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**MARCH 11**



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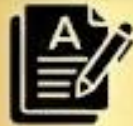
# AXIA IAS ACADEMY

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# Inside China, authority, conflict and strategic challenges

**T**he progression from Mao Tse Tung/Mao Zedong to Deng Xiaoping to Xi Jinping in China reveals the nature of the power shifts that have occurred since the country became a communist nation in 1949. All three iconic leaders, in their own way, demonstrated what was essential to maintain and sustain power in a country that had managed to stave off takeovers by foreign powers over the years.

Since 1949, when Mao Tse Tung led the Communist Party of China (CPC) to victory and took control, the three eponymous leaders wielded unquestioned authority over the party and the country. Between 1949 and 2026, there have, no doubt, been many other leaders who steered the country's fortunes, but it is Mao, Deng and Mr. Xi who left an indelible stamp on China's fortunes and progress.

## The 'inner devils'

Across China, signs of Mr. Xi's authority are markedly evident. However, even as China has emerged as the second most powerful country, it faces its own 'inner devils'. Periodic purges at the highest levels of state institutions have led to conflicting interpretations as to the real state of affairs. While China outwardly appears to be a monolith, several purges have been intended to eliminate opposition to the leader of the time. This was also the case during the periods of Mao and Deng.

In the latest purge, Mr. Xi removed the highly placed general of the Peoples' Liberation Army (PLA), and vice-chairman of the Central Military Commission, General Zhang Youxia, and another senior officer, Gen. Liu Zhenli, from the highest policymaking body of the CPC. The purge also claimed nine military law makers from China's Parliament including Ground Force Commander Li Qiaoming and Information Support Force Political Commissar Li Wei. It is worth examining whether this is merely another purge by Mr. Xi or an indication of the growing challenges to his leadership. A hint to this effect is the language used to describe Gen. Zhang in the People's Liberation Army Daily, viz. 'a toxin that had to be incised'. This could lead to an inference of inner party struggles at the top of the Chinese Communist pyramid. While by no means proven, it is still worth examining.

Even during Mao's lifetime, there was the infamous Liu Shaoqi episode, which though not acknowledged as a power struggle, is viewed by experts as having been an abortive challenge to Mao's supremacy. While Mr. Xi appears to have emerged successful, yet again, the big lead of another massive anti-corruption purge is beginning to wear thin. It merits a rethink of China today as a monolith, facing few internal challenges.



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Given China's global position, the prevailing situation within the country demands closer and deeper understanding of events

Most prophets seem to founder when it comes to making political predictions. While Mr. Xi may appear stronger on the surface following the recent purges, it is worth considering the nature of the 'inner devils' said to be hindering China's progress. Analysing China's future clearly demands better comprehension of where China stands today.

Over the years, the mask that China is a monolith has been wearing thin. Insightful analysis would seem to suggest that belief in the goals set by the leadership has been declining, producing a degree of 'trust deficit'. Together with a less than optimistic assessment of the state of the Chinese economy, and the problems faced by some of its political institutions, it may be presumed that inner tensions are increasing, and are beginning to impact the highest levels of the party. Dealing with such a situation would undoubtedly require drastic measures to retain control and 'stuff out' all opposition to the leadership, even at the highest party levels. This, rather than accusations of corruption against senior party functionaries, would seem a more plausible explanation for the periodic purges taking place.

## Dents to global credibility

Exacerbating international tensions and China's apparent ineffectiveness in addressing challenges beyond its 'near abroad' – namely East and Southeast Asia – seem to have damaged its image as a global power, potentially intensifying tensions within the CPC leadership. Venezuela was a test case of China's global outreach in this respect at the beginning of 2026. China failed the test and could not counter United States President Donald Trump's assertions that the Western Hemisphere belonged to the U.S. and no one else. This despite China having invested a great deal in Venezuela in recent years. More recently, in West Asia, China again failed to demonstrate its ability to checkmate the U.S. and prevent an attack on Iran, leading to the death of Iran's supreme leader, Ayatollah Khamenei.

The outcome in West Asia has, incidentally, prompted unfavourable comparisons between Chinese weaponry and that of the U.S. and the West, further harming China's reputation. China's conspicuous incapability to counter the U.S. both in the Western Hemisphere and in West Asia is undoubtedly having repercussions and may have possibly impacted China's image beyond repair. In China's eyes, it has, meanwhile, shattered a carefully contrived impression that China is more than equal to the West. It would be reasonable to surmise that this too would have led to recriminations at the highest levels of the party, even, perhaps, provoking a challenge to the ruling dispensation.

It is, however uncertain, as of now, whether

China is indeed undergoing a lull at the very highest levels of the CPC. What is discernible is that a normally belligerent China has, of late, been acting with far greater circumspection than usual in its dealings with the world at large, and with the U.S. in particular. This is even more surprising considering that China is riding a wave of turbocharged innovation in many areas such as electric vehicles, pharmaceuticals and logistics, and, of late, Artificial Intelligence. In all this, China appears well ahead of the curve.

## A reticence

What is even more surprising is that – and with the exception of Taiwan – China, of late, has been disinclined to take a confrontational posture, vis-à-vis the U.S., even deferring to it on some issues. The journey of a Chinese cargo ship, in late 2025, from Asia to Europe, through the Arctic Ocean, that was completed in a fortnight as against the normal three weeks through the Suez Canal, would normally have been heralded by China as evidence of the emergence of a 'Polar Silk Road'. But China has preferred to play down this achievement, stating that this contributes to 'supply chain stability'.

Strategic experts are confounded by this display of reticence, and feel that it is intended to avoid ruffling the feathers of western powers at a time when China's economy is facing certain problems and Mr. Trump has warned of the threat posed to U.S. interests in Greenland by Chinese ships in the vicinity. Apart from this, China's unwillingness to press its claims to being a 'near Arctic State' requires a valid explanation. Most strategic experts seem to feel that problems at the highest levels of the CPC can be the only plausible explanation.

