VEDHIK CURRENT AFFAIRS
05/02/2025 WEDNESDAY www.vedhikiasacademy.org DAILY NEWS ANALYSIS

● POLITY ● ECONOMICS ● TECHNOLOGY ● ECOLOGY

U.S. sends back 200 Indians on military plane

INTERNATIONAL RELATIONS

The U.S. started military repatriation flights after Donald Trump took over as President

- Indian sources point out the latest repatriation is unique as it is being done using a military aircraft
- Trump had earlier said that Prime Minister Narendra Modi "will do what's right when it comes to taking back illegal Indian immigrants from America."
- Tuesday's exercise indicates a continued dialogue between the Trump administration and the Indian authorities

Major crackdown: A file photo of detained immigrants being boarded on a U.S. C-17 military aircraft last month. REUTERS

Ahead of Prime Minister Narendra Modi's expected visit to the U.S., the Trump administration has begun deporting illegal Indian immigrants. A military aircraft carried around 200 Indian nationals, whose identities were confirmed before deportation. This follows a conversation between Modi and Trump, during which Trump emphasized India's responsibility to take back its illegal immigrants. Reports suggest at least 18,000 Indians in the U.S. are considered illegal.

The U.S. is enforcing stricter immigration laws, with the Department of Homeland Security having deported over 160,000 individuals since June 2024. While deportations are not new, the use of a military aircraft is an unusual method. The move reflects ongoing discussions between U.S. and Indian authorities, with External Affairs Minister S. Jaishankar recently meeting U.S. Secretary of State Marco Rubio.

India has reaffirmed its commitment to repatriating its citizens found residing illegally abroad but highlights concerns over the U.S.'s tough immigration policies. Modi is set to visit the U.S. on February 12, along with other global leaders, for high-level talks with President Trump.

China hits back at U.S. with goods tariffs, probe into Google

INTERNATIONAL RELATIONS

China has announced tariffs on U.S. energy, vehicles, and equipment in response to the escalating trade war with the U.S. The move follows President Trump's imposition of additional tariffs on Chinese goods and trade restrictions on Canada and Mexico. Beijing's levies include a 15% tariff on U.S. coal and liquefied natural gas (LNG) and a 10% duty on crude oil, agricultural machinery, and large vehicles. China, a major U.S. energy importer, argues the tariffs are a response to Washington's "unilateral tariff hike" and plans to file a WTO complaint.

Additionally, China has launched an anti-monopoly investigation into Google and placed U.S. firms PVH Corp. and Illumina on its "unreliable entities" list, citing unfair business practices. Beijing also introduced export controls on key industrial metals like tungsten and molybdenum.

The trade tensions continue as Trump claims tariffs are meant to curb illegal migration and drug trafficking. He has scheduled a call with Chinese President Xi Jinping within 24 hours to discuss the ongoing disputes.

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Scans of seemingly empty space reveal black holes not far from earth

SCIENCE & TECHNOLOGY

Astronomers have discovered a massive black hole, Gaia BH3, the third of its kind, using the European Space Agency's Gaia telescope. Unlike typical black holes that emit X-rays, Gaia BH3, along with Gaia BH1 and BH2, was detected by observing the motion of stars orbiting seemingly empty space.

Gaia BH3, located 2,000 light-years away in the constellation Aquila, is the largest known stellar-mass black hole in the Milky Way, with 33 solar masses. It is paired with an old yellow giant star that orbits it every 11.6 years. The black hole appears passive, not actively pulling in matter or emitting X-rays.

The discovery supports theories that massive black holes formed early in the universe, similar to those detected by LIGO and VIRGO through gravitational waves. Scientists see Gaia BH3 as a rare and valuable find, offering a close-up study of such black holes within our own galaxy.

The U.S.'s WHO exit, a chance to reshape global health

INTERNATIONAL RELATIONS

The U.S. government's decision to withdraw from the World Health Organization (WHO) on January 20, 2025, has raised concerns about WHO's funding and functionality. The U.S. contributes significantly to WHO's budget through assessed contributions (AC) and voluntary contributions (VC), with the latter being unpredictable and tied to specific projects. The withdrawal may also reduce funding from U.S.-aligned donors, exacerbating financial challenges for WHO.

