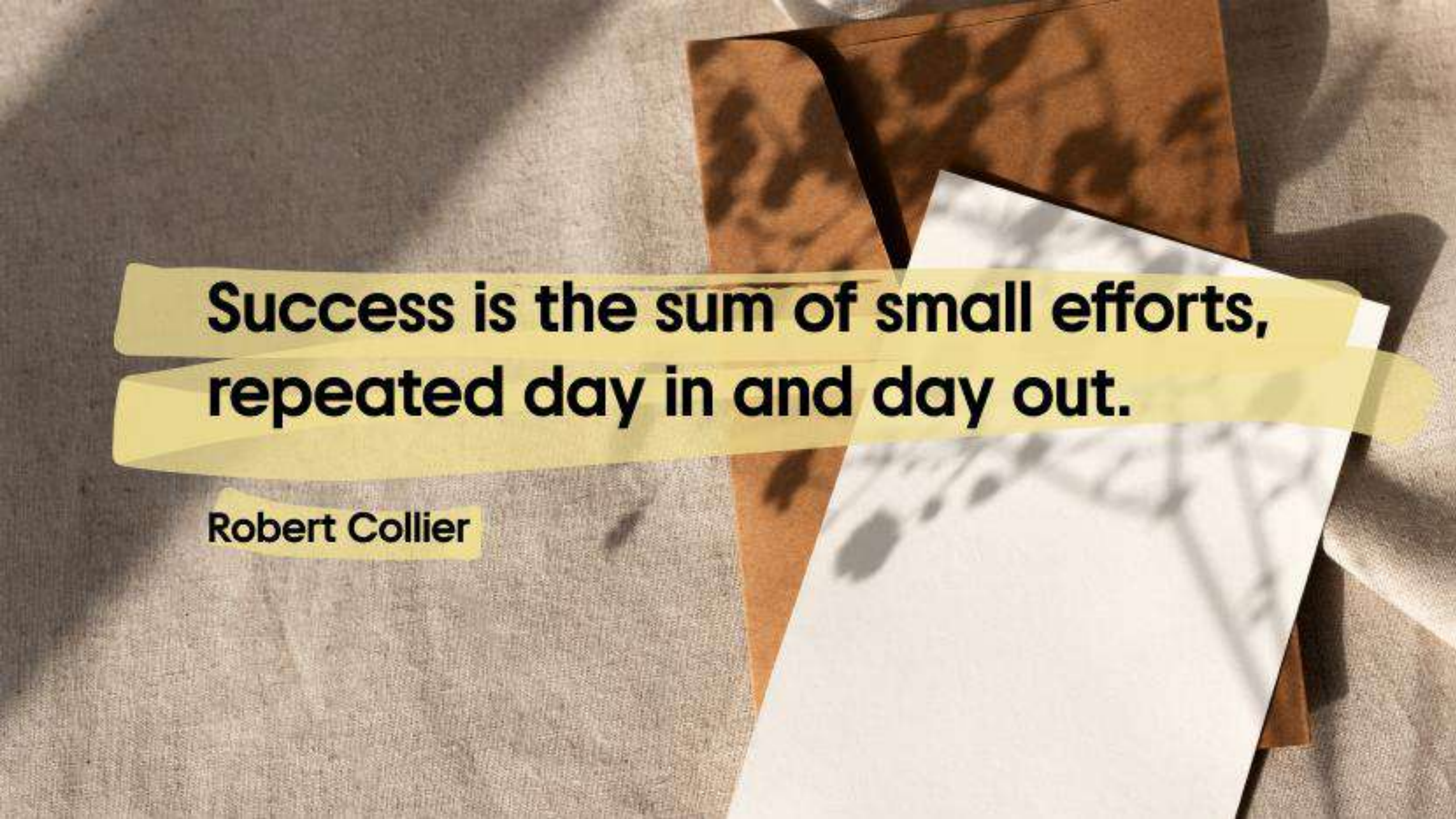
Success is the sum of small efforts,
repeated day in and day out.
Robert Collier

Important Issues of the Day

- Economic Survey – Page No. 1, GS 3
- UN Security Council (UNSC) – Page No. 1, GS 2
- India-Arab League – Page No.8 , GS 2
- Cesses and surcharges – Page No. 8, GS 3
- Quick pill – Page No. 8, GS 2
- End of globalisation – Page No. 8, GS 2
- Chinese FDI – Page No. 9, GS 3

Page No. 1, GS 3

Economic Survey predicts bright India, increasingly darker world

- FY26 Survey raises medium-term growth outlook to 7% from 6.5%
- Survey tabled in Parliament puts FY27 growth range at 6.8%-7.2%
- Grim outlook for global economy could pose risks to India, it says

T.C.A. Sharad Raghavan
NEW DELHI

The Economic Survey 2025-26 on Thursday painted a relatively rosy picture of India's domestic growth outlook, raising the country's medium-term forecast to 7% from the earlier estimate of 6.5%.

However, it simultaneously outlined a relatively grim outlook for the global economy, estimating a 10%-20% chance of a crisis worse than the global financial crisis of 2008 unfolding in 2026. Even its best-case scenario is a continuation of conditions as they were in 2025, but "increasingly less secure and more fragile".

The Survey, authored by Chief Economic Adviser V. Anantha Nageswaran and tabled in Parliament by Union Finance Minister Nirmala Sitharaman, went on to say that each of its three probabilistic scenarios for the globe could pose risks to India.

For India, the key drivers of a higher medium-term growth outlook are the growth of capital, improved labour participation, and greater efficiency in the deployment of these two factors of production.

Risk analysis

The Economic Survey outlined three scenarios for the world economy that could unfold in 2026

Spelling out strategy: Chief Economic Adviser V. Anantha Nageswaran addressing the media in New Delhi on Thursday. SUSHIL KUMAR VERMA

SCENARIO 1 — The best-case
Probability: **40%–45%**
- Described as **"business as in 2025,"** where global conditions remain integrated but become less secure
- Existing frictions do not lead to a total collapse, but create **volatility**
- Minor shocks will **require governments to intervene** to stabilise market expectations
- High levels of **policy uncertainty** will persist

SCENARIO 2 — Multipolar breakdown
Probability: **40%–45%**
- **Systemic breakdown** is no longer just a "tail risk"
- Strategic rivalry prevails and the **Russia-Ukraine conflict** remains unresolved
- Trade becomes explicitly coercive, leading to a **proliferation of sanctions** and counter-measures
- **Supply chains are realigned** under political pressure

SCENARIO 3 — The worst-case
Probability: **10%–20%**
- A major **correction in AI-infrastructure** investments occur
- The correction triggers intense **risk aversion**
- If this coincides with geopolitical escalation, it could **weaken capital flows** and contract global liquidity
- The macroeconomic fallout could be **worse than the 2008 global financial crisis**

Growth upgrade

For the current financial year 2025-26, the Survey highlighted the government's estimate of 7.4% growth, adding that its 'nowcast' estimate for growth in Q3 (October-December 2025) stood at 7%. For 2026-27, the Survey estimates a growth rate range of 6.8%-7.2%.

