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GS 2: POLITY, GOVERNANCE, SOCIAL JUSTICE, INTERNATIONAL RELATIONS/INSTITUTIONS

1. China approves world's largest dam on Brahmaputra River near border with India

Context: China has approved construction of the world's largest dam, stated to be the biggest infra project costing USD 137 billion, on the Brahmaputra River in Tibet close to the Indian border, raising concerns in riparian states India and Bangladesh. The Chinese government has approved the construction of a hydropower project in the lower reaches of the Yarlung Zangbo river, the Tibetan name for the Brahmaputra. The dam is to be built at a huge gorge in the Himalayan reaches where the Brahmaputra River makes a huge U-turn to flow into Arunachal Pradesh and then to Bangladesh. Concerns arose in India as the dam besides empowering China to control the water flow, the size and scale of it could also enable Beijing to release large amounts of water, flooding border areas in times of hostilities.

Key points

- **Overview:** Recently, Chinese authorities have given the go ahead for a Chinese hydropower company to construct the first downstream hydropower project on the lower reaches of the river Brahmaputra (known as Yarlung Zangbo in Tibet).
- **Brahmaputra:** It originates under the name of Siang or Dihang, from the Chemayungdung glacier of the Kailash range near the Mansarovar lake. It enters India west of Sadiya town in Arunachal Pradesh. It is a perennial river and has several peculiar characteristics due to its geography and prevailing climatic conditions. It is flooded twice annually. One flood is caused by the melting of the Himalayan snow in summer and the other due to the monsoon flows.
 - Tributaries - Dibang, Lohit, Siang, Burhi Dihing, Tista, and Dhansari.
- **About the Project:** The state-owned hydropower company POWERCHINA signed a strategic cooperation agreement with the Tibet Autonomous Region (TAR) government to implement hydropower exploitation in the downstream of the Yarlung Zangbo river as part of the new Five-Year Plan (2021-2025). The Great Bend of the Brahmaputra and the Yarlung Zangbo Grand Canyon in Medog county, where the river turns sharply to flow across the border into Arunachal Pradesh could be the potential spot for the project.
- **Importance of the Project for China:** The 60 million kWh hydropower exploitation could provide 300 billion kWh of clean, renewable and zero-carbon electricity annually. The project will play a significant role in realising China's goal of reaching a carbon emissions peak before 2030 and carbon neutrality till 2060.
- **Concerns for India:** India has been expressing concerns on Brahmaputra since 2015 when China operationalised its project at Zangmu. A dam at the Great Bend, if approved, would raise fresh concerns considering its location downstream and just across the border from Arunachal Pradesh. However, India is concerned about the Chinese activities affecting the quality of water, ecological balance and the flood management. India and China do not have a water sharing agreement. Both nations share hydrological data, so it becomes important to share genuine data and have continuous dialogue on issues like warning of droughts, floods and high-water discharges.
- **Way Forward:** India is required to go beyond the exchange of hydrological data and ask China for information on the topographic condition of the whole basin. Any forward movement on ensuring hydro-security in the Brahmaputra basin would require a long-term understanding between the two countries. It is necessary for India to engage China in a sustained dialogue and secure a water-sharing treaty that serves the interests of both the countries.

Q. Consider the following countries:

1. China
2. Vietnam
3. Laos

Yangtze River flows through how many of the above countries?

- | | |
|--------------|-------------|
| A. Only one | B. Only two |
| C. All three | D. None |

Answer: A

GS 2: POLITY, GOVERNANCE, SOCIAL JUSTICE, INTERNATIONAL RELATIONS/INSTITUTIONS

2. Difficulties in good governance

Context: Good governance is the cornerstone of any democratic society, focusing on principles such as transparency, accountability, inclusiveness, efficiency, responsiveness, and adherence to the rule of law. However, implementing these principles in India, a country marked by its vast diversity, socio-economic inequalities, and complex governance structures, presents unique challenges. These difficulties highlight the systemic, institutional, and socio-political barriers that impede the realization of good governance. India's bureaucratic machinery, often criticized for being slow and inefficient, poses significant challenges to good governance. Red tape, excessive paperwork, and outdated administrative processes delay decision-making and service delivery, affecting citizens and businesses.

