

CA COMPASS — UPSC Daily

STEP 1: CURRENT AFFAIRS NOTES

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The Hindu + Indian Express

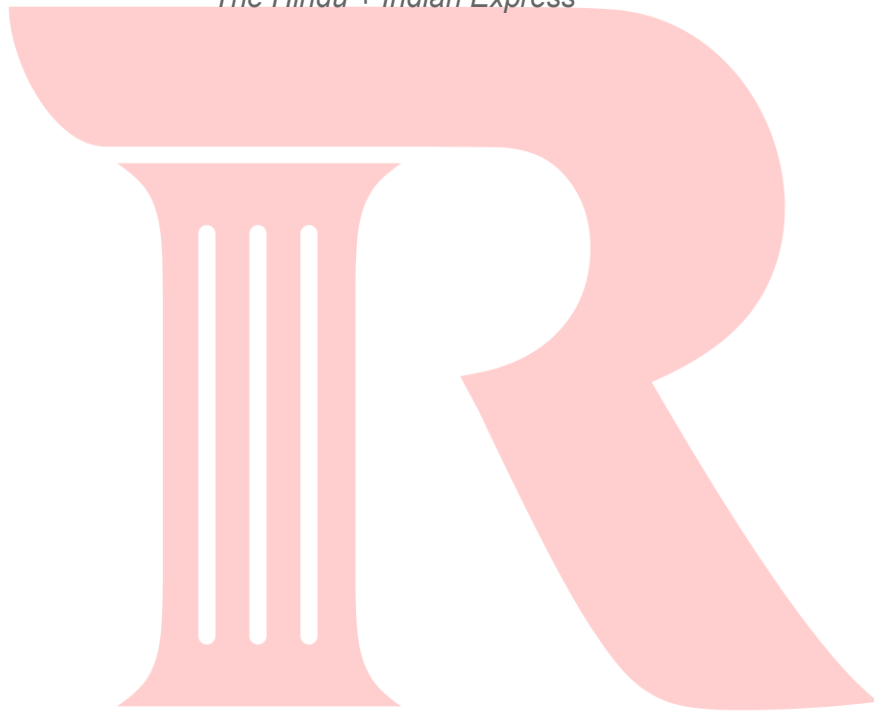


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GS3: Economy / Rupee Depreciation / BoP / Forex Reserves / RBI

1. Why Is the Indian Rupee Falling? — An Explainer on BoP, FPI Outflows, and RBI Intervention

Source: The Hindu (Jayan Jose Thomas, Professor of Economics, IIT Delhi) | Subject: Economy / Rupee / BoP / Forex Reserves / FPI / RBI / GS3

Context: The Indian rupee has been falling sharply, crossing 96 per US dollar in May 2026 — up from around 85 a year ago. Professor Jayan Jose Thomas of IIT Delhi explains the mechanics of rupee depreciation through India's balance of payments (BoP) data, the role of Foreign Portfolio Investment (FPI), and the Reserve Bank of India's intervention strategy. India's BoP for 2024-25 shows: current account deficit \$23.1 billion, merchandise trade deficit \$286.9 billion (exports minus imports), invisibles surplus \$263.9 billion (services, software, remittances), capital account surplus \$16.6 billion (foreign investment \$4.52 billion, loans \$29.3 billion), but overall BoP in deficit with forex reserves declining by \$63.7 billion and reserves standing at \$5 billion change in the period. India's forex reserves stood at approximately USD 691.1 billion at end of March 2026, covering 10.8 months of imports (as of end-December 2025). The article traces six episodes of sharp rupee depreciation, all linked to FPI outflows: April-September 2013 (54.4 to 63.8), January-October 2018 (63.6 to 73.6), February-April 2020 (71.5 to 76.2), January-October 2022 (74.4 to 82.3), September 2024-February 2025 (83.3 to 87.1), and the latest phase beginning May 2025 (85.2 to 96). FPI is volatile and speculative; FDI is more stable but has also slowed. The RBI intervenes by selling dollars from reserves to prop up the rupee, but this depletes reserves. The article concludes that India must regulate speculative capital outflows and reduce oil import dependence.

EXAMINER'S LENS

* Prelims: Rupee at 96/\$ (May 2026). BoP 2024-25: CA deficit \$23.1bn, merchandise trade deficit \$286.9bn, invisibles surplus \$263.9bn, capital account surplus \$16.6bn. Forex reserves: ~\$691.1bn (March 2026), 10.8 months import cover (Dec 2025). FPI: volatile portfolio flows (stocks, bonds). FDI: stable, long-term. RBI sells dollars to defend rupee. Six depreciation episodes since 2013.

* Mains: GS3 (Economy). Exchange rate determination: trade balance + capital flows. FPI volatility and rupee instability. RBI forex intervention: costs and limits. Structural reforms to reduce oil import dependence. Capital account management.

* GS4/Interview: When a country's currency value is determined more by speculative capital flows than by the strength of its real economy, the exchange rate ceases to reflect economic fundamentals and becomes a barometer of global risk appetite. India's challenge is to build an economy where the rupee's value reflects productive capacity, not FPI sentiment.

Key Points:

- The BoP data for 2024-25 reveals the structural pattern behind the rupee's fall. India's merchandise trade deficit at \$286.9 billion reflects the persistent gap between goods imports (dominated by crude oil, gold, electronics) and goods exports. This deficit is partially offset by a large invisibles surplus of \$263.9 billion, driven by IT services exports, software, and remittances from the Indian diaspora (especially West Asia). The resulting current account deficit of \$23.1 billion is modest by historical standards (less than 1% of GDP), confirming that the current account is not the primary pressure point — consistent with Chinoy's analysis from the previous day.
- The capital account is the key vulnerability. While the capital account showed a surplus of \$16.6 billion in 2024-25, this was insufficient to cover the current account deficit and maintain reserves. Foreign investment inflows were only \$4.52 billion — a sharp decline from historical averages. The article distinguishes between FDI (relatively stable, tied to factories and businesses) and FPI (volatile, driven by speculation). FPI surges when Indian stock markets rise or when global interest rates are low, but reverses rapidly at the first sign of risk or when higher returns are available elsewhere (especially when US Treasury yields rise).
- The six episodes of sharp rupee depreciation since 2013 all share a common trigger: FPI outflows. The Taper Tantrum (April-September 2013: 54.4 to 63.8), the 2018 oil price and trade war shock (63.6 to 73.6), the COVID panic (71.5 to 76.2), the 2022 Ukraine war and rate hike cycle (74.4 to 82.3), the September 2024-February 2025 episode (83.3 to 87.1), and the current phase from May 2025 (85.2 to 96) — each was driven by foreign investors withdrawing from India amid geopolitical tensions and higher US interest rates. This pattern confirms structural dependence on volatile capital inflows.
- RBI's intervention mechanism and its limits: the RBI defends the rupee by selling US dollars from its forex reserves, which increases dollar supply in the market and supports the rupee.

However, this depletes reserves — India's reserves fell by \$63.7 billion in 2024-25 (from the BoP table). Forex reserves at \$691.1 billion (March 2026) provide approximately 10.8 months of import cover (as of December 2025), which is comfortable but has declined from peak levels. The RBI's intervention is a defensive tool, not a cure; sustained FPI outflows will continue to pressure the rupee regardless of intervention. The article argues India must address root causes: regulate speculative capital outflows and reduce structural dependence on oil imports.

STATIC CONNECT

► Exchange Rate, BoP & Forex Reserves

- * Exchange rate determination: demand for rupee (exports, FDI/FPI inflows, remittances) vs supply of rupee (imports, capital outflows, foreign travel). Deficit in BoP = rupee depreciation pressure.
- * BoP components: Current account (merchandise trade + invisibles) + Capital account (FDI + FPI + ECBs + NRI deposits + loans) + Errors & Omissions = Change in forex reserves.
- * Forex reserves composition: Foreign Currency Assets (largest), Gold, SDRs, Reserve Tranche Position with IMF. RBI manages reserves. Import cover: reserves / monthly imports.
- * FPI regulation: SEBI-regulated. FPI limits on government securities, corporate bonds. Voluntary Retention Route (VRR) for committed FPI. FPI taxation: capital gains tax changes (Budget 2024 increased STCG to 20%, LTCG to 12.5%).
- * Historical rupee: 1947: 1 rupee = 1 dollar (par). 1966: devaluation to 7.5. 1991 crisis: devaluation + LERMS. 1993: unified market-determined rate. Managed float since then. REER (Real Effective Exchange Rate) used to assess competitiveness.

