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The HINDU
INDIA'S NATIONAL NEWSPAPER SINCE 1878

Daily News Analysis

The Hindu Important News Articles & Editorial For UPSC CSE

Thursday, 13 Feb, 2025

Edition : International **Table of Contents**

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Daily News Analysis

Page 01 : GS 2 : International Relations

India and France held bilateral discussions between Prime Minister Narendra Modi and French President Emmanuel Macron, leading to several key agreements aimed at deepening their strategic partnership.

Analysis of the news:

India-France Strategic Partnership: Key Outcomes

1. Strengthening Nuclear Cooperation

➡️ India and France reafrmed their commitment to civil nuclear energy as a key element of energy security and a low-carbon future.

➡️ Discussions centered around the Jaitapur nuclear power plant, Small Modular Reactors (SMRs), and enhanced nuclear professional training through bilateral agreements.

2. Defence and Security Collaboration

➡️ Both nations reinforced defence ties under the 2024 Defence Industrial Roadmap. Key agreements included:

   o **Submarine Cooperation:** Progress in the Scorpene submarine project, with integration of DRDO's Air Independent Propulsion (AIP) system.

   o **Missile and Engine Development:** Ongoing discussions on helicopter engines, jet engines, and missile systems in collaboration with Safran Group.

   o **Military Equipment Partnership:** India invited France to explore the Pinaka MBRL system, and France included India as an observer in the Eurodrone MALE program.

3. Articial Intelligence (AI) Roadmap

➡️ Building on the AI Action Summit in Paris, both nations launched an India-France AI Roadmap, emphasizing safe, open, and trustworthy AI development.

4. Expanding Economic and Technological Cooperation

IMEC project gains traction as PM holds talks with Macron

Warm greetings: Prime Minister Narendra Modi with French President Emmanuel Macron in Marseille on Wednesday. AP

Kallol Bhattacherjee
NEW DELHI

India and France on Wednesday announced that they would continue to work closely to implement the India-Middle East-Europe Corridor (IMEC) project.

The project proposes to connect India to Europe through sea and land routes. A discussion on the project was held during Prime Minister Narendra Modi's two-day visit to France, where he spoke at the Paris AI Action summit and held talks with President Emmanuel Macron.

"The two leaders recalled the launch of the IMEC on the margins of the G-20 Summit in Delhi in September 2023 and agreed to work together more closely on implementing the initiative," said a joint statement issued after the visit.

IMEC, which involves the participation of Israel, had failed to make headway because of the Gaza conflict.

The French and Indian leadership highlighted the importance of the project for prosperity of India and Europe.

Foreign Secretary Vikram Misri told the media that after the AI summit, Mr. Modi reached Marseille on Tuesday.

"Marseilles will be the entry point for the whole European market, and IMEC will channel a lot of energy to Marseille," Mr. Macron said.

The two sides also agreed to develop nuclear reactors jointly. The joint statement said officials from both sides signed a letter of intent on production of small and advanced modular reactors. The two leaders described nuclear energy as an "essential part of the energy mix". The small modular reactors are factory-fabricated nuclear reactors that are smaller in size and capacity than the conventional nuclear reactors.

Mr. Modi and Mr. Macron jointly inaugurated the new Indian Consulate General in Marseille on Wednesday. Marseille will host the Mediterranean edition of the flagship discussion event of the Ministry of External Affairs - Raisina Dialogue - this year where stakeholders from multiple sectors are expected to participate.

After the inauguration of the Consulate General in Marseille, Mr. Modi recounted India's ties with Marseille as Indian soldiers were based there during the World War I. "President Emmanuel Macron and I inaugurated the Indian Consulate in this vibrant city, marking a new chapter in India-France ties. This consulate will serve as an important bridge, strengthening our cultural, economic, and people-to-people connections," said Mr. Modiafter the inauguration.

The joint statement recognised the "strategic location" of Marseille in the Mediterranean Sea, and the role that the port city will play in supporting "connectivity, sustainable growth trajectories and access to clean energy".

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➡️ Strengthening Indo-Pacic Triangular Development Cooperation for climate and SDG-focused projects.

➡️ France's Proparco investing 13 million euros in Indian micronance institutions for nancial inclusion and women empowerment.

➡️ Supporting 10 Indian startups at French incubator Station F and expanding UPI usage in France.

5. Cultural and Historical Engagement

➡️ Prime Minister Modi and President Macron jointly inaugurated the Indian Consulate in Marseille and honored Indian soldiers of World War I at Mazargues War Cemetery, reinforcing historical ties.

Conclusion

➡️ The agreements highlight a deepening strategic partnership, expanding across nuclear energy, defence, AI, and economic collaboration, positioning India and France as key global allies.

UPSC Mains Practice Question

Ques : Discuss the signicance of the recent agreements between India and France. How do these developments strengthen the bilateral ties between the two nations? (250 Words /15 marks)

Page 07 : GS 3 : Science and Technology

On January 6, the U.S. Food and Drug Administration (FDA) proposed draft guidelines on AI use in drug development.

AI can make drug-testing precise, and relevant to human biology

Regulators and the pharmaceutical industry have traditionally banked on animal models' response to various compounds to assess whether a drug can proceed to human clinical trials. But there is a growing body of work suggesting we need to improve the quality of data available at this stage

Surat Parvatam
Arvind Ramanathan

On January 6, the U.S. Food and Drug Administration (FDA) proposed draft guidelines on the use of artificial intelligence (AI) to assess the safety and effectiveness of drugs.

The influential body has said that in the last decade, the number of submissions from drugmakers that include an AI or machine-learning component has seen an exponential rise. There was only one such submission per year in 2016 and 2017, but in the next two years it tripled; in 2021, the FDA reported a remarkable 10-fold increase on the previous year alone with 132 submissions, including an AI and/or machine-learning component.