The Survey noted that, in the 2022-23 edition, it had estimated India's medium-term growth to be 6.5%, which could rise to 7%-8% only if sustained reforms were conducted.

"Over the past three years, reform momentum has strengthened across several areas relevant for medium-term growth," it said. "Manufacturing-oriented initiatives, such as the production-linked incentive schemes, FDI liberalisation, and logistics reforms, have supported capacity creation."

These measures, it added, were further bolstered by sustained public investment in physical and digital infrastructure, the simplification of tax laws, and measures targeted at the MSMEs that have sought to ease credit constraints. "These reforms have coincided with stronger corporate and financial sector balance sheets, rising formalisation of employment, and continued improvements in tax administration," the Survey added. "Together, these developments make a persuasive case that India's potential growth has risen to around 7% over the medium term."

The Survey outlined three scenarios for the world that could unfold in 2026. The worst of these, the macroeconomic consequences of which "could be worse than those of the 2008 global financial crisis", was assigned a probability of 10%-20%.

CONTINUED ON
» PAGE 12
MORE REPORTS ON
» PAGES 13, 14, & 15

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- **For India, the key drivers of a higher medium-term growth outlook are the growth of capital, improved labour participation, and greater efficiency in the deployment of these two factors of production.**

Survey raises concerns over unconditional cash transfers

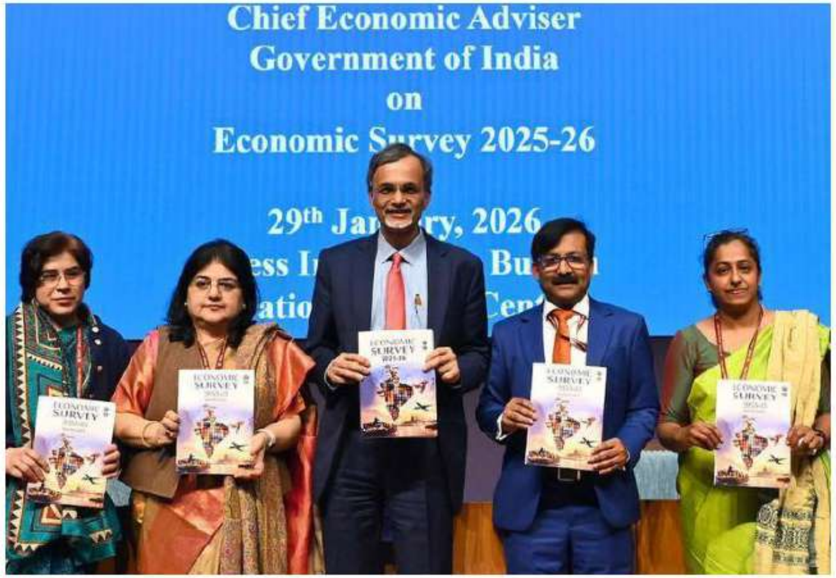
It says such programmes may have short-term benefits, but the rapid scale-up and persistence raises concerns about fiscal viability and medium-term growth prospects when not supported by investments in employment, skills, and human capital

T.C.A. Sharad Raghavan
NEW DELHI

In a year when four major States go to the polls, of which only one is ruled by the Bharatiya Janata Party, the Economic Survey 2025-26 has come out strongly against "unconditional cash transfers" (UCT), including to women. It highlighted that while these have short-term gains, they raise concerns about fiscal sustainability and medium-term growth.

Notably, last year's edition of the Survey had noted that cash transfers and loans to targeted poorer and lower-income households were having positive effects on consumption, allowing these households to fund various basic needs and debt repayments.

Assembly elections will be held in West Bengal, Tamil Nadu, Kerala, and Assam, along with Puducherry this year.



Money matters: Chief Economic Adviser V. Anantha Nageswaran with other officials addressing the media on the Economic Survey on Thursday. SUSHIL KUMAR VERMA

The Economic Survey notes that revenue expenditure continues to account for the bulk of State spending

Rising cash transfers

The Survey noted that aggregate spending on UCT programmes, particularly for women, is estimated at about ₹1.7 lakh crore for the current financial year 2025-26. It added that the number of States implementing them increased more than five-fold between 2022-23 and 2025-26, with around half of them estimated to be in revenue deficit.

The Survey further cited a study which estimated that such transfers amounted to 0.19-1.25% of the gross domestic products of States and 0.68-8.26% of their total budgetary expenditures.

"It is argued that cash transfers provide immediate income support, helping women meet unmet health and personal needs," the survey said. "Some view it as a return for their unpaid contribution to the GDP. However, their rapid scale-up and persistence raise concerns about fiscal sustainability and medium-term growth, particularly when not complemented by investments in employment, skills, and human capital," it added.

Increasing fiscal burden

The Survey noted that revenue expenditure continues to account for the bulk of State spending, accounting for 84% of total expenditure in 2023-24, albeit somewhat lower than the 86% in 2018-19.

"Within revenue expenditure, however, the composition has undergone a notable shift, with an increasing tilt towards unconditional cash transfers and other committed outlays," the Survey said.

"As these transfers absorb a rising share of available fiscal space, the scope for expanding productive capital expenditure becomes increasingly constrained, especially in an environment of limited revenues and elevated deficits," it added.

Fiscal trade-off

The Economic Survey pointed out the trade-off facing States: additional spending by States will crowd out resources for critical social and physical infrastructure, unless States increase their deficits.

However, deficits themselves cannot increase without further deteriorating the financial health of the States.

"These trade-offs are reinforced by programme design: many schemes lack sunset clauses or periodic reviews, increasing rigidity in revenue expenditure," the Survey said.

"As a result, capital expenditure, whose growth impact is stronger and more durable, often becomes the casualty when fiscal pressures intensify, with adverse implications for medium-term growth."

