6th Feb, 2025

1. A Budget That is Mostly Good but With One Wrong Move
GS 3 (Economy)

- **Why in News:**
    - The **Union Budget plays a crucial role in shaping a country's economic trajectory**
    - The **2025-26 Budget aims to accelerate growth, improve tax structures, and promote fiscal consolidation** while addressing emerging economic challenges.
    - It is important to examine the key aspects of the Budget, **including GDP projections, government expenditure, tax revenues, and concerns regarding fiscal transparency.**

A Budget that is mostly good but with one wrong move

The Union Budget has got many things right. Its projection of nominal GDP growth for 2025-26, at 10.1%, is reasonable and acceptable. The Economic Survey 2024-25 had indicated a real GDP growth in the range of 6.3%-6.8% for 2025-26. This provides some buffer if growth picks up more. The increase in the capital expenditure of the government in 2025-26 over the revised estimates of 2024-25 is estimated at ₹1.03 lakh crore. But the capital expenditures in 2025-26, at ₹11.2 lakh crore, are nearly the same as was indicated in the Budget of 2024-25 at ₹11.1 lakh crore.

The overarching aim of the Budget was to accelerate growth and push India towards a developed country status. The required rate of real growth to achieve this is estimated differently including a rate of 8% in the Economic Survey for 2024-25. In any case, the country needs a definite pickup in growth rate. The various measures indicated in the Budget are welcome. In fact, some of these could have been implemented even earlier. The concession given to the 'middle-class' in terms of income-tax is welcome as a relief. But its impact on demand depends on the marginal propensity to consume of the households who are expected to largely benefit from these concessions and their consumption basket.

Gross tax revenues

Growth in the Government of India's gross tax revenues (GTR) have trended downwards in recent years. The buoyancy of GTR has fallen for three successive years from 1.4 in 2023-24 to 1.15 in 2024-25 (RE) and then to 1.07 in 2025-26 (BE). As a result, growth in the Government of India's GTR has kept falling from 13.5% in 2023-24 to 11.2% in 2024-25 (RE), and to 10.8% in 2025-26 (BE). Within the government's tax revenues, the growth rate of Goods and Services Tax (GST) has also fallen from 12.7% in 2023-24 to 10.9% in 2025-26 (BE).

In fact, the structure of the government's taxation has moved away from indirect to direct taxes. The share of direct taxes in the government's GTR has increased from 52% in 2021-22 to 59% in 2025-26 (BE) which is a welcome development. Within direct taxes, however, it is personal income-tax which has performed better than corporate income-tax in terms of growth and buoyancy.

However, even in the case of personal income-tax there has been a fall in growth from 25.4% in 2023-24 to 20.3% in 2024-25 (RE) and 14.4% in 2025-26 (BE). This fall in growth in 2025-26 (BE) is partly due to the announced income-tax concessions. In the case of corporate income-tax, the growth in 2024-25 (RE) is quite low at 7.6%. This growth has been raised to 10.4% in 2025-26 (BE). On the whole, assumptions regarding the government's tax revenue growth in 2025-26 (BE) appear to be realistic.

In the case of non-tax revenues, the main contribution has been in the form of dividends from the Reserve Bank of India and public sector companies, which together accounted for about ₹3.25 lakh crore in 2025-26 – an increase of ₹35,715 crore over the revised estimates. Thus, the non-tax revenues have been raised from ₹5.3 lakh crore (RE) to ₹5.8 lakh crore in 2025-26 (BE).

Level of government expenditure

Tax and non-tax revenues, non-debt capital receipts and fiscal deficit together determine the size of government expenditure. As discussed, a gross tax revenue growth at a lower level of 10.8% appears to be realistic. Given the commitment to fiscal consolidation, the size of government expenditure as a percentage of GDP had to be reduced from 14.6% in 2024-25 (RE) to 14.2% in 2025-26 (BE). Growth in total expenditure, at 7.6% in 2025-26 (BE), is lower than the budgeted nominal GDP growth at 10.1%.

In fact, this was so even in 2024-25 (RE), when the government's total expenditure growth was 6.1% as against the nominal GDP growth of 9.7% as per the first advanced estimates. However, there has been a steady improvement in the quality of government expenditure as the share of capital expenditure in total expenditure has been improving. In fact, this share has improved by 10% points over the period from 2020-21 to 2025-26 (BE). Given the contemporary context, the Government of India has to build up large-scale Artificial Intelligence (AI) infrastructure in order to facilitate the adoption of emerging technologies. In this context, China has taken a clear lead. The United States has recently announced an investment of $500 billion for AI infrastructure. In the field of AI, India's technology companies have failed to anticipate developments. India should have done what China did. Perhaps, India should push these companies for research and development, by offering some tax concessions, if necessary.

