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

1. Trump's return and the South Asia outlook

Context: In January 2025, Donald Trump will be sworn-in as the 47th President of the United States of America. Donald Trump's re-election is expected to reinforce the momentum of strong India-US relations, maintaining continuity while also introducing evolving dynamics that India must navigate carefully to sustain beneficial bilateral ties. India and the United States have enjoyed an upward trajectory in their relationship since the beginning of the millennium. Acknowledging its leadership in the region, the U.S. even labelled India as a net-security provider in 2009. Through its Indo-Pacific strategy, the U.S. wants to supplement India's regional leadership to counter China and maintain the values-based order. Its cooperation with India on the Millennium Challenge Corporation (MCC) projects in Nepal and helping Sri Lanka out of its economic crisis, indicate this growing cooperation.

Key points

- **Overview:** With China's increasing aggressiveness and assertiveness, India and the U.S. have strengthened their engagements and cooperation in South Asia.
- **Reasons for Optimism in India-US Relations:** *Trade and Technology Cooperation* - Free Trade Agreement (FTA) negotiations in 2019-2020, stalled under Biden, will likely be revived.
Lack of Pressure on Internal Issues - Unlike the Biden administration, Trump's policies will likely avoid pushing India on democratic norms, minority rights, press freedoms, and human rights issues.
Khalistani Groups and Canada Relations - India will likely see less pressure from the U.S. on its issues with Khalistani groups. Given his frosty relations with Trump, it's unlikely that Trump would involve the U.S. in India's current diplomatic tensions with Canada, particularly over the Nijjar case.
U.S. Support for India in the LAC Conflict - Trump supported India during the LAC conflict in a uniquely proactive manner, sharing U.S. intelligence, leasing drones, and supplying winter gear—an approach distinct from previous U.S. administrations.
- **Trade Tariffs and GSP Status:** Trump's push for cutting trade tariffs could reignite trade disputes, as seen during his first term with the China tariff war. India faced counter-tariffs, the loss of Generalised System of Preferences (GSP) status, and complaints at the WTO. If Trump resumes similar trade policies, India's exports may face fresh challenges.
- **Tensions with Iran:** Trump's confrontational stance on Iran during his first term pressured India to cut oil imports from Iran. While future policies on Iran may shift, India could still face similar pressures, particularly if Trump seeks to re-engage with Russia, affecting its oil and energy strategies.
- **Russia and Moscow Relations:** India is likely to face minimal pressure from Trump regarding its relationship with Russia. Given Trump's interest in engaging with President Vladimir Putin, India may benefit from a more flexible approach, especially concerning defence deals and strategic ties with Russia.
- **Impact on Pakistan:** Pakistan may experience loss of U.S. support under Trump, especially for loans from the IMF and World Bank. Trump's previous decision to cancel U.S. aid to Pakistan in his first term could be repeated.
- **Bangladesh and the Region:** Bangladesh could face scrutiny under Trump, especially regarding the protection of Hindu minorities, after Trump's social media posts criticising Dhaka's treatment of minorities. South Asian nations like Nepal, Bhutan, and the Maldives that were courted by the Biden administration might be concerned about lack of attention from Trump's administration.
- **India's Regional Relations:** India may seek Trump's intervention in ending Israel's war in Gaza and Lebanon and reviving talks with Gulf countries to aid the India Middle East Europe Economic Corridor, which has stalled.
- **Conclusion:** While India stands to gain strategically from Trump 2.0, it should remain cautious of challenges as well. Proactive engagement and measured diplomacy will be essential to maximise benefits and manage any disruptions effectively.

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

2. EPFO members may soon withdraw PF claims through ATMs

Context: Members of the retirement fund body EPFO may soon be able to withdraw their provident fund (PF) money directly from ATMs after the settlement. Currently, subscribers of the Employees' Provident Fund Organisation (EPFO) must wait for 7-10 days for the settlement of their claims online. After the settlement, the money is transferred to the beneficiaries' bank accounts. Under the plan, EPFO subscribers

will receive dedicated cards that can be used at ATMs to withdraw savings. Under the new system, claimants, beneficiaries or insured individuals will be able to access their claim amounts through ATMs. A maximum of Rs 7 lakh is provided under the Employees' Deposit Linked Insurance scheme run by the EPFO to the heirs of deceased subscribers.