3-2-1 RAPID REVISION

3 Prelims:

- * Rupee crossed 96/\$ (May 2026, from ~85 a year ago). BoP 2024-25: CA deficit \$23.1bn, merchandise trade deficit \$286.9bn, invisibles surplus \$263.9bn. Capital account surplus \$16.6bn. Foreign investment: only \$4.52bn.
- * Forex reserves: \$691.1bn (March 2026). Import cover: 10.8 months (Dec 2025). Reserves fell \$63.7bn in 2024-25. RBI defends rupee by selling dollars. FPI: volatile (stocks/bonds); FDI: stable (factories/businesses).
- * Six rupee depreciation episodes (all FPI-driven): 2013 Taper Tantrum (54.4→63.8), 2018 (63.6→73.6), 2020 COVID (71.5→76.2), 2022 Ukraine/rate hikes (74.4→82.3), Sep 2024-Feb 2025 (83.3→87.1), May 2025-present (85.2→96).


2 Mains:

* The rupee's fall to 96/\$ is driven by capital account weakness, not current account deterioration. The CAD at \$23.1 billion is modest (under 1% GDP), but foreign investment inflows collapsed to \$4.52 billion and FPI outflows accelerated amid geopolitical tensions and higher US yields. The six depreciation episodes since 2013 share a common pattern: FPI withdrawals triggered by global risk aversion. India's structural dependence on volatile portfolio flows — rather than stable FDI attracted by pull factors — makes the rupee a hostage to global sentiment rather than domestic fundamentals.

* RBI's intervention (selling dollars from reserves) is a defensive tool with diminishing returns: reserves fell \$63.7 billion in 2024-25. At \$691.1 billion, reserves remain substantial but are declining from peaks. The policy response must address structural causes: regulating speculative capital outflows (Tobin tax debate), reducing oil import dependence (90% crude imported), building pull-factor FDI through manufacturing competitiveness, and diversifying the capital account beyond FPI-dependent inflows.

1 Essay:

When a currency's value is determined more by the mood of foreign portfolio investors than by the productive capacity of its economy, the exchange rate becomes a measure of vulnerability rather than strength. India's rupee at 96 is not just a number — it is a verdict on the structural quality of its capital inflows. Use: Rupee, BoP, FPI, FDI, forex reserves, RBI intervention, structural reform.

 **Mains Q:** Explain the mechanics of rupee depreciation through India's balance of payments framework. Why have FPI outflows been the dominant driver of rupee weakness since 2013? What structural reforms can reduce the rupee's vulnerability to speculative capital flows? (15M)

GS2: International Relations / Quad / India-US / Iran / Trade

2. Quad Foreign Ministers Meet in Delhi amid India-US Trade Tensions and Iran Crisis

Source: The Hindu (Suhasini Haidar, News Analysis) | Subject: Quad / India-US / Iran / Trade / Indo-Pacific / GS2

Context: The Quad Foreign Ministers meet on Tuesday at Hyderabad House in Delhi — the first FM-level meeting in nearly a year (last: July 1, 2025). EAM Jaishankar hosts US Secretary of State Rubio, Australian FM Penny Wong, and Japanese FM Motegi. The meeting comes at a fraught moment: the US-Israel strikes on Iran and other Trump administration actions have posed questions over the Quad's viability. The four areas simplified at the July 2025 meeting are: maritime and transnational security, economic prosperity and security, humanitarian assistance and emergency responses, and the Quad Critical Minerals Initiative. Key issues: (1) Whether to hold a Quad Summit in India later this year or downgrade to FM-level only (as was the case pre-2021), given India's difficulties scheduling summits in 2024 and 2025. (2) Trade tensions: the US imposed a 50% tariff on Indian goods; Trump reposted anti-immigrant content describing India as a "hellhole"; Rubio faced persistent questions from journalists about this. (3) India-Pakistan conflict dynamics and US role. (4) Rubio conveyed an invitation for PM Modi to visit Washington in the next few months, though it is Trump's turn to visit India; Modi may visit the US for the G-20 Summit in December. (5) Washington's rapprochement with Beijing (Xi Jinping expected to visit US in September to reciprocate Trump's China visit) could undermine the Quad, which was originally conceived to counter Chinese actions in the Indo-Pacific.

EXAMINER'S LENS

- * Prelims: Quad FM meeting: Tuesday, Hyderabad House, Delhi. Last FM meeting: July 1, 2025. Members: India (Jaishankar), US (Rubio), Japan (Motegi), Australia (Penny Wong). 4 focus areas: maritime/transnational security, economic prosperity, humanitarian assistance, Critical Minerals Initiative. US 50% tariff on Indian goods. G-20 Summit: December 2026. Xi Jinping US visit: September 2026 (expected). No Quad Summit since 2024 (Wilmington).
- * Mains: GS2 (IR). Quad's institutional future: summit vs FM-level. US-India trade tensions (50% tariff). Iran crisis impact on Quad coherence. US-China rapprochement and Quad's anti-China rationale. Critical minerals as functional anchor.

* GS4/Interview: The Quad was conceived as a partnership of democracies to maintain a rules-based Indo-Pacific order. When one member imposes 50% tariffs on another, reposts content calling it a “hellhole,” and simultaneously seeks rapprochement with the very power the Quad was meant to counter, the question is whether shared values still bind the grouping or whether strategic convenience has overtaken principle.

Key Points:

- The institutional future of the Quad is at stake. The Ministers will discuss whether to hold a Leaders’ Summit in India later in 2026 or to downgrade the grouping to FM-level meetings only, as was the practice before the first virtual Leaders’ Summit in 2021. India has struggled to schedule summits in both 2024 and 2025. If downgraded, the Quad would lose the political signalling power that summit-level engagement provides, but might gain flexibility for more frequent, working-level cooperation on specific deliverables like critical minerals.
- Trade tensions between India and the US cast a shadow over the meeting. The US has imposed a 50% tariff on Indian goods, significantly escalating from previous levels. Trump’s reposting of anti-immigrant content describing India as a “hellhole” added a diplomatic insult to the economic injury. Rubio faced persistent journalistic questioning about this during his four-day India visit. These tensions strain the “strategic partnership” rhetoric: a 50% tariff is not how strategic allies typically treat each other’s exports. The \$500 billion goods commitment announced during Rubio’s visit appears contradictory alongside such tariff levels.
- The US-China rapprochement poses a potentially existential challenge to the Quad. Xi Jinping is expected to visit the US in September 2026 to reciprocate Trump’s China visit. Washington is seeking a “more accommodating position” with Beijing. The Quad was fundamentally conceived as a mechanism to counter Chinese assertiveness in the Indo-Pacific. If Washington’s China policy shifts toward accommodation, the strategic rationale that binds the Quad weakens. India, Japan, and Australia would need to find alternative institutional anchors for Indo-Pacific cooperation.
- The Iran crisis adds another layer of complexity. The US-Israel strikes on Iran and their consequences — Strait of Hormuz disruption, energy price spikes, maritime security concerns — affect all four Quad members differently. India’s energy dependence on West Asia, Japan’s Hormuz vulnerability, and Australia’s position as a major energy exporter create divergent interests. The Quad’s inability to address the Iran crisis collectively (as seen in Motegi’s refusal to discuss the IRIS Dena torpedoing) suggests the grouping functions best as a cooperative

platform for non-controversial deliverables (critical minerals, vaccines, cyber) rather than as a strategic alignment mechanism for high-stakes geopolitical situations.

STATIC CONNECT

► Quad Evolution & India-US Trade

* Quad timeline: 2007 (Quad 1.0, disbanded after Australian withdrawal). 2017 revival. 2021: first virtual Leaders' Summit. 2022: Tokyo Summit. 2023: Hiroshima (sideline of G7). 2024: Wilmington. No summit since.

* Quad deliverables: Vaccine Initiative (1 bn doses pledge), IPMDA (Indo-Pacific Maritime Domain Awareness), Quad Fellowship (STEM), Critical Minerals Partnership, Cyber Security, Clean Energy, Infrastructure.

* India-US trade: bilateral goods trade ~\$120 bn (2024-25). US tariffs on India: previous ~10-25% range, now 50%. India's trade surplus with US. Key exports: IT services, pharmaceuticals, gems/jewellery, textiles. Key imports: crude oil, defence equipment, machinery.