Critics argue that WHO is bureaucratic and slow, but its role is crucial in addressing global health challenges like antimicrobial resistance and climate change. The decline of global cooperation and rising hyper-nationalism further threaten international institutions. With limited support expected from alliances like the G-7 and G-20, nations in the global south—such as India, Brazil, and South Africa—must step up to sustain WHO and the broader UN framework.

The withdrawal also highlights global health inequities, where high-income countries disproportionately influence policies and funding. Diseases affecting Africa and Asia, like mPox, receive little attention unless they impact wealthier nations. Additionally, the dependence on experts from a few high-income countries slows down global health efforts.

To address these challenges, countries in the global south must increase WHO funding, develop their own public and global health experts, and establish premier training institutions. Reforms in WHO should include reducing bureaucracy and relocating headquarters to Africa or Asia to focus on the most affected regions.

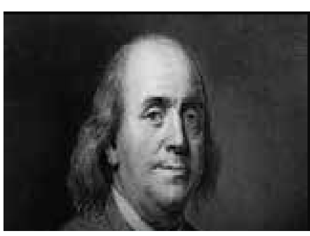
Although the U.S. may rejoin WHO in the future, the global south should use this period to reshape global health leadership, ensuring it is no longer dominated by high-income countries but becomes a truly collaborative effort.

Learning steps

POLITY & GOVERNANCE

Budget 2025 has increased allocations for education, including ₹500 crore for an AI Centre of Excellence, broadband for schools, and expanded IITs. While higher education saw a 7% funding rise, it falls short of the ambitious UGC reforms that require significant State government investment. The ASER 2024 report highlighted improvements in foundational literacy and numeracy (FLN) post-pandemic, but full FLN, targeted under NIPUN Bharat by 2026-27, remains a challenge.

School education received an additional ₹11,000 crore (16% increase), but as a share of the total Budget, it rose only slightly to 1.55%. Higher education's share remained at 0.99%. Increased funding flows to States align with NEP goals, emphasizing early education. However, anganwadi workers, crucial to early education, are underpaid and lack proper training, posing a challenge to FLN implementation. Strengthening school education investments is critical to achieving full FLN and leveraging India's demographic dividend.



"If you invest more in your education, then you are likely to get more interest in it."

–Benjamin Franklin

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The financial toxicity of cancer care in India

POLITY & GOVERNANCE

Cancer treatment in India remains financially inaccessible for many low- and middle-income patients due to high costs of advanced treatments like precision medicine, immunotherapy, and proton therapy. Financial toxicity extends beyond the patient, often pushing entire families into generational poverty as they sell assets and sacrifice essentials to afford treatment.

Public healthcare spending is below 2% of GDP, leading to shortages in hospitals, delays in treatment, and out-of-pocket (OOP) expenses covering nearly 50% of healthcare costs. Government insurance schemes like Ayushman Bharat cover inpatient care but exclude essential outpatient costs such as diagnostics and follow-ups. Private healthcare thrives in this gap, but its high costs worsen financial toxicity.

Some States offer financial aid and travel subsidies, while non-profits and networks like the National Cancer Grid help reduce drug prices and provide holistic patient support. However, only strong political will and increased government investment can address this crisis.

Philanthropy, CSR funding, and impact investments are crucial in bridging gaps, but individual donations remain underutilized. With rising cancer cases due to pollution and lifestyle changes, urgent collaboration between government, non-profits, and private donors is essential to ease the financial burden of cancer care.

How beggar-thy-neighbour policies can make global trade come to a standstill

INTERNATIONAL RELATIONS

Beggar-thy-neighbour policies refer to protectionist economic measures that benefit one country at the expense of others, such as imposing tariffs or devaluing currency to boost exports and reduce imports. The concept was first criticized by Adam Smith in *The Wealth of Nations*, where he argued that free trade benefits all nations in the long run.