A less transparent fiscal health indicator

One wrong measure introduced in the Budget is to move away from fiscal deficit as an indicator of fiscal prudence. Contrary to what is stated in the Budget document, we are moving from a transparent to a less transparent indicator. As per the glide path given in the Medium-Term Fiscal Policy Cum Fiscal Policy Strategy Statement of the 2024-25 Budget, the fiscal deficit was to be brought down to below 4.5% by 2025-26.

However, in the 2025-26 Budget, the practice of giving a glide path in terms of fiscal deficit is being discontinued. It has been stated that from now on, the focus will be on reducing the debt-GDP ratio annually. In the annexure statement titled 'Statements of Fiscal Policy as required under the Fiscal Responsibility and Budget Management (FRBM) Act, 2003', alternative paths of the debt-GDP ratio with nominal GDP growth assumptions of 10.0%, 10.5% and 11.0% are given.

The glide paths are indicated in terms of alternative growth assumptions and alternative assumptions regarding mild, moderate, and high degrees of fiscal consolidation. This makes the whole exercise vague and non-transparent. It is better for fiscal discipline to indicate specific fiscal deficit target for different years and the corresponding debt-GDP ratios for those years. It should clearly be shown by what year the FRBM Act targets are to be achieved. A larger claim on the available investible resources by the government will make it difficult for private investment to pick up.

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Some of the measures indicated in the Budget could have been implemented even earlier; moving away from 'fiscal deficit' as an indicator is an incorrect step

The views expressed are personal

- **Key Aspects of the Budget**
    - **Economic Growth and Capital Expenditure**
        - One of the most significant aspects of the Budget is **its projection of nominal GDP growth at 10.1% for 2025-26,** which is deemed reasonable given the Economic Survey's estimate of real GDP growth between 6.3% and 6.8%.
        - The **government's strategy focuses on increasing capital expenditure**, a critical driver of economic development.
        - **For 2025-26, capital expenditure is estimated at ₹11.2 lakh crore,** a slight increase from the ₹11.1 lakh crore allocated in the previous Budget.
        - While the increase is relatively modest, **the government aims to sustain growth by boosting infrastructure and industrial investments.**
        - However, **given India's aspiration to become a developed economy, a higher growth rate of around 8% in real terms is necessary.**
        - The **Budget introduces measures to stimulate economic activity, although some policies could have been implemented earlier** for greater impact.
    - **Tax Revenues and Structural Shifts**
        - A key feature of the Budget is the **shift in the structure of gross tax revenues (GTR) from indirect taxes to direct taxes.**
        - Over recent years, **the share of direct taxes in GTR has increased from 52% in 2021-22 to 59% in 2025-26,** which is considered a positive development.
        - However, **despite this structural improvement, tax revenue growth has been declining**:
            - **GTR growth has fallen from 13.5% in 2023-24 to 10.8%** in 2025-26.
            - **GST revenue growth** has similarly **declined, from 12.7% in 2023-24 to 10.9% in 2025-26.**
            - **Personal income-tax growth** has **slowed from 25.4% in 2023-24 to 14.4% in 2025-26,** partly due to new tax concessions.
            - **Corporate income-tax growth was particularly low at 7.6% in 2024-25** but has been projected to recover to 10.4% in 2025-26.
        - Despite these declines, **the assumptions about tax revenue growth appear realistic.**
    - **Government Expenditure and the Need for AI Investment**
        - The Budget also **emphasises fiscal consolidation, leading to a reduction in government expenditure as a percentage of GDP** from 14.6% in 2024-25 to 14.2% in 2025-26.
        - **Although total expenditure growth at 7.6% is lower than the projected GDP growth** of 10.1%, the quality of expenditure has improved.
        - One **critical area for government investment is Artificial Intelligence (AI) infrastructure.**

- The **Budget recognises that India needs to develop AI capabilities** to remain competitive globally.
- **Countries like China and the United States have made significant strides in AI investment**, with the US recently announcing a $500 billion AI infrastructure plan.
- In contrast, **India's technology sector has lagged behind.** The **government should incentivise AI research and development through tax concessions** and public-private partnerships to ensure India remains a leader in emerging technologies.