Key points

- **Overview:** In the new system, the heir of the deceased EPFO subscriber may also be able to use ATMs to withdraw the money after claim settlement. The new systems are expected to be rolled out after completion of a hardware upgrade by the EPFO. The pension can only be drawn through a limited number of empanelled banks in specific regions. This process has been inconvenient for many pensioners.
- **Current Pension Payment System:** Currently, EPFO pensioners are required to transfer their Pension Payment Orders (PPO) when they relocate, leading to delays in pension disbursement.
- **Centralised Pension Payment System (CPPS):** The CPPS aims to simplify the pension process by allowing pensioners to receive their pensions through any bank, in any branch, across the country starting from January 2025. It will eventually transition to an Aadhaar-based system, eliminating the need for physical verification. This change is expected to reduce the costs of pension disbursement significantly.
- **Government's Financial Constraints:** The Union government has cited financial limitations as the primary reason for not increasing the minimum pension amount. The government contributes 1.16% of employees' basic wages to the Pension Scheme and allocates a significant budget to ensure pension payments. In 2023-24, the government's contribution was ₹9,760 crore, and for 2024-25, it is expected to be ₹10,950 crore. However, despite these contributions, there is uncertainty about how much the government can raise the minimum pension.
- **EPFO's Position on Higher Wage Pensions:** The EPFO has historically opposed the idea of providing pensions based on higher wages, arguing that the EPS-95 was designed for economically weaker workers. The organisation believes that granting pensions to high-wage earners would jeopardize the sustainability of the Pension Fund. However, the fund has not faced any immediate cash flow issues, despite actuarial deficit projections. Pensioners have also criticized the EPFO for demanding outdated documents from them.
- **Way Forward:** To address these challenges, the government must increase its contributions to EPS-95 and revise the wage ceiling for Provident Fund contributions, which has remained at ₹15,000 for the last decade. A proposal to allow employees to choose between investing in the EPF or NPS, suggested by former Finance Minister Arun Jaitley in 2015, could also offer better returns on investment. Additionally, the exclusion of employees who joined after September 1, 2014, from the EPS-95 should be reconsidered to ensure that all employees are eligible for pensions, regardless of their earnings.
- **Employees' Pension Scheme:** EPF Pension which is technically known as Employees' Pension Scheme (EPS), is a social security scheme provided by the Employees' Provident Fund Organisation (EPFO).
 - *EPS (Amendment) Scheme, 2014* - Through the EPS Amendment which became effective from 1 September 2014, the conditions of membership of the EPS Scheme underwent a change.

3. How a distant galaxy provides a peek into nascent milky way

Context: NASA's James Webb Telescope (JWST) has spotted a distant galaxy which gives a peek at what the Milky Way might have looked like in its infancy. The galaxy, named Firefly Sparkle due to its gleaming star clusters resembling the bioluminescent bugs, which is located 13 billion years away. As the Big Bang occurred approximately around 13.8 billion years ago, Firefly Sparkle, as we observe it today, is an infant galaxy formed in the immediate aftermath of everything. Researchers say the galaxy, still in the process of assembling, is estimated to have formed 100-400 million years before its evolutionary stage.

Key points

- **Overview:** The light which is received by JWST took light 13 billion years to travel from the galaxy to the telescope. So, as we observe the light from Firefly Sparkle today, it is an infant galaxy formed in the immediate aftermath of the Big Bang.
- **The Big Bang Theory:** According to this theory, the universe started with a huge explosion, and matter (dust and gases) filled the entire space. Matter from the universe was thrown out with great force in all directions and started expanding outwards. From this matter, many groups of stars were formed known as galaxies.