Drug development pitfalls

It takes nearly 10 years and over a billion dollars to develop a drug using conventional (animal-based) processes, which also have a success rate of only 14%. Emerging technologies like AI provide opportunities for us to catalyse and improve the human-relevant drug-development pipeline.

For example, rats can eliminate some drugs from their bodies much faster than humans can, which means that for the same dose level, humans would be exposed to the drug for a longer duration. As a result, the data for a compound obtained by testing with rats will have to be adjusted for this skew.

The responses of humans belonging to different populations around the world to drugs and diseases also vary according to age, sex, preexisting medical conditions, and genetic variabilities, among other factors. It's often difficult to predict this range of responses from a homogenous, lab-bred animal population.

Inputs to predictivity

Researchers today use AI across the breadth of the drug development cycle.

In the discovery phase, researchers comb through databases with thousands of compounds to select a few hundred promising candidates for a particular use case. Then they test these compounds on animals during preclinical research. The data for compounds that produce encouraging results in animal models are submitted to drug regulators for permission to conduct human clinical trials.

The compounds found to be safe and effective in these clinical trials – conducted in three phases depending on the requirement – are then released into the market following the Drug Controller-General's approval. In the post-marketing stage, the drug manufacturer monitors the drug's effects on the population, under an obligation to report adverse effects.

There are now AI tools that can digest data from a human adult about how their body absorbs, distributes, and eliminates a drug and based on that predict the response of vulnerable populations, such as children, whose participation in clinical trials raises thorny ethical and technical issues.

Another pain point in drug development that AI could surmount is predicting whether a drug could have unintended effects. In December 2024,

The responses of humans belonging to different populations around the world to drugs and diseases vary in ways that can't be captured in the responses of a homogenous, lab-bred animal population. PIXABAY

researchers from the U.K. reported in the journal *Toxicological Sciences* a "safety toolbox" comprising a group of computational models that could predict the undesirable side effects of a chemical compound on the entire body or on specific organs the compound isn't designed to target.

This framework involves integrating multiple types of data, such as the level and manner of exposure to the substance (topical, oral, etc.), its structural properties, and any information about its chemical properties.

Where do AI models fall short?

Despite the potential to overcome the barriers of conventional testing, AI comes with its own challenges. In particular, the reliability of data analysis performed by an AI tool depends on the quality of the data the model is trained with.

Participants at an FDA-sponsored workshop at Duke University in the U.S. in 2022 used the adage "garbage in, garbage out" to describe this problem. The use of biased and/or under-representative data of a target population will also compromise the output.

Another challenge is transparency. The inner workings of most AI models in use are not open to independent scrutiny, nor is the data used to train them easily accessible, so the models' performance can't be assessed as required.

FDA's draft guidelines

The FDA has been open to the idea of using AI and its draft guidelines to present a stepwise framework to assess models' credibility. The text emphasises the importance of identifying questions of interest, the context for each question, and how a model will help address it. This is because a model developed to identify the risk of one adverse reaction to one

> AI tools can digest data about how a human body absorbs, distributes, and eliminates a drug and predict the response of vulnerable populations, such as children, whose participation in clinical trials raises thorny ethical and technical issues

drug based on previous clinical trials may not be equally good at identifying the risk of other reactions and/or to other drugs.

The guidelines also stress the importance of assessing the risk AI models may pose. If a model concludes a patient is at low risk for an adverse reaction to a drug, an incorrect prediction could have life-threatening implications. Identifying the level of this risk is another parameter of importance. Axiomatically, improving the quality and quantity of data used to train the AI model and the identification of possible biases will strengthen the model's integrity and value.

AI models can be self-learning, their outputs can change based on new inputs, and they can constantly adapt without human intervention. In response, the FDA framework recognises a need to continuously monitor and provide detailed maintenance plans across the lifecycle of these models. Given the currently vigorous AI landscape, the draft guidelines encourage the industry to engage with the FDA to discuss and design appropriate ways to assess their AI models.

The guidelines focus on the use of AI in the preclinical stage in particular, where it is critical to understand if a compound of interest is safe enough to be approved for human clinical trials.

Regulators and the pharmaceutical industry have traditionally banked on animal models' response to the compounds for this assessment. But there is a growing body of work suggesting we need to improve the quality of data available at this stage as well as reduce animal suffering.

From guidelines to adoption

The European Medicines Agency and the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (a.k.a. ICH) have released similar documents on the use of AI in drug development processes. But the FDA guidelines are notable because they focus on the use of AI to support decisions regarding the safety and effectiveness of a drug before starting human clinical trials.

In 2023, India passed the New Drugs and Clinical Trials (Amendment) Rules 2023. It allowed data generated by advanced computational models to be used to assess the safety and efficacy of new drugs, freeing researchers from relying on animal trials alone.

That said, guidelines issued by regulators can help harmonise (i) government policy, (ii) manufacturers' expectations and compliance burden, (iii) researchers' strategy, and (iv) consumer safety.

In effect, the guidelines serve as a fixed point in the shifting AI space, an anchor where all stakeholders can pause to take stock together, before making the next decision.

(Surat Parvatam is a senior strategist (research and regulatory science) at Humane Society International India. Arvind Ramanathan is head of research and associate professor, DBT-inStem. suratsaravanan@gmail.com, arvind@instem.res.in)

➡ These guidelines focus on AI's expanding role in improving safety evaluations, minimizing dependence on animal testing, and increasing efciency in drug development.

Rising Use of AI in Drug Approval

- The U.S. FDA has noted a sharp increase in the use of AI in drug development submissions.
- In 2016 and 2017, there was only one AI-related submission per year, but this tripled in the next two years.
- By 2021, there were 132 AI-related submissions, showing a tenfold increase from the previous year.

Challenges in Conventional Drug Development

- Traditional drug development takes nearly 10 years and costs over a billion dollars.
- The success rate of conventional (animal-based) drug testing is only 14%.
- Animal testing does not always accurately predict human responses due to differences in metabolism and genetic variability.

