

7 PM COMPILATION

1st - 7th June, 2020

Features of 7 PM compilation

- ❖ Comprehensive coverage of a given current topic
- ❖ Provide you all the information you need to frame a good answer
- ❖ Critical analysis, comparative analysis, legal/constitutional provisions, current issues and challenges and best practices around the world
- ❖ Written in lucid language and point format
- ❖ Wide use of charts, diagrams and info graphics
- ❖ Best-in class coverage, critically acclaimed by aspirants
- ❖ Out of the box thinking for value edition
- ❖ Best cost-benefit ratio according to successful aspirants

Multilateralism in new cold war

Topics: International Relations

Subtopics: Global groupings and agreements involving India

Tackling NPA crisis by establishing a bad bank

Topics: Economic Development

Subtopics: Mobilization of resources

Bihar and eastern India: Need for state specific stimulus

Topics: Economic Development

Subtopics: Land reforms in India

Health Impact Funds as alternative to existing Intellectual Property system to reward innovation

Topics: Science & Technology

Subtopics: Awareness in the field of Intellectual Property Rights

Multilateralism in new cold warSource: <https://www.thehindu.com>**What has happened:**

USA and China clash during World health assembly in WHO (World Health Organization) has highlighted how west and US led global order is changing. China is using technology, trade to balance the military superiority of the USA. COVID 19 has accelerated this clash by lowering trust in values central to the west like free markets.

Let us understand this US- China rivalry which is the new cold war based on Trade and technology rather than territory as well as India's role in such an uncertain world.

US – China rivalry: The new cold war:

Technological rivalry: China is investing heavily in Artificial Intelligence, Quantum computing, space, Electronics and robotics, space etc which are emerging advanced technologies. It aims for excellence in these technologies under the Made in China-2025 plan.

US has had an edge in these technologies but is facing competition from China. In response, steps such as banning Huawei for 5G deployment; restricting Chinese share in strategically important companies dealing with defense, are being taken to protect US lead. Chinese endorsement for UN resolution on equitable access to any new vaccine has shown how technological domination of the west through Intellectual Property Rights- IPR, is being challenged. This technological dependence is core of post-world war West led multilateralism

Trade rivalry: US – China trade war which is going on since 2018 shows an increasing clash on this front. Although some progress is seen with limited deals, due to COVID induced trade protectionism, further competition is expected.

Strategic rivalry: WHO downplaying US threats and subsequent US withdrawal show changing geopolitical power.

China is building alternatives to WB, IMF, WTO through Belt and road initiative, AIIB, BRICS, regional deals like RCEP - Regional comprehensive economic partnership.

India's role in promoting benign multilateralism:

US, ASEAN countries, Indo-Pacific countries see India as such a counterweight to China. China wants India to support its efforts for global rebalancing.

In such a clash for global leadership and a power vacuum due to a shift of power, India can pursue an independent non coercive multilateralism. India can bring both BRICS and G7 together and formulate objectives which are acceptable to most countries.

India can lay down new frameworks for global economy, society, technology, governance. By doing this India can be a global thought leader contributing to progress of world like it did with Nalanda, Zero, Ayurveda, Buddhism etc.

Outcomes to be pursued by India to promote benign multilateralism:

1. Peaceful coexistence: For realizing Asian century it is crucial. Freezing sovereignty and non-interference in each other's internal affairs should be agreed to by all. US interventions in Afghanistan, West Asia, Africa show how interference is counterproductive. Countering expansionism, India can provide an alternative vision of a multipolar world with multipolar asia with coexistence.
2. New P5 (Permanent 5) of UNSC that is not based on G7 but new realities of the world to be established.
3. Moulding global digital economy: National security will depend on digital technologies like cyber security, Artificial intelligence (AI) etc. India must enhance its own

capabilities and set the rules for global framework by balancing state led (China) – market led(USA) mechanisms through a public centric model

4. New principles of trade which prevent IPR monopolies and ensure public goods (Healthcare, agriculture, water, Renewable energy etc) are shared in a fair and humane manner, should be formulated. Further trade rules which promote socio economic development as promised in DOHA agenda of WTO need to be pursued
5. Sustainable development to be pursued based on ancient civilizational values of Asian countries. Restructuring of society and economy must be done based on these values. This promotes alternatives to materialism and excessive exploitation which are prevalent due to unchecked market liberalism. Gandhiji's vision of need based rather than greed based world economy is an example. One sun, One world, One grid as well as leadership of International solar alliance by India is a good template of such multilateral cooperation
6. Promoting regional multilateralism: Ties with regional institutions like ASEAN, SAARC, BIMSTEC, EU need to be enhanced to bring out this vision of non-coercive multilateralism. Such multilateralism will counter unilateralism as seen with both the US and China.