What also needs valid explanation is the general mood of pessimism that appears to be sweeping across China. No plausible explanation has emerged so far. Cracks in the Communist party monolith could possibly be one explanation. Or it might well be an aggravating fear – about 'the wind in the tower heralding a great storm'. All this might appear rather far fetched for now, but is worthy of more detailed analysis, given the past history of Chinese politics.

Given China's position in the world, the prevailing situation in China deserves a better and more detailed understanding of what is taking place. Events in China cast a shadow not only over Asia but also over much of the world. What is happening in China needs better explanation and understanding. A more benign and less antagonistic China would be of great value to a world facing many crosscurrents. For India, a return to an earlier era of 'Hind Chini Bhai Bhai' (Indians and Chinese are brothers) would be a gift worth savouring.

- Key terms and explanations

- **Chinese Communist Party (CCP/CPC)**

The ruling and only major political party in China, exercising monopoly over political power and controlling the state, military and security apparatus. Its legitimacy rests on nationalism, economic performance and ideological control.

- **People's Liberation Army (PLA)**

China's unified armed forces (army, navy, air force, rocket force, strategic support force etc.). Crucially, it is the "party's army", loyal to the CCP, not a national professional military in the Western sense. The Central Military Commission (CMC) is the apex body controlling it.

- **Central Military Commission (CMC)**

Top military decision-making body of the CCP and the state; the CMC chairman (currently Xi Jinping) is the supreme military commander. Vice-chairpersons like Zhang Youxia and senior generals like Liu Zhenli sit here; their purge signals political, not merely professional, issues.

- **Chairman Responsibility System**

Institutional principle that gives the CMC chairman ultimate authority over all military decisions; undermining this is framed as a political crime, not just corruption.

- **Political purges**

Removal, investigation, or punishment of senior officials (often on "anti-corruption" grounds) to eliminate rivals, enforce loyalty, or discipline institutions. Under Xi, multiple rounds of military and civilian purges have occurred; the removal of Zhang Youxia and Liu Zhenli is the latest, very high-level case.

- **Anti-corruption campaign**

Official narrative used to justify purges, framed as cleansing "toxic" elements from the party and PLA. While corruption is real, the campaign doubles as an instrument of political control and elite disciplining.



- **Main Arguments and Substantive Parts**

- **The Illusion of Total Stability**

- The central thesis posits that despite the outward appearance of a "monolith," the CPC is grappling with "inner devils"—internal power struggles and a declining belief in the leadership's goals.

- **Purges as a Diagnostic Tool**

- The removal of high-ranking officials like Gen. Zhang Youxia and Gen. Liu Zhenli is framed not merely as an anti-corruption drive, but as a "surgical incision" to remove political "toxins" (opposition). This suggests that Xi Jinping's authority, while vast, is being actively contested.

- **Global Credibility Dents**

- The article argues that China's inability to project power effectively in Venezuela (against U.S. influence) and West Asia (failing to protect Iranian interests) has shattered the image of China as a "more than equal" peer to the West.

- **Strategic Reticence**

- A notable shift is observed: China is acting with unusual circumspection. It is downplaying major achievements (like the Arctic transit) and avoiding confrontation with the U.S. This "reticence" is interpreted as a defensive crouch necessitated by economic troubles and internal party turmoil.

- **Historical Evolution of the Issue**

- **1949 – The Mao Era:** Establishment of the PRC; power was rooted in revolutionary charisma and mass mobilization (The Great Leap Forward, Cultural Revolution). Internal challenges (e.g., Liu Shaoqi) were dealt with through ideological warfare.
- **1978 – The Deng Era:** "Reform and Opening Up." Power shifted toward "Collective Leadership." The focus was on economic pragmatism ("Hide your strength, bide your time").
- **2012–Present – The Xi Era:** A return to "Strongman Politics." Abolition of term limits and the centralization of power through the "Anti-Corruption Campaign," which has evolved into a continuous process of purging perceived disloyalty.
- **2025/2026 – The Current Inflection:** A transition from assertive "Wolf Warrior" diplomacy to a more cautious, "reticent" posture due to combined internal dissent and external strategic setbacks.

# China's Paradox: The 'Strong but Anxious' Power (UPSC Strategic Analysis)

Beijing currently projects a unified, powerful image, but internal military purges and a slowing economy reveal a 'trust deficit' within the elite. This infographic breaks down the shift from 'Wolf Warrior' assertiveness to 'Strategic Reticence' and outlines the necessary response for India's foreign policy.

## INTERNAL DYNAMICS: The 'Monolith' Myth vs. Reality

### The Illusion of Total Stability

While the CPC appears unified, internal factionalism and "inner devils" challenge Xi Jinping's authority.

### Purges as a Diagnostic Tool



The removal of top generals like Zhang Youxia signals political "toxins" rather than mere corruption.

### Performance Legitimacy in Decline

A slowing economy and youth unemployment are fraying the social contract between the Party and the public.



### Comparative Leadership Eras

Era	Focus	Power Structure
Mao Zedong	Revolution	Ideological Warriors
Dong Xueping	Reform	Collective Leadership
Xi Jinping	Rejuvenation	Centralized 'Strongman'

## GLOBAL POSTURE: The Shift to Strategic Reticence

### From 'Wolf Warrior' to 'Circumspect Player'

China is now downplaying major achievements to avoid direct confrontation with a resurgent West.

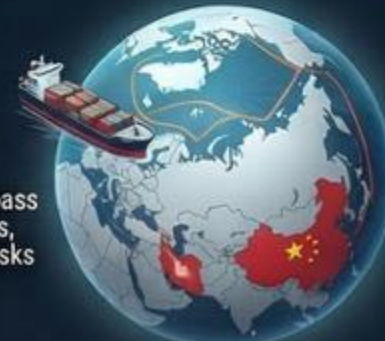


### Credibility Dents in the "Near Abroad"

Failures to protect interests in Venezuela and iron expose the limits of China's global reach.

### The Polar Silk Road Ambition

China seeks Arctic shipping routes to bypass traditional chokepoints, though it currently masks this success.