- **A Major Contention in the Budget Announcement: Concerns Over Fiscal Transparency**
  - **Departure from the Fiscal Deficit Glide Path**
    - **Fiscal deficit**, the gap between government revenue and expenditure, **is a crucial metric for evaluating a country's financial health.**
    - In the Medium-Term Fiscal Policy Cum Fiscal Policy Strategy Statement of the 2024-25 Budget, **the government had outlined a clear glide path to reduce the fiscal deficit to below 4.5% of GDP by 2025-26.**
    - However, **in the 2025-26 Budget, the government abandons this explicit target, instead stating that the focus will be on reducing the debt-to-GDP ratio annually.**
  - **Ambiguity in Debt Reduction Strategy**
    - The **new approach focuses on alternative debt-to-GDP reduction** paths rather than specific fiscal deficit targets.
    - The **Budget document presents three different scenarios for debt-to-GDP reduction,** based on **varying GDP growth assumptions (10.0%, 10.5%, and 11.0%) and different levels of fiscal consolidation** (mild, moderate, and high).
    - This **method introduces greater vagueness** into the fiscal planning process:
      - The **government does not specify a clear fiscal deficit target** for each year, making it difficult to evaluate progress.
      - The **alternative scenarios do not provide a definitive commitment** to how quickly the government will reduce its debt burden.
      - The **reliance on optimistic GDP growth assumptions (up to 11%) increases the risk that debt reduction projections may not materialise** if actual growth falls short.
  - **Risks of High Government Borrowing and Crowding Out Private Investment**
    - One major consequence of unclear fiscal deficit targets is the **potential for higher government borrowing**, which could lead to the 'crowding out' of private investment.
    - **When the government borrows more from domestic financial markets**, it reduces the pool of available funds for private companies to borrow at affordable interest rates.
    - This **can lead to higher borrowing costs for businesses**, discouraging private sector investment in critical sectors such as infrastructure, manufacturing, and technology.
    - **Reduced private investment can slow economic growth,** which contradicts the Budget's objective of achieving high and sustainable GDP expansion.
  - **Impact on India's Credit Ratings**
    - Fiscal transparency plays a crucial role in determining India's sovereign credit rating.
    - International credit rating agencies, such as Moody's, S&P, and Fitch, closely monitor fiscal deficit trends and debt sustainability.
    - **If fiscal deficit targets are unclear or absent, rating agencies may perceive this as a weak commitment** to fiscal discipline
    - A **downgrade in India's credit rating would increase borrowing costs for the government,** businesses, and consumers.
    - **Higher interest payments on government debt could divert funds away from productive expenditures** like infrastructure, healthcare, and education.
    - To maintain investor confidence and creditworthiness, **the government should reinstate a transparent fiscal deficit target framework, providing a clear roadmap** for achieving both deficit reduction and long-term debt sustainability.

- **Recommendations for a More Transparent Fiscal Policy**
  - **Reintroduce a Clear Fiscal Deficit Target:** Instead of relying solely on debt-to-GDP projections, the Budget should restore annual fiscal deficit goals, ensuring better accountability.
  - **Provide a Detailed Debt Reduction Strategy:** The government should outline a step-by-step plan to reduce debt levels, rather than presenting multiple alternative scenarios that create uncertainty.
  - **Ensure Realistic GDP Growth Assumptions:** Fiscal planning should be based on conservative growth projections, avoiding overestimation that could lead to fiscal slippage.
  - **Limit Government Borrowing to Avoid Crowding Out Private Investment:** Fiscal consolidation efforts should prioritize reducing the fiscal deficit, preventing excessive public sector borrowing that could hinder private sector growth.
  - **Strengthen Transparency in Budgetary Disclosures:** The Budget should provide more detailed breakdowns of expenditure, revenue forecasts, and borrowing plans, improving public trust and investor confidence.
- **Conclusion**
  - **The Union Budget for 2025-26 presents a well-structured approach to economic growth,** tax reforms, and fiscal consolidation.
  - While GDP growth projections are reasonable, **capital expenditure needs to be increased further to sustain long-term economic expansion.**
  - The move away from **transparent fiscal deficit targets** raises concerns about accountability.
  - Fiscal policy should remain **clear and specific**, ensuring that the government meets its targets without creating uncertainty in financial markets.

2. A Green Signal for India to Assert Its Health Leadership

GS 2 (Governance)

- **Why in News:**
  - The **Union Budget for 2025-26 marks a pivotal moment in India's health-care evolution**, reinforcing its ambitions to become a global leader in health care and innovation.
  - The **strategic allocations, policy initiatives, and forward-thinking investments** outlined in the budget not **only aim to enhance the accessibility and quality of health services** but also **underline the country's vision of becoming a hub for global health-care solutions.**
  - Therefore, **it is imperative to delve into the key highlights of the budget,** examining its focus on medical infrastructure, educational advancements, and international collaborations, **which together lay a robust foundation for India's health-care future.**

A green signal for India to assert its health leadership

The Union Budget 2025-26 lays a robust foundation for India to assert its leadership in global health care and innovation, with strategic announcements that bolster medical infrastructure, expand educational opportunities, and promote global collaboration.

With a ₹90,958 crore health-care allocation, the addition of 75,000 medical seats over the next five years, and investments in daycare cancer centres, India is poised to enhance both accessibility and quality of care. The country will add 10,000 medical seats in FY26 alone, underscoring its commitment to health-care excellence.