Key points

- **Good Governance Day:** First celebrated in 2014, it underscores the government's commitment to providing a transparent and accountable administration and ensuring that the benefits of development reach every citizen. The Good Governance Day on December 25, 2024, holds special significance as it marks the 100th birth anniversary of Atal Bihari Vajpayee.
- **'Good' Governance:** The "Governance" means "the process of decision-making and the process by which decisions are implemented (or not implemented)". Good governance ensures the exercise of authority to manage a country's resources and affairs with fairness, transparency, and accountability.
- **Key Characteristics of Good Governance:**
 - Participatory* - Inclusive decision-making involving all sections of society, especially vulnerable groups.
 - Follows the Rule of Law* - Legal frameworks must be fair, enforced impartially, and protect human rights.
 - Transparency* - Processes and decisions are open and accessible to the public.
 - Responsiveness* - Institutions and processes serve all stakeholders efficiently.
 - Consensus-Oriented* - Mediation of varied interests to achieve common goals.
 - Equity and Inclusiveness* - Ensuring all members have opportunities and feel included.
 - Effectiveness and Efficiency* - Use of resources for maximum results without waste.
 - Accountability* - Both public and private sectors answerable to stakeholders.
- **Importance:** *Ensures Transparency and Accountability* - Good governance enhances trust in institutions by ensuring openness and accountability in public administration. Ex- The Right to Information Act (RTI) of 2005 has empowered citizens to demand transparency.
Promotes Inclusive Development - Good governance ensures equitable access to resources and services, addressing the needs of marginalized and vulnerable groups. Ex- The Jan Dhan Yojana, with over 52 crore bank accounts opened (as of July 2024), has improved financial inclusion by reaching the unbanked population.
- **Challenges:** *Corruption* - Corruption erodes public trust and hampers service delivery, making governance inefficient.
Criminalisation of Politics - The increasing nexus between politics and crime undermines governance and the rule of law.
Delays in Justice Delivery - Judicial delays weaken the rule of law and public confidence in the justice system.

- **Innovations and Initiatives:** *E-Governance for Transparency and Efficiency* - Leveraging technology to streamline processes, reduce corruption, and enhance public service delivery.
Direct Benefit Transfer (DBT) - Eliminates middlemen by transferring subsidies and benefits directly into beneficiaries' bank accounts.
Right to Information (RTI) - Promotes transparency by allowing citizens to access government information. Enhanced accountability across departments.
- **Way Forward:** *Promote Transparency and Accountability* - Strengthen mechanisms like RTI and social audits to ensure openness in governance.
Strengthen Local Governance - Empower Panchayati Raj Institutions and urban local bodies with greater financial autonomy and decision-making powers.
Strengthen Judicial and Legal Reforms - Address delays in justice delivery by establishing fast-track courts and digitizing legal processes.

GS 3: ECONOMY, ECOLOGY, SCIENCE & TECHNOLOGY, DEFENCE, SECURITY AND DISASTER MANAGEMENT

3. Tapping into Kazakhstan's rare earths potential

Context: As the world accelerates its transition to cleaner energy through cutting-edge technology, the demand for rare earths has increased globally. India, the third-largest carbon emitter, is pivoting to renewable energy and faces a growing need for rare earths. Despite being the fifth-largest holder of rare earth elements, India relies heavily on China for imports as it lacks advanced technologies for extraction. Amid supply chain disruptions and security concerns tied to China's dominance in this sector, New Delhi is diversifying its sources through agreements with the U.S., Latin American, and African countries to mitigate dependency on China. In this context, Kazakhstan emerges as a promising and strategically closer alternative.

Rare Earth Elements

- **About:** Scandium, Yttrium and the 15 Lanthanides, lanthanum (La), cerium (Ce), praseodymium (Pr), neodymium (Nd), promethium (Pm), samarium (Sm), europium (Eu), gadolinium (Gd), terbium (Tb), dysprosium (Dy), holmium (Ho), erbium (Er), thulium (Tm), ytterbium (Yb) and lutetium (Lu) are considered as the Rare Earth Elements.
- **Applications:** *Electronics* - Rare Earth Elements are used in high-technology devices such as smartphones, hard disks, digital cameras, fluorescent and light-emitting-diode lights, computer monitors and electronic displays.
Green Technologies - They play a critical role in green technologies such as wind turbines and electric vehicles that are going to support net zero carbon emissions goals.
Healthcare - REEs are also used in advanced medical technologies like MRIs, laser scalpels, non-irritating antiseptic dressings, and even some cancer drugs.
- **Concerns and Challenges:** *Rare Earth Dilemma* - Despite its applications in green and emerging technologies, the extraction of REEs causes environmental damage.
Health risks - Rare earth ores are often laced with radioactive thorium and uranium, which can cause detrimental health effects while extracting.
- **Initiatives in India:** Initiatives like the setting up of a Rare Earth Theme Park and joint ventures aim to enhance India's position in this critical industry. RE and Titanium Theme Park was developed by IREL to cater for the technologies developed by BARC.