* Abraham Accords (2020): UAE, Bahrain, Morocco, Sudan normalised ties with Israel. Trump now demands Saudi Arabia, Qatar, Pakistan, Egypt, Turkiye, Jordan also sign as condition for Iran deal.

* G-20: India hosted 2023 (New Delhi Declaration). 2024: Brazil. 2025: South Africa. 2026: US (December, expected). India's G-20 presidency legacy: African Union membership, Global Biofuels Alliance.

3-2-1 RAPID REVISION

3 Prelims:

* Quad FM meeting: Tuesday, Hyderabad House. Last FM meeting: July 1, 2025. Jaishankar hosts Rubio, Motegi, Penny Wong. No Summit since Wilmington 2024. May downgrade to FM-only (pre-2021 model).

* US 50% tariff on Indian goods. Trump "hellhole" repost. \$500bn goods commitment. Modi invited to Washington. G-20 Summit: December 2026 (US host). Xi Jinping US visit: September 2026.

* Quad's 4 focus areas (July 2025): maritime/transnational security, economic prosperity, humanitarian assistance, Critical Minerals Initiative. US-China rapprochement may undermine Quad's anti-China rationale.

2 Mains:


* The Quad faces a triple challenge: institutional (summit vs FM-level downgrade), economic (50% US tariff on India contradicts strategic partnership rhetoric), and strategic (US-China rapprochement undermines the grouping's foundational anti-China rationale). The Iran crisis adds a fourth dimension: divergent energy interests prevent collective action. The Quad's future likely lies in

functional cooperation (critical minerals, cyber, clean energy) rather than strategic alignment on high-stakes geopolitical issues.

* The contradiction between US actions (50% tariffs, “hellhole” repost, Beijing rapprochement) and Quad rhetoric (“vital framework,” “strategic alliance”) is unsustainable. India must assess whether the Quad remains a strategic multiplier or has become a diplomatic convenience that provides rhetorical cover for a relationship increasingly defined by trade tensions and divergent geopolitical priorities. The Critical Minerals Initiative and POWERR Asia offer the most credible pathways to maintaining functional relevance.

1 Essay:

A partnership that imposes 50% tariffs on its ally’s goods while calling the relationship “strategic” has a credibility problem. The Quad’s survival requires either resolving the contradiction between economic coercion and strategic cooperation, or accepting that the grouping’s value lies in specific deliverables (minerals, energy, cyber) rather than in the grand strategic alignment its founders envisioned. Use: Quad, India-US, tariffs, China rapprochement, critical minerals, institutional future.

 **Mains Q:** *Critically examine the challenges facing the Quad at the May 2026 Foreign Ministers’ meeting. How do US-India trade tensions and Washington’s rapprochement with Beijing affect the Quad’s strategic rationale and institutional future? (15M)*

GS1: Population / GS2: Social Issues / Demographic Transition / Fertility / Ageing

3. India's Demographic Transition: AP's Fertility Incentives Meet an Ageing Reality (SRS 2024)

Source: The Hindu Editorials: "Baby Bait" + "From Black to Grey" | Subject: Population / Demographic Transition / TFR / Ageing / Women's Workforce / AP / GS1 + GS2

Context: Two editorials address different dimensions of India's demographic transition. (1) "Baby Bait" critiques Andhra Pradesh's proposed incentives for families to have three or more children. AP's TFR has dropped from around 3 in the 1990s to 1.5 today — well below the replacement rate of 2.1 and the national average. The State proposes: ₹30,000 for a third child, ₹40,000 for a fourth; ₹1,000 monthly for five years; free education until age 18; provisions for mothers to work from home; enhanced Thalliki Vandanam scheme (currently ₹15,000/child for school attendance); longer maternity leave; Anganwadi and childcare support. The editorial argues: global evidence shows cash incentives rarely produce large or sustained fertility increases; people are having fewer children because housing and private education costs have risen, stable employment comes later, and aspirations for children's quality of life have expanded; the incentives are unlikely to offset the 18-year cost of raising a child even under optimistic assumptions about public provisions; the goal of doubling women's labour force participation directly contradicts incentivising more children (France and Nordic countries achieved both only through universal childcare, flexible work, paid parental leave, and legal protections against career penalties); the economics of cash incentives disproportionately influence poorer households, potentially increasing family size among the economically vulnerable without ensuring adequate long-term child development support; ecological concerns (water scarcity, congestion, waste) will intensify. The editorial concludes that southern States' anxiety about population-based delimitation is real, but asking families to alter personal reproductive decisions to address a constitutional design problem is a "profound mismatch between instrument and objective." (2) "From Black to Grey" analyses SRS 2024 data confirming India's demographic transition. TFR has dropped to 1.9 (below replacement 2.1). Birth rate: 21 per 1000 (2014) to 18.3 (2024). Death rate: 6.7 to 6.4. India's median age is 29.2 years (vs China's 40.2). Youth (15-29): 370-380 million, ~27% of population. Under-35: over 65% of total population. Life expectancy: 72 years. IMR fallen to 24 but northern States still much higher. Southern States ahead of northern on all indicators. The editorial argues India still has a demographic dividend window but it is

closing; the country must prepare for an ageing future while leveraging its current youth bulge; rural/urban and regional disparities need targeted interventions.

EXAMINER'S LENS

* Prelims: SRS 2024: TFR 1.9 (below replacement 2.1). Birth rate: 18.3/1000 (down from 21 in 2014). Death rate: 6.4 (from 6.7). IMR: 24. Life expectancy: 72 years. Median age: 29.2 (India) vs 40.2 (China). Youth (15-29): 370-380 mn, 27% population. Under-35: over 65%. AP TFR: 1.5. AP incentives: ₹30K (3rd child), ₹40K (4th), ₹1K/month x 5 years, free education to 18. Thalliki Vandanam: ₹15,000/child. Replacement level fertility: TFR 2.1.

* Mains: GS1 (Population). Demographic transition stages. Fertility decline: causes and consequences. Pro-natalist policies: effectiveness. Demographic dividend vs ageing. Women's workforce participation vs fertility incentives. Southern vs northern States: demographic divergence. Delimitation anxiety.

* GS4/Interview: When a State incentivises larger families among the poor to address demographic decline, it transfers the reproductive burden to those least equipped to bear the long-term costs of child-rearing. The ethical question is whether the State's demographic anxiety should drive individual reproductive choices, particularly when the instruments (cash) disproportionately influence the economically vulnerable.

Key Points:

- The SRS 2024 data confirms that India has crossed a demographic milestone: TFR at 1.9 is below the replacement rate of 2.1. This means that without migration, India's population will eventually stabilise and then decline. The transition has been rapid — birth rate fell from 21 to 18.3 per 1000 in just a decade. This decline is driven by urbanisation, better education (especially female education), access to contraception, rising aspirations for children's quality of life, and delayed marriage/childbearing. India's median age of 29.2 years (vs China's 40.2) means the demographic dividend window is still open — 370-380 million youth aged 15-29, representing 27% of the population, and over 65% below 35.
- AP's fertility incentive proposal is a response to the demographic divergence between southern and northern India. Southern States (AP, TN, Kerala, Karnataka, Telangana) have TFRs well below replacement (1.4-1.7), while several northern States remain above (Bihar, UP, MP, Rajasthan at 2.5-3.0+). This matters for two reasons: (a) economic: ageing populations mean a shrinking workforce relative to dependents, straining pension, healthcare, and social security systems; (b) political: India's parliamentary delimitation, frozen since 1976 (based on 1971

Census), was scheduled to use 2031 Census data — States that controlled population growth would lose seats to States that did not, punishing demographic responsibility.

- The editorial's strongest argument is the contradiction between fertility incentives and women's workforce participation. AP has stated it wants to double women's labour force participation. International evidence (France, Nordic countries) shows that achieving both higher fertility AND higher female workforce participation requires massive public investment: universal childcare, flexible work arrangements, paid parental leave (both parents), high-quality public schooling, and legal protections against career penalties for mothers. Without these, more children means more unpaid care work, which keeps women out of the formal workforce. Cash incentives without institutional support create a regressive outcome: more children in economically vulnerable families, less female employment.
- The ecological and institutional dimensions are often overlooked. Water scarcity, urban congestion, waste management, and educational infrastructure are already strained. Increasing population in States already facing water stress (AP is a semi-arid State dependent on Krishna and Godavari waters) compounds these pressures. The editorial's conclusion — that asking families to alter reproductive decisions to address a constitutional design problem (delimitation) is a "profound mismatch between instrument and objective" — captures the fundamental policy error: the right response to delimitation anxiety is reforming the delimitation formula (weighting by development indicators, not just population), not incentivising population growth.