Role of AI in Drug Development

- AI is now used across different phases of drug development.
- In the discovery phase, AI helps researchers analyze large databases to select potential drug candidates.
- AI models predict drug absorption, distribution, and elimination in humans, reducing reliance on animal trials.
- AI tools assess how different human populations (based on age, sex, and medical conditions) might react to a drug.
- AI can predict unintended side effects of drugs, helping improve safety assessments before human trials.

AI in Predicting Drug Safety

- AI-based models can assess a drug's potential risks before human trials begin.
- AI can predict how a chemical compound might affect different organs, helping reduce unexpected adverse effects.
- A recent research study introduced a "safety toolbox" that integrates multiple data types, such as chemical properties and exposure levels, to predict toxicity risks.

Challenges of Using AI in Drug Testing

- The accuracy of AI models depends on the quality of the data they are trained with.
- If AI is trained on biased or incomplete data, its predictions may not be reliable.
- Transparency is another issue, as many AI models do not disclose their internal workings or training data.

FDA's Draft Guidelines on AI in Drug Development

- The FDA has proposed a stepwise framework to assess the credibility of AI models.
- **It emphasizes:**
    o Identifying specic research questions AI will address.
    o Evaluating AI model risks, especially for incorrect predictions with life-threatening consequences.
    o Improving data quality and reducing biases to enhance AI model reliability.
    o Continuous monitoring and maintenance of AI models throughout their lifecycle.
    o The guidelines particularly focus on AI's role in preclinical drug testing to assess safety before human trials.

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Global and Indian Efforts in AI Regulation

➡ Other regulatory bodies have also released AI-related drug development guidelines.

➡ In 2023, India's New Drugs and Clinical Trials (Amendment) Rules allowed AI-generated data to assess drug safety, reducing reliance on animal trials.

Impact of AI Guidelines

➡ The guidelines help align government policies, industry expectations, research strategies, and consumer safety.

➡ They act as a stable reference point for stakeholders to ensure AI is used effectively in drug development.

UPSC Mains PYQ : 2023

Ques : Introduce the concept of Articial Intelligence (AI). How does AI help clinical diagnosis? Do you perceive any threat to privacy of the individual in the use of AI in healthcare? (150 words/10m)

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Daily News Analysis

Page 10 : GS 2 : Indian Polity

A Supreme Court petition seeks a lifetime election ban for convicted persons, challenging existing disqualication rules under the Representation of the People Act, 1951.

Should convicted persons contest elections?

What does the Representation of the People Act, 1951 stipulate with respect to electoral candidates convicted of criminal offences? What are the various judgments of the Supreme Court which favour the decriminalisation of politics? What is the case for a lifetime ban on convicted individuals standing for office?

EXPLAINER

Rangarajan. R

The story so far:

The Supreme Court is hearing petitions filed by Ashwin Upadhyay and others, seeking a life time ban on convicted persons from contesting elections.

What are the legal provisions?

Section 8(3) of the Representation of the People Act, 1951 (RP Act, 1951), provides for the disqualification of a person convicted of a criminal offence and sentenced to imprisonment for not less than two years. Such a person is disqualified from contesting elections for a further period of six years from the date of release. Section 8(1) further stipulates that a person convicted under criminal laws for heinous crimes like rape; the Protection of Civil Rights (PCR) act for preaching or practice of untouchability; UAPA for unlawful association; Prevention of Corruption Act etc., will be disqualified irrespective of the period of their sentence and six years after release.

What were past decisions?

The Supreme Court has delivered notable judgments in favour of the decriminalisation of politics. In the *Association for Democratic Reforms* (ADR) case (2002), it mandated the disclosure of criminal records of all candidates contesting elections. In the *CEC vs Jan Chaukidar* case (2013), it upheld the creative interpretation of the provisions of the RP Act, 1951 by the Patna High Court. One of the qualifications as per the act to contest elections is that a person should be an 'elector.' Section 62(5) stipulates that a person in jail is not eligible to vote in elections. The court interpreted that persons who are under trial prisoners, therefore cease to be 'electors' and hence not qualified to contest elections. However, the Parliament amended the act in 2013 to overturn this judgment
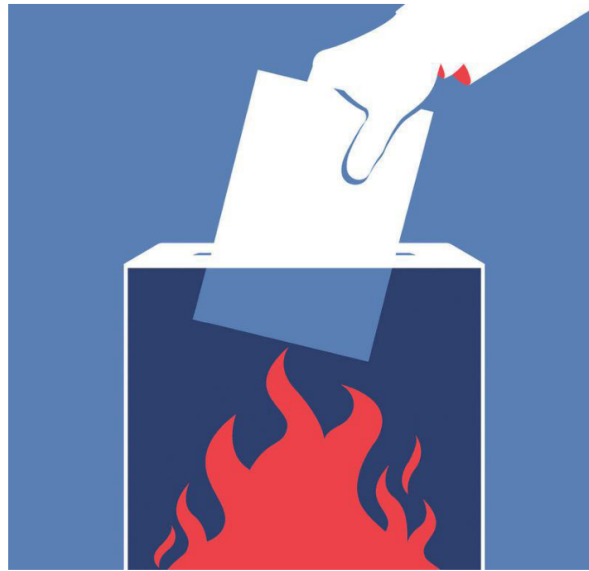
allowing under trial prisoners to contest elections. In *Lily Thomas* (2013), the court struck down section 8(4) of the RP Act, 1951, that allowed a sitting legislator to continue as a member even after being convicted if they filed an appeal, as unconstitutional and against political justice. After this judgment, a sitting legislator is disqualified immediately after the sentencing for a conviction.

It is pertinent to note that Section 11 of the RP Act, 1951 provides that the Election Commission (EC) may remove any disqualification or reduce the period of disqualification of a convicted person. It utilised this power in September 2019, to reduce the disqualification period of Prem Singh Tamang, incumbent Chief Minister of Sikkim, from six years to 13 months which allowed him to contest and win a byelection.