Supporters argue that such policies protect domestic industries, jobs, and national security, while currency devaluation makes exports cheaper and imports more expensive, leading to trade surpluses. However, critics warn that retaliatory measures, such as tit-for-tat tariffs and competitive devaluations, can harm global trade and economic stability, as seen during the Great Depression. In recent years, countries like China and Japan have been accused of manipulating their currencies, and the rise of protectionism, notably under Donald Trump, has revived concerns about trade wars.

These policies often benefit domestic producers and politically influential groups but harm consumers through higher prices and reduced purchasing power. Some critics argue against retaliation, suggesting that unilateral free trade is a better approach, as retaliatory tariffs can hurt the imposing country’s consumers while currency devaluation by one country can be seen as a subsidy for foreign consumers.

‘Monetary and fiscal policies need to work in tandem’

ECONOMICS & DEVELOPMENT

India's Finance Secretary, Tuhin Kanta Pandey, emphasized the importance of fiscal discipline and non-inflationary policies in supporting economic growth and aiding monetary policy. He highlighted the need for coordination between fiscal and monetary policies, noting that easing interest rates would be more effective once inflation is controlled. Pandey addressed concerns about the impact of tax breaks on the income of up to ₹12 lakh, reassuring that the government's tax base has grown significantly over the past few years. He also promised further tax reforms to make the system more taxpayer-friendly and avoid being perceived as oppressive.

Cess and surcharge continue to shrink States' tax share

ECONOMICS & DEVELOPMENT

Smaller chunk

The data for the charts was taken from the Budget documents and CMIE. It also includes The Hindu's calculations

Unfair share: Union Finance Minister Nirmala Sitharaman upon her arrival at the Parliament House complex to present the Budget

Chart 1: The chart shows the share of the divisible pool (left axis) and cesses, surcharges & the cost of tax collection (right axis) in Centre's gross tax revenue (GTR). Both figures in %

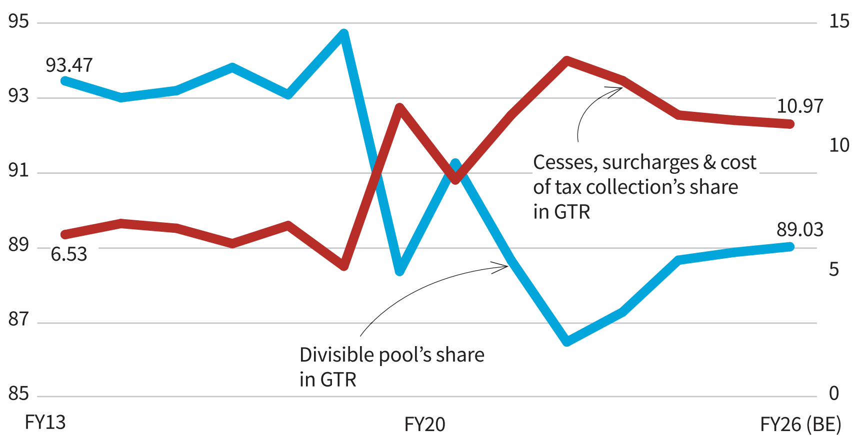

Table 2: State-wise distribution of the divisible pool in %

	FY02	FY07	FY12	FY17	FY22	FY26
AP & Telangana	7.73	7.36	6.94	6.75	6.15	6.1
Karnataka	4.98	4.46	4.33	4.71	3.65	3.6
Tamil Nadu	5.46	5.31	4.97	4.02	4.08	4.1
Kerala	3.08	2.67	2.34	2.5	1.93	1.9
West Bengal	8.2	7.06	7.26	7.32	7.52	7.5
Odisha	5.03	5.16	4.78	4.64	4.53	4.5
Maharashtra	4.71	5	5.2	5.52	6.32	6.3
Rajasthan	5.49	5.61	5.85	5.5	6.03	6.0
Gujarat	2.87	3.57	3.04	3.08	3.48	3.5
Madhya Pradesh	6.47	6.71	7.12	7.55	7.85	7.9
Chhattisgarh	2.4	2.65	2.47	3.08	3.41	3.4
Jharkhand	3.03	3.36	2.8	3.14	3.31	3.3
Bihar	11.49	11.03	10.92	9.67	10.06	10.1
Uttar Pradesh	19.15	19.26	19.68	17.96	17.94	17.9
Assam	3.25	3.24	3.63	3.31	3.13	3.1
Northeast*	1.85	2.18	2.52	4.6	5.42	5.4
Small States**	4.81	5.4	6.16	6.65	5.24	5.2

