INTERNATIONAL RELATIONS

LET'S PROCEED WITH IMEC DESPITE GAZA WAR, GREEK PM TELLS INDIA

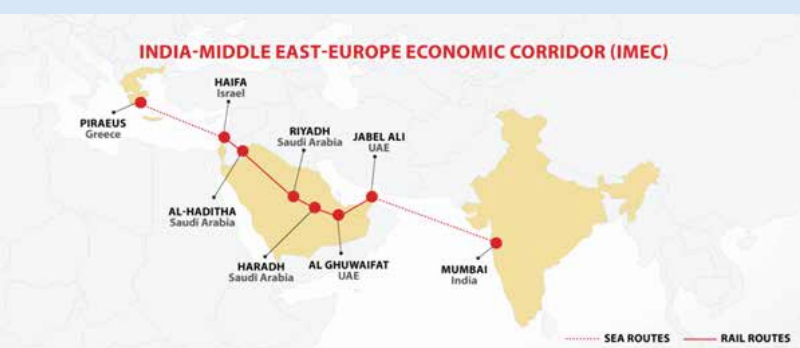
CONTEXT: Greek Prime Minister Kyriakos Mitsotakis at inaugural session of the annual Raisina Dialogue discussed the India-Middle East Economic Corridor (IMEC) amongst other plans to strengthen bilateral ties in trade and migration with Prime Minister Narendra Modi during his visit to India.

Greek PM noted that the India and Greece should persevere with the "peace project" - India-Middle East Economic Corridor (IMEC) despite the Israeli war in Gaza. The war in Gaza and turmoil in the Middle East undoubtably destabilised the India-Middle East Economic Corridor (IMEC). Greece as the country controlling the world's biggest merchant shipping fleet and its geographical position makes it an obvious partner in the project.

'Great promise'

During talks earlier in the day with Mr. Modi, Mr. Mitsotakis also discussed doubling trade with India, finalising a mobility and migration pact to regulate legal migration, as well as cooperating on co-production and co-development of military hardware. Greece had decided to join the Indo-Pacific Oceans initiative launched by India.

India-Middle East Economic Corridor (IMEC)



The launch of India-Middle East Economic Corridor (IMEC) MoU took place in September 2023, during the G-20 summit in New Delhi. The founding members of the initiative, including India, the European Union, France, Germany, Italy, Mauritius, the UAE and Saudi Arabia.

Israel's Haifa port, owned by India's Adani Group, was expected to be a key trading point for the ship-and-rail route proposed under IMEC from India's west coast, through the UAE and Saudi Arabia to Jordan and Israel, before reaching Greece's Piraeus Port and on to the rest of Europe.

POLITY AND GOVERNANCE

UNION CABINET APPROVES 100% FDI IN SPACE SECTOR

CONTEXT: The Union Cabinet approved amendments to allow 100 % Foreign Direct Investment (FDI) in space sector. The liberalised entry routes are aimed to attract potential investors to invest in Indian companies in space.

Salient features of Foreign Direct Investment (FDI) in space sector:

1. Allows upto 74 % FDI under the automatic route for satellite manufacturing and operation, satellite data products and ground/user segment.
2. Allows upto 49 % FDI under the automatic route for launch vehicles and associated systems or subsystems, and creation of spaceports for launching and receiving spacecraft.
3. Allows upto 100 % FDI under the automatic route would be permitted for manufacturing of components and systems/sub-systems for satellites, ground segment and user segment.

The increased private sector participation would help to generate employment, enable modern technology absorption and make the sector self-reliant. It is expected to integrate Indian companies into global value chains. The companies will be able to set up their manufacturing facilities within the country.

The satellites sub-sector has been divided into three different activities with defined limits for foreign investment in each such sector. As per the existing FDI policy, foreign investment is allowed in establishment and operation of satellites via government-approval route only.

Flood management

The Cabinet took a decision related to the continuation of Flood Management and Border Areas Programme scheme with ₹ 4,100-crore outlay for five years from 2021-22 to 2025-26. Under its flood management component with an outlay of ₹ 2,940 crore, Central assistance will be provided to States.

