, it is useful to have as precise an idea as possible, ex-ante, of the economic and social outcomes that the government is seeking with such generous credit support.