Key points

- **Overview:** India's reliance on China and the possible global changes with a new U.S. government show the need to diversify. In this situation, Kazakhstan is emerging as a promising and closer alternative.
- **Current reserves and potential of Kazakhstan:** Number of Deposits - Kazakhstan has 15 registered rare earth deposits located primarily in three regions: Turkistan, Kostanai, and Mangystau. These deposits are crucial for electronics and clean energy technologies.
- **Potential for Growth:** *Strategic Importance* - The Kazakh government views rare earths as the "new oil" for its economy, emphasizing their role in technological advancement and energy transition. President Kassym-Jomart Tokayev has identified the development of these metals as a priority.
Global Demand Trends - The demand for REEs is projected to increase significantly in the coming years, driven by their essential role in renewable energy technologies and high-tech industries. The International Energy Agency (IEA) estimates that demand for rare earth elements could increase three to seven times by 2040.
International Partnerships - Kazakhstan is actively seeking partnerships with countries like the U.S., Germany, and Japan to enhance its mining capabilities and attract foreign investment. This collaboration could position Kazakhstan as a key supplier in the global REE market.
- **Monopoly of China:** *Dominance in Global Production and Supply* - China controls over one-third of the world's rare earth reserves and produces about 70% of global rare earths, making it the leading supplier. India relies on China for 60% of its rare earth imports due to insufficient domestic production.
Strategic Leverage Over Supply Chains - China's ability to disrupt mineral and technology supplies during bilateral disputes enables it to control global rare earth supply chains.
- **Importance of Rare Earth Minerals for India:** India is fifth largest holder of rare earth minerals (6% of the world's rare earth reserves); however, it only produces 1% of global output and meets most of its requirements of such minerals from China. REEs contribute towards a total value of nearly \$200 billion to the Indian economy. Some REEs are available in India which include Lanthanum, Cerium, Neodymium, Praseodymium and Samarium, etc. Monazite and thorium are the principal source of rare earths.
- **Challenges facing India in REE Landscape:** *Insufficient domestic production* - India is facing the twin burden of insufficient domestic production and increasing demand of REEs from sectors like electronics, defence, and clean energy.
Reduced ore supplies from Russia - Russia's invasion of Ukraine has further exposed the risks of concentrated supply chains, resulting in India and Western nations to seek sustainable, diversified alternatives.
- **Way Forward for India:** *Renewable Energy Targets* - India's COP29 pledge to achieve 500 GW of renewable energy by 2030 highlights the importance of REEs like dysprosium for clean energy technologies.
Diversification - Current over-reliance on China for rare earths highlights the necessity for diversified sourcing, with Kazakhstan offering a viable alternative.
Development of regional market - Establishing a regional market through India-Kazakhstan collaboration can reduce reliance on China and enhance resource security for India.

4. Banks bad loans ratio at 13-year low, highest for farm sector

Context: The Gross non-performing assets (GNPAs) ratio of scheduled commercial banks (SCBs) declined to a more than 13-year low of 2.5% at the end of September 2024. GNPAs of banks reduced by 15.9% year-on-year to Rs. 4.8 lakh crore as on March 31, 2024. The improvement in the asset quality of lenders was on account of better recoveries and upgradations. According to a report, the latest data indicates that the gross NPA ratio improved further to 2.5% at the end-September 2024. The proportion of standard assets in total advances rose for all bank groups at end-March 2024 from a year ago. At the end of March 2024, the share of large borrowable accounts in total advances of SCBs declined to 43.9% from 46.5% at the end of previous year.

Key points

- **Overview:** The latest financial stability report released by the Reserve Bank of India (RBI) shows a continuous decline in both Gross Non-performing assets (GNPAs) and Net NPAs, reaching their lowest levels since 2015.
- **Bad loans/ Non-Performing Assets (NPA's):** NPA is a term used to classify loans or advances that are in default. It indicates the inability of borrowers to fulfil their repayment obligations to the lender. In general, a loan is classified as an NPA when the borrower fails to make payments for a specified period, typically 90 days or more.
 - *Gross Non-Performing Assets (GNPA)* - This refers to the total amount of loans or advances that have been defaulted by borrowers.
 - *Net Non-Performing Assets (NNPA)* - NNPA is derived by deducting the provision amount from the GNPA. Provision refers to the amount set aside by banks or financial institutions as a precautionary measure to cover potential losses arising from NPAs.
- **Factors contributing to the decline in NPAs: Insolvency and Bankruptcy Code (IBC)** - The implementation of the Insolvency and Bankruptcy Code in 2016 played a crucial role in the recovery of sick loans. It provided a structured and time-bound framework for resolving distressed assets, leading to improved NPA management and recovery.