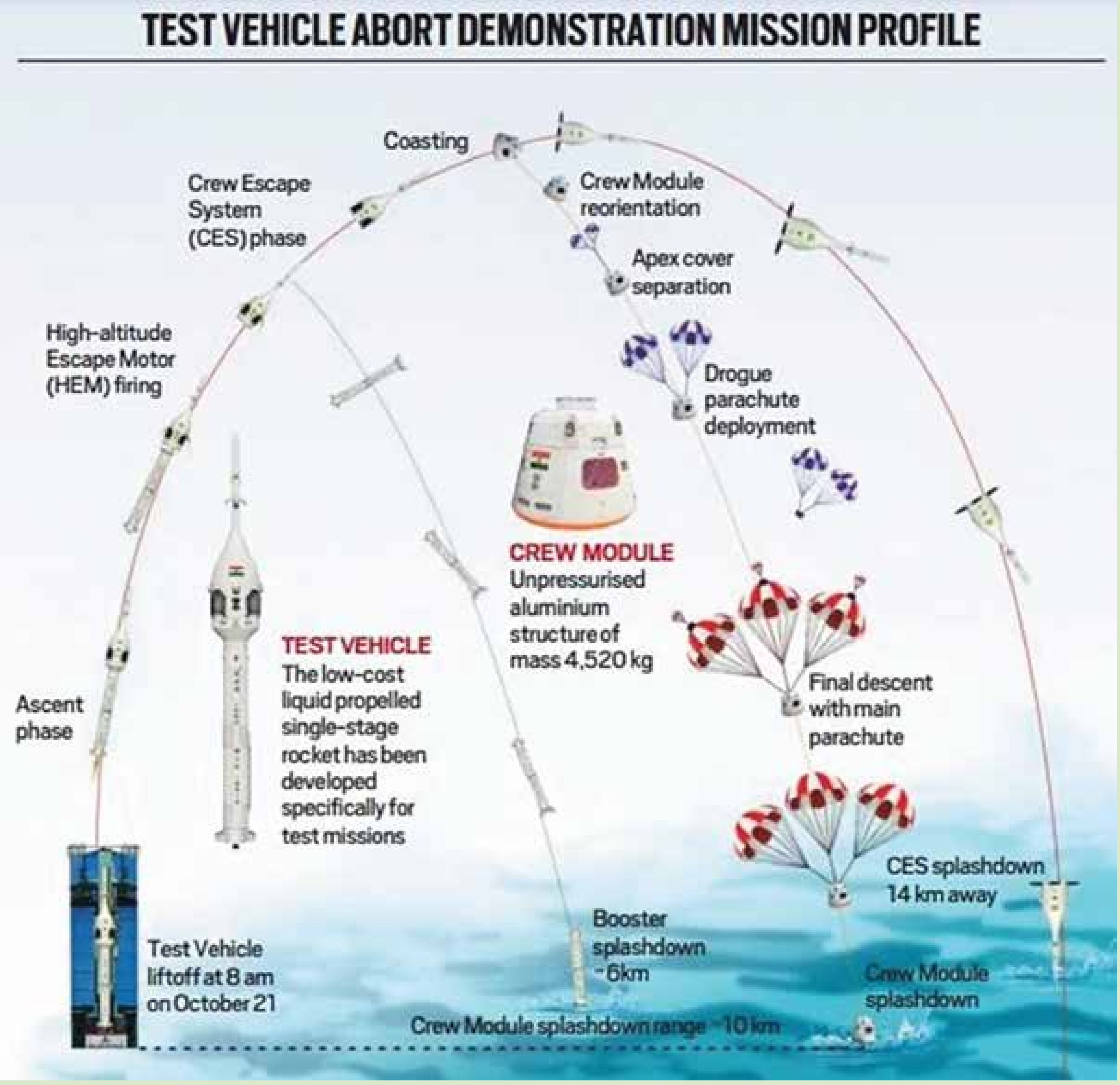
SCIENCE AND TECHNOLOGY

ISRO KEY TEST OVER, CE20 CRYOGENIC ENGINE IS NOW HUMAN-RATED FOR GAGANYAAN MISSIONS

CONTEXT: Indian Space Research Organisation (ISRO) accomplished a major milestone in the human rating of its CE20 cryogenic engine, that powers the cryogenic stage of the human-rated LVM3 launch vehicle for Gaganyaan missions, with completion of the final round of ground qualification tests.