India's health-care transformation

This Budget underscores India's remarkable journey of progress, from the 1980s when it grappled with limited medical infrastructure, to its current status as a global health-care leader. The transformation has been nothing short of extraordinary.

Recently, the writer had the privilege of presenting two key recommendations to Prime Minister Narendra Modi: first, establishing India as the global health-care destination, and second, addressing the global shortfall of health-care professionals. It has been a delight to see both these ideas in action through the 'Heal in India' and 'Heal by India' initiatives. With streamlined visa processes, enhanced hospital infrastructure, and robust public-private partnerships, India is poised to become the preferred medical destination for international patients.

Simultaneously, the country is addressing the global shortfall of health-care professionals by training and deploying more doctors, nurses, and paramedics abroad. This will ensure that Indian expertise supports health-care systems worldwide while creating new opportunities for our skilled professionals.

Dr. Prathap C. Reddy

is Founder and Chairman, Apollo Hospitals

The Budget has recognised the role of health care as a pillar of national growth and development

Customs duty exemptions, tech outlook

Moreover, it is commendable that the growing burden of non-communicable diseases such as cancer has been acknowledged in this Budget. The establishment of 200 day-care cancer centres in district hospitals will bring specialised treatment closer to people, improving early diagnosis and better patient outcomes.

The customs duty exemption on 36 life-saving drugs, including those for cancer, rare diseases, and chronic conditions will lower the cost of treatments, in turn, benefiting thousands of patients across the country. Also, the addition of 13 new patient assistance programmes would also improve access to critical medications for patients, particularly those with chronic conditions.

The emphasis on Artificial Intelligence and digital health marks a pivotal moment for the future of India's health care. The new National Centres of Excellence will spearhead innovation in diagnostics, treatment, and research, enabling India to develop cutting-edge solutions that enhance patient care.

The writer believes that the introduction of cutting-edge technologies to deliver quality health care has strengthened India's position as a global health-care player. Both private and public hospitals have played an integral role in this progress. Apollo was the first hospital to launch Proton therapy for advanced cancer care in this part of the world and continues to attract patients from countries such as Australia and the United Kingdom to name a few.

Build on the momentum

This Budget clearly recognises the government's vision for – and demonstration of bold leadership in recognising – health care as a pillar of national growth and development. From a country that once struggled to provide basic medical care, we have evolved into a nation offering world-class treatment to millions. Through the synergy of Heal in India, Heal by India, and innovation-driven care, we are shaping a future where India's health-care system sets new global benchmarks.

It is our collective responsibility now to build on this momentum – by embracing technology, strengthening medical education, and ensuring that health care reaches every individual in need.

India is not just healing its own people; it is healing the world.

- **India's Historic Transformation in Health-care: From Struggles to Leadership**
  - **India's health-care journey, which began in the 1980s** with limited infrastructure and access, has undergone an extraordinary transformation.
  - From a time when basic **health care was a significant challenge to becoming a global leader in medical services,** India's progress is remarkable.
  - This **transformation can be largely attributed to various strategic initiatives undertaken by the government, including public-private partnerships**, the enhancement of hospital infrastructure, and the introduction of innovative solutions such as telemedicine.
  - The **introduction of initiatives like 'Heal in India' and 'Heal by India' further reinforces the country's position as a key player** on the global health-care stage.

- These **initiatives aim to make India the preferred medical destination for international patients by simplifying visa processes**, improving hospital facilities, and creating a conducive environment for medical tourism.
- Simultaneously, **India is addressing the global shortage of health-care professionals by training and deploying skilled workers abroad.**
- This **dual approach not only helps India earn international recognition but also fosters a mutually beneficial global health-care network.**