*Note: *States include Arunachal Pradesh, Meghalaya, Mizoram, Nagaland, Manipur, Sikkim and Tripura*

*** Includes Goa, Haryana, Himachal Pradesh, Punjab, Uttarakhand and J&K. No data for J&K for 2021-22 and 2025-26 since it has become a Union Territory*

The Union government collects ₹10-11 of every ₹100 in taxes as cesses and surcharges, which are not included in the divisible pool shared with States. This trend, unchanged since 2020-21, has led to a shrinking divisible pool, now below ₹90 per ₹100 collected, compared to ₹91-95 before the pandemic.

Despite the 15th Finance Commission's recommendation that States receive 41% of the divisible pool, the growing share of cesses and surcharges reduces the actual funds devolved to them. Some non-BJP States now demand an increase to 50%. Additionally, many cesses are not used for their intended purposes, with the Comptroller and Auditor General (CAG) reporting ₹2.19 lakh crore untransferred to designated reserve funds between FY20 and FY22.

The share of each State in the divisible pool is determined by a formula considering income distance, population, demographic performance, forest cover, and tax efficiency. However, southern and eastern States like Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, West Bengal, and Odisha have seen their shares decline since FY02, while Madhya Pradesh, Maharashtra, Rajasthan, and Gujarat have gained. Uttar Pradesh and Bihar continue to receive the largest allocations.

The shrinking divisible pool and declining shares for certain States have caused concerns of political bias and economic imbalance, with affected States feeling short-changed.

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Why the tax cuts are a one way gamble

ECONOMICS & DEVELOPMENT

Cut in taxes, rise in income?

The Union Budget for 2025-26 gave a significant cut in tax rates for every class of taxpayer. For those earning between ₹7-₹12 lakh a year, it is a complete tax rebate, which was earlier applicable to only those below ₹7 lakh. For others earning more than ₹12 lakh, the exemption limit has increased from ₹3 to ₹4 lakh

Box 1

$$T = t \cdot Y$$

$$\frac{\Delta T}{T} = \frac{\Delta t}{t} + \frac{\Delta Y}{Y} + \left(\frac{\Delta t}{t} * \frac{\Delta Y}{Y}\right)$$

$$\therefore \overset{\Delta T/T}{0.14} = \overset{\Delta t/t}{-0.08} + \overset{1+\Delta t/t}{0.92}\,\frac{\Delta Y}{Y}$$

$$100 * \frac{\Delta Y}{Y} = 23.9\,\%$$

where,

T = income tax revenue
t = average income tax rate
Y = total taxpayers' income

Box 2

$$G - T = d \cdot Y$$
$$G = T + d \cdot Y$$
$$G = (t + d) \cdot Y$$

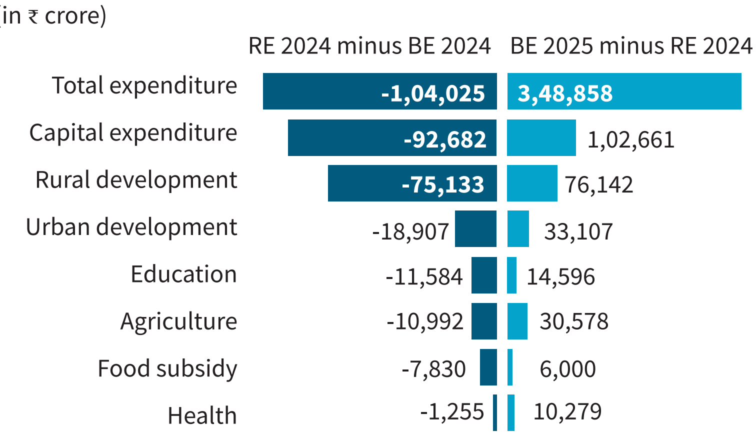
where,

G = total government expenditure
T = total tax revenue
Y = Output (GDP)
d = FRBM deficit target
t = total tax-GDP ratio