Human-rating refers to rating a system that is capable of safely transporting humans. ISRO's CE20 cryogenic engine is now human-rated for Gaganyaan missions at the High-Altitude Test Facility at ISRO Propulsion Complex, Mahendragiri, to simulate flight conditions. The CE20 engine identified for the first uncrewed flight LVM3 G1 also went through acceptance tests.

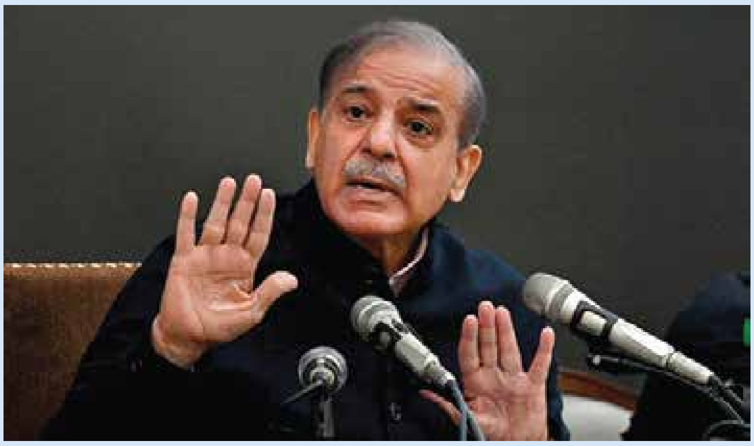
To qualify the CE20 engine for human rating standards, four engines have undergone 39 hot firing tests under different operating conditions for a cumulative duration of 8,810 seconds against the minimum human rating qualification standard requirement of 6,350 seconds. ISRO has also successfully completed the acceptance tests of the flight engine identified for the first unmanned Gaganyaan (G1) mission, tentatively scheduled for Q2 of 2024.



INTERNATIONAL RELATIONS

PML-N IN TALKS WITH SMALLER PARTIES TO FORM COALITION GOVT. IN PAKISTAN

CONTEXT: The Pakistan Muslim League-Nawaz (PML-N) on Wednesday held talks with smaller parties as part of its efforts to form a coalition government led by party president Shehbaz Sharif at the Centre.



Pakistan People's Party (PPP), the PML-N representatives held meetings with the Muttahida Qaumi Movement-Pakistan (MQM-P), Balochistan Awami Party (BAP), Istekam-e-Pakistan Party (IPP) and Jamiat Ulema-e-Islam Fazl (JUI-F) to finalise plans for the coalition government.

The PML-N and MQM-P agreed to collaborate within the government framework. The agreement underscores a commitment to foster reconciliation and cooperation, with a focus on enhancing political, democratic, and economic stability across the nation. Central to their discussions was the imperative of ensuring equitable distribution of resources and powers, laying the groundwork for future deliberations on critical issues such as the protection of urban rights in Sindh, particularly in Karachi, and the restoration of the port city's economic prominence.

Simultaneously, a meeting between the coordination committees of PML-N and BAP convened, affirming their dedication to addressing the challenges confronting Balochistan and the federation. Both the PML-N and the PPP won fewer seats in Parliament than candidates backed by jailed former Prime Minister Imran Khan in an election mired in controversies, including vote rigging.

Mr. Khan, who could not contest the February 8 elections due to his convictions in some cases, including that of corruption, has been barred from holding any public office for 10 years.

Pakistan People's Party (PPP) Chairman Bilawal Bhutto-Zardari announced that Pakistan Muslim League-Nawaz (PML-N) president Shehbaz Sharif, 72, will assume the role of the Prime Minister once again. Similarly, PPP co-chairman Asif Ali Zardari, 68, will be the joint candidate for the President's office.