## STRATEGIC ROADMAP FOR INDIA

### Strategic Hedging & Intelligence

India must deepen "China-watching" capabilities to understand factional shifts within the CCP.



### Economic Resilience (China Plus One)

Accelerate "Make in India" to provide a global alternative as China prioritizes internal stability.

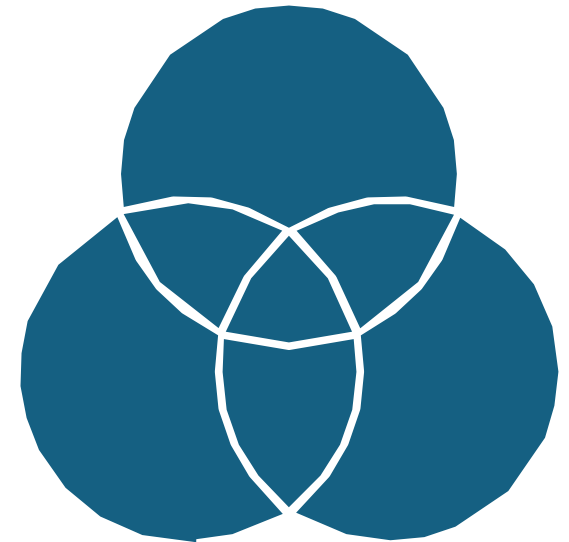


### Calibrated Diplomatic Engagement

Use the current window of Chinese reticence to resolve LAC tensions while maintaining deterrence.



- Logical and philosophical base
- (a) Underlying logic
- **Power and insecurity:** The article rests on the realist assumption that authoritarian regimes often respond to internal insecurity by concentrating power and purging potential challengers.
- **Image vs reality:** The logic assumes that a highly managed external image (monolith, unity) often masks internal pluralism and contestation, which occasionally surfaces as purges or sudden policy shifts.
- **Capability–behaviour gap:** When material capabilities rise but behaviour becomes cautious, the writer infers internal constraints or strategic recalibration.
- (b) Key assumptions
- Purges of high-ranking generals are symptoms of deep political insecurity, not merely anti-corruption.
- Economic slowdown and foreign policy disappointments significantly influence elite dynamics in a Leninist party-state.
- Strategically, a power that cannot protect its partners from rivals’ coercion faces a credibility problem.
- (c) Philosophical and epistemic angles
- **Authoritarian resilience vs fragility:** The article implicitly takes a sceptical view of authoritarian resilience, emphasising fragility beneath the surface.
- **Epistemic opacity:** Knowledge about China is filtered through propaganda and limited leaks; thus, inferences about “inner devils” are probabilistic, not definitive.
- **Morality of power:** There is a subtle, normative claim that a more benign, less antagonistic China is desirable for global stability, hinting at a cosmopolitan ethic prioritising cooperation over hegemony.



- Multidimensional analysis
- Social
  - Heightened surveillance and nationalism may produce apparent stability but conceal alienation.
  - Economic stress (unemployment, property market issues) can deepen pessimism, especially among youth.
- Political
  - One-person dominance increases political risk concentration.
  - Frequent purges signal both strength and fragility of the regime, complicating succession and crisis management.
- Legal
  - Domestically, purges are cloaked in legality through party-discipline and anti-corruption laws, but lack transparent procedures.
  - Internationally, China's claims in South China Sea and its "near-Arctic state" posture raise questions under UNCLOS and Arctic governance norms.
- Ethical
  - Use of anti-corruption as a political weapon blurs ethics of governance.
  - Treatment of dissent, minorities, and partner states challenges universal human-rights norms.
- International
  - Strategic caution may temporarily reduce risk of major war but underlying rivalry persists.
  - Perception of China as unable to protect partners may push states either back to the U.S. camp or towards hedging.
- Economic
  - Domestic slowdown undermines the material base of CCP legitimacy.
  - External sanctions, decoupling in technology, and BRI debt stresses constrain grand strategy.



- Linkages with NCERTs
- **Class IX, Contemporary India (Geography)**
  - Chapters on India and the world, neighbours, and regional context help place India–China dynamics and border issues.
- **Class X, Contemporary World Politics (Political Science)**
  - Chapters on “Contemporary Centres of Power” and “Alternative Centres of Power” discuss EU, China’s rise, and U.S.–China competition; directly relevant for understanding China’s external posture.
- **Class XI, Political Theory**
  - Chapters on “Freedom”, “Equality”, “Justice”, and “Rights” give conceptual tools to critique authoritarian systems and purges.
- **Class XII, Politics in India since Independence (Polity)**
  - India’s foreign policy, non-alignment, Panchsheel, and India–China relations (1950s, 1962 war, later phases) give historical background for the “Hindi-Chini Bhai-Bhai” context.
- **Class XII, Contemporary World Politics**
  - Chapters on “US Hegemony in World Politics”, “Alternative Centres of Power”, and “Security in the Contemporary World” directly connect to U.S.–China rivalry, military power, and security dilemmas.

- Linkages with UPSC CSE syllabus
- **GS Paper II (Polity & IR)**
  - India and its neighbourhood, bilateral relations (India–China), regional groupings, impact of policies of developed and developing countries on India’s interests.
  - Comparative political systems, authoritarian regimes, party systems.
- **GS Paper III (Economy, Security, Technology)**
  - Internal and external security: border management, cyber and maritime security.
  - Effects of liberalisation and globalisation, role of external state and non-state actors in economic and security issues.
  - Developments in science and technology (AI, dual-use technologies) influencing geopolitics.
- **GS Paper I (History & World)**
  - Post-World War II world, rise of China as a major power.
  - World wars’ legacy and Cold War dynamics as a background to new bipolarity.
- **GS Paper IV (Ethics)**
  - Ethics of governance, corruption vs anti-corruption, authoritarian leadership, moral dilemmas in national security decision-making.



## Way forward

### For India's policy thinking

#### Realistic engagement

- Recognise both China's strengths (economic, technological, military) and vulnerabilities (internal tensions, external pushback).
- Maintain robust deterrence on the border, strengthen partnerships (Quad, Indo-Pacific), while keeping channels open for limited cooperation on trade, climate, and multilateral forums.

