

CURRENT AFFAIRS

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‘FTA norms to prevail in Rules of Origin disputes’

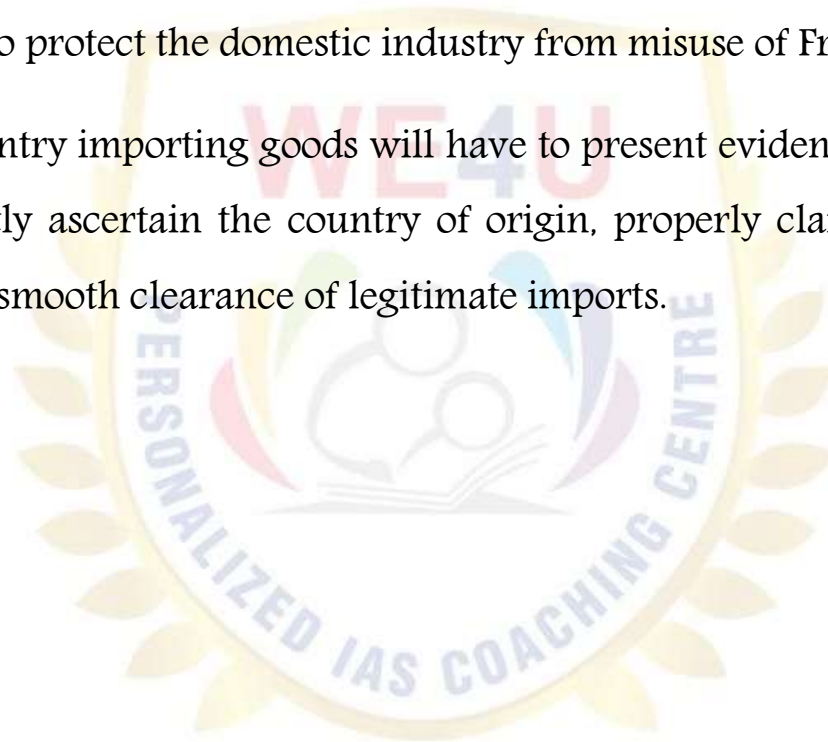
Free Trade Agreement (FTA):

- ✓ It is a pact between two or more nations to reduce barriers to imports and exports among them.
- ✓ Under a free trade policy, goods and services can be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.

Rules of Origin:

- ✓ Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020. It applies to the import of goods into India where the importer makes a claim of a preferential rate of duty in terms of a trade agreement.

- ✓ It implements the commitment to protect the domestic industry from misuse of Free Trade Agreements (FTAs)
- ✓ As per the revised rules, the country importing goods will have to present evidence of the country of origin. This will support the importer to correctly ascertain the country of origin, properly claim the concessional duty and assist customs authorities in ensuring smooth clearance of legitimate imports.



TOPIC : MONETARY POLICY

Resolution confuses more than it clarifies: MPC's Varma argued

'Withdrawal of accommodation should have been dropped given other factors'

LALATENDU MISHRA
MUMBAI

The Monetary Policy Committee's August 5 resolution accompanying the RBI's interest rate increase, which stressed that the MPC would "remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth" ideally ought to have been dropped as it would only provide 'confusing guidance', MPC member Jayanth R. Varma said at the panel's meeting, the minutes released on Friday show.

"This statement confuses more than it clarifies," Mr. Varma observed. "Because



Terminal rate: 'A plain reading of the phrase would mean the MPC was set on taking the repo rate back to 6.5%'. ■ AFP

the rate hike in this meeting takes the policy rate above the pre-pandemic level, "withdrawal of accommodation" ... can only mean withdrawal of the pre-pandemic accommodation that began

with the rate cut from 6.50% to 6.25% in February 2019. A plain reading... would then be that the MPC is focused on taking the repo rate back to 6.50%," he said.

Such an indication of a

terminal repo rate of 6.50% was totally unwarranted in the current situation given that the Ukraine war and monetary tightening in the advanced economies posed a very serious risk of recession in the world economy, he stressed.

However, given that inflation was at unacceptably high levels, and the projected trajectory was also above target during the entire forecast horizon, he noted that "further withdrawal of accommodation is warranted".

"The resolution should... be interpreted only as stating that there is a high likelihood of further front-loaded tightening," he emphasised.

Policy Rate

- ✓ **Repo Rate:** The interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).