STATIC CONNECT

► Demographic Transition & Population Policy

* Demographic Transition Model: Stage 1 (high birth/death rates). Stage 2 (death rate falls, birth rate high = population explosion). Stage 3 (birth rate falls). Stage 4 (low birth/death rates = stable population). Stage 5 (birth rate below death rate = population decline). India transitioning from Stage 3 to Stage 4.

* SRS: Sample Registration System (annual survey by RGI). TFR: Total Fertility Rate = average children per woman. Replacement level: 2.1. India's TFR: 1.9 (2024). Below replacement = eventual population decline.

* Delimitation: Art 82, 170. Delimitation Commission. Seats frozen based on 1971 Census (42nd Amendment 1976, extended by 84th Amendment 2002 to first Census after 2026). Delimitation based on 2031 Census expected. Southern States fear losing seats.

* India's demographic dividend: working-age (15-64) population larger than dependents (0-14, 65+). Window: approximately 2020-2055. Requires: quality education, skill development, employment generation, healthcare.

* Women's LFPR: India ~37% (PLFS 2023-24, up from 23% in 2017-18). Global average ~47%. Nordic countries: 70%+. Key factors: education, childcare, social norms, employment availability, safety. AP wants to double female LFPR.

3-2-1 RAPID REVISION

3 Prelims:

* SRS 2024: TFR 1.9 (below replacement 2.1). Birth rate 18.3/1000 (from 21 in 2014). Death rate 6.4 (from 6.7). IMR 24. Life expectancy 72 years. Median age 29.2 vs China 40.2. Under-35: 65%+. Youth (15-29): 370-380mn.

* AP TFR: 1.5. Incentives: ₹30K (3rd child), ₹40K (4th), ₹1K/month x 5yrs, free education to 18. Thalliki Vandanam: ₹15K/child. Southern TFRs: 1.4-1.7. Northern: 2.5-3.0+. Delimitation: frozen on 1971 Census, next on 2031 Census.

* Demographic Transition: India in Stage 3→4. Demographic dividend window: ~2020-2055. Women's LFPR: ~37% (PLFS 2023-24). 42nd Amendment (1976): froze delimitation. 84th Amendment (2002): extended freeze to post-2026 Census.

2 Mains:

* India's TFR at 1.9 (below replacement) confirms the demographic transition is well advanced, but the transition is geographically uneven: southern States (AP 1.5, TN 1.4, Kerala 1.5) are ageing rapidly while northern States (Bihar, UP) remain in high-fertility mode. AP's fertility incentives are driven by dual anxieties: economic (shrinking workforce, rising dependency ratio) and political (delimitation based on 2031 Census would redistribute parliamentary seats from demographic achievers to demographic laggards). However, cash incentives targeting poorer families create a regressive outcome without addressing the structural determinants of fertility decline.

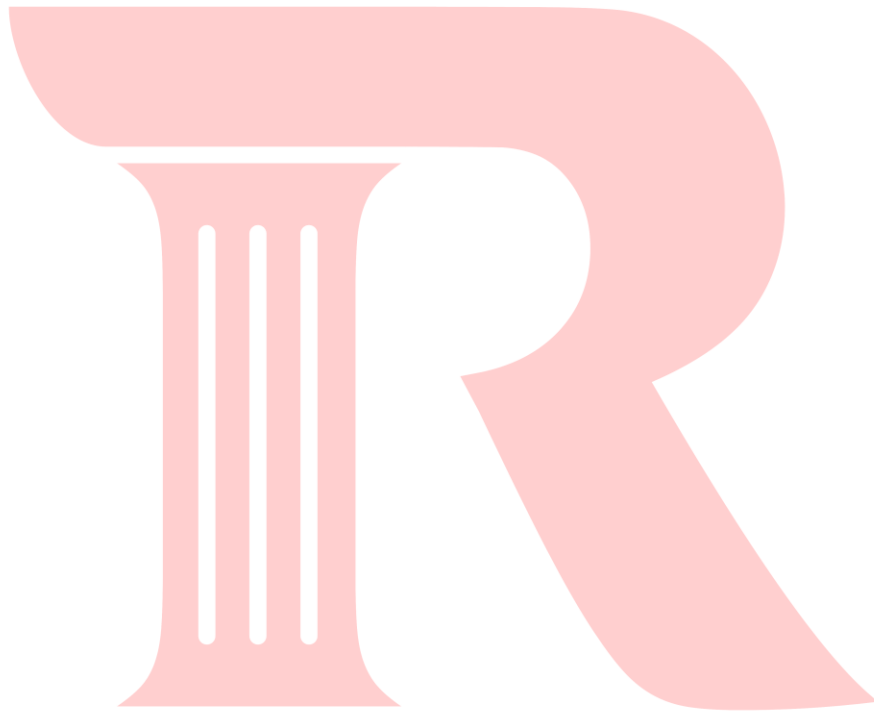
* The fundamental contradiction is between fertility incentives and women's empowerment. International evidence (France, Nordic countries) shows that sustained fertility alongside high female LFPR requires universal childcare, flexible work, paid parental leave, and career protection. Without these institutional supports, more children = more unpaid care work = lower female LFPR. The correct response to delimitation anxiety is not incentivising population growth but reforming the delimitation formula to weight development indicators alongside population. Asking families to bear more children to solve a constitutional design problem is, as the editorial notes, a "profound mismatch between instrument and objective."

1 Essay:

India's demographic story is no longer one of explosion but of divergence: the south ages while the north grows, and the political system threatens to punish those who planned best. When States

incentivise births to preserve parliamentary seats, demography has been weaponised and personal reproductive choices have been subordinated to political arithmetic. The solution lies not in more babies but in better institutions — a delimitation formula that rewards development, not headcount. Use: TFR, SRS, demographic dividend, ageing, delimitation, women's LFPR, AP, southern States.

Mains Q: Critically examine the effectiveness of pro-natalist cash incentives in the context of AP's fertility decline (TFR 1.5). How does the tension between fertility incentives and women's workforce participation reflect deeper structural challenges in India's demographic transition? (15M)



GS2: Governance / GS1: Urbanisation / Water / Sanitation / Peri-Urban

4. Water Governance in Peri-Urban Areas: India's Missing Middle between Village and City

Source: The Hindu (Parameswaran Iyer, World Bank + Arunabha Ghosh, CEEW + Richard Damania, World Bank) | Subject: Governance / Urbanisation / Water / Sanitation / 74th Amendment / Peri-Urban / GS2 + GS1

Context: Three senior policy experts (Parameswaran Iyer, Executive Director at World Bank; Arunabha Ghosh, CEO of Council on Energy, Environment and Water; and Richard Damania, Chief Economic Advisor in the Planet Vice Presidency of the World Bank, co-authors of “Water, Nature, Progress: Solutions for a New India”) argue that India’s water challenges are shifting from the village (where JJM has brought tap water to nearly 8 of 10 rural households) and the city (intermittent supply but at least infrastructure exists) to the “missing middle” — peri-urban areas where farmland gives way to factory sheds, scattered habitations, and densely cluttered settlements. Census towns have jumped from 1,362 to 3,784 (178% increase) over two decades. These settlements have urban populations and urban prices but neither rural nor urban governance structures. Examples: Rawta village (Delhi edge) gets water through a pipeline at a common collection point, only on alternate days, between 7 PM and midnight. Gurugram’s peri-urban areas lost rural governance when absorbed into the municipal corporation but gained nothing in return. Peri-urban Hyderabad: toxic leachate from waste dumps has contaminated groundwater. The Bisalpur dam (built for Tonk and Sawai Madhopur irrigation) now prioritises Jaipur’s water demand. Sanitation: 40 million urban households rely on septic tanks; desludging is irregular; illegal dumping of septage into rivers is routine. By 2047, India needs 230 million new housing units and 500 new cities. The authors propose a five-point plan: (1) constitute Nagar Panchayats for all Census towns as the 74th Amendment envisioned; (2) secure drinking water sources (protect catchments, prevent solid waste dumping, community-driven sanitary inspections); (3) Swachh Bharat Mission 3.0 focused on peri-urban sanitation (faecal sludge treatment, GPS-equipped desludging trucks, mini-cesspool vehicles, folding desludging costs into monthly water bills); (4) scale decentralised wastewater treatment (Indra Water, Tigreen: modular plug-and-play systems recovering 95%+ water); (5) finance peri-urban water as strategic infrastructure (Uttarakhand blended finance model: State risk-bearing + World Bank concessional loans linked to disbursement indicators).