#### Strategic patience and diversification

- Avoid over-reacting to short-term signals from Chinese purges; focus on long-term capability building, economic competitiveness, and technological self-reliance.

#### Use of multilateral platforms

- Leverage BRICS, SCO, G20 to engage China constructively and push for rules-based behaviour, including in the Arctic, cyberspace and high seas.

### For global governance

#### Norms on military transparency and cyber/AI

- Encourage confidence-building measures, crisis hotlines, and transparency in military modernisation to reduce miscalculation.
- Work towards global norms on AI and autonomous weapons where both China and the U.S. are stakeholders.

#### Managing great-power rivalry

- Middle powers (India, EU, ASEAN, African states, Latin American states) can collectively nudge both U.S. and China towards competition with guardrails, rather than open conflict.

UPSC CSE Mains – China /  
great-power themes

GS-II

- “Discuss the evolution of India–China relations and the recent challenges along the LAC.”
- “Examine how China’s rise affects India’s strategic and economic interests.”
- “How does the Indo-Pacific concept change India’s foreign policy calculus vis-à-vis China and the U.S.?”

GS-III

- “Discuss the challenges to India’s internal security from neighbouring countries’ policies.”
- “Examine the impact of global power shifts on India’s economic and technological security.”

Essay

- “Has the world entered a new Cold War?”
- “Economic power versus political legitimacy in the 21st century.”

# Reevaluating the office of the Speaker

**T**he recent no-confidence motion moved by the Opposition against Om Birla has reignited the debate over the constitutional position and accountability of the office of the Speaker of the Lok Sabha. While such motions are rare, their significance lies not merely in the possibility of removal but in what they reveal about the functioning of parliamentary institutions and the evolving conventions surrounding the Speaker's office.

The office of the Speaker is one of the most critical pillars of India's parliamentary democracy. As the presiding officer of the Lok Sabha, the Speaker ensures orderly debate, enforces the rules of procedure, safeguards the rights of members, and maintains the balance between government authority and the voice of the Opposition. The Constitution establishes the Speaker as an impartial arbiter expected to rise above party politics once elected. Convention demands that the office be exercised with neutrality and fairness. The Speaker's authority extends to several crucial functions such as the recognition of members, interpretation of procedural rules, disciplinary powers, and the certification of Money Bills. These powers significantly shape legislative outcomes and parliamentary debates, and because of this influence, the constitutional framework provides strong protections to ensure that the Speaker cannot be removed easily for political reasons.

## The process for removal

The procedure for the removal of the Speaker is deliberately stringent. According to Article 94(C) under the Constitution, the Speaker can be removed only through a resolution passed by a majority of all the members of the Lok Sabha, not merely those present and voting. This high threshold reflects the intent to safeguard the stability and dignity of the office. The process begins



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No-confidence motions against the Speaker have been extremely rare in India's parliamentary history

when a member submits a written notice to the Secretary-General of the Lok Sabha seeking removal. At least 14 days' notice must be given before the motion can be taken up. Once admitted, the motion requires the support of at least 50 members to proceed for discussion in the House. The procedural framework governing this process is laid down in the Rules of Procedure and Conduct of Business in Lok Sabha, specifically Rules 200 to 203. The rules mandate that the resolution must clearly state the charges against the Speaker. During the debate on such a motion, the Speaker may participate in the proceedings as a member of the House, and while the Speaker can vote on the resolution in the first instance, he/she cannot exercise their vote in case of a tie.

No-confidence motions against the Speaker have been extremely rare in India's parliamentary history. Only three such attempts have occurred – in 1954, against G. V. Masarikar; in 1966, against Hukam Singh; and in 1987, against Balram Jadhav. In all three cases, the motions failed. These precedents demonstrate the political and procedural difficulty involved in removing a Speaker.

## Larger impact

Although the present motion may not result in the Speaker's removal, it carries broader institutional significance. It reminds presiding officers that their authority derives from the collective confidence of the legislature. The Speaker's credibility depends heavily on the perception of impartiality. Allegations of partisan conduct can weaken public confidence in parliamentary processes.

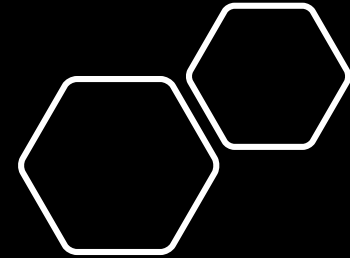
While the high constitutional threshold ensures that the Speaker is not vulnerable to routine political pressure, it still allows a democratic mechanism for accountability.

However, several challenges affect the functioning of the Speaker's office. First, there is a

growing perception of politicisation. In recent years, decisions on matters such as disqualification of legislators under the anti-defection law or certification of Money bills have often been viewed through a partisan lens. Second, frequent confrontations between the ruling party and the Opposition have led to procedural deadlocks in Parliament. When the neutrality of the presiding officer is questioned, trust between political actors erodes, making consensus-building more difficult. Third, parliamentary conventions – unwritten norms that once guided the impartial conduct of the Speaker – have gradually weakened. As political competition intensifies, these conventions risk being overshadowed by tactical considerations.

## The way ahead

To preserve the credibility of Parliament and strengthen democratic governance, reforms and renewed commitment to parliamentary norms are necessary. Reinforcing institutional conventions should be the first step. Political parties must collectively reaffirm the tradition that the Speaker acts above party lines once elected. Enhancing transparency in procedural rulings can also improve trust. Clear explanations for major decisions – such as rejecting requests for discussion or certifying legislative bills – would reduce allegations of bias. Encouraging dialogue between the government and the Opposition is equally important. Structured consultations on parliamentary procedures and reforms could reduce confrontations and improve legislative productivity. Finally, codifying best practices regarding the Speaker's discretionary powers may help clarify ambiguities. While flexibility is essential in parliamentary procedure, clearer guidelines could reduce disputes over interpretation.