Policy Stance of RBI

- ✓ **Accommodative:** An accommodative stance means the central bank is prepared to expand the money supply to boost economic growth. The central bank, during an accommodative policy period, is willing to cut the interest rates. A rate hike is ruled out. Growth is main Concern.
- ✓ **Neutral:** A 'neutral stance' suggests that the central bank can either cut rate or increase rate. Growth and Inflation is equally treated.
- ✓ **Hawkish Stance:** central bank is willing to hike interest rates to curb money supply and thus reduce the demand. Controlling inflation is main concern.

TOPIC: INTERNATIONAL ORGANISATIONS

Indian team deliberating on ocean diversity pact

A key aspect of the agreement is deciding on the rights of companies that undertake exploration for marine resources

JACOB KOSHY
NEW DELHI

A delegation from India and other member countries of the United Nations are in New York to deliberate on a one-of-its-kind agreement to conserve marine biodiversity in the high seas, namely the oceans that extend beyond countries' territorial waters.

The agreement follows a resolution by the UN General Assembly in May and is expected to be the final in a series set in motion since 2018 to draft an international legally binding instrument under the 1982 United Nations Convention on the Law of the Sea (UNCLOS).

The high seas comprise nearly 45% of the Earth's surface.

The Indian delegation comprises officials from the Ministry of Earth Sciences (MoES), Centre for Marine Fisheries and Research Institute and the Ministry of External Affairs.

A key aspect of the agreement is deciding on the rights of companies that undertake exploration for biological resources in the high seas. Do companies have absolute rights on any discovery or extraction in these regions or should they share their gains, in terms of intellectual property and royalties with a UN-prescribed bo-



Blue expanse: Oceanic research vessels undertake exploration to survey and study marine resources. ■ FILE PHOTO

dy, said M. Ravichandran, Secretary, MoES.

Typically, the focus of mining activity in the sea has been for gas hydrates, precious metals and other fossil

fuel resources. However, with advances in biotechnology and genetic engineering, several companies see potential in exotic microbes and other organisms – sever-

al of them undiscovered – that abide in the deep ocean and could be used for drugs and vaccines.

Last June, the Union Cabinet approved a 'Blue Economy' policy for India, a nearly ₹4,000-crore programme spread over five years. This among other things will develop a manned submersible vessel as well as work on "bio-prospecting of deep-sea flora and fauna including microbes".

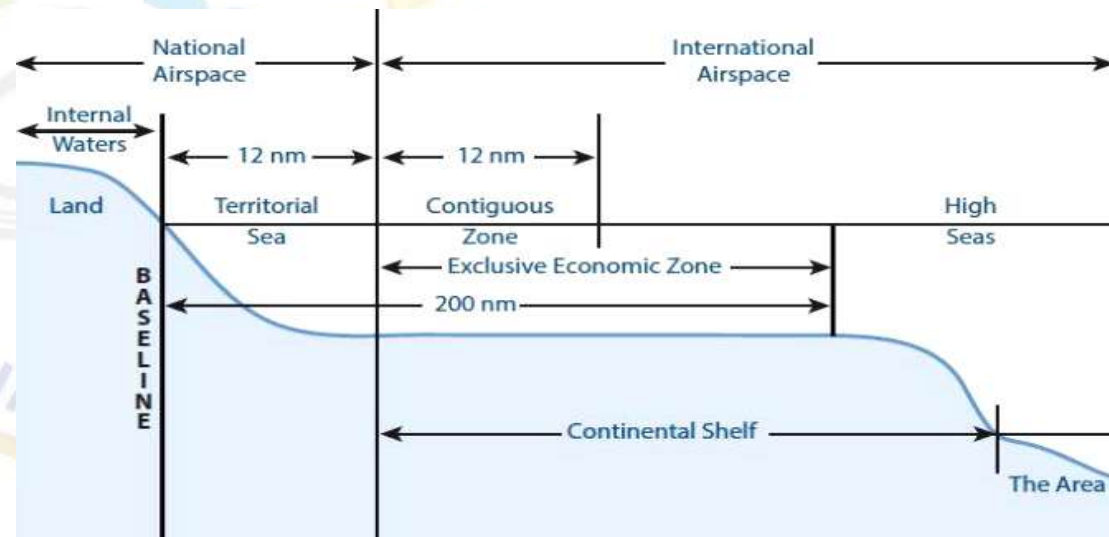
Studies on sustainable utilisation of deep sea bio-resources will be the main focus.

Mr. Ravichandran said that there were already companies carrying out such ex-

ploratory activities though little was known about them. "Hence, an international agreement that spells out obligations and permissible activities is important," he told *The Hindu*.