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- **Increasing fiscal burden**

- **Survey calls for relaxing FRBM for Centre, but says States’ finances worsening**
- **Fiscal Responsibility and Budget Management (FRBM) Act.**
- **The Survey said that after spiking to 9.2% of the GDP during the pandemic year of 2020-21, the Centre’s fiscal deficit was on target to be 4.4% at the end of the current financial year, in line with Union Finance Minister Nirmala Sitharaman’s commitment to halve the 2020-21 fiscal deficit in five years.**
- **“Since the FRBM Act was first enacted in 2003, the 3% target has been achieved only once.”**
- **The FRBM Act’s fiscal deficit target of 3% of GDP by March 2020 has been repeatedly deferred by the government, and the Survey acknowledged that there is a “perception” that this target and framework must be reinstated.**

- **The Economic Survey tabled in Parliament on Thursday defended the Union government's decision to scrap the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), arguing that though the programme helped stabilise rural incomes since its launch in 2005, it has long grappled with "deep structural issues".**

- **The survey described the new rural employment legislation — the Viksit Bharat Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025 — as a "comprehensive legislative reset" designed to address shortcomings in the United Progressive Alliance-era scheme.**

- **A key issue in achieving the target set by the National Education Policy (NEP), 2020 to increase expected years of schooling in India to 15 from the current 13 was the "uneven distribution of schools", said the Economic Survey for 2025-26, released on Thursday ahead of the Budget.**

- **Only about 17% schools provide secondary education in rural areas, it showed, and about 38% schools provide secondary education for urban areas.**

- **Survey calls for tackling rising digital addiction, mental health problems**
- **It also noted that since 1990, India had reduced its maternal mortality rate (MMR) by 86%, far exceeding the global average of 48%.**
- **"A 78% decline in the under-five mortality rate (U5MR) was achieved, surpassing the global reduction of 61% and a 70% decline in the neonatal mortality rate (NMR) compared to 54% globally during 1990 to 2023.**
- **The infant mortality rate (IMR) marked a drop of more than 37% over the past decade, declining from 40 deaths per thousand live births in 2013 to 25 in 2023," it said.**
- **India's urban story one of unfinished promise: Survey**

India's ranking in the 'Ease of Doing Business Index' is sometimes seen in the news. Which of the following has declared that ranking?

(a) Organization for Economic Cooperation and Development (OECD)

(b) World Economic Forum

(c) World Bank

(d) World Trade Organization (WTO)

Mains Question

“India’s growth story is increasingly shaped by the quality, sustainability, and inclusiveness of growth rather than headline GDP numbers.”
Critically analyse India’s current growth trajectory in this context. What structural reforms are necessary to sustain high growth while ensuring employment generation and social equity?

“भारत की विकास गाथा अब केवल सकल घरेलू उत्पाद (GDP) की वृद्धि तक सीमित न होकर, विकास की गुणवत्ता, सततता और समावेशिता से अधिक प्रभावित हो रही है।”
इस संदर्भ में भारत की वर्तमान विकास यात्रा का **आलोचनात्मक विश्लेषण** कीजिए। उच्च विकास दर को बनाए रखते हुए रोजगार सृजन और सामाजिक न्याय सुनिश्चित करने के लिए कौन-से संरचनात्मक सुधार आवश्यक हैं?

India 'appreciates' U.S. addressing Gaza crisis

Press Trust of India
UNITED NATIONS

India has voiced appreciation to the U.S. at the UN Security Council (UNSC) for addressing the "long-standing" conflict in Gaza.

"India takes note of recent progress with regard to the implementation of UN Security Council Resolution 2803 to end the Gaza conflict. India also takes this opportunity to express appreciation to the United States in addressing this long-standing issue," Ambassador Parvathaneni Harish, India's Permanent Representative to the UN, said on Wednesday.

India has consistently supported a viable state of Palestine living in peace with Israel: Ambassador Parvathaneni Harish

Noting that India was the first non-Arab country to recognise the state of Palestine in 1988, Mr. Harish said that India has consistently supported a sovereign, independent, and viable state of Palestine living in peace with Israel.

"India has advocated that the means to achieve this end is through dialogue and diplomacy," the Ambassador said in his remarks to a open debate on situation in West Asia .

"At the same time, let us be clear that terrorism has no place in civilised societies and must be condemned in all its forms and manifestations," Mr. Harish said while calling for commitment to alleviate the suffering of Palestinians.

The Resolution 2803, adopted in November last year, endorsed U.S. President Donald Trump's 'Comprehensive Plan to End the Gaza Conflict' that entails that "Gaza will be a deradicalised terror-free zone that does not pose a threat to its neighbours" and will be redeveloped for the benefit of the people of Gaza. It also welcomed the establishment of a 'Board of Peace' as a "transitional administration" with international legal personality that will set the framework, and coordinate funding for, the redevelopment of Gaza as per the plan.

CONTINUED ON
» PAGE 12

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- The Security Council was established by the UN Charter in 1945. It is one of the six principal organs of the United Nations.

- The other 5 organs of the United Nations are—the General Assembly (UNGA), the Trusteeship Council, the Economic and Social Council, the International Court of Justice, and the Secretariat.

- **The council has 15 members: the five permanent members and ten non-permanent members elected for two-year terms.**

- **The five permanent members are the United States, the Russian Federation, France, China and the United Kingdom.**

- **India, for the eighth time, has entered the UNSC as a non-permanent member last year (2021) and will stay on the council for two years i.e 2021-22.**

- **Each year, the General Assembly elects five non-permanent members (out of ten in total) for a two-year term. The ten non-permanent seats are distributed on a regional basis.**
- **The council's presidency is a capacity that rotates every month among its 15 members.**

Mains Question

“The existing structures of global governance are increasingly misaligned with contemporary geopolitical and economic realities.”
Critically examine the challenges facing global governance institutions in the 21st century. What reforms are necessary to make them more representative, effective, and accountable?

“वैश्विक शासन की वर्तमान संस्थाएँ समकालीन भू-राजनीतिक और आर्थिक वास्तविकताओं के अनुरूप नहीं रह गई हैं।”
21वीं सदी में वैश्विक शासन संस्थाओं के समक्ष मौजूद चुनौतियों का **आलोचनात्मक परीक्षण** कीजिए। इन्हें अधिक प्रतिनिधिक, प्रभावी और उत्तरदायी बनाने के लिए किन सुधारों की आवश्यकता है?

Page No. 8, GS 2

India-Arab League: bridging cultures, creating opportunities

Ministers and delegates of the 22-member Arab League are gathering in Delhi for the 2nd India-Arab Foreign Ministers' Meeting on January 30-31, 2026. This is a major diplomatic outreach by India at a time when there are multiple conflicts brewing on the horizon in the region and the world is grappling with the rapidly changing global order, set in motion largely due to U.S. President Donald Trump's total disregard for the sovereignty of nations and the rules-based international order.