- **Union Budget Announcements Pertaining to India's Health Care**
  - **Strengthening Medical Infrastructure**
    - A **cornerstone of the Union Budget is the health-care allocation of ₹90,958 crore**, which is set to transform the landscape of medical care in India
    - This **significant investment will be directed towards the expansion of medical infrastructure,** with a specific emphasis on improving access to specialised treatments across the country.
    - The **establishment of daycare cancer centres in district hospitals is a noteworthy initiative that will provide accessible, high-quality cancer care** to communities previously underserved by specialised medical facilities.
    - Additionally, **the government's plan to add 75,000 new medical seats over the next five years, including 10,000 in fiscal year 2026 alone, is a strong indicator of India's commitment** to enhancing medical education and producing more healthcare professionals.
  - **Expanding Educational Opportunities**
    - This **expansion of medical education is particularly crucial** in addressing the increasing demand for skilled health professionals.
    - **India's ability to meet this demand while simultaneously serving its growing population demonstrates the nation's dedication** to creating a well-equipped and sustainable health-care system.
    - By producing more doctors, nurses, and allied professionals, **India is also positioning itself as a global leader in health-care talent.**
  - **Addressing Non-Communicable Diseases**
    - Another key highlight of the budget is its **recognition of the growing burden of non-communicable diseases,** such as cancer, which have become a significant challenge in India.
    - The **establishment of 200 daycare cancer centres in district hospitals is a proactive step** towards addressing this challenge.
    - **These centres will play a critical role in improving early diagnosis**, ensuring better treatment outcomes, and reducing the need for patients to travel long distances for specialised care.
  - **Reducing Cost of Treatment by Customs Duty Exemptions**
    - The **cost of treatments is also expected to decrease, thanks to customs duty exemptions on 36 life-saving drugs,** including those for cancer, rare diseases, and chronic conditions.
    - This **measure will make essential medications more affordable and accessible** to a broader segment of the population.
    - Additionally, **the creation of 13 new patient assistance programs will further expand access to life-saving treatments,** especially for those with chronic conditions.
    - This **will alleviate the financial burden on patients,** enabling them to receive timely and necessary care without being overwhelmed by the high costs associated with certain medications.
  - **Embracing Technology and Innovation**
    - The **integration of cutting-edge technologies**, such as Artificial Intelligence (AI) and digital health, is another defining aspect of the 2025-26 Union Budget.
    - The **establishment of National Centres of Excellence will facilitate research, innovation, and development in diagnostics, treatment**, and health-care delivery.
    - These centres will **spearhead advancements that could lead to more accurate diagnoses,** personalized treatments, and improved patient outcomes.

        - The **inclusion of technology and digital health solutions in the budget reflects India's vision to not only improve its health-care system but also to become a global leader** in health-tech innovation.
        - **Private sector hospitals, such as Apollo, have already pioneered advanced treatments like Proton therapy for cancer care,** setting high standards for health-care delivery.
        - **These innovations are helping to attract international patients from countries like Australia and the United Kingdom,** further solidifying India's status as a global medical destination.
- **The Way Forward: Building on Momentum for a Healthier Future**
    - **The progress India has made**, from being a country struggling with basic medical care to offering world-class treatment, **is a testament to the bold leadership demonstrated in recent years.**
    - The **synergy of initiatives like 'Heal in India,' 'Heal by India,' and innovation-driven care sets the stage for India to continue making strides in both domestic and international health-care**
    - Looking forward, **it is imperative that India builds on this momentum by embracing emerging technologies, strengthening medical education,** and ensuring that health care is accessible to every individual in need.
- **Conclusion**
    - **The Union Budget 2025-26 unequivocally reflects the Indian government's vision for health care** as a pillar of national growth and development.
    - By continuing on this path, **India is not only healing its own people but also contributing to global health solutions, ensuring that the country's health-care system sets new benchmarks** for the world.

3. <u>Stryker Infantry Combat Vehicles</u>
Recent events of importance

- **Why in News:** Amid the upcoming visit of Indian Prime Minister to Washington DC, several defence deals in the pipeline are in focus, among them the deal for co-production of Stryker infantry combat vehicles.
- **About Stryker Infantry Combat Vehicles:**

Stryker infantry vehicle deal with the U.S. progresses; Javelin to be re-demonstrated

Dinakar Peri
NEW DELHI

Against the backdrop of U.S. President Donald Trump's remarks to Prime Minister Narendra Modi that India should buy more military equipment from them and amid the upcoming visit of Mr. Modi to Washington DC next week, several defence deals in the pipeline are in focus, among them the deal for co-production of Stryker infantry combat vehicles.

The performance of Stryker in high-altitude conditions was demonstrated for the Indian Army and negotiations are making progress, according to sources in the know.

The Stryker, manufactured by General Dynamics, has been evaluated in high-altitude conditions of Ladakh last September-October and the report has subsequently been shared with the Army Headquarters for further action, according to the sources.

The performance of the vehicles was demonstrated in high-altitude conditions between 13,000 and 18,000 feet which also saw the testing of the Javelin Anti-Tank Guided Missile (ATGM), two sources said. And given some shortcomings, last month a communication was sent and re-trials are now awaited anytime, the sources stated.

The Stryker with its double-V hull performed optimally, one of the sources said, adding that the Javelin's performance was not at the optimum level, which was due to the age of the system that being used and repeat trials are expected to validate that. India has already sent a communication to the U.S. side asking for repeat demonstration of the Javelin, another source said, and the schedule is being worked out.

The Army has identified a key requirement for ATGMs mounted on infantry combat vehicles, several defence officials stated. However, the Stryker variant with the Javelin ATGM is under development and is expected to be demonstrated to India in the near future, it has been learnt.

Assembling in India

The envisaged plan, according to sources, is the procurement of few hundred vehicles in two stages. Direct import of small number of Strykers in the first stage and license manufacture of a bulk of them, with some customisations, in India likely by defence public sector undertaking Bharat Earth Movers Limited.