It was a questionable decision of the EC to have reduced the disqualification period of a person convicted under the Prevention of Corruption Act, considering its various recommendations to curb criminalisation of politics.

What is the current petition?

The current petition seeks a life time ban on convicted persons from contesting elections. The petitioners argue that if a convicted person is not eligible for even a junior-grade government job, how could they become law makers six years after serving their sentence. However, the

Central government in an affidavit filed before the court in 2020 had mentioned that MPs and MLAs are not bound by any 'service conditions' unlike government servants, and hence the present disqualification period of six years after serving the sentence is adequate.

The Supreme Court has again sought the response of the Central government and the EC on the current petition.

What can be the way forward?

A report by ADR states that 251 (46%) of the 543 elected MPs in 2024, have criminal cases against them, and 171 (31%) face serious criminal charges including rape, murder, attempt to murder and kidnapping. It added that chances of winning for a candidate with a criminal background was 15.4% as against just 4.4% for a candidate with a clean background. The Law Commission in 1999 and 2014, and the EC on various occasions have highlighted the need to curb the criminalisation of politics. They have recommended that even persons against whom charges are framed by a competent court for an offence that entails punishment of more than five years should not be allowed to contest elections.

However, there has been no consensus on this recommendation amongst political parties considering the risk of its misuse. As regards the current petition, there may be convictions that do not involve moral turpitude for which permanent disqualification would be inappropriate and disproportionate. With respect to convictions for heinous crimes and under statutes like the Prevention of Corruption Act, there may be a case for life time disqualification as it is directly linked with probity in public life.

Meanwhile, the powers vested with the EC for reducing or removing the period of disqualification of a convicted person should be reviewed by the court for its constitutional validity.

Rangarajan. R is a former IAS officer and author of 'Polity Simplified'. Views expressed are personal.

GETTY IMAGES

THE GIST

▼
Section 8(3) of the Representation of the People Act, 1951 (RP Act, 1951), provides for the disqualification of a person convicted of a criminal offence and sentenced to imprisonment for not less than two years.

▼
Petitioners argue that if a convicted person is not eligible for even a junior-grade government job, how could they become law makers six years after serving their sentence.

▼
A report by ADR states that 251 (46%) of the 543 elected MPs in 2024, have criminal cases against them, and 171 (31%) face serious criminal charges including rape, murder, attempt to murder and kidnapping.

Legal Provisions for Disqualication

➡ The Representation of the People Act, 1951 (RP Act, 1951), lays down rules for disqualifying convicted persons from contesting elections.

➡ Section 8(3) disqualies individuals convicted of a criminal offence and sentenced to at least two years of imprisonment.

➡ They remain disqualied for six years after their release.

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Section 8(1) imposes disqualication irrespective of sentence length for those convicted under laws dealing with heinous crimes such as rape, untouchability, unlawful associations, and corruption.

Key Supreme Court Judgments on Decriminalizing Politics

- **2002:** The Association for Democratic Reforms (ADR) case mandated the disclosure of criminal records by all contesting candidates.
- **2013:** The CEC vs Jan Chaukidar case upheld a ruling that individuals in jail lose their status as electors, making them ineligible to contest elections.
  - However, Parliament overturned this ruling, allowing under-trial prisoners to contest.
- **2013:** The Lily Thomas case struck down Section 8(4) of the RP Act, ensuring that legislators are immediately disqualied upon conviction, even if they le an appeal.

Election Commission's Role in Reducing Disqualification

- Section 11 of the RP Act gives the Election Commission (EC) the power to reduce or remove disqualication for convicted individuals.
- In 2019, the EC reduced the disqualication period of a convicted individual from six years to 13 months, enabling them toncontest elections.
- This decision was controversial, as the EC had previously recommended stricter measures to curb criminalization of politics.

Current Petition and Government's Response

- The petition seeks a lifetime ban on convicted persons contesting elections.
- The argument is that if convicted individuals cannot get government jobs, they should not be allowed to become lawmakers.
- However, the Central government has opposed this, stating that MPs and MLAs are not bound by service conditions like government employees, and the existing six-year disqualification after release is sufcient.
- The Supreme Court has asked for a response from both the Central government and the EC.

Need for Electoral Reform

- A report by ADR highlights that 46% of elected MPs in 2024 have criminal cases, and 31% face serious charges like rape, murder, and kidnapping.
- The Law Commission (1999 and 2014) and the Election Commission have recommended banning individuals from contesting elections if charges are framed against them for offences punishable by more than ve years.
- However, political parties have not reached a consensus, fearing misuse of disqualification rules.

Possible Solutions

- A permanent ban may be excessive for cases not involving moral turpitude.
- For heinous crimes and corruption cases, a lifetime ban may be necessary to maintain probity in public life.
- Also, the Election Commission's power to reduce disqualification periods should be reviewed for constitutional validity.