As the ministers gather in Delhi, war clouds are still hovering over Iran and the massive military build-up by the U.S. continues. In Syria, despite a ceasefire, uncertainty continues and long-term peace is still some distance away. Gaza finally looks towards transitioning to peace even as details of phase two of the ceasefire are still in the works. The recovery of the body of the last Israeli hostage from Gaza on January 26 is a major victory for Israel and may well motivate it to move towards relaxing the restrictions in Gaza.

However, the most surprising development is the emergence of fault lines among two close allies – Saudi Arabia and the UAE – mostly over conflicting interests in Yemen but also over power and influence in the region. We need to watch out for the possibility of rival military alliances. India, too, is closely monitoring the situation, while formulating its own strategy for the region.

Col. Rajeev Agarwal (Retired)

Senior Research Consultant, Chintan Research Foundation

India and the Arab League

The Arab League, officially known as the League of Arab States (LAS), was formed in Cairo on March 22, 1945, initially with seven members. Today, it has 22 member states from North Africa and West Asia. Although India's relations with countries in the Arab League go back centuries, the engagement with the LAS was formalised in March 2002 when a Memorandum of Understanding (MoU) was signed, institutionalising the process of dialogue. The MoU is aimed to "promote and develop the traditional relationship of friendship and cooperation between India and the Arab States" and provides for annual meetings between the External Affairs Minister of India and the Secretary General of the Arab League.

During the visit of Arab League Secretary General, Amr Moussa, to India in December 2008, the Arab-India Cooperation Forum (AICF) was established. And in December 2010, the Indian Ambassador to Egypt was designated as India's Permanent Representative to the Arab League. The first meeting of the AICF was held in January 2016 at Manama, Bahrain. In addition, there is the India-LAS Partnership and Investment Summit, a biennial flagship economic event. During the current visit of foreign ministers, a new initiative called the India and Arab Countries Chambers of Commerce, Industry and Agriculture is scheduled to be inaugurated.

As India grows into a major power, the Arab League region forms a critical part of its global matrix. For the Arab League countries too, India is a strong and reliable partner

Key pillars of engagement

The India-LAS partnership goes beyond trade and investment. Over the past decade, strategic partnerships and security have emerged as crucial areas of engagement. Oman was the first country with which India signed a strategic partnership in 2008. With the signing of similar agreements with the UAE in 2015, Saudi Arabia in 2019, Egypt in 2023, and Qatar in 2025, the depth and scope of strategic convergence with the region has grown rapidly.

India has also strongly rallied for the region in various multilateral forums such as BRICS and SCO. Even among the strategic vision of countries, there are significant convergences, whether it is the Saudi Vision 2030, the UAE Centennial 2071, the Kuwait Vision 2035, the Oman Vision 2040, or India's Viksit Bharat in 2047. In fact, in the Saudi Vision 2030, India is one of the eight strategic partners.

Trade and investments continue to be the bedrock of the relationship and have stood the test of time, including the COVID-19 pandemic. Most of India's external trade passes through the Suez Canal, the Red Sea, and the Gulf of Aden. Bilateral trade between India and the Arab League currently stands at over $240 billion. India has signed the Comprehensive Economic Partnership Agreement with the UAE and Oman. As a result, bilateral trade with the UAE has already crossed $115 billion and has now been reset at $200 billion by 2030. Major investment commitments in India have been made by the UAE ($75 billion), Saudi Arabia ($100 billion) and Qatar ($10 billion), mostly in the fast-growing infrastructure sector. The cumulative FDI in India from the region has crossed $2.5 billion. As trade ties grow, connectivity becomes an impsortant factor to ensure speed, efficiency and collective prosperity. The India-Middle East-Europe Economic Corridor, launched at the G20 Leaders' Summit in New Delhi in September 2023, therefore, gains significance and is likely to be discussed at the meeting.

With Prime Minister Narendra Modi pushing for development of digital public infrastructure for speed and transparency of transactions, Fintech is emerging as yet another area of mutual convergence. The RuPay card was launched in the UAE in August 2019. From July 2023, the Indian rupee is being accepted as legal currency at Dubai airports. Also, India and the UAE have operationalised the rupee-dirham settlement system. India's Unified Payments Interface is already accepted for financial transactions in Bahrain, Saudi Arabia, Qatar, and the UAE and is likely to grow further in the LAS countries soon.

Energy is a critical pillar of the partnership. The region caters to about 60% of India's crude oil imports, 70% of natural gas, and more than 50% of fertilizers and related products. Iraq, Saudi Arabia, and the UAE are the top three exporters of crude oil. The UAE has also signed an agreement with India to store strategic oil reserves in the country, operationalised with an initial investment of $400 million. With Qatar, the $78 billion Liquified Natural Gas (LNG) deal signed in February 2024, with assured import of 7.5 million tonnes of LNG a year for another 20 years, adds a critical link to India's energy security. In addition, in July 2023, ADNOC (Abu Dhabi National Oil Company) and Indian Oil signed a LNG contract for 1.2 million metric tonnes per annum over a period of 14 years.

Living under the threat of conflicts and terror, security and defence are growing as important pillars in the partnership. Defence partnership agreements have been signed with multiple countries in the LAS including Oman, the UAE, Saudi Arabia, Egypt, and Qatar and are growing. India's maritime security initiatives such as Security and Growth for All in the Region (SAGAR) aim to promote joint collaboration in the Indian Ocean Region, particularly against sea piracy and maritime security threats. India's agreement with Oman over the Duqm port is a strategic deal that offers a critical advantage to the Indian Navy in its operations in the region while also allowing it to keep a discreet watch on the activity of China's People's Liberation Army Navy. The threat of war in Iran and the future of the Gaza peace process are common areas of security concerns in the region and are likely to figure as a key agenda during the meetings.

Most of the LAS countries are in total sync in India's fight against cross-border terror and have condemned the Uri, Pathankot, Pulwama, and Pahalgam terror attacks in India. Joint production of defence equipment and export of key weapon platforms such as the Tejas fighter aircraft, BrahMos and Aakash missiles, and artillery guns are also emerging as important attractions for LAS countries. Cyber, space and drone are future areas of cooperation.

Looking ahead

As India grows into a major economic, political, and military power, the Arab League region forms a critical part of its global matrix. For LAS countries too, India is a strong and reliable partner. The countries of the two regions may be separated by the Arabian Sea but are joined by history, destiny, trust, and growing brotherhood. The meeting of the foreign ministers of LAS in Delhi offers the perfect opportunity to forge closer ties and seek new avenues of engagement.