The Stryker deal is expected to figure in the conversations during Mr. Modi's U.S. visit along with the deal for license manufacture of General Electric F-414 jet engines in India and the long delays in deliveries of the F-404 engines for the Light Combat Aircraft (LCA)-MkIA which has delayed the delivery and induction schedule.

The U.S. has in the past demonstrated both the Stryker as well as Javelin ATGM to the Indian Army during bilateral exercises.

Infantry carrier: A Stryker armoured vehicle used by the U.S. Army during their final days in Iraq. FILE PHOTO

    - Stryker is a family of **eight-wheel-drive combat vehicles** built for the **US Army.**
    - It was **jointly developed by** General Dynamics Land Systems (GDLS), **Canada** and the General Dynamics Land Systems Division in the **United States.**
    - It was the **first new military vehicle inducted into US Army** service **since the Abrams tank** in the 1980s.
    - The Stryker family includes **various configurations** such as **Infantry Carrier Vehicle** (ICV), **Mobile Gun System** (MGS), **medical evacuation vehicle,** fire support vehicle, anti-tank guided missile carrier, and reconnaissance vehicle, among others.
    - These vehicles are valued for their **speed and flexibility**, particularly in **urban warfare** and quick response scenarios.
    - Stryker can be **transported** on the ground **using trucks or by air on C-17** and **C-130 aircraft** already in the Indian Air Force fleet.
    - **Key features:**
        - **Armament**: Equipped with a 30 mm cannon and a 105 mm mobile gun
        - **Hull Construction:** V-hull made of high-hardness steel with an additional layer of ceramic tile armor for enhanced protection
        - **Crew and Capacity:** Operated by a two-person crew and can carry a nine-man infantry squad
        - **Range:** 483 kilometers
        - **Top Speed:** Approximately 100 km/h.

4. <u>Amid US-China Trade Tensions, India Enhances Investment Safeguards for Global Partners</u>
GS 2 (international Relations)

- **Why in News:**
    - India is preparing to revamp its **2016 model Bilateral Investment Treaty (BIT)** to offer better protection for foreign investors, responding to concerns from Western trade partners amid shifting global trade dynamics due to the US-China trade war.

BEGINS GROUNDWORK TO REVAMP 2016 MODEL BILATERAL INVESTMENT TREATY

Amid US-China trade war, India signals better investment protection for partners

RAVI DUTTA MISHRA & AGGAM WALIA
NEW DELHI, FEBRUARY 5

AMID AN anticipated trade and investment shift away from China following the latest US-China trade war, India has signalled that better protection for foreign investors could be on offer for its trade partners as it begins the groundwork to revamp the 2016 model Bilateral Investment Treaty (BIT), which took a conservative stance and favoured the state over investors in investor-state disputes.

A revamp of the 2016 model BIT was flagged in the Union Budget after multiple Western trade partners cited burdensome norms during ongoing treaty negotiations. India is currently in talks with the UK and the European Union for an investment treaty and is also expected to negotiate a BIT with the European Free Trade Association (EFTA) region, which has committed to investing $100 billion in India over a 15-year period.

Ajay Seth, Secretary of the Department of Economic Affairs (DEA), told *The Indian Express* that groundwork for the BIT revamp has already begun and that the treaty with the UAE, which offers protection for foreign portfolio investors and includes entity-based protection, reflects the new approach towards more investor-friendly investment norms.

"The UAE BIT is already in the public domain. For instance, the model BIT talks about entity-based protection. An entity has to be registered in India. Whereas in the UAE, we have moved over to an asset-based definition. Investment coming through the foreign portfolio investment (FPI) route will also get BIT protection. This is just one example. It could move in that direction, and a review has to be undertaken. Groundwork or homework has started," Seth said.

'UAE TREATY REFLECTS THE NEW APPROACH'

AJAY SETH, Ajay Seth, DEA Secretary, told *The Indian Express* that groundwork for the BIT revamp has already begun and that the treaty with the UAE, which offers protection for foreign portfolio investors and includes entity-based protection, reflects the new approach towards more investor-friendly investment norms

File

Nestle case & regulatory risks

Prabhash Ranjan, Professor and Vice Dean at the Jindal Global Law School, said that additional protection for investors is needed to attract investment, as investors face high regulatory risks while operating in India, the latest instance being the Nestlé case. In December, Switzerland suspended the Most-Favoured-Nation (MFN) clause in the Double Taxation Avoidance Agreement (DTAA) originally signed between India and Switzerland in 1994.

This decision followed a ruling by the Indian Supreme Court last year, which determined that the DTAA cannot be enforced unless it is notified under the Income Tax Act. As a result, Swiss companies such as Nestlé face higher taxes on dividends.