PTI

Chart 1: Delivery versus promises in fiscal expenditure

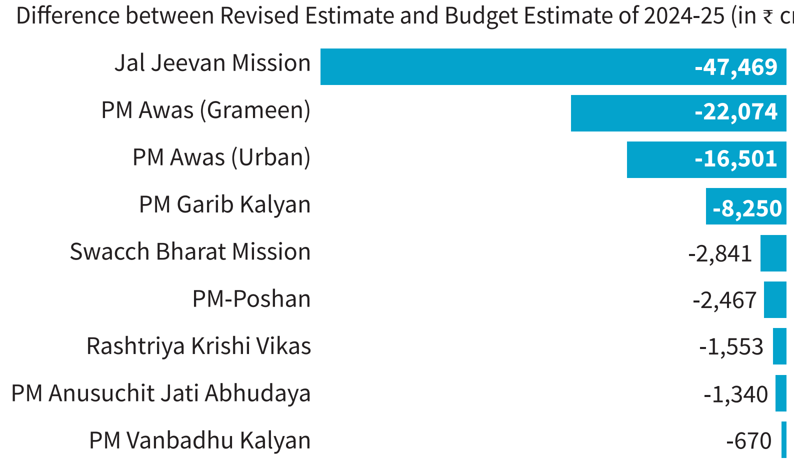
(in ₹ crore)



RE: Revised Estimate; BE: Budget Estimate

Chart 2: Cut in expenditure of some flagship schemes

Difference between Revised Estimate and Budget Estimate of 2024-25 (in ₹ crore)



Source: Authors' calculations, various budget documents, Government of India

The 2025 Union Budget introduces a significant tax cut for the middle class, reducing tax rates across all slabs. Those earning between ₹7-₹12 lakh now receive a full rebate, while higher earners benefit from increased exemptions and lower marginal rates. This is expected to reduce tax revenue by ₹1 lakh crore, or 8% of direct income tax collection. Despite this, the government projects a 14% rise in direct tax collection, implying a 24% increase in taxable income—an optimistic assumption.

If tax buoyancy materializes, it could lead to greater income concentration among the wealthy or indicate upward mobility among earners. However, if revenues fall short, government spending will likely be cut to meet deficit targets, disproportionately impacting the poor. The government has already reduced expenditure in the 2024 Budget, falling short by ₹1 lakh crore compared to initial estimates. Despite slow economic growth, the deficit target for 2025 is set even lower at 4.4%, indicating fiscal contraction rather than expansion.

With limited fiscal space, the government is relying on exports and corporate investment to drive growth. However, corporate investment has remained weak despite past tax cuts and capital expenditure efforts. The hope is that income tax cuts will boost consumption, leading to investment and economic growth. But with no alternative stimulus measures, this approach is a risky one-way bet on tax cuts driving demand and investment.

Tax cuts to boost demand, growth: S&P

ECONOMICS & DEVELOPMENT

S&P Global Ratings has slightly revised India's 2024-25 growth forecast to 6.7%, down from 6.8%, but raised its 2025-26 growth projection to 6.8% due to expected domestic demand fuelled by income tax cuts. The agency believes India will meet its fiscal deficit targets of 4.8% of GDP for this year and 4.4% in 2025-26, despite revenue losses from tax cuts, possibly offset by central bank dividends and capital underspending. While the rating agency supports India's gradual fiscal consolidation, it is uncertain about the government's shift to a debt-to-GDP ratio target from 2026-27, which may affect fiscal consolidation and credit ratings.