EXAMINER'S LENS

* Prelims: Census towns: 1,362 to 3,784 (178% increase, 2 decades). JJM: 8/10 rural households with tap water. 40 million urban households on septic tanks. By 2047: 230 million new housing units + 500 new cities needed. 74th Amendment: Nagar Panchayats for transitional areas. Swachh Bharat Mission. Jal Jeevan Mission. Desludging cost: ₹1,500-₹6,000/trip. Berhampur (Odisha): mini-cesspool vehicles model.

* Mains: GS2 (Governance) + GS1 (Urbanisation). Peri-urban governance vacuum. 74th Amendment implementation deficit. Water and sanitation in transitional settlements. Census towns: urban without urban governance. Decentralised wastewater technology. Blended finance for infrastructure.

* GS4/Interview: When settlements have urban populations, urban problems, and urban prices but are governed as villages — or not governed at all — the governance vacuum is not an oversight but a structural failure. Peri-urban India pays the highest price for institutional limbo: neither the benefits of rural schemes (JJM, MGNREGA) nor the infrastructure of urban governance (piped water, sewerage, waste management).

Key Points:

- The governance vacuum is the root problem. Census towns — settlements that meet Census urban criteria (population over 5,000, density over 400/sq km, 75%+ male workforce in non-agricultural activities) but are still governed as rural entities — have grown 178% in two decades. The 74th Constitutional Amendment (1992) envisioned Nagar Panchayats for “transitional areas” (rural to urban), but most States have not constituted them. These settlements therefore lack: urban local bodies, master plans, building regulations, piped water systems, sewerage, and waste management. They are urban in fact but rural in governance.
- Water and sanitation are the most acute consequences of this governance vacuum. The Jal Jeevan Mission has been remarkably successful in rural India (tap water to nearly 80% of rural households), but peri-urban settlements are often excluded from both JJM (classified as urban) and urban water supply (no municipal infrastructure). The Rawta village example (water only on alternate days, 7 PM-midnight, at a common point) illustrates the lived reality. The Bisalpur dam example shows how urbanisation creates water conflicts: dams built for irrigation are diverted to meet growing urban demand, leaving downstream farmers without water.
- Sanitation is an equally critical gap. 40 million urban households rely on on-site systems (septic tanks) rather than sewerage networks. Desludging is irregular, illegal dumping of septage into rivers is routine, and a single 5,000-litre tanker discharging into the open “undoes the work of

thousands of toilets constructed under the Swachh Bharat Mission.” The authors propose Swachh Bharat Mission 3.0 focused specifically on peri-urban sanitation: faecal sludge treatment plants (for settlements beyond 15-20 km from sewage treatment plants), GPS-equipped desludging trucks, mini-cesspool vehicles (Berhampur, Odisha model), and integrating desludging costs into monthly water bills.

- The five-point plan combines institutional reform (Nagar Panchayats), source protection (catchments, community inspections), sanitation (SBM 3.0), technology (decentralised wastewater: modular systems recovering 95%+ water, cited: Indra Water, Tigreen), and finance (blended finance: Uttarakhand model combining State guarantees with World Bank concessional loans). The scale of the challenge is staggering: by 2047, India needs 230 million new housing units and 500 new cities. Today’s peri-urban fringe is tomorrow’s city centre — planning decisions made now will determine whether these become liveable cities or chaotic urban sprawl.

STATIC CONNECT

► Urban Governance & Water

* 74th Amendment (1992): Constitutional status to Urban Local Bodies. Three tiers: Municipal Corporation, Municipality, Nagar Panchayat (transitional area). 12th Schedule: 18 functions (urban planning, water supply, public health, sanitation, etc). State Election Commissions for ULB elections.

* Census town: meets urban criteria but governed as rural (Gram Panchayat). Statutory town: notified by State government as municipality. Census 2011: 3,894 Census towns (many more by 2026). Governance gap: urban problems without urban institutions.

* Jal Jeevan Mission: launched 2019. Target: Functional Household Tap Connection (FHTC) to all rural households by 2024 (extended). ~80% coverage achieved. Budget: ₹3.6 lakh crore. Ministry of Jal Shakti. AMRUT: urban water/sewerage mission.

* Swachh Bharat Mission: Phase 1 (2014-19): ODF India. Phase 2 (2020-25): ODF sustainability, waste management, liquid waste. SBM 3.0 (proposed): peri-urban sanitation focus. FSSM: Faecal Sludge and Septage Management.

* Art 243Q: Constitution of municipalities. Art 243R: composition. Art 243W: powers to municipalities. Art 243X: power to impose taxes. 12th Schedule: list of municipal functions. State-level variation in devolution.

3-2-1 RAPID REVISION

3 Prelims:

* Census towns: 1,362→3,784 (178% increase). Urban by Census criteria but governed as rural. 74th Amendment: Nagar Panchayat for transitional areas. Most States have not constituted them. 12th Schedule: 18 municipal functions.

* JJM: tap water to ~80% rural households. 40 million urban households on septic tanks. By 2047: 230 mn new housing units + 500 new cities. Berhampur (Odisha): mini-cesspool vehicles for narrow lanes.

* Swachh Bharat Mission 3.0 (proposed): peri-urban sanitation. Decentralised wastewater: Indra Water, Tigreen (95%+ water recovery). Uttarakhand blended finance: State guarantee + World Bank loans. Desludging: ₹1,500-₹6,000/trip.


2 Mains:

* India's peri-urban crisis is fundamentally a governance crisis: 3,784 Census towns have urban populations, urban prices, and urban problems but are governed as villages or not governed at all. The 74th Amendment envisioned Nagar Panchayats for transitional areas, but most States have not implemented this provision. These settlements fall between JJM (rural) and AMRUT (urban), receiving neither. The water and sanitation consequences are severe: irregular supply, contaminated groundwater, 40 million households on septic tanks with routine illegal dumping.

* The five-point plan addresses institutional, technical, and financial dimensions: (1) Nagar Panchayats for all Census towns (governance), (2) catchment protection and source sustainability (supply), (3) SBM 3.0 for peri-urban FSSM (sanitation), (4) decentralised wastewater tech at scale (technology), and (5) blended finance combining State guarantees with multilateral concessional loans (finance). The timeline is urgent: by 2047, India needs 500 new cities. Today's peri-urban fringe is tomorrow's city centre. Planning decisions made now will determine whether India urbanises into liveable cities or chaotic sprawl.

1 Essay:

India's urbanisation is not happening in its cities but around them — in the peri-urban frontier where neither rural schemes nor urban institutions reach. When 3,784 Census towns have urban populations but village governance, the institutional failure is not marginal but structural. The choice is between planning this transition (Nagar Panchayats, SBM 3.0, decentralised tech) or inheriting its consequences (contaminated water, illegal dumping, ungovernable sprawl). Use: Census towns, 74th Amendment, JJM, SBM, peri-urban, FSSM, decentralised wastewater, blended finance.