Ranjan said that most disputes brought against India were due to poor regulations. "If you change tax laws retroactively, as happened with Vodafone, or cancel licences without following due process, as happened with Devas, and your judiciary takes forever to decide on arbitration awards, what option does the investor have?" Ranjan said.

Notably, the government had annulled BITs based on older model texts framed in 1993 after receiving adverse judgments in multibillion-dollar disputes in international courts. To prevent this, the model BIT included the clause "exhaustion of local remedies," emphasising state rights over investor rights.

Contention: Emphasis on local remedy

One of the key elements in the UAE BIT was that UAE investors in India must exhaust domestic remedies for at least three years before commencing international arbitration, as per the treaty text. This contrasts with the model BIT, which required investors to attempt to resolve disputes through India's legal system for at least five years before seeking international arbitration. However, experts believe that several countries, particularly in the West, may not even be willing to accept the three-year clause and would prefer easier norms. And much of the negotiations with the EU and UK are held up for years. India has been involved in trade negotiations with the UK for over two years and is yet to reach even close to signing a deal with the EU. In contrast, EU has signed a deal with India's competitors such as Vietnam giving it an advantage over India.

"In my opinion, India should do away with this waiting period requirement completely. What India should introduce is what is known as a fork-in-the-road clause. This essentially means that if an investor has a dispute with the state, they choose whether to submit the dispute to domestic courts or pursue international arbitration. Once that choice is made, it is final and irrevocable," Ranjan said.

Ranjan added that with this approach, India can argue that the state is neither stopping investors nor forcing them to go through domestic courts. "Now, it is quite possible that some investors may still opt for domestic courts because they do not want to antagonise the state by pursuing international arbitration. That would serve India's objective as well," he added.

EXPLAINED E. BIT revamp flagged in Budget

A REVAMP of the 2016 model Bilateral Investment Treaty (BIT) was flagged in the Union Budget after multiple Western trade partners cited burdensome norms during ongoing treaty negotiations.

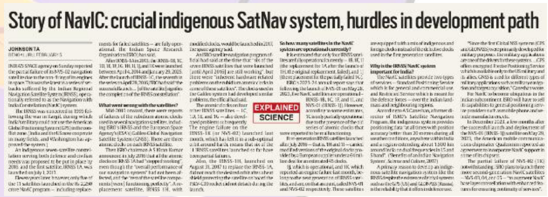
    - The Union Budget highlighted the need for reform, as India negotiates investment treaties with the UK, EU, and EFTA, which has pledged $100 billion in investments over 15 years.
    - The govt. has stated that groundwork has begun, citing the UAE BIT as a model for a more investor-friendly approach, including asset-based protection and coverage for Foreign Portfolio Investments (FPIs).
- **High Regulatory Risks in India Deter Foreign Investment**
    - Experts emphasized the need for stronger investor protections in India due to significant regulatory risks. The latest instance being the Nestlé case.
    - Switzerland suspended the Most-Favoured-Nation (MFN) clause in its 1994 Double Taxation Avoidance Agreement (DTAA) with India in December 2024.
    - This followed an Indian Supreme Court ruling stating that the DTAA is unenforceable unless notified under the Income Tax Act.
    - Consequently, Swiss companies like Nestlé now face higher taxes on dividends
    - **Impact of Retroactive Tax Laws and License Cancellations**
        - Analysts have noted that India has faced numerous investor disputes arising from **retroactive tax changes**, such as in the Vodafone case, and arbitrary license cancellations, like in the Devas case.
        - These actions, coupled with prolonged judicial delays in arbitration, leave investors with limited recourse.
    - **Shifting Away from Investor Rights in BITs**
        - India's decision to annul older Bilateral Investment Treaties (BITs) after unfavorable international court rulings led to the adoption of the 2016 model BIT, which prioritizes state rights over investor rights.
        - The inclusion of an "exhaustion of local remedies" clause is intended to reduce international litigation against India.
- **Local Remedy Requirement in UAE BIT**
    - The UAE-India Bilateral Investment Treaty (BIT) mandates that UAE investors must exhaust domestic legal remedies for at least three years before seeking international arbitration.
    - The India-UAE Bilateral Investment Treaty (BIT) came into effect on August 31, 2024.
    - This is a reduced timeframe compared to India's 2016 model BIT, which requires a five-year waiting period.
    - **Western Opposition to Long Waiting Periods**
        - Many Western nations, including the UK and EU, are unwilling to accept even the three-year requirement, leading to prolonged negotiations.
        - While India's talks with the UK have been ongoing for over two years, its negotiations with the EU remain stalled.
        - In contrast, the EU has signed investment agreements with competitors like Vietnam, giving them a competitive edge.