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- **However, the most surprising development is the emergence of fault lines among two close allies — Saudi Arabia and the UAE — mostly over conflicting interests in Yemen but also over power and influence in the region.**

- **The Arab League, officially known as the League of Arab States (LAS), was formed in Cairo on March 22, 1945, initially with seven members. Today, it has 22 member states from North Africa and West Asia.**

- **During the visit of Arab League Secretary General, Amr Moussa, to India in December 2008, the Arab-India Cooperation Forum (AICF) was established.**

- **And in December 2010, the Indian Ambassador to Egypt was designated as India's Permanent Representative to the Arab League.**

- **The first meeting of the AICF was held in January 2016 at Manama, Bahrain.**


The Arab League
TURKEY
TURKMENISTAN
Ashgabat
Mashhad
Tehran
IRAN
Isfahan
Lisbon
Algiers
Athens
Izmir
Tunis
MALTA
TUNISIA
Tripoli
CYPRUS
Beirut
LEBANON
Aleppo
SYRIA
Damascus
Mosul
Baghdad
IRAQ
Basra
Tel Aviv-Yafo
ISRAEL
Amman
Alexandria
Cairo
Kuwait City
MADEIRA
PORTUGAL
Casablanca
Rabat
MOROCCO
CANARY ISLANDS
SPAIN
Canary Basin
ALGERIA
LIBYA
EGYPT
Ad Dammam
Al Manamah
QATAR
Dubai
Abu Dhabi
Riyadh
Dawhah
Muscat
WESTERN SAHARA
MOROCCO
SAUDI ARABIA
Jeddah
Red Sea
MAURITANIA
MALI
NIGER
CHAD
SUDAN
Khartoum
OMAN
Nouakchott
CAPE VERDE
Dakar
SENEGAL
GAMBIA
Bamako
Niamey
BURKINA FASO
Ouagadougou
N'Djamena
ERITREA
Asmara
YEMEN
Sanaa
Arabian Sea
GUINEA-BISSAU
GUINEA
Conakry
Freetown
SIERRA LEONE
Monrovia
LIBERIA
Sierra Leone Basin
Yamoussoukro
Abidjan
Kumasi
Accra
Lomé
Cotonou
Porto-Novo
Lagos
NIGERIA
Kano
Kaduna
Abuja
Benin City
Port Harcourt
Douala
Yaoundé
DJIBOUTI
Djibouti
SOMALILAND
Addis Ababa
ETHIOPIA
CENTRAL AFRICAN REPUBLIC
Bangui
SOUTH SUDAN
Juba
SOMALIA
Muqdisho (Mogadishu)
EQUATOR
Gulf of Guinea
CAMEROON
EQ. GUINEA
Libreville
SAO TOME AND PRINCIPE
GABON
Guinea Basin
Kampala
UGANDA
KENYA
Nairobi
Somali Basin
DEMOCRATIC REPUBLIC OF THE CONGO
CONGO
Brazzaville
Kinshasa
Kigali
BURUNDI
TANZANIA
Dodoma
Dar es Salaam
Mbuji-Mayi
SEYCHELLES
Mascarene Plateau
ASCENSION
UNITED KINGDOM
Luanda
ANGOLA
COMOROS
MAYOTTE
FRANCE
Lilongwe
ZAMBIA
SAINT HELENA
Angola

- The Arab League was founded on March 22, 1945, in Cairo, Egypt.
- Its founding members included Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, and Syria.
- The primary goals of the Arab League include:
- Promoting economic, cultural, political, and military cooperation among Arab states.
- Safeguarding the independence and sovereignty of its members.
- Addressing regional conflicts through diplomatic engagement and coordination.

- Today, it has 22 member states and several observer nations.

- Members: Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syria, Libya, Tunisia, Algeria, Bahrain, Comoros, Djibouti, Kuwait, Mauritania, Morocco, Oman, Palestine, Qatar, Somalia, Sudan, UAE, and Yemen.

[2023] Consider the following statements :

Statement-I: Israel has established diplomatic relations with some Arab States.
Statement-II: The 'Arab Peace Initiative' mediated by Saudi Arabia was signed by Israel and Arab League.

Which one of the following is correct in respect of the above statements?

(a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I

(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I

(c) Statement-I is correct but Statement-II is incorrect

(d) Statement-I is incorrect but Statement-II is correct

Mains Question

“India’s engagement with West Asia has evolved from energy-centric diplomacy to a multidimensional strategic partnership.”
Analyse the changing contours of India–West Asia relations. Discuss the opportunities and challenges for India in the context of regional instability and great power competition.

“पश्चिम एशिया के साथ भारत का जुड़ाव ऊर्जा-केंद्रित कूटनीति से विकसित होकर एक बहुआयामी रणनीतिक साझेदारी में परिवर्तित हो गया है।”
भारत–पश्चिम एशिया संबंधों के बदलते स्वरूप का **विश्लेषण** कीजिए। क्षेत्रीय अस्थिरता और महान शक्ति प्रतिस्पर्धा के संदर्भ में भारत के लिए उपलब्ध **अवसरों और चुनौतियों** पर चर्चा कीजिए।

Page No. 8, GS 3

Devolution, not debt

Cesses and surcharges levied by Centre must be in divisible pool

While the Union Budget is keenly tracked by States to assess their share in overall Central tax devolution, it is becoming increasingly clear that this revenue stream no longer plays the stabilising role it once did in State finances. The evidence lies in the rapid expansion of State Development Loans (SDLs), which have emerged as a key financing instrument for States' day-to-day spending needs. In 2024-25 (Revised Estimates), SDLs amounted to about 35% of Tamil Nadu's total revenue receipts and nearly 26% of Maharashtra's – levels that would have been considered fiscally exceptional a decade ago. This shift gathered pace after 2020-21, when the COVID-19 pandemic delivered a severe economic shock and Central devolution proved inadequate. This dependence on borrowing has not reversed since. Instead, States are increasingly relying on SDLs; borrowings by profit-making State PSUs and Special Purpose Vehicles are done to finance even routine revenue expenditure. This has happened despite the 15th Finance Commission fixing States' share at 41% of the divisible pool, as the effective flow of resources has been eroded by the growing use of cesses and surcharges, which lie outside the divisible pool. The problem is acute for industrialised States with a large indirect tax base. Since the introduction of GST in 2017, a substantial share of these revenues is collected by the Centre and redistributed through a formula that often weakens the fiscal link between tax effort and reward. Consequently, welfare commitments – pensions

these revenues is collected by the Centre and redistributed through a formula that often weakens the fiscal link between tax effort and reward. Consequently, welfare commitments – pensions
for the elderly and retired employees and mass health insurance schemes for the poor – are increasingly being funded through domestic borrowing. This limits the availability of funds for public capital expenditure and private investment, which is essential to sustain growth.