 **Mains Q:** *India's peri-urban areas face a governance vacuum that leaves them with urban problems but rural institutions. Examine the water and sanitation challenges in Census towns and evaluate the five-point plan proposed for peri-urban water governance. (15M)*



GS2: Polity / Federalism / GS3: Economy / Finance

Commission / Fiscal Transfers

5. 16th Finance Commission Transfers and the Equity Issue: Southern States' Declining Share

Source: The Hindu (K.R. Shanmugam, Former Director, Madras School of Economics; Consultant to Government of Tamil Nadu) | Subject: Finance Commission / Fiscal Federalism / Devolution / Southern States / Equity / GS2 + GS3

Context: K.R. Shanmugam analyses the 16th Finance Commission's devolution formula and its implications for fiscal equity. The 16th FC has retained the 41% vertical devolution share (Centre to States). It accepted that cesses and surcharges (now exceeding 15% of gross tax revenues) cannot be shared, but retained 41% of the divisible pool. Key concerns: (1) Cesses and surcharges should either be in the divisible pool or capped at 8-10%. The Centre also receives substantial non-tax revenues (natural resources, RBI surplus, asset monetisation) not shared with States. (2) The 16th FC criteria: income distance 42.5%, population 17.5%, area 10%, forest cover 10%, population growth 10%, tax effort 10%. Critically, it uses square-root transformation of State GSDP (not actual GSDP) with just 10% weight, far below the expected 25%. This dramatically reduced the share of economically stronger States. (3) Southern States' combined share declined from 24.8% (6th FC) to 15.8% (15th FC), and has risen only marginally to about 17% under the 16th FC. Maharashtra's actual GSDP share of 14.23% fell to 8.31% after the square-root transformation. Tamil Nadu: 9.09% to 6.67%. Karnataka: 8.95% to 6.59%. (4) The four major beneficiary States (Bihar including Jharkhand, MP including Chhattisgarh, UP including Uttarakhand, West Bengal) increased from 42.5% (6th FC) to 51% (15th FC). (5) Despite decades of higher transfers, poorer States have not converged: Bihar spent ₹937 per person on health (vs Arunachal's ₹10,148 — 10.8x gap); Bihar's per-student elementary education spend was ₹20,282 vs Sikkim's ₹1,30,498. (6) Alternative weighting schemes: if the FC had assigned 25% weight to square root of GDP contribution while reducing income distance weight, Karnataka's share would have increased from 4.131% to 4.928%, Maharashtra's from 8.31% to higher levels. (7) Post-delimitation, politically influential States (higher populations) may have stronger incentives to demand even larger transfers, making the FC's formula design even more consequential.

EXAMINER'S LENS

- * Prelims: 16th FC: 41% vertical devolution. Criteria: income distance 42.5%, population 17.5%, area 10%, forest 10%, population growth 10%, tax effort 10%. Square-root of GSDP used (not actual GSDP), 10% weight. Southern States' share: 24.8% (6th FC) → 15.8% (15th FC) → ~17% (16th FC). Bihar health spend: ₹937/person vs Arunachal: ₹10,148 (10.8x). Cesses/surcharges: >15% of gross tax revenue (not shared with States). Art 280: Finance Commission. 16th FC Chairman: Arvind Panagariya.
- * Mains: GS2 (Federalism) + GS3 (Economy). Horizontal devolution formula: equity vs efficiency. Square-root transformation and its impact. Southern States' declining share. Unconditional transfers and convergence failure. Delimitation's fiscal implications.
- * GS4/Interview: Fiscal federalism faces a fundamental fairness question: should States that controlled population growth, improved governance, and built stronger economies be penalised with declining shares of national revenue? When the formula rewards population growth and penalises economic success, it creates perverse incentives that undermine the very development outcomes the Constitution seeks to promote.

Key Points:

- The vertical devolution (41%) determines how much of central tax revenues go to States collectively; the horizontal devolution formula determines how that pool is divided among States. The 16th FC's horizontal formula is where the controversy lies. Income distance (42.5% weight) gives more to States with lower per capita income — an equity principle. But using the square-root transformation of GSDP (instead of actual GSDP) with only 10% weight dramatically reduced the share of economically stronger States. Maharashtra's actual GSDP-based share of 14.23% fell to 8.31% after transformation. This means States that contribute disproportionately to national GDP receive a disproportionately small share of devolution.
- The southern States' declining share is the most politically charged dimension. The combined share of AP (including Telangana), Karnataka, Kerala, and Tamil Nadu fell from 24.8% under the 6th FC to 15.8% under the 15th FC — a decline of 9 percentage points over three decades. Under the 16th FC, this has risen marginally to approximately 17%, but the gap with northern beneficiary States has widened. The four major beneficiary States (Bihar/Jharkhand, MP/Chhattisgarh, UP/Uttarakhand, West Bengal) now receive 51% of the devolution pool. This creates a structural tension: States that controlled population, invested in human development, and built stronger tax bases receive progressively less, while States that did not are rewarded with larger transfers.

- The convergence failure is the most damaging critique. Decades of higher fiscal transfers to poorer States have not eliminated disparities in public service delivery. Bihar's health expenditure of ₹937 per person (vs Arunachal Pradesh's ₹10,148 — 10.8x gap) and Bihar's elementary education spend of ₹20,282 per student (vs Sikkim's ₹1,30,498) show that unconditional fiscal transfers alone do not ensure convergence. The 16th FC abolished revenue-deficit grants and sector-specific grants, replacing them with unconditional transfers. If these transfers do not translate into improved outcomes, the equity rationale for the formula is undermined.
- The post-delimitation dimension makes the formula even more consequential. Once parliamentary seats are redistributed based on population (expected after 2031 Census), States with larger populations will have greater political representation. If these States also receive larger fiscal transfers (through the FC formula), the combination of political and fiscal dominance could make it increasingly difficult for southern States to influence national resource allocation. The author suggests future FCs should adopt data-driven approaches (principal component analysis) for assigning criteria weights, and should place greater emphasis on fiscal capacity and fiscal outcome indicators rather than relying predominantly on non-fiscal indicators.

STATIC CONNECT

► Finance Commission & Fiscal Federalism

* Art 280: President constitutes FC every five years. FC recommends: vertical devolution (Centre-State), horizontal devolution (among States), grants-in-aid (Art 275). 16th FC: Arvind Panagariya (Chairman), 2024-2029 award period. 15th FC: N.K. Singh.

* Vertical devolution: share of divisible pool to States. 14th FC: raised to 42%. 15th FC: 41% (reduced due to J&K reorganisation). 16th FC: retained 41%. Divisible pool: all central taxes minus cesses and surcharges.

* Horizontal devolution criteria evolution: Population weight has declined (25% in 10th FC to 17.5% in 16th FC). Income distance has risen (50% in 10th FC to 42.5% in 16th FC). Area, forest, fiscal discipline, tax effort added progressively.

* Cesses and surcharges: not shared with States. Health and Education Cess: 4%. GST Compensation Cess. Agriculture Infrastructure Cess. Total cesses/surcharges: >15% of gross tax revenue. States argue this erodes the effective devolution share.

* GST: Art 246A. GST Council (Art 279A): Centre + all States. IGST, CGST, SGST. Revenue neutral rate. Compensation to States for GST implementation (5 years, expired 2022, extended for some States). GST has simplified indirect taxes but centralised fiscal power.

3-2-1 RAPID REVISION

3 Prelims:

* 16th FC: 41% vertical devolution. Arvind Panagariya (Chairman). Criteria: income distance 42.5%, population 17.5%, area 10%, forest 10%, population growth 10%, tax effort 10%. Square-root of GSDP (not actual), 10% weight.

* Southern States' share: 24.8% (6th FC) → 15.8% (15th FC) → ~17% (16th FC). Maharashtra: 14.23% actual GSDP → 8.31% after transformation. TN: 9.09% → 6.67%. Karnataka: 8.95% → 6.59%.

* Bihar health: ₹937/person vs Arunachal ₹10,148 (10.8x gap). Bihar education: ₹20,282/student vs Sikkim ₹1,30,498. Cesses/surcharges: >15% of gross tax (not shared). Art 280: FC constituted by President. Art 275: grants-in-aid.

2 Mains:

* The 16th FC's horizontal devolution formula creates a structural tension between equity and efficiency. Income distance (42.5% weight) + square-root GSDP transformation (instead of actual GSDP) at only 10% weight systematically reduces the share of economically stronger States. Southern States' combined share has declined from 24.8% (6th FC) to ~17% (16th FC), while four major beneficiary States (Bihar/Jharkhand, MP/Chhattisgarh, UP/Uttarakhand, West Bengal) now receive 51%. The convergence failure — Bihar's ₹937/person health spend vs Arunachal's ₹10,148 despite decades of higher transfers — undermines the equity rationale.

* Post-delimitation, the combination of larger parliamentary representation (population-based seats) and larger fiscal transfers (FC formula) for high-population States will create a dual advantage that makes it increasingly difficult for southern States to influence national resource allocation. The solution requires reforming the FC formula to weight fiscal capacity and fiscal outcome indicators alongside income distance, using actual GSDP with appropriate weight, capping cesses/surcharges, and ensuring that transfers are linked to measurable improvements in public service delivery outcomes rather than being purely unconditional.

1 Essay:

When a fiscal transfer formula rewards population growth and penalises economic success, it creates perverse incentives: States that controlled population and built stronger economies receive progressively less, while States that did not are rewarded with larger shares. The Finance Commission's challenge is to balance equity with accountability — ensuring that transfers to poorer States are accompanied by outcome-linked conditions, while economically stronger States are not penalised for their own success. The post-delimitation era will make this challenge existential for

Indian federalism. Use: 16th FC, devolution, income distance, GSDP, southern States, convergence, delimitation, fiscal federalism.