- Key Terms and Explanations
- Core Constitutional Terms
- **Speaker of the Lok Sabha:** The presiding officer elected by the House under Article 93, responsible for maintaining order, interpreting rules, and ensuring fair debate. For instance, the Speaker decides who speaks next during chaotic sessions, acting like a referee in a heated match.
- **Article 94(c):** Mandates removal of the Speaker via a resolution passed by a majority of *all* then members of the Lok Sabha (not just those present), with 14 days' notice. This protects against hasty political moves, unlike a simple no-confidence vote.
- **Money Bill Certification:** Under Article 110, the Speaker's decision on whether a bill is a Money Bill is final, giving them power over fiscal legislation—e.g., classifying the Aadhaar Bill as such in 2016 sparked debates.
- Procedural and Historical Terms
- **No-Confidence Motion against Speaker:** Rare resolution under Rules 200-203 of Lok Sabha Rules, needing 50 members' support post-notice. Speaker steps down from chair but can speak and vote (not in ties). Examples: 1954 against Mavalankar.
- **Anti-Defection Law:** Speaker decides disqualifications under 10th Schedule; often criticized for bias, as in Kihoto Hollohan case (1992) where SC allowed judicial review.
- **Parliamentary Conventions:** Unwritten norms like Speaker resigning party whip post-election for neutrality, though not mandatory—evolved from British Westminster model.



## Main Arguments and Substantive Parts

The core thesis of the discussion is that the Speaker's office is currently caught between **constitutional expectations of neutrality** and the **realities of party-driven politics**.

**The Paradox of Independence:** While the Constitution provides security of tenure (stringent removal process), the Speaker remains a member of a political party. This creates a functional tug-of-war.

**Procedural Integrity:** The Speaker is the final interpreter of the Rules of Procedure. If this interpretation is perceived as biased, it doesn't just hurt the Opposition; it degrades the institution of Parliament itself.

**Symbolism of Removal Motions:** Even if a motion for removal fails (as they historically have), it serves as a "democratic vent," signaling that the House's confidence in the presiding officer is shaken.

**Erosion of Conventions:** The transition from "Speaker as an Umpire" to "Speaker as a Facilitator for the Executive" is highlighted as a primary concern for legislative health.

- **Historical Evolution of the Issue**

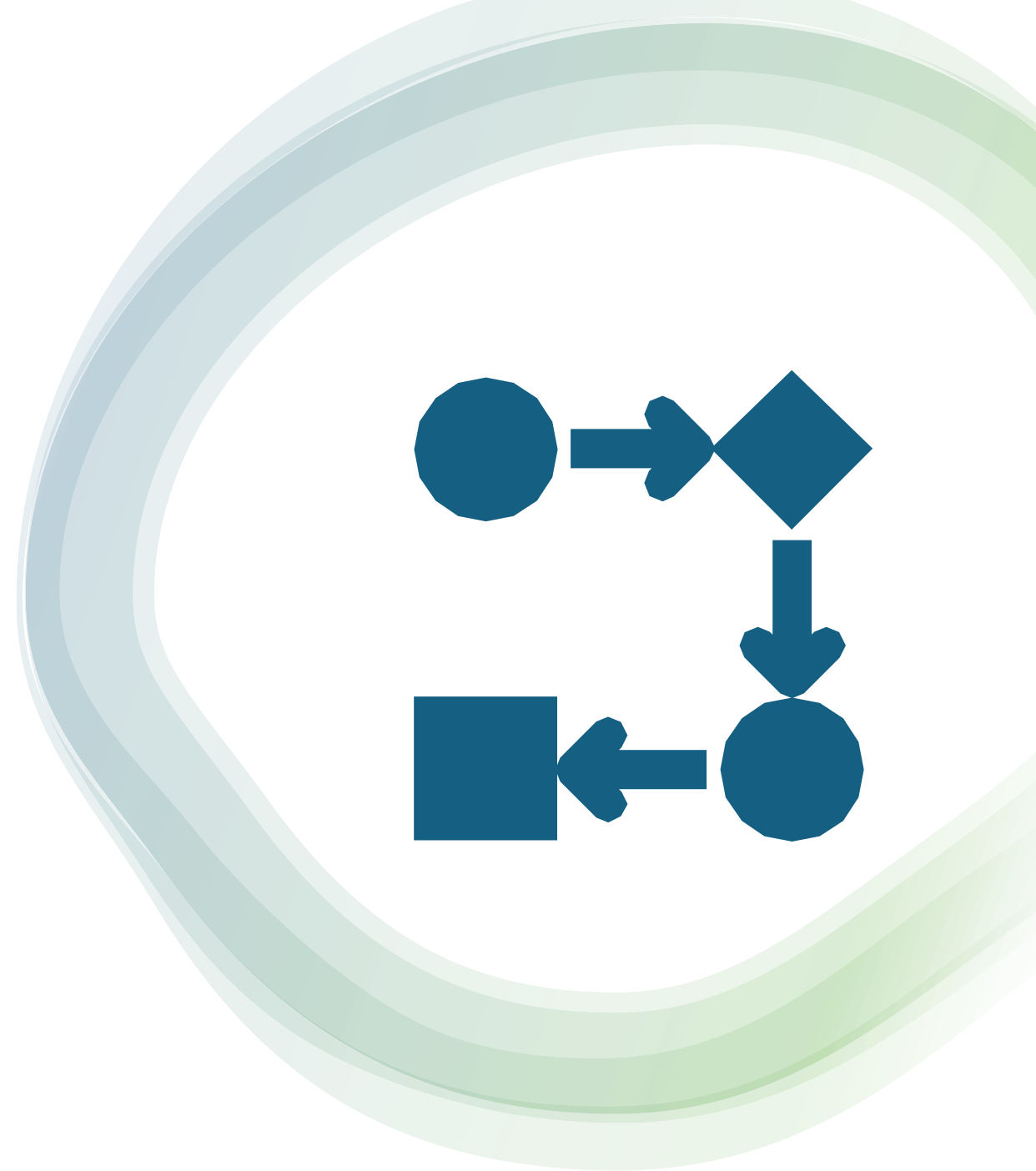
- **Pre-Independence (1921):** The office originated under the Montagu-Chelmsford Reforms. **Frederick Whyte** was the first Speaker, but **Vithalbhai J. Patel** (1925) was the first Indian to hold the post, setting a precedent for independence against the British executive.