The Big Bang Theory proposes the following stages in the development of the universe:

- *Singular atom* - Initially, all matter in the universe existed in a singular atom, often referred to as a "tiny ball." This atom had an incredibly small volume, infinite temperature, and infinite density.
- *Explosion* - The "tiny ball" violently exploded, leading to a tremendous expansion.
- *Cooling down period* - Within approximately 300,000 years from the Big Bang, the temperature of the universe dropped to around 4,500K (Kelvin), allowing atomic matter to arise. This resulted in the universe becoming transparent.
- The expansion of the universe refers to the increase in space between galaxies.
- **Galaxy:** A galaxy comprises a multitude of stars and spans vast distances, often measured in thousands of light-years. Individual galaxies have diameters ranging from 80,000 to 150,000 light-years.
 - *Formation* - The formation of a galaxy begins with the accumulation of hydrogen gas in the form of a massive cloud known as a nebula. Over time, these nebulae undergo growth and develop localized clumps of gas.
 - Major forms namely, spiral galaxies, elliptical galaxies, and irregular galaxies.
- **Milky Way Galaxy:** The Milky Way is the galaxy in which the Solar System is located. It's a spiral galaxy with a disk of stars that stretches over 100,000 light-years. Earth is situated along one of the galaxy's spiral arms, approximately halfway from the centre.
 - The Andromeda Galaxy, also called Messier 31, is the nearest major galaxy to the Milky Way.

Q. The terms 'Event Horizon', 'Singularity', 'String Theory', and 'Standard Model' are sometimes seen in the news in the context of:

(a) Observation and understanding of the Universe (c) Placing satellites in the orbit of the Earth

(b) Study of the solar and the lunar eclipses

(d) Origin and evolution of living organisms on the Earth

4. First, ice free day in Arctic could occur before 2030

Context: A new study published in Nature Communications suggests the Arctic Ocean could experience its first ice-free day—defined as less than one million square kilometres of sea ice—by 2030 or earlier, driven by unprecedented greenhouse gas emissions. The analysis warns that while the scenario is unlikely, its plausibility is growing due to continued human-induced climate change. Arctic sea ice has been shrinking at an alarming rate, with its extent decreasing by 12.6% per decade over the last 40 years—a rate unmatched in at least 1,500 years, according to the MIT Climate Portal's 2023 report.

Arctic Region

- **Introduction:** The Arctic region, or the Arctic, is a geographic region spreading around the North Pole. It includes the northern parts of Canada, the United States, Russia, Finland, Sweden, Norway, Iceland, and Greenland. The Arctic Ocean lies between these lands. An imaginary line, called the Arctic Circle, surrounds most of the area.
- **Geography and Climate:** The Arctic consists mainly of flat, treeless tundras with some mountainous areas. Much of the ground is permanently frozen, with only the top layer thawing in summer.
 - *Daylight* - The North Pole experiences six months of darkness followed by six months of constant daylight, while Arctic lands farther south have shorter periods of daylight in winter and brief darkness in summer.
 - *Temperature* - Winters are extremely cold, with temperatures reaching -90°F (-68°C) inland, while summers are mild at around 50°F (10°C). Snowfall is heavier near the coasts.
- **Flora and Fauna:** *Plants* - Trees are scarce, growing only in southern regions. The tundras support lichens, mosses, grasses, and some flowering plants.
Animals - The Arctic hosts polar bears, caribou, Arctic foxes, Arctic hares, Gray wolves, seals, walruses, whales, and various fish. Birds like the snowy owl live year-round, while others migrate during summer.
Indigenous Peoples - Indigenous groups like the Nenets, Sakha, Evenk, Chukchi, Sami, Inuit, and Aleuts traditionally inhabit the Arctic, living in small settlements.
Settlers - In the 1900s, industries such as mining and oil drilling attracted settlers of European descent, who established larger towns and cities.
- **Impact of Arctic region becoming ice-free:** *Impact on Climate Change* - The loss of Arctic Sea ice accelerates climate change due to the Albedo effect, where the reflective ice is replaced by darker ocean water that absorbs more solar energy.
Rising Sea Levels - Global Sea levels are already rising at an accelerated rate of 3.6 mm per year, 1.5 times faster than the 1990s. If the Greenland ice sheet melts entirely, sea levels could rise by six meters, threatening coastal communities worldwide.
Ecosystem Disruption - Species like polar bears, walruses, Arctic foxes, snowy owls, and reindeer are at risk due to habitat loss and melting permafrost. Marine animals are migrating further north for colder waters, disrupting food chains and dependent species.
Human and Infrastructure Impact - The Arctic is warming four times faster than the global average, endangering ecosystems, infrastructure, and livelihoods of Arctic communities.