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Daily News Analysis

UPSC Mains Practice Question

Ques : Should convicted individuals face a lifetime ban from contesting elections in India? Analyze in light of legal provisions and the need to curb criminalization of politics. (250 Words /15 marks)
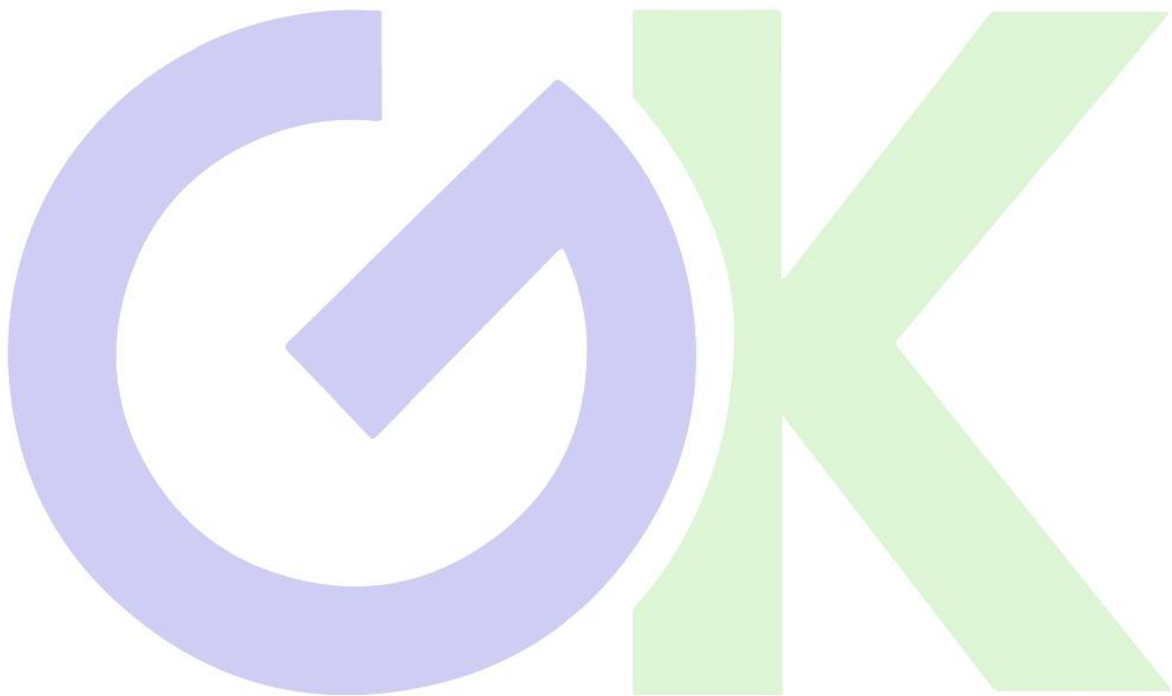
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Daily News Analysis

Page 10 : GS : 3 : Indian Economy

The BSE Sensex has been declining for six consecutive days due to a major sell-off by foreign institutional investors (FIIs) and foreign portfolio investors (FPIs).

What is contributing to the downturn in Indian markets?

How are U.S. President Donald Trump's recent directives affecting Indian stock markets? What is the relationship between bond yields and stock markets? Will the rupee strengthen?

Saptaparno Ghosh

The story so far:

For the sixth consecutive day, BSE Sensex closed lower on Wednesday reflective of a major sell-off among foreign institutional investors and portfolio investors (FIIs/FPIs), mixed earnings and apprehensions about the tightening of the (imports') tariff regime in the U.S.

Why is Trump affecting markets?
On Tuesday, U.S. President Donald Trump issued directives to restore tariff on steel and elevate the tariff on aluminium to 25%. The White House held these were to protect America's industries which "have been harmed by unfair trade practices and global excess capacity".

However, the directive was not well received in the Indian markets. This is primarily due to apprehensions about a potential dumping of Asian exports to India, potentially culminating into downward revision of prices and increased competition. Indian steel manufacturers are already amidst a revision in steel prices. For perspective, Indian manufacturer JSW Steel stated in its Q3 earnings about its Net Smelting Return (NSR) in India falling by close to ₹1,800 compared to the preceding quarter. Additionally, with respect to the alleged dumping, India's Directorate General for Trade Remedies (DGTR) has an ongoing investigation into the imports of 'non-alloy and alloy steel flat products'.

Why is foreign money moving away?
FIIs and FPIs have been increasingly moving towards U.S. bonds, seeking a haven away from the current modest Indian markets with potentially lesser returns. According to Devarsh Vakil, Head of Prime Research at HDFC Securities, the current situation in the market emanates from tepid domestic earnings growth, elevated valuations in mid and small cap segments, and persistent inflation exceeding the RBI's lower threshold of 4%, and uncertainty around trade and tariffs. It is imperative to note here that bond yield and stock markets have an inverse relationship. This is because both vie for investor funds, aspiring to outdo the other by offering more returns. Therefore, when U.S. bond yield rises, foreign investors transit from Indian equities to U.S. bonds. Domestic, economic and political certainty alongside monetary policies are other contributing factors. All in all, the entire paradigm contributes to making the dollar stronger and the rupee weaker because of the flow of money. V.K. Vijaykumar, Chief Investment Strategist at Geojit Financial observed that while the downturn in markets has been because of a combination of factors, the major among them has been the "relentless FII selling". He told *The Hindu* about FIIs having sold in the cash market every day, except for two days, so far this year – totalling to ₹93,907 crore. He further noted that while domestic institutional investors have been compensating for the FII outflows, "market sentiments have been impacted." Apurva Sheth, Head of Market Perspectives & Research at SAMCO Securities pointed out that dollar denominated returns of Indian equities "have not been impressive at all".

Mid and small caps stocks are also experiencing a correction due to the sell-off spree.

What is outlook for the near-term?
Tightening of trade policies with the probability of a trade war under Trump, geopolitical tensions and slowing global growth could influence markets going forward. According to Mr. Vijaykumar, "FIIs will return to India, only the timing is uncertain." He further adds, "Indications of a growth and earnings recovery in India and dollar decline – we do not know when it will happen, will make FIIs buyers in India." Additionally, Mr. Vakil holds that deep uncertainty about President Trump's tariffs plans may keep investors on the "defensive". As for the outflow, he contends SIP flows are likely to remain strong and should be able to absorb bulk of the selling.

THE GIST

▼ On Tuesday, U.S. President Donald Trump issued directives to restore tariff on steel and elevate the tariff on aluminium to 25%.

▼ FIIs and FPIs have been increasingly moving towards U.S. bonds, seeking a haven away from the current modest Indian markets with potentially lesser returns.

▼ Tightening of trade policies with the probability of a trade war under the Trump administration, geopolitical tensions and slowing global growth could influence markets going forward.