Avenues for India to influence the agenda of global world in coming years:

India will be involved in global institutions as:

1. Chair of executive board of WHO's World Health Assembly
2. In 2021, India will become UN Security council's non-permanent member
3. BRICS chairmanship in 2021 will be with India
4. G20 summit of 2022 will be hosted by India

Going ahead:

In the recent NAM (Non Aligned movement) summit, India called for a new model of globalization based on HUMANITY, FAIRNESS and EQUALITY. This is sought by many countries and India must have bold vision and political will to achieve this vision.

Mains Question:

1. Discuss the role of India in promoting global governance in the global world marked by US – China rivalry? [15 marks, 250 words]

Tackling NPA crisis by establishing a bad bankSource – <https://www.financialexpress.com>**What has happened:**

COVID 19 has caused a slowdown in the economy due to lockdowns and movement restrictions. It also has an impact on financial health of banks. As of December 2019, banks have 9.7 lakh crore Non-performing Assets – NPA's. Estimates suggest fresh 5.5 lakh crore assets will become NPA's. Considering such impact of COVID, Insolvency and bankruptcy code (IBC) provisions for initiating insolvency against defaulters are suspended for 1 year. However, India needs a strategy to tackle the inevitable rise in NPA's due to economic slowdown.

Indian Banks Association (IBA) has asked RBI to set up a bad bank to tackle the looming NPA (Non-performing Assets) crisis in India. Economic survey of 2016-17 too proposed such a bad bank. Let us understand bad bank, its need, its merits and demerits.

Failure of ARC's and need for bad bank:

Currently banks can sell their stressed assets to private owned ARC's – Asset Reconstruction companies. Intention of ARC's is reconstruction where the economic value of stressed assets is increased.

But ARC's have failed in reconstruction of companies. They merely collect pending dues. Even this recovery is low at around 9.5% of total stressed loans amount.

In addition, public sector banks (PSB's) sell these stressed assets at low rates. CVC report on assets sold between 2013-14 and 2017-18 by PSB's highlighted low prices in at least 48 cases. It also highlighted how prices do not factor in stocks and equipment of these stressed assets. Such reports have reduced asset sales by banks to ARC's in fear of adverse CVC/CBI/CAG reports.

A bad bank can overcome these issues and help faster resolution of stressed assets.

Understanding a bad bank:

Bad bank is an autonomous banking institution which solely deals with NPA's and their recovery. Other traditional banks will sell their NPA's to bad bank. Such stressed assets are then managed by experts who maximize their economic value by reconstruction.

For example, consider a steel plant has become a stressed asset with SBI. Bad bank purchases this stressed asset from SBI. Then bad bank appoints experts in this domain to manage the affairs of the plant in order to maximize revenues and cut losses. This is called reconstruction and increases the economic value of the plant. When bad bank sells this plant, they will recover more money.

Merits of bad Bank:

1. Traditional banks lack expertise in reconstruction of stressed assets. Bad banks manned by experts are more suited for the reconstruction.
2. Improve credit in economy: NPA's was one of the reasons for lack of monetary transmission in India. Banks have not reduced lending rates even though RBI has reduced policy rates. After traditional banks sell their NPA's to bad bank, their financial health will improve. This can lead to greater lending in the economy. For growth recovery post COVID, credit growth is crucial for investments
3. Price at which NPA's are sold comes under preview of CVC, CBI and CAG. Banks become hesitant in fast disposal of stressed assets fearing adverse reports by these institutions. A bad bank which can maximize recovery due to professionalism and hence will be less prone to hesitancy.

- Higher prices for stressed assets can be realized by bad banks. Case of Jhabua power below is example

Case of Jhabua power: Jhabua power came under insolvency process as per Insolvency and Bankruptcy code(IBC). Only 2 bids were received with NTPC bidding for 1900 crores and Adani power at 750 crore. Without NTPC bid, price realization would have been very low

A bad bank managed by experts can ensure such cases of underpricing can be reduced.

Arguments against bad bank in India:

- Bad assets currently don't have many purchasers and hence a bad bank will not help.
- Considering there is no demand for bad assets, bad bank will have to be capitalized by the government. With the stressed fiscal condition of government it will be difficult. In addition, bad bank with government majority will have the same constraints as current public sector banks in terms of scrutiny by CVC/CAG/CBI.
- Price at which a bad bank buys bad assets from traditional banks will not be market determined. This increases losses to traditional banks and for government(in case of Public sector banks-PSB's)
- Private ARC's are already present for transferring bad assets from banks. Hence bad bank will not be needed

Let us see how these issues can be overcome:

- When bad assets don't have many purchasers, it is better to have experts manage them rather than traditional banks. Hence bad bank would be better
- While government resources need to be invested for setting up bad bank, as seen in case of Jhabua power above, loss to the government from NPA's can be reduced by a professional price discovery. Hence overall balance sheet can be improved in long term
- In case of low selling price of bad assets from banks to bad bank is considered low by banks, provision to retain the bad asset by banks need to be included.
- ARC's have failed in reconstruction as discussed earlier. Bad bank can ensure reconstruction

International experience:

US, UK, Malaysia, France etc have had bad banks to successfully combat the NPA crisis. UK Asset Resolution(UKAR), a bad bank has recovered nearly 50 billion pounds of loans. Hence these models can be studied for framing India's bad bank.