To form a government, a party must win 133 out of 265 contested seats in the 266-member National Assembly.

ECONOMICS AND DEVELOPMENT

'DPIS TO HELP ADD $1 TRILLION TO INDIA'S ECONOMY BY 2030'

CONTEXT: Digital Public Infrastructures (DPIs) are likely to help propel India towards a $1 trillion digital economy by 2030, helping it to become an $ 8 trillion economy.

By 2030, DPIs will significantly enhance citizens' efficiency and promote social as well as financial inclusion. According to the report, mature DPIs such as Aadhaar, UPI, and FASTag which have witnessed exponential adoption by 2022 would in the next 7-8 years offer an opportunity for further scalability, reaching even the most remote population. Mature DPIs have generated a value of $ 31.8 billion, equivalent to 0.9 % of India's GDP.

POLITY AND GOVERNANCE

ELECTORAL SEASON AND RESTRUCTURING THE HEALTH SYSTEM

CONTEXT: With India's maternal mortality three times more than the global average of 38 per one lakh births. The primary and secondary health infrastructure is weak with severe shortages of human resources.

The political outlook

Under the UPA, the National Rural Health Mission was launched aiming to strengthen the delivery capacity in rural India. Funding was increased three times. Five thousand technical personnel and a million community health workers were deployed and the first large scale pay for performance introduced alongside the first social health insurance programme covering 80 % of the population in Andhra Pradesh rapidly expanding to another 13 States.

The NDA ensured continuity of policy by scrapping the Medical Council of India (MCI) and establishing the National Medical Commission (NMC), further strengthened the rural health infrastructure with capital investment, expanded social health insurance and established the National Health Authority to undertake strategic purchasing of services from the public and private sector. The NDA also set up an additional 317 medical colleges and doubled medical seats to 1,09,948. While in gross amounts Budgets increased, in terms of proportion to GDP, public spending under the UPA and NPA hovered around an average of 1.2 %.

Thailand introduced Universal Health Coverage in 2000, drastically reducing peoples' financial burdens; reduced disease incidence, maternal and infant mortality and consolidated the dominance of the public delivery system, particularly for primary and secondary care.

Thailand's launch of the Universal Health Coverage in 2000 was the end of a planned strategy. For years Thailand had a strong HR policy in place. For five years prior to 2000, Thailand dedicated three quarters of its Budget to building the provincial level health