Impact of U.S. Tariff Policy

- ➡ The U.S. President has directed an increase in tariffs on steel and aluminium imports to protect American industries.
- ➡ This move has caused concerns in Indian markets about possible dumping of excess Asian steel in India, leading to lowerb prices and increased competition.
- ➡ Indian steel manufacturers are already seeing price reductions, with reports of Net Smelting Return (NSR) dropping by ₹1,800 in one quarter.
- ➡ India's Directorate General for Trade Remedies (DGTR) is investigating the import of steel products to address concerns of unfair trade practices.

Foreign Investment Outow

- ➡ FIIs and FPIs are shifting their investments to U.S. bonds, which are seen as safer compared to Indian markets.
- ➡ Higher U.S. bond yields attract foreign investors away from Indian stocks, leading to capital outow.

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➡ Contributing factors to this trend include slow domestic earnings growth, high stock valuations, ination exceeding the Reserve Bank of India's (RBI) 4% threshold, and trade uncertainties.

➡ The continuous FII selling has impacted market sentiment, with foreign investors selling ₹93,907 crore in Indian markets this year.

Impact on Stocks

➡ Mid-cap and small-cap stocks are experiencing price corrections due to heavy sell-offs.

➡ Domestic institutional investors are absorbing some of the foreign outows but not enough to prevent the market downturn.

➡ Near-term Outlook

➡ The possibility of a trade war, global economic slowdown, and geopolitical tensions could continue inuencing markets.

➡ FIIs are expected to return when Indian economic growth and corporate earnings improve and when the U.S. dollar weakens.

➡ Systematic Investment Plan (SIP) ows are expected to remain strong and help absorb a portion of the market selling pressure.

UPSC Mains Practice Question

Ques : Discuss the impact of rising U.S. tariffs and foreign institutional investor (FII) outows on the Indian stock market. How can India mitigate these risks? (150 Words /10 marks)

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Daily News Analysis

The U.S. has traditionally avoided restrictions on foreign investments.Policymakers are now discussing imposing taxes or barriers on inward capital ows.

Would Trump break the capital controls taboo with a Tobin tax?

Mr. Trump's officials have not yet started publicly discussing capital controls–or taxes on foreign investment; but economists and investors sympathetic to the administration's policies are freely batting around the option to widen the scope of taxation to international capital flows

NEWS ANALYSIS

Mike Dolan
LONDON

Investment barriers have long been taboo among U.S. policymakers, for fear that a mere mention could spook the world's biggest financial market. But the idea of taxing or frustrating inward investment is now being openly discussed by investors as Donald Trump's sweeping economic agenda rewrites all the rules.

The macroeconomic worldview that underlies much of the president's agenda is based on international trade accounts and zero-sum rivalry. If the U.S. is running large and chronic deficits in goods, so the thinking goes, then it must be because trading partners are systematically undervaluing their currencies against the dollar to uncut American business, suppressing their domestic consumption and, in the process, "stealing" U.S. manufacturing jobs.

These countries then plow the savings created by these huge trade surpluses back into U.S. assets. And that, in turn, pushes the dollar's value higher, lowers the U.S. cost of capital and enables Americans to consume ever more overseas goods.

Tariffs on imports, Mr.

Nuclear option: The U.S. deterring overseas investment could devastate a frothy market. AP

Trump's economic weapon of choice during his first month back in office, are one way to push back against this perceived global slight against American workers. But there's an obvious flip-side to this view.

America's large and rising current account deficit, which captures U.S. net trade flows in goods and services as well as net investment income, has to be matched by an equal and opposite capital account surplus to balance the nation's books.

These cumulative capital surpluses have been driving the dollar higher for years, juicing American's stock portfolios and reducing U.S. businesses' cost of capital.

At last count, the net in-

President Trump doesn't like the size of the U.S. trade deficit, but would he be happy to see the savings that finance that deficit go home?

KIT JUCKES
Chief FX strategist, Societe Generale

ternational investment position (NIIP–or the net overseas holdings of U.S. assets less U.S. ownerships of non-U.S. securities–was a mind-boggling $23.6 trillion, roughly 80% of annual U.S. GDP.

As Societe Generale's Kit Juckes wrote last week: "President Trump doesn't like the size of the U.S. trade deficit, but would he

be happy to see the savings that finance that deficit go home?"

Chicken or egg?
This national accounts approach suffers from the 'chicken or egg' syndrome, of course.

It's not at all clear which comes first–U.S. 'exceptionalism' in market scale, growth, innovation and liquidity, which attracts foreign capital, or the flood of capital itself, which results in a chronically overvalued dollar that makes U.S. exports uncompetitive worldwide?

But either way, the Trump team's current plan for dealing with the issue– taxing imports–is flawed for two key reasons.

First, tariff threats have,

thus far, mostly lifted the dollar even more, exaggerating the trade competitiveness problem. The second problem is that import tariffs do little to address the relentless demand for U.S. assets–the other side of this equation.

To deal directly with that, some experts think you might need to "throw sand in wheels" of crossborder flows, a phrase coined by Yale economist and Nobel Laureate James Tobin almost 50 years ago when positing a "Tobin tax" on currency transactions to tame capital flows.

To be sure, Trump officials have not yet started publicly discussing capital controls–or taxes on foreign investment. But economists and investors sympathetic to the administration's policies are freely batting around the option.

Currency hedge fund manager Stephen Jen at Eurizon SLJ wrote last week that taxing inward investment would be preferable to tariffs if the goal is to raise revenue, as tariffs would never bring in enough revenue to be a true alternative to the income tax.

Mr. Jen suggested that widening the scope of taxation to international capital flows–in effect a 'Tobin tax' on currency transactions–could widen the potential 'external' revenue base to 50 times that of the

trade in goods.

"There are, of course, obstacles and trade-offs in such taxes on capital flows, but in our view, they are no more daunting or negative than those associated with import tariffs."