- **Post-Independence (1952):** G.V. Mavalankar became the first Speaker of the Lok Sabha. He established the tradition of the Speaker being the "Father of the House."

- **Key Precedents of Removal Notices:**

- **1954 (G.V. Mavalankar):** The first-ever notice; failed but established that the Speaker can be criticized within the House.
- **1966 (Hukam Singh) & 1987 (Balram Jakhar):** Further instances where the office faced formal opposition challenges.

- **The 10th Schedule Shift (1985):** The 52nd Amendment gave the Speaker quasi-judicial powers. This was a turning point, as it forced the Speaker into the middle of intense political disputes over government stability.



Balancing Constitutional Powers, Neutrality Challenges, and Institutional Reforms for UPSC Preparation

## CONSTITUTIONAL POWERS & ROLE



### Presiding Officer (Article 93)

The constitutional head and 'conscience-keeper' of the Lok Sabha, ensuring orderly debate and discipline.



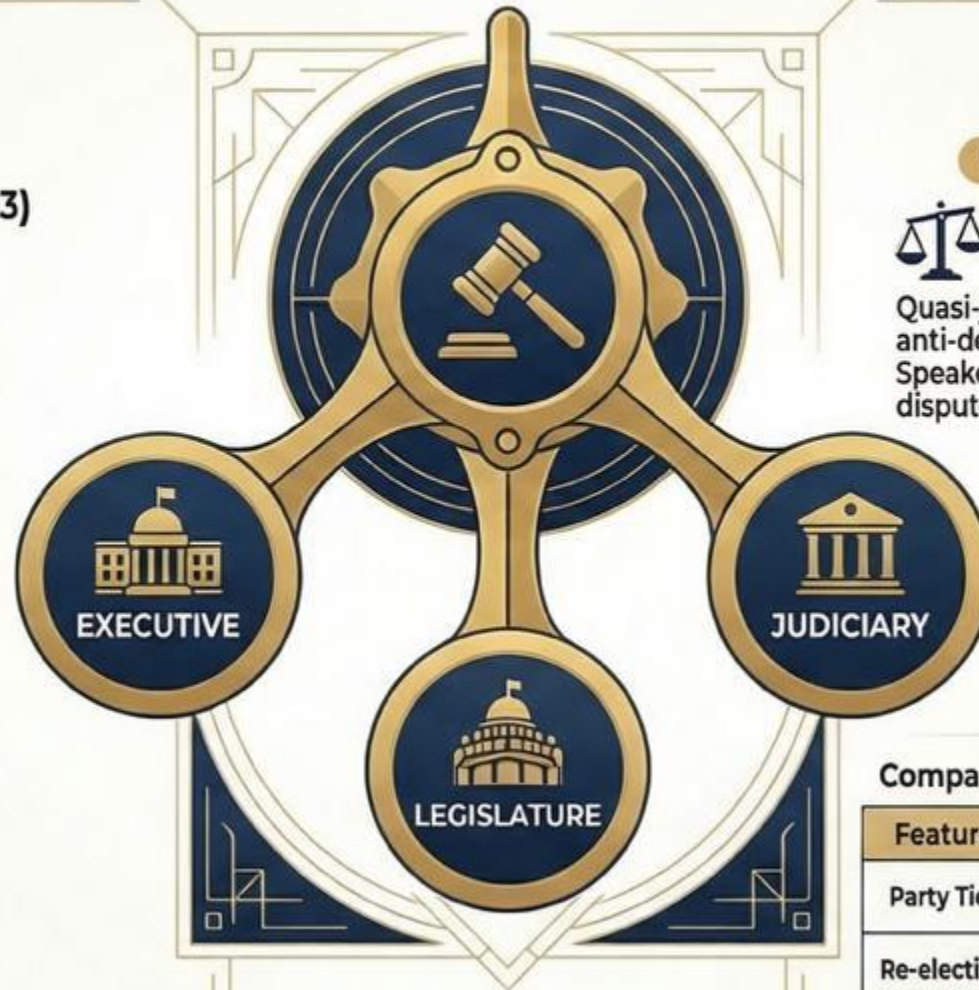
### Money Bill Certification (Article 110)

The Speaker's decision on whether a bill is a Money Bill is final and beyond court challenge.



### Removal Threshold (Article 94)

Requires an 'Effective Majority' (Total strength minus vacancies) and a 14-day prior notice.



## THE NEUTRALITY PARADOX & WAY FORWARD

### THE PARADOX



### The 10th Schedule Burden

Quasi-judicial powers over anti-defection often pull the Speaker into intense political disputes and litigation.

### WAY FORWARD



### Adopt the 'British Model'

Recommends the 'Once a Speaker, Always a Speaker' tradition where the Speaker resigns from their party.



### Reasoned 'Speaking Orders'

Proposal for written reasons behind major rulings to increase transparency and public trust.