K.M. Gopakumar, legal advisor and an expert on intellectual property matter with the Third World Network, said that there was a "race" among international corporations for biological resources from the sea, making it critical to have an agreement on benefit-sharing. "These resources are the common heritage of mankind and we can't allow it to be monopolised by a few entities," he told *The Hindu*.

- ✓ **United Nations Convention on the Law of the Sea (UNCLOS)**, 1982 is an international agreement that establishes the legal framework for marine and maritime activities.
- ✓ It is also known as Law of the Sea. It divides marine areas into five main zones namely- Internal Waters, Territorial Sea, Contiguous Zone, Exclusive Economic Zone (EEZ) and the High Seas.
- ✓ It is the only international convention which stipulates a framework for state jurisdiction in maritime spaces. It provides a different legal status to different maritime zones.
- ✓ **Bioprospecting** (also known as biodiversity prospecting) is the exploration of natural sources



WELFARE SCHEMES

End this asymmetrical conflict over 'freebies'

The judiciary's move to study the issue could impact the economic freedom of States and the 'Idea of India'



PUHAZH GANDHI P.

The issue of 'freebies' has bounced back, when the Supreme Court of India on August 3, 2022, recommended constituting an expert committee comprising representatives of the beneficiaries, Union and State governments, the Finance Commission, NITI Aayog and the Reserve Bank of India to study the issue of 'freebies'.

The Court seems to toe the line of critics that 'freebies' stress States exchequers, drawing them in debt traps. On the other hand, those in favour of freebies argue that in a stratified society where capital in different forms (intellect, wealth, caste) gets accumulated in the hands of a select few, the poor and the marginalised become victimised. Here, 'social welfare measures' that are otherwise ridiculed as 'freebies' act as a shock absorber.

On 'Trickle down economics' In the famous Reagan tax cuts, or Reaganomics, associated with 'Trickle down economics' there was a maximum cut given to higher income earners and corporations in the expectation that any benefit provided at the top would trickle down to the poor in the form of job creation, higher output, and infrastructure development. While 'trickle down' yielded some positive results, it also widened inequality, diminished inclusive growth, and was criticised by economists such as Nobel Lau-

rence Joseph E. Stiglitz.

In India, neo-liberal schemes of the post-1990s such as the Special Economic Zones (SEZs), Software Technology Parks of India (STPI), and Bio Technology Parks (BTP), (where there were incentives in the form of tax holidays, subsidised power, and waiver of stamp duty), were seen as a result of 'trickle down economics', including the recent cut in corporate tax from 30% to 18%.

However, the World Inequality Report 2022 says that the top 1% of India held 22% of the total national income as of 2021, and the top 10% owned 57% of the income. In another instance, a research paper, 'Wealth Inequality, Class and Caste in India, 1961-2012', states that India's upper caste households earned nearly 47% more than the national average annual household income, thus making India one of the most economically and socially stratified countries in the world. Further, 93% of the top corporate board members and 61.8% of micro, small and medium enterprises (MSME) are owned by upper castes (MSME data March 31, 2022) – so, freebies in the form of incentives benefit the upper caste elites.

Differential tax burden

The Union government seems to rely more on indirect taxes than direct taxes. While direct taxes such as corporate taxes were slashed from 30% to 18%, indirect taxes have gone up manifold between 2014-21 – these include taxes on fuel and food (rice, milk, cereals) on which the poor spend a major portion of their income, imposing a financial burden on the poor, in turn leading to high inflation and resulting in inequality and lower growth.



States such as Tamil Nadu address this inequality through social welfare measures (derided as freebies). For example, the Tamil Nadu government's free bus pass for women has not only saved families fuel cost but has also encouraged more women to join the workforce, in turn leading to economically stable families and women's empowerment. Free mid-day meals (now extended to free breakfast) have encouraged socially backward parents to send their wards to school at least for the meals, resulting in keeping the evil of child labour under control and, more importantly, imparting education. These measures have resulted in a higher graduate enrolment ratio for T.N. (at 52%) which is double the national average at 27% and also higher than that of the United States at 41%.

A paper published in Oxford University Press' *The Quarterly Journal of Economics* (2009) has lauded the introduction of free colour television in villages as it has resulted in a decrease in domestic violence and also enabled women's empowerment (women, who are largely indoors due to customary practices/household duties, have been able to connect with the outside world through visual media). It has ensured self respect, as women and children are able to watch TV in their houses rather than visit the homes of those who are rich and own TV

sets. Further, elitist corporate tax reduction (30% to 18%) has resulted in a revenue loss of ₹1.84 lakh crore to the Union government for 2019-20 and 2020-21; there is an expected loss of ₹1 lakh in 2021-22, surpassing the cost of some of the major freebies put together (free colour TV – ₹750 crore; free bus pass for women – ₹1,250 crore; mid-day meals for children – ₹1,823 crore).