A comparison of borrowing patterns over the past five years across Punjab, Uttar Pradesh, Tamil Nadu, Maharashtra and West Bengal underlines this trend. West Bengal, which is structurally dependent on Central devolution – averaging about 47.7% of its revenue receipts over the last five years – continued to borrow heavily from the domestic market. SDLs constituted roughly 35% of the State's revenues on average during this period, even as nominal tax devolution rose. This points to a steady erosion of States' fiscal autonomy, with potentially serious macroeconomic consequences as debt-to-GSDP ratios rise while assured revenue streams weaken. If debt, rather than devolution, becomes the primary shock absorber in India's federal system, fiscal sustainability itself comes under strain. India needs higher effective devolution, and a reworking of horizontal devolution criteria to give greater weight to tax effort and efficiency. Cesses and surcharges must be brought into the divisible pool.

- **Cesses and surcharges levied by Centre must be in divisible pool**

- **Cess: A cess is a form of tax that is levied for a specific purpose. It is a tax on tax, imposed in addition to an existing tax like excise or income tax, and the revenue is earmarked for a particular use.**

- **Cesses are typically charged for a specific time period, or until the government has gathered enough funds for the designated purpose.**

- **The 80th Amendment formally amended Article 270, explicitly excluding cesses and surcharges from the divisible pool (revenue from cesses is not shared with states).**

- **Cesses are recognized in the Constitution under Article 277 and Article 270 (which outlines the revenue-sharing framework between the Union and States).**

- **Examples: Education Cess (for financing primary education), Swachh Bharat Cess (for cleanliness initiatives), and Fuel Cess (for road development).**

- **Surcharge: A surcharge is an additional tax or levy imposed on existing duties or taxes. It is essentially a "tax on tax" and is discussed under Articles 270 and 271 of the Indian Constitution.**

- **Surcharges are often applied to individuals, companies, and other taxpayers who fall within income brackets. The rate of surcharge can vary based on income level.**
- **They are designed to be progressive, ensuring that higher earners contribute more, promoting social equity and addressing income disparity.**
- **Surcharge increases the total tax liability of individuals or entities who are already subject to tax, particularly higher-income earners or certain sectors.**
- **The funds collected from surcharges go into the government's general fund and can be used for a variety of purposes, such as financing infrastructure projects, social welfare programs, and other governmental activities.**

With reference to the Fourteenth Finance Commission, which of the following statements is/are correct?

1. **It has increased the share of States in the central divisible pool from 32 percent to 42 percent.**
2. **It has made recommendations concerning sector-specific grants.**

Select the correct answer using the code given below.

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Mains Question

"The increasing use of cesses and surcharges has implications for fiscal autonomy of States."
Examine this statement in the context of India's fiscal federal structure. (250 words)

"उपकरों (Cesses) और अधिभारों (Surcharges) के बढ़ते उपयोग के कारण राज्यों की वित्तीय स्वायत्तता पर प्रभाव पड़ता है।"
भारत की **वित्तीय संघीय संरचना** के संदर्भ में इस कथन की **परीक्षा** कीजिए। *(250 शब्द)*

Page No. 8, GS 2

Quick pill

Removal of some pharma regulations should not come at the cost of quality

The government's move to scrap the traditional, mandatory test licences required to manufacture small quantities of drugs for research is an effort to remove the sometimes-crippling regulatory hurdles in the pharmaceutical sector. This decision aligns with the national goal of facilitating ease of doing business. The central element of these amendments to the New Drugs and Clinical Trials Rules, 2019, is replacing the mandatory licence requirement for non-commercial manufacture of drugs with a prior-intimation mechanism. Developers can now manufacture small quantities of drugs for research, testing, and analysis after intimating the Central Drugs Standard Control Organisation via its SUGAM Portal, online. Once a 'notice of intent' is acknowledged online, a company is free to go ahead with drug synthesis, strictly for research. In a post-COVID world, where speed of delivery for end use has gained virtue, the government anticipates that removal of this licencing factor will fast-track the timeline of drug development by at least three months. Specific low-risk bioavailability and bioequivalence studies can also commence after an online intimation on the portal. In addition, even for categories in which a licence is still required, such as for high-risk psy-

commence after an online intimation on the portal. In addition, even for categories in which a licence is still required, such as for high-risk psy-chotropic or narcotic drugs, the statutory processing time will be reduced from 90 days to 45. All manufacturers are required to meticulously document and file processes as per rules.

The abolishment of a 'licence raj' is always good news. The dismantling of hurdles in pharma research and development bodes well for a country that is aspiring to position itself as the pharmacy of the world. The paperless, prior intimation mechanism will no doubt reduce the time spent twiddling thumbs, waiting for a physical copy of the licence. And time saved is, naturally, money and lives saved. Reducing the time a drug takes from the lab to the bedside for practical use can save countless lives and reduce morbidity in many more. However, the government would do well to circumvent the danger of a drop in quality control by initiating a mechanism, after intimation, to ensure that all good manufacturing practices are strictly adhered to. No drug, however speedily produced, is worth the blister it is packaged in if it comes with quality lapses. Poor pharmaceutical oversight, as recent cough syrup-related deaths showed, can be fatal.

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- **Amendments to New Drugs and Clinical Trials (NDCT) Rules, 2019**

- **Central Drugs Standard Control Organisation**
- **The Central Drugs Standard Control Organisation (CDSCO) has asked manufacturers to ensure that information be made available to the general public about the adverse reactions of some commonly-used antibiotics.**
- **The CDSCO is the Central Drug Authority for discharging functions assigned to the Central Government under the Drugs and Cosmetics Act, 1940.**
- **It is under Directorate General of Health Services,Ministry of Health & Family Welfare.**
- **It is headquartered in New Delhi and also has six zonal offices.**

- **In 2016, the government launched an online licensing portal of Central Drugs Standard Control Organization (CDSCO) named “SUGAM”.**
- **SUGAM enables online submission of applications requesting for permissions related to drugs, clinical trials, ethics committee, medical devices, vaccines and cosmetics. The system also builds up the database of approved drugs, manufacturers & formulations, retailers & wholesalers in India.**

Page No. 8, GS 2

Is India prepared for the end of globalisation?

Suvojit Chattopadhyay

Governance and public policy professional with over two decades of experience across South Asia and East Africa

Earlier this month, U.S. President Donald Trump remarked that India reduced Russian oil imports to make him happy, and issued a further warning that more tariffs could be imposed if India displeases him. This was an accurate representation of how Mr. Trump approaches bilateral negotiations. What is broken is not just global trade, but the political system that governs it. What is taking its place is a return to mercantilism – a view of trade as an instrument of state power, where surpluses are strength and deficits are weakness.