### Comparison: Indian Speaker vs. UK (Westminster) Model

Feature	Indian Model	UK (Westminster) Model
Party Ties	Remains a member of their political party	Resigns from the party immediately upon election
Re-election	Faces contested elections on a party ticket	Conventionally re-elected unopposed in their constituency
Adjudication	Decides disqualification under Anti-Defection Law	Focuses primarily on procedural and house order

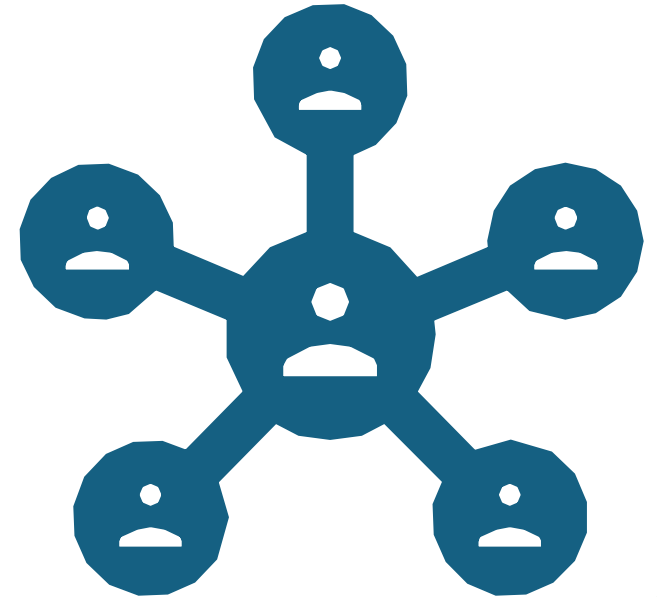
- **Logical and Philosophical Base**

- **The Doctrine of Separation of Powers:** The Speaker ensures the Legislature remains independent of the Executive. If the Speaker acts as an extension of the Cabinet, the checks-and-balances system collapses.

- **The "Neutral Umpire" Philosophy:** Borrowed from the British House of Commons ("Once a Speaker, Always a Speaker"), where the Speaker resigns from their party. India adopted the office but not the specific tradition of resigning from the party, leading to an inherent logical conflict.

- **Substantive vs. Procedural Democracy:** A democracy isn't just about passing laws (procedural); it's about fair deliberation (substantive). The Speaker is the custodian of this substantive fairness.

- Multidimensional Analysis
- Social
  - Erodes minority voices, fuels inequality perceptions; impacts diverse representation in debates.
- Political
  - Weakens opposition, centralizes power; risks authoritarian drift in polarized polity.
- Legal
  - Discretionary powers (anti-defection) invite review; Article 94 safeguards vs. bias allegations.
- Ethical
  - Breaches neutrality duty; public trust deficit questions Gandhian trusteeship in leaders.
- International
  - Contrasts UK Speaker's party resignation; Commonwealth models urge reforms for global credibility.
- Economic
  - Delays bills (e.g., fiscal via Money Bills), hampers growth; deadlocks stall budgets.



- **Linkages with NCERTs**

- **9.1 Class XI Political Theory**

- **Relevant themes:** justice, equality, rights, procedural fairness, political obligation.

**Why linked:** the Speaker's neutrality is a practical illustration of fair procedure and institutional justice.

- **9.2 Class XI Indian Constitution at Work**

- This is the strongest NCERT linkage.

- **Relevant chapters likely include:**

- Constitution: Why and How?
- Rights in the Indian Constitution
- Election and Representation
- Legislature
- Executive

- **9.3 Class XII Politics in India Since Independence**

- **Why linked:**

It helps explain:

- evolution of party system,
- coalition politics,
- centralization,
- anti-defection context,
- weakening or strengthening of institutions over time.

- **9.4 Class XII Contemporary World Politics**

- **Why linked indirectly:**

Comparison with parliamentary democracies, institutional resilience, and democratic accountability.


- **9.5 Class X Democratic Politics**

- **Why linked conceptually:**

Basic understanding of democratic institutions, accountability, and why procedure matters in representative government.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper II**
- This is the primary paper.
- **Direct topics:**
- Parliament and State Legislatures: structure, functioning, conduct of business, powers and privileges
- Separation of powers
- Issues arising out of design and implementation of political institutions
- Representation of People's Act and anti-defection context
- Government policies and interventions when legislative procedure affects reform
- **GS Paper IV (Ethics)**
- **Direct topics:**
- Probity in governance
- Integrity of institutions
- Objectivity
- Non-partisanship
- Accountability
- Ethical dilemmas in public office
- **Essay Paper**
- Potential themes:
- Institutions versus individuals in democracy
- Constitutional morality and political culture
- Procedure as the soul of democracy
- Trust and legitimacy in public institutions



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- **Way Forward**
  - **12.1 Rebuild the Convention of Neutrality**
    - Political parties must publicly and collectively reaffirm that once elected, the Speaker is expected to function above routine party conflict.
  - **12.2 Written, Reasoned Orders in Major Matters**
    - Important procedural decisions should record reasons, especially in:
      - Money Bill certification,
      - refusal or admission of major motions,
      - anti-defection rulings,
      - suspension of members.
  - **12.3 Time-Bound Disposal of Defection Cases**
    - Delay turns adjudication into political strategy. A clear and enforceable timeline is needed, subject to exceptional circumstances.
  - **12.4 Reconsider the Speaker's Role under Tenth Schedule**
    - A serious reform debate should examine whether an independent tribunal would better serve impartiality.
  - **12.5 Strengthen the Business Advisory and Rules Mechanisms**
    - Many flashpoints can be reduced if procedural planning becomes more consultative and less unilateral.
  - **12.6 Comparative Borrowing from Westminster Practices**
    - India need not copy the U.K. mechanically, but can strengthen:
      - ceremonial impartiality,
      - detachment from active party management,
      - cross-party respect for rulings.

- **Prelims Questions**

- **2024:**

- With reference to the Speaker of the Lok Sabha, consider the following statements: While any resolution for the removal of the Speaker of the Lok Sabha is under consideration
  - He/She shall not preside.
  - He/She shall not have the right to speak.
  - He/She shall not be entitled to vote on the resolution in the first instance.Which of the statements given above is/are correct?  
(a) 1 only (b) 1 and 2 only (c) 3 only (d) 1 and 3 only

- **2020:**

- Consider the following statements:
  - The Speaker of Lok Sabha has the power to adjourn the House sine die but not to prorogue it.
  - The Speaker of Lok Sabha continues in office even after the dissolution of the House and until immediately before the first meeting of the new Lok Sabha.Which of the statements given above is/are correct?  
(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

- **2009:**

- Which one of the following is the correct justification for the Speaker of the Lok Sabha allowing the Members to discuss the matters of urgent public importance?  
(a) As the Speaker is the representative of the House.  
(b) As the Speaker is the spokesperson of the House.  
(c) As the Speaker is the guardian of the rights and privileges of the members.  
(d) As the Speaker is the presiding officer of the House.