Mains Q: *Critically examine the 16th Finance Commission's horizontal devolution formula and its impact on southern States' share of fiscal transfers. How does the convergence failure in poorer States undermine the equity rationale of the current formula? Suggest reforms. (15M)*



GS2: IR / GS3: Economy / India-Australia / Trade / Agriculture / FTA

6. India and Australia — Bridging the Trade and Trust Barrier: ECTA, CECA, and Agricultural Asymmetry

Source: The Hindu (Vaibhav Jain, Incoming Delegate, Australia-India Youth Dialogue + Raja Karthikeya, Former Delegate) | Subject: India-Australia / ECTA / CECA / Agriculture / FTA / Trade / GS2 + GS3

Context: With Australian FM Penny Wong in Delhi for the Quad meeting, there is anticipation that a Comprehensive Economic Cooperation Agreement (CECA) may be inked, expanding the 2022 Economic Cooperation and Trade Agreement (ECTA). ECTA opened 100% of the Australian market to India while India reciprocated with roughly 70% market access, covering nearly 91% of trade value. Since ECTA, bilateral merchandise trade doubled from \$12.2 billion (FY 2020-21) to \$24.1 billion (FY 2024-25). However, Australian exports account for nearly two-thirds of bilateral trade. Services trade has crossed \$10 billion, with Australia's higher education sector alone accounting for 60%. Investment is asymmetric: Indian investment in Australia reached \$32 billion (as of 2024), compared to Australian FDI in India of about \$18 billion. Australia's 2025 Economic Engagement Roadmap identifies four bilateral "superhighways": clean energy, education, tourism, and agribusiness. Agriculture is the friction point: India has restricted access to its agricultural market in nearly all FTAs. Despite this, Australian farm exports to India have risen nearly 90% while Indian agricultural exports to Australia grew modestly by 35%. The asymmetry reflects structural differences: average Indian farm is 0.73 hectares, Australian farm exceeds 1,400 hectares. Agriculture contributes 16% to India's GDP (employing ~50% workforce) vs 2.5% to Australia's (export industry). Indian farmers face monsoon variability, fragmented landholdings, thin margins — protecting them from cheap Australian imports (dairy, wheat, rice, sugar, chickpeas) is a political necessity. Two opportunities: (1) mutual recognition of biosecurity/phytosanitary standards, digital certification, quarantine/regulatory alignment — giving Indian farmers a fairer shot at the Australian market; (2) Australia's strategic opportunity: precision farming technology, cold-chain infrastructure, water management expertise, climate adaptation (drought, heat extremes) — the recently launched India-Australia Smart Farm Network Initiative. The authors argue the new FTA should prioritise complementarity (trade + investment + technology transfer in agriculture) rather than seeking absolute market access parity.

🎯 EXAMINER'S LENS

* Prelims: ECTA (2022): India-Australia Economic Cooperation and Trade Agreement. Australia: 100% market access to India; India: ~70%. CECA: comprehensive upgrade (anticipated). Bilateral trade: \$12.2bn (FY 2020-21) → \$24.1bn (FY 2024-25). Australia: ~2/3 of bilateral trade. Services: \$10bn (higher education 60%). Indian investment in Australia: \$32bn; Australian FDI in India: \$18bn. Australia's 2025 Engagement Roadmap: 4 superhighways (clean energy, education, tourism, agribusiness). India-Australia Smart Farm Network Initiative.

* Mains: GS2 (IR) + GS3 (Economy/Agriculture). India-Australia trade dynamics. Agricultural asymmetry: structural vs policy. FTA design: complementarity vs parity. Technology transfer in agriculture. Quad economic dimension.

* GS4/Interview: When two countries with vastly different agricultural structures (0.73 ha vs 1,400 ha average farm) negotiate a "level playing field," the playing field is level only in name. Genuine trade fairness requires acknowledging structural asymmetry and designing agreements around complementarity — where each country's strengths address the other's needs — rather than mechanical tariff reciprocity.

Key Points:

- ECTA's impact has been significant but asymmetric. Bilateral merchandise trade doubled in three years (\$12.2bn to \$24.1bn), but Australia captures roughly two-thirds of this trade. This is partly structural: Australia exports coal, gold, and LNG (high-value commodities) to India, while India's exports (pharmaceuticals, gems, textiles, IT services) are more diversified but lower in per-unit value. Australia has been pushing for parity in market access (currently 100% vs 70%) and views CECA as the vehicle for achieving this. India's agriculture sector is the primary friction point.
- The agricultural asymmetry is structural, not just policy-driven. The average Indian farm (0.73 hectares) is 1,900 times smaller than the average Australian farm (1,400 hectares). Agriculture employs ~50% of India's workforce and contributes 16% of GDP; in Australia, it is an export industry contributing 2.5% of GDP. Indian farmers face monsoon variability, fragmented landholdings, low mechanisation, poor cold-chain infrastructure, and thin margins. Opening the Indian market to Australian dairy, wheat, rice, sugar, and chickpeas would expose millions of small farmers to competition from industrialised agriculture. This is not a trade efficiency question — it is a livelihood and food security question.

- The complementarity approach offers a way forward. Rather than fighting over tariff lines, the authors argue India and Australia should build the agreement around: (1) mutual recognition of biosecurity and phytosanitary standards, digital certification, and regulatory alignment — which would give Indian agricultural exporters (spices, organic products, horticulture) fairer access to the Australian market; (2) Australian investment in Indian agricultural systems: precision farming technology, cold-chain infrastructure, water management expertise, and climate adaptation practices — areas where Australia has world-class capability and India has massive need. The India-Australia Smart Farm Network Initiative is a first step in this direction.
1. The broader context is the BoP crisis and India's urgent need for trade agreements that attract investment and improve structural competitiveness. The West Asia crisis has made trade expansion and investment diversification imperative. India has been in a hurry to conclude FTAs (EU, UK, US, New Zealand) amid geopolitical fragility and tariff unpredictability. CECA with Australia fits into this larger recalibration. The investment asymmetry (Indian investment in Australia \$32bn vs Australian FDI in India \$18bn) suggests India is a more attractive investment destination for Australia than vice versa — but Australian capital, technology, and know-how in agriculture, mining, clean energy, and water management could significantly benefit India if channelled through the right institutional frameworks.

STATIC CONNECT

► India-Australia Relations & FTAs

* India-Australia: ECTA (2022, interim FTA). CECA (comprehensive, under negotiation). Strategic Partnership (2009). Comprehensive Strategic Partnership (2020). 2+2 Ministerial Dialogue. MAITRI (S&T cooperation). Quad members.

* India's FTA network: ASEAN FTA, Japan CEPA, Korea CEPA, ECTA (Australia), EFTA (2024), UAE CEPA (2022). Under negotiation: EU, UK, US mini-deal, GCC. India exited RCEP (2019) over Chinese import concerns.

* Agriculture: India's average landholding 0.73 ha (declining). 86% marginal/small farmers (<2 ha). MSP for 23 crops. Agriculture contribution: 16% GDP, ~50% workforce. Key concerns in FTAs: dairy, wheat, rice imports.

* Australia: world's largest exporter of iron ore, coal, LNG, beef, wheat, wool. Agriculture: highly mechanised, large-scale. Murray-Darling Basin: water management model. Drought adaptation expertise.

* India-Australia trade composition: India imports: coal, gold, LNG, wool, copper. India exports: petroleum products, pharmaceuticals, gems/jewellery, textiles, IT services. Bilateral trade: \$24.1 bn (FY 2024-25).

3-2-1 RAPID REVISION

3 Prelims:

* ECTA (2022): Australia 100% market access to India; India ~70%. Trade: \$12.2bn→\$24.1bn (FY 2020-21 to 2024-25). Australia: ~2/3 of trade. Services: \$10bn (education 60%). Investment: India in Aus \$32bn; Aus in India \$18bn.

* Agriculture asymmetry: India avg farm 0.73ha, Australia 1,400ha. Agriculture: 16% India's GDP (50% workforce) vs 2.5% Australia's. Australia's 4 superhighways: clean energy, education, tourism, agribusiness.

* CECA: comprehensive upgrade of ECTA (anticipated). Smart Farm Network Initiative. India exited RCEP (2019). UAE CEPA (2022). EFTA FTA (2024). EU, UK FTAs under negotiation. India restricts agricultural market in nearly all FTAs.