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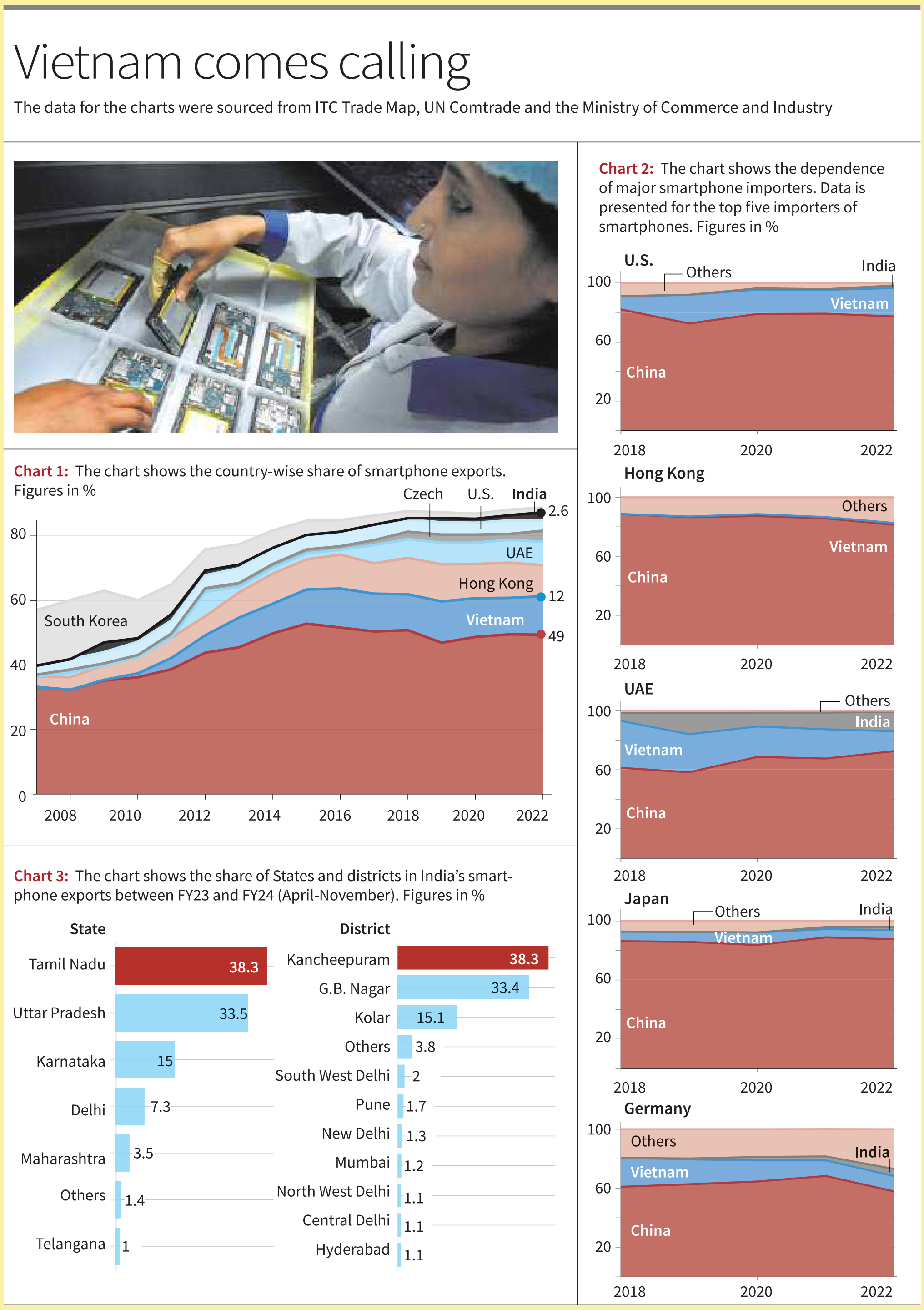
infrastructure with a capacity to provide quality care. Compared to that, India's strategy for UHC has hinged on purchasing services from a private sector operating on the inflationary a fee for service model within the backdrop of severe supply shortages in the system, particularly of specialists and nurses. Due to extensive market failures, worsened by poor capacity to govern, looking to the private sector to deliver is not smart.

Turkey Introduced its Health Transformation Program in 2003 under which dual practice (where a government doctor could also do private practice) was banned, strengthened public health infrastructure by adding 50,000 hospital beds and doubling the number of nurses and doctors, and the private sector presence restricted to 20 %.

States such as Bihar still have one doctor serving per 20,000 population. While so, policy focus seems to be shifting towards medical care in tertiary centres, though 95% of ailments and disease reduction can be handled at the primary and secondary level.

POLITY AND GOVERNANCE

INDIA'S SMARTPHONE EXPORTS RISE FROM 1% TO 2.5% IN A DECADE



CONTEXT: In November 2022, Prime Minister Narendra Modi lauded phone exports as they crossed the $5 billion mark. The government credited the Production Linked Incentive scheme for major smartphone companies shifting their suppliers to India.

In line with the ambitious target set in the National Policy on Electronics 2019, India will be exporting 600 million mobile phones worth $110 billion by 2025. With barely a year left for this goal, India's smartphone exports are hovering below $10 billion a year, just a fraction of the target. While India continues to manufacture a significant number of smartphones, most of it is consumed domestically.

The Indian government reduced import duty on mobile parts such as lenses, battery and back covers from 15% to 10%, by January-end. However, India continues to impose a 20% tax on chargers and circuit boards.

In particular, Vietnam attracted many firms which were looking to reduce dependency on China. While China continues to dominate, Vietnam has eaten into its export share steadily over the years, taking over from South Korea as the second-biggest smartphone exporter.