Write-offs - The reduction in NPAs, particularly in FY20, can be attributed to the practice of writing off bad loans. Banks voluntarily wrote off NPAs to maintain healthy balance sheets, which had a positive impact on the overall NPA ratio. However, the continued reliance on write-offs raises concerns about the sustainability of this approach in the long run.
- **Implications for the banks: Improved Asset Quality** - A decrease in NPAs indicates an improvement in the asset quality of banks. It suggests that a lower proportion of loans are in default or arrears, reflecting healthier lending practices and reduced credit risk. Banks with lower NPAs are better positioned to maintain stability and profitability in their loan portfolios.

Increased Profitability - Lower NPAs positively impact banks' profitability. When the proportion of bad loans decreases, banks experience fewer loan write-offs and provisioning requirements. This results in lower expenses associated with NPA resolution and provisioning, thereby enhancing profitability and improving the bottom line.
- **Conclusion:** Indian banks have made remarkable progress in reducing NPAs, as evident from the declining NPA ratios and improved profitability. However, the reliance on write-offs raises concerns about the sustainability of this trend. To ensure long-term stability, banks must prioritize prudent lending practices and effective risk management.

5. Should the wealth tax be reinstated in India

Context: At a recent panel discussion in New Delhi, French economist Thomas Piketty suggested that a wealth and inheritance tax be imposed on the super-rich in India, which, in turn, could fund health and education. India's Chief Economic Advisor, Anantha Nageswaran, opposed the idea, arguing that higher taxes could encourage fund outflows. There are historical and current challenges in implementing wealth and inheritance taxes in India, such as tax evasion, high administrative costs, and the risk of capital flight. These issues have been evident in past attempts to introduce such taxes, including the abolition of estate duty in 1985 and wealth tax in 2015.

Key points

- **Overview:** In recent years, the idea of taxing wealth has resurfaced, driven by growing concerns over wealth inequality.
- **Study by Thomas Piketty:** A study by economist Thomas Piketty and colleagues highlights a sharp rise in inequality in India, especially after 2014-15. Their research indicates that the top 1% of income earners controlled 22.6% of the nation's income and 40.1% of its wealth in 2022-23—figures surpassing those of countries like South Africa, Brazil, and the United States.
- **Piketty's Recommendations for India:** Piketty and his co-authors propose a 2% annual tax on net wealth exceeding Rs 10 crore and a 33% inheritance tax on estates above the same threshold.
- **Challenges: Implementation Challenges** - Despite the appeal of wealth taxes, their implementation is fraught with difficulties.
Estate Duty Ineffective in Achieving its Goal - In 1985, when Finance Minister V P Singh abolished the estate duty (inheritance tax), he noted that its administration was costly and its revenue yield was minimal, with only about Rs 20 crore collected.
Wealth Tax Ineffective in Achieving its Goal - Similarly, when the wealth tax was abolished in 2015, Finance Minister Arun Jaitley highlighted the tax's low revenue yield of Rs 1,008 crore in 2013-14, which amounted to less than 0.1% of the government's total tax revenue.
- **Tax Evasion and Capital Flight: History of Tax Evasion** - An ancient Egyptian papyrus from the 7th century BCE tells the story of an individual attempting to evade inheritance taxes by undervaluing his property. The punishment for such evasion — whipping.
Capital Flight - In the modern, globalized world, the mobility of capital adds another layer of complexity. High taxes could lead to capital flight, where wealthy individuals leave the country to settle in tax-friendly jurisdictions like Dubai.
- **Case of India:** India has also seen an increase in the number of millionaires relocating abroad. In 2023, approximately 5,100 Indian millionaires moved overseas, citing financial and tax-related reasons.
- **Argument Against Wealth Tax:** It may reduce motivation for individuals to earn more and invest, thus slowing down the country's growth. Additionally, it could reverse the shift away from its socialist past by discouraging private wealth generation and entrepreneurship.
- **Way Forward: Better GST Compliance** - Strengthening GST compliance is essential, as many goods remain outside its scope.
Reform in Income Tax System - Streamlining and simplifying the income tax system could enhance efficiency, broaden the tax base, and reduce the compliance burden on taxpayers.