A fiscal federal setup

India adopts 'cooperative federalism' where the Union and State cooperate to legislate and frame policies in their respective domain. Constitution Benches of the Supreme Court have been consistent in their cautioning courts not to embark on policy matters. In *R.K. Garg vs Union of India* (1981-4SCC 675), and *BALCO employees Union vs Union of India* (2002 2 SCC 333), the Court held that laws relating to economic policies should be viewed with greater latitude and deference, and that the wisdom of economic policies is not subject to judicial review. In *S. Subramaniam Balaji vs State of Tamilnadu* (2013 9 SCC 659) while dismissing the challenge to the much discussed free gifts schemes (colour television, mixer grinder, laptops) of the T.N. government, the Court observed that the distribution of gifts relates to implementation of directive principles of state policy.

The abolition of the Planning Commission in 2014 led to the politicised Finance Commission to become the sole institution for fiscal devolution. This only increased the dependence of States on the Union when it came to fiscal matters. Thus, the committee recommended by the Supreme Court will further accelerate the

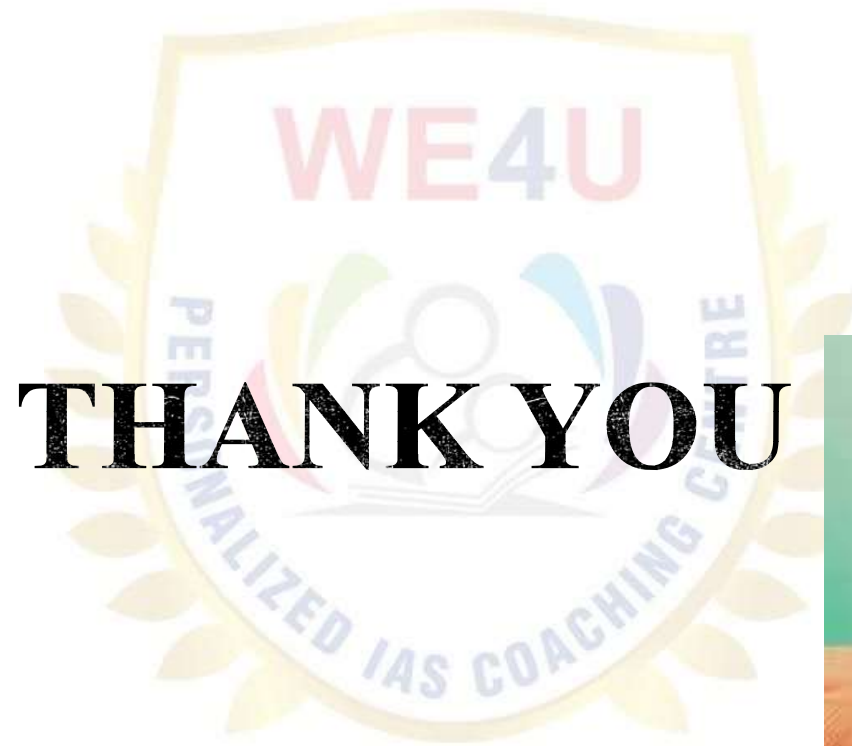
existing mistrust States have with the Union.

Region-specific steps

Moreover, in a fiscal federal set up, States or the regions are expected to have autonomy. Social welfare measures (freebies) may differ from State to State or region to region. For example, in the desert regions of Rajasthan it could be free drinking water, in Kerala, it could be fiscal incentives to encourage corporates/entrepreneurs to boost industrial growth, and in T.N., educational/marriage assistance and a free bus pass to help girl empowerment. Thus, it is for the respective legislature/executive to formulate the social welfare measures for that region. By recommending a central committee, the Supreme Court seems to have considered India to be a single administrative unit facing the same set of issues without due consideration of socio-economic diversity. This step would not only be counter productive to the economic freedom of the States but also to the 'Idea of India' as a 'Union of States' – as highlighted in Article 1 of the Constitution of India.

Therefore, unless the notion that 'incentives' provided to the elites are 'affirmative economic measures' while the same when provided to the poor are 'freebies' is corrected in the minds of policymakers, adjudicators and elites (both are economic/social welfare interventions in different forms), this asymmetrical conflict will continue to exist.

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THANK YOU