POLITY AND GOVERNANCE

ON FINANCIAL DEVOLUTION AMONG STATES

CONTEXT: Recently various Opposition-ruled States especially from south India have claimed that they have not been receiving their fair share as per the present scheme of financial devolution. They have raised issues about their less than proportionate share of receipt in tax revenue when compared to their contribution towards tax collection

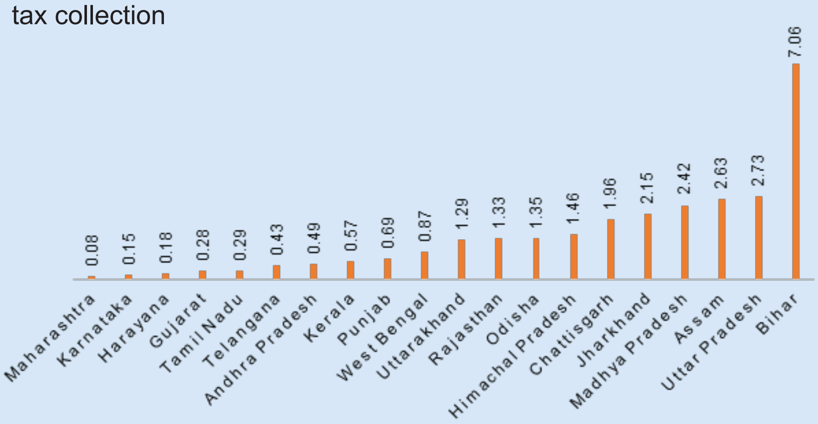


FIGURE: Column chart representation of amount received by each State for every one Rupee contributed by the States.

What is divisible pool of taxes?

Article 270 of the Constitution provides for the scheme of distribution of net tax proceeds collected by the Union government between the Centre and the States. The taxes that are shared between the Centre and the States include corporation tax, personal income tax, Central GST, the Centre's share of the Integrated Goods and Services Tax (IGST) etc. This division is based on the recommendation of the Finance Commission (FC) that is constituted every five years as per the terms of Article 280. Apart from the share of taxes, States are also provided grants-in-aid as per the recommendation of the FC. The divisible pool, however, does not include cess and surcharge that are levied by the Centre.

How is the Finance Commission constituted?

The FC is constituted every five years and is a body that is exclusively constituted by the Union Government. It consists of a chairman and four other members who are appointed by the President. The Finance Commission (Miscellaneous Provisions) Act, 1951, has specified the qualifications for chairman and other members of the commission. The Union government has notified the constitution of the 16th Finance Commission under the chairmanship of Dr. Arvind Panagariya for making its recommendations for the period of 2026-31.

What is the basis for allocation?

The share of States from the divisible pool (vertical devolution) stands at 41% as per the recommendation of the 15th FC. The distribution among the States (horizontal devolution) is based on various criteria. Table 1 lists the criteria for horizontal devolution among the States from the 11th to 15th FC.

The criteria as per the 15th FC can be briefly explained as follows. 'Income distance' is the distance of a State's income from the State with highest per capita income which is Haryana. States with lower per capita income would be given a higher share to maintain equity among States. 'Population' is the population as per the 2011 Census. Till the 14th FC, weightage was given for the population as per the 1971 Census but that has been discontinued in the 15th FC. 'Forest and ecology' consider the share of dense forest of each State in the aggregate dense forest of all the States. 'The demographic performance' criterion has been introduced to reward efforts made by States in controlling their population. States with a lower fertility ratio will be scored higher on this criterion. 'Tax effort' as a criterion has been used to reward States with higher tax collection efficiency.