- **Proposal for a Fork-in-the-Road Clause**
  - Many experts suggest eliminating the waiting period entirely and instead introducing a **"fork-in-the-road"**
  - This clause **would allow investors to choose between domestic courts or international arbitration, with their decision being final and irrevocable**
  - This approach, he argues, would give investors flexibility while still encouraging them to use India's legal system to avoid straining diplomatic and business relations.

- **India Eyes Gains from US-China Trade War**
  - India is positioning itself as a beneficiary of the ongoing US-China tariff war, with early signs indicating a potential rise in Indian exports to the US.
  - Exporters have reported positive feedback on increased orders, signaling optimism for trade growth.
  - **US Retaliation Could Boost Indian Exports**
    - The US is expected to assess China's tariff measures, and potential countermeasures could further enhance demand for Indian goods.
    - Higher tariffs on Chinese products would make Indian alternatives more competitive in the American market.
  - **India's Past Trade Gains from US-China Tensions**
    - India previously benefited from trade conflicts between the two global powers, emerging as the **fourth-largest gainer during the earlier US-China trade war.**
    - Indian exports surged from \$51.63 billion in FY21 to \$76.71 billion in FY22.
    - With a similar opportunity now, India hopes to replicate this success, though the extent of its advantage remains uncertain.

5. Story of NavIC - crucial indigenous SatNav system
GS 3 (Science and Tech)

- **Why in News:**
  - India's NVS-02 navigation satellite partially failed on February 2 due to engine non-firing, marking another setback for the **Indian Regional Navigation Satellite System (IRNSS)**, or NavIC.
  - Conceived after the 1999 Kargil War, NavIC aimed to establish a seven-satellite constellation by 2016 for defence and civilian use. However, only five of the 11 satellites launched since 2013 remain fully operational.
  - Despite ISRO declaring the constellation complete in 2016, failures and replacements have plagued the ₹2,250 crore program.


Story of NavIC: crucial indigenous SatNav system, hurdles in development path

- **Failures in IRNSS Satellites**
  - **Atomic Clock Malfunctions (2016 Onward)**
    - Failures reported in rubidium atomic clocks used in IRNSS and ESA's Galileo GNSS.
    - Each IRNSS satellite has three atomic clocks.
    - In July 2016, ISRO confirmed all clocks on IRNSS-1A had stopped working
    - Despite this, ISRO stated the navigation system's overall performance remained unaffected.
    - Clocks in IRNSS-1C, 1D, 1E, and 1G also developed issues over time.
  - **Satellite Launch and Deployment Failures**
    - IRNSS-1H, launched in 2017 to replace IRNSS-1A, failed as its heat shield did not detach.
    - The latest satellite, IRNSS-1K (NVS-02), suffered an engine failure in 2025, leaving it in a sub-optimal orbit.
  - **Overall Impact**
    - Out of 11 IRNSS satellites launched, six have faced failures, affecting India's indigenous navigation system.

- **Current Operational Status of NavIC Satellites**
  - ISRO's 2023-24 annual report says that following the launch of NVS-01 on May 28, 2023, five NavIC satellites are operational – IRNSS-1B, 1C, 1F, and 1I, and NVS-01 (IRNSS-1J).
  - However, according to some estimates, 1C is only partially operational due to the presence of the old series of atomic clocks that were reported to be malfunctioning.
  - **Satellite Generations and Clock Issues**
    - First-generation IRNSS satellites (1H and 1I) carried modified European clocks.
    - Next-generation satellites (NVS-01 and NVS-02) use a mix of indigenous and foreign clocks.
    - NVS-02 (IRNSS-1K) failed due to an engine malfunction.
- **Importance of the NavIC System for India**
  - **Key Services Provided by NavIC**
    - **Standard Positioning Service (SPS):** For general and commercial use.
    - **Restricted Service (RS):** For defense forces.
    - Offers **positioning accuracy better than 20 meters** across India and up to 1,500 km around it, with dual-frequency capabilities in L5 and S band.
  - **Strategic Importance for Defense**
    - NavIC ensures **reliable positioning data** critical for defense applications, unlike global systems such as GPS, which have military-encrypted services primarily for US and allied forces.
    - Global navigation systems (GPS, GLONASS, Galileo, Beidou, QZSS) are mainly developed for military use, and NavIC provides India with independent and secure navigation.
  - **Commercial and Consumer Adoption**
    - For NavIC to become widespread, ISRO plans to partner with commercial service providers, including **mobile phone** and **vehicle manufacturers**
    - Qualcomm, a mobile chipmaker, agreed to incorporate NavIC support in some chipsets in December 2023.
- **Future Plans for Expansion**
  - ISRO intends to launch **three more second-generation satellites** (NVS-03, 04, 05) to enhance the NavIC system and ensure continuity of services, despite setbacks like the NVS-02 engine failure.