Globalisation is usually described as the expansion of free trade of goods and services. That is an incomplete description. Globalisation is a political system that defined how governments ran markets and societies, and how they engaged with each other and with networked global institutions that they had established. It came to be associated with liberalism, democracy, and global cooperation. That system is now over.

A new order

The world economy was global long before it was liberal. Early globalisation was built on force. Wealth accumulation in the industrialised north was on the backs of domestic resource exploitation and overseas resource extraction. Trade was lopsided, not free.

Towards the middle of the 20th century, as the rest of the world found its voice and war had ravaged the industrialised countries, it was time for a new order. Sovereignty spread faster than democracy. Global institutions were birthed to offer a normative framework to manage international affairs. Even when unilateral power was exercised, it was couched as a pursuit of democracy, regional stability, or humanitarian compassion. The legitimacy of the system depended on that restraint. That restraint has now been abandoned openly.

This global system, with a normative multilateral core, rested on several political assumptions - open markets, free movement of capital but not people, cross-border enforcement of contracts, negotiations over management of shared resources. For a while, these assumptions seemed to hold as many countries experienced economic growth and declines in poverty.

> Without stronger state capability, greater social cohesion, and a social contract committed to sharing growth more evenly, India risks remaining a country that lays claim to being a Vishwaguru without the institutional foundations and economic means to achieve it

Unintended consequences

There were, however, two unintended consequences. First, returns to capital far outstripped increases in wages. As the integration of global markets and supply chains deepened, economic pressures intensified. Manufacturing declined in some regions and surged in others. Migration from poor to rich countries increased. It was a matter of time before populist politics would take shape to respond to these imbalances.

Second, the geopolitical foundations of the post-colonial era were shaken by the rise of China. China provided the starkest example of a country that broke through into the global economy and accumulated wealth and power without complying with the multilateral order. China benefited enormously from access to global markets, supply chains, and technology, but retained firm state control over capital, labour and information. China's trade surplus reflects the relentless pursuit of a model of excess capacity and external demand, which has stunted the industrial ambitions of poorer countries, including India. Over time, China accumulated enough power to emerge as an alternative model for both economic growth and consolidation of domestic political power.

Together, these developments changed how major economies came to view globalisation. Global cooperation came to be viewed as an opportunity cost, or at best as a distraction, as populist politics turned societies inward-looking. Their response is essentially an assertion of sovereignty at the expense of liberal values, such as the politicisation of migration and the promotion of industrial policy to buy self-sufficiency. This is why globalisation, as it was practised, is now dead.

The crutch of global cooperation has already been taken away from the developing world. International aid is now conditional on the national interests of donor countries. With multilateral institutions failing, the ability of developing countries to negotiate jointly on matters such as climate change or illicit financial flows is weakening rapidly. Domestically, restless youth now demand much more of their governments. Political elites need to recognise this moment and act decisively, even if they initially do so to further their self-interest.

India's role

What is India's role going to be in this emerging global order? India is simultaneously too large to ignore and too poor to matter. Over the last 15 years, we have squandered the opportunity to convert our demographic advantage into productive capacity. The social pyramid has become more sharply stratified, with an overwhelmingly poor and powerless base supporting a narrow apex.

India can still become a serious player in a few selected domains – digital public infrastructure being the most prominent, but also with potential in renewable energy, the services sector, and democratic decentralisation. But it is hard to see how those possibilities can be realised under the current political economy. Even the limited economic growth we have seen has not been accompanied by a credible commitment to expanding the base through sustained public investment in health and education. In a mercantilist world order, low state capacity will only result in long-term irrelevance.

Without stronger state capability, greater social cohesion, and a social contract committed to sharing growth more evenly, India risks remaining a country that lays claim to being a Vishwaguru without the institutional foundations and economic means to achieve it. Rhetoric alone will not be enough.

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- **Globalisation is a political system that defined how governments ran markets and societies, and how they engaged with each other and with networked global institutions that they had established.**

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- **India is simultaneously too large to ignore and too poor to matter. Over the last 15 years, we have squandered the opportunity to convert our demographic advantage into productive capacity. The social pyramid has become more sharply stratified, with an overwhelmingly poor and powerless base supporting a narrow apex.**

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- **But it is hard to see how those possibilities can be realised under the current political economy.**

- **Without stronger state capability, greater social cohesion, and a social contract committed to sharing growth more evenly, India risks remaining a country that lays claim to being a Vishwaguru without the institutional foundations and economic means to achieve it.**

Mains Question

“India is simultaneously too large to ignore and too poor to matter in the global order.” Critically examine this statement in the context of India’s role in global governance, strategic partnerships, and multilateral institutions.

“वैश्विक व्यवस्था में भारत एक साथ इतना बड़ा है कि उसकी उपेक्षा नहीं की जा सकती और इतना गरीब है कि उसका प्रभाव सीमित प्रतीत होता है।” वैश्विक शासन, रणनीतिक साझेदारियों तथा बहुपक्षीय संस्थानों में भारत की भूमिका के संदर्भ में इस कथन की **आलोचनात्मक समीक्षा** कीजिए।

Page No. 9, GS 3

Will removing curbs on Chinese FDI help India?

Shyam Saran

is a former Foreign Secretary to the Government of India and currently President of the India International Centre

Santosh Pai

is a partner at Dentons Link Legal and an honorary fellow at the Institute of Chinese Studies

PARLEY

India's Ministry of Finance is set to lift curbs on Chinese firms bidding for government contracts, which were introduced in 2020, following a deadly clash between the two countries' troops in the Galwan Valley. Now that India is showing a change of heart, the Ministry's actions beg the question: Will removing curbs on Chinese FDI help India? Shyam Saran and Santosh Pai discuss this in a conversation moderated by **Nitika Francis**. Edited excerpts:

How will foreign direct investment from China help the Indian economy?

Shyam Saran: First of all, we have to spell out our own objectives with regard to our economic and industrial development. Which areas, from a security perspective, are sensitive and which are not. Unless we create a roadmap outlining our priorities and where Chinese FDI fits into that scale, it is very difficult to say whether or not we should accept it.

Santosh Pai: Chinese investments can play a role in both India's economic and security objectives. On the economic front, we can look at expanding the contribution of the manufacturing sector to the Indian economy, attracting a greater share of supply chains, and boosting exports. On the security front, especially vis-à-vis China, one pressing need is to reduce our dependence on imports from them, as we have a huge trade deficit. We can also look at how to develop leverage against China, given our political ties.

How do we approach China's investments in sensitive sectors?