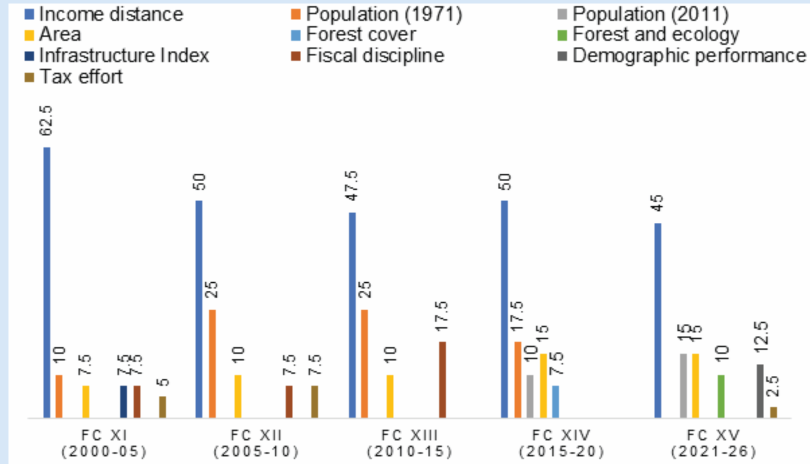


FIGURE: Column chart representation of weightages of parameters used for tax devolution by the Finance Commission.

What are the issues?

The Constitutional scheme has always favoured a strong centre in legislative, administrative and financial relations. However, federalism is a basic feature and it is important that States don't feel short-changed when it comes to distribution of resources. While there are always political differences between the Union government and Opposition-ruled States that exacerbate the problem, there are genuine issues that need to be considered.

Firstly, cess and surcharge collected by the Union government is estimated at around 23% of its gross tax receipts for 2024-25, which does not form part of the divisible pool and hence not shared with the States. To provide a perspective, the total tax revenue for the year 2022-23 (actual), 2023-24 (revised estimates) and 2024-25 (Budget estimates) of the Union government is ₹30.5, ₹34.4 and ₹38.8 lakh crore respectively. The State's share was/is ₹9.5, ₹11.0 and ₹12.2 lakh crore respectively, which constitutes around 32% of the total tax receipts of the Centre which is way less than the 41% recommended by the 15th FC. Cess like the GST compensation cess is for the repayment of loans taken to compensate States for the shortfall in tax collection due to GST implementation for the period 2017-22. Some of these amounts are also used for centrally sponsored schemes that benefit the States. However, the States have no control over these components.

Secondly, the amount each State gets back for every rupee they contribute to Central taxes shows steep variation. Chart 1 depicts the same for the year 2021-22. It can be seen that industrially developed States received much less than a rupee for every rupee they contributed as against States like Uttar Pradesh and Bihar. This is partly due to the fact that many corporations are headquartered in these State capitals where they would remit their direct taxes. However, this variation can also be attributed to the difference in GST collection among various States.

Third, the percentage share in the divisible pool of taxes has been reducing for southern States over the last six FCs as can be seen in Chart 2. This is attributable to the higher weightage being given for equity (income gap) and needs (population, area and forest) than efficiency (demographic performance and tax effort). Finally, grants-in-aid as per the recommendation of the FC varies among various States. As per the 15th FC, there are revenue deficit, sector-specific and State-specific grants given to various States as well as grants to local bodies that are given based on population and area of States.

What can be the way forward?

It must be noted that States generate around 40% of the revenue and bear around 60 % of the expenditure. The FC and its recommendations are meant to assess this imbalance and propose a fair sharing mechanism. It is the responsibility of all States to contribute towards the more equitable development of our country. However, there are three important reforms that may be considered for maintaining the balance between equity and federalism while sharing revenue.

Firstly, the divisible pool can be enlarged by including some portion of cess and surcharge in it. The Centre should also gradually discontinue various cesses and surcharges it imposes by suitably rationalising the tax slabs. Secondly, the weightage for efficiency criteria in horizontal devolution should be increased. GST being a consumption-based destination tax that is equally divided between the Union and the State means that State GST accrual (inclusive of Integrated GST settlement on inter-state sales) should be the same as the Central GST accrual from a State. Hence, relative GST contribution from States can be included as a criterion by providing suitable weightage in future FCs. Finally, similar to the GST council, a more formal arrangement for the participation of States in the constitution and the working of the FC should be considered.

These are measures that need to be implemented by the Centre after discussion with all the States. It is also imperative that the States uphold principles of fiscal federalism by devolving adequate resources to local bodies for vibrant and accountable development.

“Doing nothing is very hard to do. You never know when you’re finished.”—Leslie Nielsen

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