'India to rethink OECD tax plan post U.S. exit'

ECONOMICS & DEVELOPMENT

India will reconsider its participation in the OECD's global tax deal following the U.S. withdrawal, which Finance Secretary Tuhin Kanta Pandey described as making the agreement impractical. The deal, which aims to impose a 15% minimum tax on multinational profits, was signed by 140 countries in 2021, but the U.S. exit has introduced uncertainty. Pandey stated that the U.S. is crucial to the pact's success, and without its involvement, the deal may not work. The OECD's two-pillar solution addresses tax competition and avoidance, with Pillar 1 reallocating profits and Pillar 2 establishing the minimum tax. The U.S. has concerns about potential double taxation and increased tax burdens on its multinational companies.

Trump's meme coin made $100 mn. in trading fees, as small traders lost

INTERNATIONAL RELATIONS

Entities behind President Donald Trump's meme coin, $Trump, have accumulated an estimated $86 million to $100 million in trading fees within two weeks of its launch on January 17, 2025. The coin surged in value but has since lost two-thirds of its market value. One of the entities involved is CIC Digital, a company owned by Trump, which receives trading revenue from the coin. While large investors made significant profits, many small traders have lost money. Critics raise ethical concerns over the opaque nature of ownership and potential conflicts of interest, as Trump has pledged to regulate crypto and promote digital asset ownership. The exact ownership of the coin's entities is hidden behind LLCs, and blockchain analysis shows that the creators control significant portions of the coin.

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Trump orders creation of U.S. sovereign wealth fund

INTERNATIONAL RELATIONS

President Donald Trump signed an executive order to start developing a government-owned investment fund that could potentially profit from acquiring a stake in TikTok, which is owned by China's ByteDance. Trump aims for the U.S. to take a 50% share in the platform, with TikTok possibly being included in the new sovereign wealth fund. He suggested the U.S. could partner with wealthy individuals and stated the fund could eventually rival Saudi Arabia's. Sovereign wealth funds typically invest in assets like stocks and real estate, but the U.S. currently lacks budgetary surpluses to fund such a fund.

AI bulls pin hopes on 'Jevons Paradox' after DeepSeek rout

ECONOMICS & DEVELOPMENT

European AI investors are turning to the 160-year-old Jevons Paradox to explain the continued growth potential in AI stocks, despite concerns raised by the launch of China's cheaper AI model, DeepSeek. The Jevons Paradox suggests that as resources become more efficient and cheaper to use, demand can increase instead of decrease. Following a major selloff in AI-related stocks, including Nvidia, due to DeepSeek's launch, tech stocks have since rebounded, with European markets reaching new highs. Investors believe that lower AI costs could fuel further investment and demand for AI chips, data centers, and related infrastructure. However, some remain skeptical, especially regarding Nvidia's rapid rise in share value.

Trump halts Canada and Mexico tariffs for a month

INTERNATIONAL RELATIONS

U.S. President Donald Trump delayed tariffs on Mexico and Canada for a month after reaching agreements with their leaders to enhance border security and address the flow of migrants and fentanyl into the U.S. Mexico agreed to send 10,000 troops to the U.S.-Mexico border, while Canada promised to deploy nearly 10,000 officers and take further steps to combat drug cartels and fentanyl. However, tensions with China remain as the country is still set to face an additional 10% tariff on top of existing levies.

Sudan's paramilitary RSF falters amid tactical blunders and supply shortfalls

INTERNATIONAL RELATIONS

Sudan's paramilitary Rapid Support Forces (RSF) are losing ground to the Army, facing strategic blunders, internal rifts, and dwindling supplies. The Army has made significant gains, including reclaiming central Sudan, breaking RSF sieges on key bases, and capturing the country's largest oil refinery. The RSF, initially more prepared, is now struggling with faltering recruitment and dwindling resources. The Army has rebuilt its forces, mobilized volunteers, and reinstated Special Forces, helping turn the tide of the war. The RSF has overstretched itself, facing logistical challenges and internal divisions. While the RSF's setbacks don't signal defeat, their new strategy involves targeting civilians and infrastructure, aiming to create chaos. A key goal for the RSF is capturing El-Fasher in Darfur, which could solidify their control and strengthen their position in future negotiations.


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