Going ahead:

Sunil Mehta committee recommended an Asset Management Company to resolve bad loans above 500 crores. This can be implemented to improve financial health of banks and reduce NPA's

Mains Question:

- What are NPA's and stressed assets? Can a bad bank tackle the NPA crisis in India. Critically analyze?

Bihar and eastern India: Need for state specific stimulusSource: [TheHindu](#)**What has happened:**

Government of India has announced a Rs. 20 lakh crore package of AtmaNirbhar Bharat Abhiyan. It is to provide stimulus to the economy and reduce the impact of COVID 19 on livelihoods. Four tranches of this package include measures for MSME's, NBFC's, agriculture, migrant welfare, defense, space, power etc. These are primarily supply side measures like increased credit, marketing reforms, liberalization, privatization. It focuses on reviving investment by industry and hence employment.

Experts argue that such one-size-fits-all supply side interventions will not benefit Northern and Eastern states where industrial development and startups are low. They also sight the difference between Nehru's 'self-sufficiency' and Modi's 'Atmanirbhar Bharat'. Nehru's self sufficiency focussed on economic empowerment from below, while Modi's 'Atmanirbhar Bharat' is more individualistic, covering select industrialists and 'start-ups'. Thus, the advantage of the present stimulus, if any, will accrue only to the southern and western Indian States which are industrially advanced. Thus, they argue for a regional and state specific approach in states like Bihar.

In addition, rent seeking behaviour prevalent in Eastern and some northern states will make this stimulus less effective. Example of rent seeking is crony capitalism where industries seek to influence regulation through donations to political parties and candidates. Such rent seeking behaviour in these states is an effect of historical causes. Understanding them will help in formulating state specific stimulus to improve governance and economic growth.

Rent seeking and poor governance in Eastern India- Historical causes:

Zamindari/Permanent settlement areas of British India were present in Eastern India (Bengal, Odisha, Bihar). In this system, intermediaries between state and peasants collected land revenues. They didn't contribute to any economic investment and only sought collection of revenues. This feudal system had imbibed rent seeking behaviour in elites in these areas. Attitude towards civil services is an example of this. Civil services is seen as an avenue to help people from respective caste or region.

Socio-economic factors too contributed to rent seeking behaviour. Land reforms are poorly implemented in states like Bihar, Jharkhand leading to wealth inequalities. In addition, socio religious movements for equality of castes, class were not prevalent in states like Bihar, Jharkhand. These were concentrated in Bengal, Western and Southern India. Examples are Raja Ram Mohan Roy's Brahmo Samaj in Bengal; Jyotiba Phule's Satyasodhak Samaj in Maharashtra; Sri Narayana Guru Dharma Paripalana Movement (SNDP) in South India. Hence in absence of land reforms and socio religious reform movements, rent seeking has continued since centuries.

Poor governance in eastern regions is also the cause of less industrialization. Lack of development strategy at regional level has led to lack of industrialization. During British times all entrepreneurship was discouraged. Post-Independence, freight equalization policy prevented industrialization.

Freight Equalization policy: 1952 – 1993

- Objective was to achieve equal industrial development across the country by subsidizing transportation of minerals to any area of the country.
- It led to establishment of industries near coasts in Western and Southern India. Maharashtra and Gujarat

benefited the most

- It had negative effects on the mineral rich eastern states of Odisha, WB, Bihar (then including Jharkhand), MP (including Chhattisgarh). Prior to independence these were the areas of industries with Tata, Dalmia etc.

Comparison with ryotwari areas:

In contrast, in areas of the Ryotwari system there is direct settlement between the state and peasants. Southern India and Western India were areas of such an agrarian system during British times. These areas are now characterized by industrialization and development.

In these areas the feudal system is weak. It allowed for substantial social movement (for example, the anti-Brahmin movement) which acted as a lubricant to develop a law-enforcing civil society and sub-national identity. Hence, rent seeking behaviour is low. Excess capital is invested by elites in economic activities. Example is Kammas of Andhra Pradesh who invested in tobacco, films and knowledge industries. This is seen across states such as Tamil Nadu, Gujarat, Maharashtra.

Socio economic reforms led to further weakening of feudal system in these areas. Land reforms and socio religious movements created conditions for reduced socio-economic inequalities.