SS: It is for the national security establishment within the Indian government to determine which sectors are considered very sensitive. For example, it was decided that we should be careful not to invite Chinese investment or participation in projects on our coast, which may be near our naval bases. The digital economy of India is considered a sensitive sector, and if it is dominated by Chinese investment and companies, our security may be compromised due to potential invisible data flows. There could also be kill switches that can be shut off during a period of emergency. Consumer items may not pose the same kind of concerns. Our view in the Ministry of External Affairs, when I was serving there, was that we should not make some of these limitations China-specific. If there is an area of security concern, the basic effort should be to ensure it is not open to foreign investment. Such a policy is better than being country-specific.

GETTY IMAGES

SP: Allowing investments in non-sensitive sectors can contribute heavily to reducing the trade deficit. So I would say we need to look at it from different perspectives, but the red lines must always be clear from a national security perspective before evaluating any other priority. So by placing national security at the centre, I think it is possible to evolve these priorities and develop the current restrictions.

In its Economic Survey for 2023-24, the Ministry of Finance suggested that increased FDI inflows from China could help increase India's participation in global supply chains and push exports. How viable do you think this strategy is?

SS: First, we should recognise that it is not such a simple matter to say we want to be part of this supply chain. Supply chains work efficiently in a low-tariff regime. Unless you make your market open to very easy imports of components, these items cross borders several times before a final product is made. Second, we have to determine the components of that supply chain in which we have competitiveness. I think we also have to study the experience of some Chinese FDI, already present in India, which is actually quite successful, such as Xiaomi and Oppo. We should also see if there are any other areas where Chinese FDI could be invited. Off the cuff, Chinese EV manufacturers may have a lot of interest in India. So why not consider that favourably?

SP: While we must take increased tariffs into account, India also has a role to play in non-tariff barriers. We have quality control orders that have been tweaked over the years to either make it easy or difficult to import some components required for assembly or manufacturing activities. But there will always be some factors beyond our control.

> We may have thought that Apple's investment would have a major demonstration effect on other companies that are de-risking from China for geopolitical reasons. But let me say that so far the results have not been up to expectations
>
> SHYAM SARAN

What does China gain from investing in India and allowing it to export products to markets such as the U.S. and Europe that are actively moving away from it?

SP: Currently, China has excess capacity in almost every industry. So, ideally, Chinese companies would not like to go and invest anywhere outside China. They have a $1.2 trillion trade surplus. But on the other side, because of this, there is immense pressure on Chinese companies to establish supply chains outside the country and reduce this surplus, as it is interfering with their relationship with many major economies. One gain is that China gets to establish a supply chain outside China, which will insulate its companies against China-focused tariffs in the future. The second is having a foothold in a country like India, which has the fastest-growing domestic market among large countries. This translates to a bigger chance of global market share. And something more intangible is what we can call India Premium, because the confluence of economic and geopolitical factors makes India a considerably attractive destination. We have not really tapped it to its full extent so far, as most of the early moments of the global supply chain after the pandemic have been to countries in ASEAN, for example.

SS: For Chinese smartphone manufacturers, the Chinese market itself is completely saturated. Most of the other markets that China has access to are also saturated. So the only country where the smartphone market is likely to keep growing in the future is India. This is why, despite some barriers and political tensions, these companies have decided not only to navigate the difficulties but also to stay in India. Another more problematic aspect is: can India have become a platform for Chinese manufacturing for export to third countries? It is problematic because India as an investment destination is still regarded as a somewhat difficult place to do business in. There is also the infrastructure logistics constraint. Former IMF chief economist Gita Gopinath recently mentioned that perhaps Indians do not realise that news about pollution across north India is also a big disincentive. So if China is looking for a production basis for accessing other markets, then it finds it much more congenial to go to Southeast Asian countries such as Vietnam or even Bangladesh.

Although China has a dominance in the manufacture of components, its share of U.S. smartphone imports has dwindled from 60% in 2016 to about 22% in 2026. Is this a good example of what the Economic Survey was hinting at, which is that we can push our exports to the U.S. and Europe with the help of Chinese investment and replace them in certain ways?

SS: When we got Apple here into India, we found that a very large number of components used in making the iPhone or iPad were manufactured in China. Therefore, unless we were able to access those components, it would have been very difficult to actually do this manufacturing. We had to create conditions for the suppliers of those components to set up units in India under a special provision, not as part and parcel of our general investment policy. We had to make concessions with respect to those Chinese companies that set up units in India, specifically for the iPhone industry. We may have thought that Apple's investment would have a major demonstration effect on other companies that are de-risking from China for geopolitical reasons. But let me say that so far the results have not been up to expectations. I wonder if we are in a position really to offer those kinds of concessions on a broader scale.

SP: China supplies intermediates and components continues to contribute to that supply chain. It is just that the last port or the last destination of imports into the U.S. has changed. So, if you see, China's exports to ASEAN have increased tremendously in the last five years. It is now the number one destination for Chinese exports. As a value share, I think China still contributes a significant percentage, but for geopolitical reasons, the U.S. does not prefer that final export to happen from China. So it has managed to discharge it into other countries whose dependencies on China have increased as a result.

To listen to the full interview
Scan the code or go to the link
www.thehindu.com

- **India’s Ministry of Finance is set to lift curbs on Chinese firms bidding for government contracts, which were introduced in 2020, following a deadly clash between the two countries’ troops in the Galwan Valley.**
- **Chinese investments can play a role in both India’s economic and security objectives.**
- **On the economic front, we can look at expanding the contribution of the manufacturing sector to the Indian economy, attracting a greater share of supply chains, and boosting exports.**
- **On the security front, especially vis-à-vis China, one pressing need is to reduce our dependence on imports from them, as we have a huge trade deficit. We can also look at how to develop leverage against China, given our political ties.**

- **It is for the national security establishment within the Indian government to determine which sectors are considered very sensitive.**
- **For example, it was decided that we should be careful not to invite Chinese investment or participation in projects on our coast, which may be near our naval bases.**
- **The digital economy of India is considered a sensitive sector, and if it is dominated by Chinese investment and companies, our security may be compromised due to potential invisible data flows. There could also be kill switches that can be shut off during a period of emergency.**
- **Allowing investments in non-sensitive sectors can contribute heavily to reducing the trade deficit.**

- Currently, China has excess capacity in almost every industry. So, ideally, Chinese companies would not like to go and invest anywhere outside China. They have a $1.2 trillion trade surplus.

- For Chinese smartphone manufacturers, the Chinese market itself is completely saturated. Most of the other markets that China has access to are also saturated. So the only country where the smartphone market is likely to keep growing in the future is India.

- So if China is looking for a production basis for accessing other markets, then it finds it much more congenial to go to Southeast Asian countries such as Vietnam or even Bangladesh.


Thank You!