2 Mains:

* The India-Australia trade relationship has grown significantly under ECTA (trade doubled to \$24.1bn) but remains asymmetric: Australia captures two-thirds of bilateral trade, Australian farm exports rose 90% while Indian agricultural exports grew only 35%, and investment flows favour India in Australia (\$32bn) over Australia in India (\$18bn). Agriculture is the core friction: the structural asymmetry between Indian smallholder farming (0.73ha, monsoon-dependent, 50% of workforce) and Australian industrial agriculture (1,400ha, export-oriented, 2.5% of GDP) makes tariff-based parity inappropriate and potentially devastating for Indian livelihoods.

* The complementarity approach offers the most productive framework for CECA: mutual recognition of phytosanitary standards to improve Indian access to Australia, Australian investment in Indian cold-chain, precision farming, and climate adaptation technology, and institutional partnerships (Smart Farm Network). This converts a zero-sum tariff negotiation into a positive-sum cooperation framework where India gains technology and market access reform, while Australia gains deeper presence in a growing market. The BoP crisis makes trade diversification urgent, but agricultural protection remains a non-negotiable political and livelihood imperative.

1 Essay:

When a country with 0.73-hectare farms negotiates a "level playing field" with one whose farms average 1,400 hectares, the notion of parity is an abstraction disconnected from the reality of farming. India-Australia trade should not be about who opens markets wider, but about who brings what: Australian technology and capital meeting Indian scale and need, creating value that neither can achieve alone. Complementarity, not parity, is the principle that can make CECA work for both.

Use: ECTA, CECA, agriculture, smallholders, complementarity, cold-chain, phytosanitary, Smart Farm Network.

📝 Mains Q: *Examine the agricultural asymmetry in India-Australia trade relations. Why is tariff-based market access parity inappropriate given the structural differences between Indian and Australian agriculture? How can the proposed CECA be designed around complementarity rather than parity? (15M)*



Prelims: Awards / Padma Awards 2026 / Culture / Sports / Science

7. Padma Awards 2026 — Comprehensive Prelims Fact Sheet

Source: The Hindu + Indian Express | Subject: Padma Awards / Padma Vibhushan / Padma Bhushan / Padma Shri / General Awareness

Context: President Droupadi Murmu conferred Padma awards for 2026 at the Civil Investiture Ceremony-I at Rashtrapati Bhavan on Monday. This year: 131 Padma awards — 5 Padma Vibhushan, 13 Padma Bhushan, 113 Padma Shri. Awards announced every Republic Day. Second round ceremony to follow. Padma Vibhushan to Dharmendra (posthumously, received by wife Hema Malini) and N. Rajam (violinist). Padma Bhushan to Uday Suresh Kumar Kotak (Kotak Mahindra Bank) and former Uttarakhand CM Bhagat Singh Koshyari. Notable Padma Shri awardees listed across sports, art, social work, science, and other fields.

Key Points:

PADMA VIBHUSHAN (5 total, 2 conferred at Ceremony-I): (1) Dharmendra — legendary Bollywood actor, conferred posthumously, received by wife and MP Hema Malini. (2) N. Rajam — violin virtuoso, pioneered “Gayaki Ang” technique (enables violin to emulate human vocals), earned the title “Singing Violin.”

PADMA BHUSHAN (13 total, conferred at Ceremony-I include): (1) Uday Suresh Kumar Kotak — founder, Kotak Mahindra Bank. (2) Bhagat Singh Koshyari — former Chief Minister of Uttarakhand. (3) Shatavadhani R. Ganesh — revived the classical art form of “Avadhaana.” (4) Eminent gastroenterologist Kallipatti Ramasamy Palaniswamy. (5) Former MP Vijay Kumar Malhotra. (6) “Ad guru” Piyush Pandey.

PADMA SHRI (113 total, notable awardees): CINEMA: Prosenjit Chatterjee — Bengali cinema icon, influential figure in Indian cinema for four decades. SPORTS: Harmanpreet Kaur Bhullar — inspirational figure in Indian women’s cricket. Baldev Singh — hockey coach, distinguished service to Indian hockey for over four decades. Para athlete Praveen Kumar. CRPF: Former DG K. Vijay Kumar. MUSIC: Folk musician Mir Haji Kasam; Tamil devotional artist N. Swaminathan; traditional folk music artist Taga Ram Bheel. ART/CRAFT: “Kantha” embroidery artist Tripti Mukherjee. Silambam master K. Pajanivel. SOCIAL WORK: Janardan Bapurao Bothe and

husband-wife duo Dr Ramchandra Godbole and Suneeta Godbole (healthcare/social support to tribal communities). ENVIRONMENT: Devaki Amma G. and Hally War.

LITERATURE/SCHOLARSHIP: Bibliophile Ankegowda M.; Sanskrit scholar Vempaty Kutumba Shastry; botanist Gambir Singh Yonzone.

PRELIMS MUST-KNOW FACTS: (a) Padma Awards: civilian honours, announced on Republic Day, conferred by President. Three categories: Vibhushan (exceptional/distinguished service), Bhushan (distinguished service of a high order), Shri (distinguished service). (b) Not a title — cannot be used as prefix/suffix. (c) Article 18: abolishes titles (but Padma awards are classified as “awards” not “titles” under Supreme Court interpretation). (d) Recommendations by Padma Awards Committee (chaired by Cabinet Secretary), approved by PM and President. (e) Rashtrapati Bhavan, Darbar Hall: venue for investiture. (f) VP C.P. Radhakrishnan (note: this confirms current VP). (g) Dharmendra’s posthumous award: Padma awards can be conferred posthumously. (h) N. Rajam: “Gayaki Ang” = singing style of violin playing, making violin emulate human voice — links to Indian classical music tradition. (i) Avadhaana: ancient Sanskrit literary feat of simultaneously composing poetry while answering questions, solving puzzles — revived by R. Ganesh. (j) Kantha embroidery: traditional Bengali embroidery art using running stitch on old cloth layers. (k) Silambam: ancient Tamil martial art using bamboo staff. (l) This is 2026 ceremony: 131 awards is one of the larger batches in recent years.

STATIC CONNECT

► Padma Awards & Civilian Honours

- * Padma Awards: instituted 1954. Three categories: Padma Vibhushan, Padma Bhushan, Padma Shri (in descending order). Bharat Ratna is the highest civilian award (separate from Padma). All fields: art, literature, science, public affairs, medicine, sports, social work, etc.
- * Art 18: State shall not confer any title. No citizen shall accept any title from any foreign State. Padma awards classified as “awards” not “titles” — distinction upheld by courts. Cannot be used as prefix/suffix to name.
- * Padma Awards Committee: constituted by PM every year. Chaired by Cabinet Secretary. Includes Home Secretary, Secretary to President, 4-6 eminent persons. Open nominations (any citizen can nominate). PM and President approve final list.
- * Rashtrapati Bhavan: designed by Edwin Lutyens. 340 rooms. Durbar Hall: investiture ceremonies. Mughal Gardens (now Amrit Udyan). Presidential estate: 330 acres. Current President: Droupadi Murmu (since July 2022).
- * Bharat Ratna: highest civilian award. Instituted 1954. No more than 3 per year (convention, not rule). Recent: Karpoori Thakur (2024, posthumous), L.K. Advani (2024). Total: 53 recipients (as of 2025).

 **3-2-1 RAPID REVISION**

3 Prelims:

* Padma Awards 2026: 131 total — 5 Vibhushan, 13 Bhushan, 113 Shri. President Murmu conferred. VP C.P. Radhakrishnan present. Padma Vibhushan: Dharmendra (posthumous, wife Hema Malini received), N. Rajam (violinist, “Gayaki Ang”/“Singing Violin”).

* Padma Bhushan: Uday Suresh Kumar Kotak (Kotak Mahindra Bank), Bhagat Singh Koshyari (former Uttarakhand CM), Shatavadhani R. Ganesh (“Avadhaana” revivalist), Piyush Pandey (ad guru), Kallipatti Ramasamy Palaniswamy (gastroenterologist).

* Notable Padma Shri: Prosenjit Chatterjee (cinema), Harmanpreet Kaur (cricket), Baldev Singh (hockey), Tripti Mukherjee (Kantha embroidery), K. Pajanivel (Silambam martial art), Vempaty Kutumba Shastry (Sanskrit scholar). Awards instituted 1954. Art 18: no titles. Padma = award, not title.