Good governance with a clear economic vision too contributed to industrialization. Experts were used for advancing socio-economic agenda. Examples are M. Visvesvaraya's Five year plan was adopted by Wodeyar dynasty of Mysore; Dr. B.R. Ambedkar was sent to Columbia university. Financial institutions like Andhra Bank, Bank Baroda, Syndicate bank were established. Post-independence, many finance ministers were from these regions.

Conclusion:

Eastern India and some Northern states have poor governance and rent seeking tendency. Considering this, a state specific stimulus is needed in social, economic and governance spheres. Land reforms must be taken up. Civil society must be encouraged to bring social transformation to reduce influence of caste and religion based identities.

Related revision topics:

1. Land revenue settlement systems in India during British rule

Mains question:

1. Explain zamindari and ryotwari systems of land revenue settlement? How did they impact industrialization in their respective areas? [15 marks, 250 words]

Health Impact Funds as alternative to existing Intellectual Property system to reward innovation

Source – <https://www.thehindu.com>

Context:

COVID 19 has brought focus on public healthcare and affordability of medicines to the poor. Medicines improve health and longevity, save costs by reducing sick days and hospitalization. Current global market for pharmaceuticals is about 110 lakh crore. Of this, 55% is branded medicines with patents.

Pharmaceutical patenting and it's issues:

Research and Development (R&D) in pharmaceuticals is rewarded through patents for new medicines. This patent provides patent holders exclusive privilege for commercial production and sale of these medicines. It is valid for 20 years. Intent of the patent is to recover R&D costs, costs of clinical trials and reward the researcher with profits. IP (Intellectual property) laws of respective nations and global frameworks like TRIPS deal with granting patents.

This method of rewarding R&D has issues. These are:

1. Due to profit motive, R&D is focused on diseases affecting affluent sections. For diseases affecting the poor, there is miniscule R&D investment. 20 WHO listed neglected tropical diseases affect a billion people but attract only 0.35% of global R&D investments. Similar is the case with Malaria, Tuberculosis.
2. In pursuit of high profits, high selling prices of branded drugs is leading to lack of affordability with the poor. An Example is USA where profits of 100000% are also permitted. Affluent patients with insurance are not affected by the same. This unaffordability for the poor is leading to deaths which are preventable especially in developing countries.
3. There is no linkage between therapeutic value and patents. Even those medicines which don't contribute to the health of patients are manufactured and sold by questionable marketing methods. Roping in doctors to prescribe certain drugs despite no impact on health is an example.
4. Evergreening: It refers to an extended period of patent beyond the original 20 years without any real improvement in therapeutic benefits. Firms do this by citing minor changes in formulations, methods of medicines. In India this is restricted by stringent provisions of Patent act and Supreme court judgment on NOVARTIS case of 2013. But it is prevalent in other countries
5. No focus on diseases where patients are low in number due to lack of profits. Such diseases are called orphan diseases.

Considering these issues, an alternative method of rewarding innovation and R&D is needed. Health Impact funds can be a solution

Health Impact Funds (HIF):

In HIF framework, after patenting, medicines are sold at cost price i.e. only manufacturing and distribution costs are included without profits. Innovators are awarded annually based on public health outcomes for a set number of years (say 10 years). These rewards are funded by governments and development institutions through contributions to funds. For affluent countries which do not contribute to this fund, existing framework based on profits can continue

Benefits of HIF

1. For tuberculosis and other communicable diseases which impact large poor populations, HIF framework provides a profitable business model for pharmaceutical companies. Since large populations can be saved, rewards linked to this outcome will also be significant.
2. Due to focus on outcomes, HIF framework prevents wastage of R&D investment into drugs without any therapeutic value
3. Outcome focus also pushes pharmaceutical companies in tracking overall health of patients. Companies will deal with any complications to improve recovery of patients. They will also focus on affordability to increase public health, elimination of diseases like malaria
4. Removes need for compulsory licensing (removing exclusive privileges of patents to ensure public health). Outcome focus will automatically take care of improving accessibility, affordability and availability of medicines.

Limitation of HIF:

In emerging diseases like COVID, HIF cannot work in the short term. This is due to a lack of baseline to measure effectiveness of new medicine on improvement in public health. In case of prevalent diseases like Malaria, this won't be the case as there is data on how disease impacts health. So here we can measure improvements.

Going ahead:

By shifting focus to outcomes based rewards, HIF can bring immense benefits in healthcare. Innovation too is rewarded for contributing to public healthcare outcomes. In midst of COVID 19 crisis, opportunity to develop a new beneficial pharmaceutical R&D should not be missed.

Mains Question:

1. Pharmaceutical patenting is leading to adverse public health outcomes. Alternatives are needed for improving affordability, accessibility and availability. Discuss?

[15 marks, 250 words]