Conceivably, a fractional tax could be the sweet spot if the administration is focused primarily on raising revenue. Applying Tobin's idea of a 0.0005% tax on currency transactions in a global market that turns over $7.5 trillion every day could raise huge amounts of revenue and likely wouldn't reduce the transactions or flows.

But is raising revenue really the goal of the Trump administration or is it altering supposedly "unfair" trading relationships? If it's the latter, then the capital controls would necessarily need to be disruptive to be effective.

And they could be very disruptive indeed. Even the possibility that the U.S. would think about deterring overseas investment could be devastating in an already frothy market. Not only might the dollar fall sharply, but it could take the entire U.S. stock and bond market with it.

So capital controls are an obvious option if Mr. Trump truly seeks to upend the global balance of trade–but they would also be the nuclear option.

(The author is a columnist for Reuters)

Concerns Over Trade Decit

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- The U.S. administration believes trade decits result from foreign countries undervaluing their currencies.
- This practice is thought to harm American industries and jobs.
- Countries with trade surpluses reinvest in U.S. assets, strengthening the dollar and reducing U.S. export competitiveness.

Tariffs as a Policy Tool

- Tariffs on imports are being used to counter trade imbalances.
- However, they often strengthen the dollar, worsening competitiveness issues instead of resolving them.
- Experts suggest a Tobin Tax on foreign investments to generate revenue and regulate capital inows.
- This tax could be a better alternative to tariffs.

What is Tobin Tax?

- The Tobin Tax is a small tax on foreign currency transactions proposed by economist James Tobin in 1972 to reduce shortterm speculative trading.
- It aims to stabilize currency markets by discouraging excessive speculation while generating government revenue.
- The tax is particularly relevant during nancial crises, as it can help regulate capital ows and reduce market volatility.
- Some countries have considered implementing it to control exchange rate uctuations.

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Nuclear energy — dangerous concessions on liability

In the Union Budget speech on February 1, the Finance Minister Nirmala Sitharaman announced the government's intention to take up "amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act…." This announcement is likely to please Washington, where successive administrations have been unhappy that the law places some minimal responsibilities on nuclear manufacturers in the event of an accident. But, in India, any move to indemnify suppliers should be a matter of serious concern since this could undermine nuclear safety.

Moreover, the reactors that the American government is pushing India to buy are extremely expensive and their import makes no sense on economic grounds.

Any nuclear reactor carries the risk of accidents – some of which, such as the multiple reactor meltdowns at Fukushima, Japan, in 2011, can be catastrophic. Such a disaster affects three parties: the victims, the operator of the nuclear plant (which, in India, is likely to be the public sector company, Nuclear Power Corporation of India Limited or NPCIL) and its supplier, which might be a large multinational corporation.

Following the Bhopal gas disaster (1984) the Supreme Court of India ruled, in 1986, in the Delhi Oleum gas leak case, that any enterprise engaged in a hazardous activity is "absolutely liable" for harm suffered by the victims. However, in 2010, the United Progressive Alliance (UPA) government created a special law for nuclear accidents that diluted this principle. Under this law, primary liability is channelled to the operator and capped at ₹1,500 crore.

This is unfair to victims because the economic damage caused by an accident can be much higher. The Japan Center for Economic Research estimated that the eventual cleanup costs of the Fukushima disaster could range from ¥35 trillion to ¥80 trillion (or ₹20 lakh crore to ₹46 lakh crore) – more than a thousand times the cap on operator liability in the Indian law.

Assigning responsibility
Despite this gross mismatch, the law did have one slightly redeeming feature. Under pressure from civil society groups and the political opposition, the UPA government was forced to include a clause called the "right of recourse". This allows the operator to recoup compensation paid to victims from the supplier if the accident was caused by "supply of equipment … with patent or latent defects or sub-standard services".

Because of the historical monopoly enjoyed by U.S. nuclear companies, liability laws in many other countries lack this feature. Instead, they completely indemnify suppliers. This simply reflects the influence of powerful corporations and is not based on a scientific analysis of previous accidents. In fact, design defects have played a role in every major accident to date. A weakness in the Mark 1 containment used in the reactors at Fukushima contributed to that accident. This defect was flagged as early as 1972, when a U.S. Atomic Energy Commission official warned that General Electric (GE), the reactor's designer, had used "data from tests not applicable to accident conditions" in safety assessments. The official recommended that "such designs not be accepted for construction permits" in the future. GE simply brushed aside this concern and, because it is indemnified by the Japanese liability regime, has not paid anything for the Fukushima accident.

Indemnity removes any direct economic incentive for suppliers to ensure reactor safety once a sale is completed. This is not a hypothetical concern. Following the 1979 accident at Three Mile Island, the Kemeny Commission established by the U.S. government noted that Babcock & Wilcox, the supplier of the reactor, had identified a safety hazard in an "earlier accident, bearing strong similarities to the one at Three Mile Island". Even though an engineer at the company had "urged, in the strongest terms, that clear instructions be passed on to the operators" to mitigate this hazard, the supplier failed to do so.

Backtracking on progress
Nuclear suppliers were furious at the idea that they might have to pay for accidents in India. To appease these companies, the UPA government made farcical attempts to dilute the right of recourse, both during and after the parliamentary debates on the law. This led the Bharatiya Janata Party leader Arun Jaitley to write that a "leopard never changes its spots."

However, after assuming power, the National Democratic Alliance government has pursued precisely the same policy of prioritising nuclear corporations over potential victims. Following U.S. President Barack Obama's visit to India in 2015, the Ministry of External Affairs issued a set of "frequently asked questions" downplaying the operator's right of recourse, and disingenuously suggesting that it could be bypassed using a contractual arrangement between the supplier and the NPCIL.

These machinations have not satisfied U.S. suppliers who are unwilling to expose themselves to any legal hazard in India. Their concerns are easy to guess. Although the current liability cap is low, a future government might rationalise it to reflect the true cost of an accident, exposing these companies to large financial risks. Moreover, accepting even minimal liability in India endangers their cosy arrangements in other countries where they have successfully demanded complete indemnity.