5. Switzerland suspends MFN status to India in tax avoidance agreement

Context: The Swiss government has suspended the most favoured nation status (MFN) clause in the Double Taxation Avoidance Agreement between India and Switzerland, potentially impacting Swiss investments in India and leading to higher taxes on Indian companies operating in the European nation. According to a December 11 statement by the Swiss finance department, the move follows the Supreme Court of India last year ruling that the MFN clause doesn't automatically trigger when a country joins the OECD if the Indian government signed a tax treaty with that country before it joined the organization.

Key points

- **Overview:** Switzerland has announced the suspension of the Most-Favoured-Nation (MFN) clause under the Double Taxation Avoidance Agreement (DTAA) with India, effective January 1, 2025. This move could lead to higher tax burdens for Indian companies operating in Switzerland and Swiss investors in India, potentially impacting bilateral investments.
- **Most Favoured Nation (MFN):** An MFN clause mandates a country that provides a trade concession to one trading partner to extend the same treatment to all trading partners. It is a founding principle of the World Trade Organisation (WTO). For example, if a WTO member country reduces a tariff on a product for one trading partner, it must also extend that same tariff reduction to all other WTO members.
Purpose - MFN aims to replace power-based policies with a rules-based framework, where trading rights are not dependent on a country's economic or political clout.
Removal of MFN status - There is no formal procedure for suspending MFN treatment and it is unclear whether members must notify the WTO if they do so. For Ex, India revoked Pakistan's MFN status following the Pulwama attack in 2019. Pakistan has never granted India MFN status.
- **India-Switzerland Tax Treaty:** The DTAA between India and Switzerland was signed in 1994 and amended in 2010 to prevent double taxation of income.
Supreme Court ruling - In 2023, the Indian SC ruled that the DTAA's provisions require explicit notification under the Income-Tax Act to be enforceable. This overturned a Delhi High Court decision that protected entities from double taxation. The court ruled that a country can claim DTAA benefits only from the treaty's date of enforcement, not retroactively. Though companies like Nestlé and Concentrix argued for reduced withholding tax rates under OECD-member treaties, the ruling rejected automatic applicability.
Reason for suspension of the MFN clause - The Swiss government cited a lack of reciprocity as the basis for suspending the MFN clause. Swiss authorities stated that they could not apply reduced tax rates unilaterally without mutual agreement from India.
- **Implications of the Suspension of the MFN Clause:**
Higher tax rates - Dividends paid after January 1, 2025, will be taxed at a higher rate of 10% in the source state.
On European Free Trade Association (EFTA) - Switzerland's suspension poses risks to the \$100 billion investment commitment under the EFTA-India trade pact, signed in March 2024.
On bilateral treaty dynamics - The decision underscores evolving international tax frameworks and India's stricter treaty interpretations.
- **Conclusion:** Switzerland's suspension of the MFN clause marks a significant shift in India-Switzerland tax treaty relations. While aimed at addressing reciprocity concerns, the move could deter Swiss investments in India and complicate tax compliance for Indian entities. The development emphasises the importance of mutual agreement and clarity in international tax treaties to ensure stability and fairness in cross-border trade and investment.