Finally, if the liability law mandates an assessment of the supplier's culpability, this might allow victims to hold corporate executives to account using criminal laws in the event of a disaster.

U.S. officials have actively lobbied on behalf of these politically influential companies. The outgoing U.S. Ambassador to India, Eric Garcetti, recently indicated that he had been in touch with leaders from both the ruling party and the Opposition in an effort to have the law amended. He also lamented that U.S. corporations had been unable to sell a single reactor to India nearly two decades after the U.S.-India Civil Nuclear Agreement. However, this has allowed India to avert a costly mistake as the troubled track record of these reactors in their home country shows.

The leading American reactor design on offer is called the AP1000. Electric utility companies commenced construction on four such reactors in the U.S. Two of these reactors, in South Carolina, were abandoned after repeated delays and cost escalations even though more than $9 billion had already been spent. Two other reactors, in Georgia, were completed at an eye-popping cost of $36.8 billion, over 250% of the $14 billion estimate provided at the start of construction.

These high costs translate to expensive electricity. Even taking into account lower labour costs in India, the cost of electricity from such reactors would be several times higher than competing sources as the writers of this article showed in a 2013 study in the *Economic & Political Weekly*. Small modular reactor designs, such as those offered by the U.S.'s NuScale Power corporation, are likely to be even less economical since they lose out on "economies of scale".

Hollow safety claims
The debate on liability also exposes the exaggerated safety claims made by suppliers. Westinghouse claims that a large release of radiation from an AP1000 reactor would happen only once in 50 million years. If reactors are so safe, why would nuclear vendors take extreme precautions to protect themselves from the consequences of an accident? If companies such as Westinghouse recognise that the risk of an accident is real and are unwilling to risk financial losses, why should Indian citizens who live near a reactor be willing to risk their lives and property?

Prime Minister Narendra Modi projects an image of a strong global leader. However, the government's announcement on the liability law is a revealing commentary on that message. When faced with pressure from the U.S. government, which puts the profits of U.S. corporations above all else, Mr. Modi's government seems unable to stand up for the basic rights and the safety of Indians.

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The line in the Union Budget on the intent to amend the Civil Liability for Nuclear Damage Act should be a matter of serious concern

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GS Paper 03 : Indian Polity

UPSC Mains Practice Question: Discuss the implications of proposed amendments to India's nuclear liability laws on nuclear safety and economic viability. How might these changes impact India's energy security and its relations with global nuclear suppliers? (250 Words /15 marks)

Context :

➡ The government has announced its plan to amend the Atomic Energy Act and the Civil Liability for Nuclear Damage Act in the recent Union Budget speech.

Proposed Amendments in Nuclear Laws

➡ This move is expected to please the U.S. government, which has long opposed India's liability law that places some nancial responsibility on nuclear manufacturers in case of an accident.

➡ In India, any move to remove supplier liability is a major concern as it could weaken nuclear safety standards.

Concerns Over Costly U.S. Reactors

➡ The U.S. government is pushing India to purchase nuclear reactors that are extremely expensive.

➡ Importing these reactors does not make economic sense due to their high construction and operational costs.

Risk of Nuclear Accidents

➡ Nuclear power plants carry serious risks, with accidents like the Fukushima disaster in Japan (2011) demonstrating the catastrophic consequences.

➡ Such disasters impact victims, the plant operator, and the supplier of the reactor.

➡ In India, public sector company NPCIL is likely to operate the nuclear plants.

Comparison with Bhopal Gas Disaster Liability

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➡️ The Bhopal gas tragedy (1984) led to a Supreme Court ruling in 1986 that made hazardous enterprises absolutely liable for damage to victims.

➡️ However, in 2010, the government diluted this principle for nuclear accidents, capping operator liability at ₹1,500 crore.

➡️ This cap is unfair as actual damages from a nuclear disaster can be much higher.

➡️ The Fukushima disaster cleanup cost is estimated at ₹20 lakh crore to ₹46 lakh crore, which is thousands of times more than India's liability cap.

Supplier Responsibility Under the Existing Law

➡️ The 2010 liability law allows the plant operator to demand compensation from the supplier if a reactor accident occurs due to defective equipment or substandard services.

➡️ In contrast, many other countries completely indemnify suppliers, shielding them from any responsibility.

➡️ However, history shows that design defects have contributed to every major nuclear accident, including Fukushima (2011) and Three Mile Island (1979).

Pressure to Remove Supplier Liability

➡️ Foreign nuclear suppliers oppose liability as it could expose them to nancial risks in India.

➡️ They fear that future Indian governments might increase the liability cap, leading to higher compensation costs.

➡️ U.S. ofcials are actively lobbying Indian leaders to amend the law to fully indemnify nuclear suppliers.

Challenges with U.S. Reactor Design

➡️ The AP1000 nuclear reactor, which the U.S. is offering, has faced major failures in its home country.

➡️ Four such reactors were built in the U.S.:Two projects in South Carolina were abandoned after costs exceeded $9 billion.

➡️ Two reactors in Georgia were completed at an astronomical cost of $36.8 billion, over 250% more than the initial estimate.

➡️ These cost overruns mean that electricity from these reactors would be far more expensive than other energy sources.

Exaggerated Safety Claims

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➡ U.S. companies claim their reactors have a 1 in 50 million years chance of a major radiation leak.

➡ However, if the reactors are truly this safe, suppliers should not demand full protection from liability.

➡ By pushing for indemnity, suppliers acknowledge the real risk of an accident but shift all nancial and safety burdens to Indian citizens.

Conclusion

➡ India's government is failing to protect public safety by considering amendments that favor foreign corporations.

➡ The pressure from the U.S. shows that economic and political interests are being prioritized over Indian citizens' safety and nancial security.

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