PRITAM BANERJEE

India has been chipping away at the impediments to the trade process. But the trade process remains complex, and a single transaction can spawn more than 20 documents, digital or otherwise, passing through an army of intermediaries. But recent policy developments can potentially deliver a systemic overhaul.

Building on the Modi government's earlier reforms on trade facilitation, the Digital Trade Facilitation Bill, 2026 can develop an integrated trade ecosystem that will allow seamless movement of trade consignment between factories or warehouses to and from the port wharf with no physical intrusion and minimum human interface.

The Digital Trade Facilitation Bill, 2026 grants legal equivalence to digital trade records.

Crucially, it extends recognition to documents of title and negotiable instruments, equating digital control with physical possession. By ensuring that electronic documents carry the same legal weight as paper documents, the Bill facilitates real-time transfers of rights and obligations.

Furthermore, by establishing full evidentiary validity in judicial proceedings, it dismantles archaic paper requirements.

But true transformation will occur when this modern legal framework enabling seamless, paperless compliance converges with the full suite of facilitation measures under the National Trade Facilitation Action Plans (NTFAP).

Customs TURANT Facelless Assessment first introduced in 2020 facilitates anonymised, remote appraisal of import declarations by specialised officer clusters irrespective of port of operations.

The TURANT framework now encompasses the full export-import spectrum, notably through the 2026 introduction of Auto Let Export Orders (Auto LEO) ensuring a truly port-agnostic and contactless experience for all Indian traders. This will potentially dismantle the old, localised bottlenecks. But the next phase is even more ambitious.

A pilot programme in Shuva Shuva has automated factory-stuffed container registration by using high-frequency readers to verify e-seals and update customs systems directly, eliminating all manual data entry.

Once adopted across all Indian ports handling containers, this will eliminate several hours from the trade logistics



# Paradigm shift in trade facilitation

**EASE OF TRADE.** Digital initiatives to free exports and imports from manual inspection will benefit thousands of entities

process and address congestion at port gates and approach roads.

## BUDGET MEASURES

This Budget's 'Scan Every Container' initiative aims to eliminate manual container inspections, which currently often trigger significant delays and result in cargo damage. The objective is to deploy AI-driven scanners capable of real-time X-ray analysis to identify anomalies with a high degree of precision that surpasses human capacity.

The Customs Integrated System (CIS) will function as the foundational digital architecture underpinning this facilitation framework. The CIS is being designed as a single, scalable platform to integrate X-ray images, E-seal logs, and digital document trails into a single dashboard for risk-based clearance.

If the system knows the document is authentic (via the 2026 Bill), the E-seal is intact (via automated logs), and the AI-driven scan is clear, then cargo can move across India's borders without a

**The Budget's 'Scan Every Container' initiative aims to eliminate manual container inspections, which currently often trigger significant delays and result in cargo damage**

human ever needing to break the container's seal.

Historically, benefits like Direct Port Delivery (DPD) and Direct Port Entry (DPE), that allow cargo to move directly between the factory and the ship was extended to large firms that typically qualified as higher order (tier 2 or tier 3) Authorized Economic Operators (AEO).

The expansion of the AEO programme benefits, specifically the creation of a broader 'Eligible Manufacturer' category in this year's Budget, is changing this. By lowering the threshold for trust, the government is effectively extending the 'port gate to the factory door' facilitation to thousands of more entities.

The expanded AEO benefits, the 2026 Customs reforms and the Digital Trade Facilitation Bill will empower manufacturer-exporters through factory self-sealing and e-seal auto-registration. As containers enter the port, automated sensors will read the e-seals, matching them against digital shipping bills for instant 'auto-gating' to the vessel stack.

For imports, TURANT will fast-track assessments, while AI-driven scans and Direct Port Delivery (DPD) protocols will accelerate handover. Furthermore, deferred duty payment facility for Tier 2/Tier 3 AEOs allow shipments to clear without payment delays, drastically reducing storage costs and demurrage.

Crucially, the 2026 Bill is designed with Technology Neutrality and Cross-border Recognition at its core.

By allowing for the recognition of foreign digital frameworks it enables India systems to 'talk' to global ones. In addition, through mutual recognition, India's AEO programme is ensuring that India's trusted firms get green-channel treatment in major export markets.

## EXPANDING THE SCOPE

While creating the 'Eligible Manufacturer' category is a positive first step, the government should expand the AEO programme to include a wider base of firms. The government must look at extending automatic AEO Tier 1 status to all GST-registered manufacturers who have paid a combined ₹5 crore in indirect taxes (Customs/GST) on average over the previous three years, provided they have no pending prosecutions or arrests under relevant fiscal acts.

This would bring over 90 per cent of trade-active manufacturing units into the AEO ambit. The CBIC should also pilot deferred duty schemes for Tier 1 AEOs, with a view towards eventual universal implementation across the AEO programme.

True reform moves beyond 'scanning every container' toward intelligence-led, risk-based interventions. To achieve this, Customs requires a robust Risk Management System (RMS) capable of multi-criteria assessment.

The writer is Head, Centre for WTO Studies, IIT. Views are personal.

- **Key Terms and Explanations**

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- **Trade Facilitation:** This refers to the simplification, modernization, and harmonization of international trade procedures. It covers the activities, practices, and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods in international trade. The goal is to make trade **faster, cheaper, and more predictable** while maintaining effective regulatory controls. For example, moving from a scenario where every container is physically opened for inspection to one where only high-risk containers are scanned is trade facilitation.
- **Digital Trade Facilitation Bill, 2026:** A proposed legislative framework to grant legal recognition, validity, and enforceability to electronic trade documents. It aims to create a statutory backing for digital identities and trust services, allowing electronic records like bills of lading, letters of credit, and invoices to have the same legal standing as their paper counterparts. This is crucial for enabling a truly paperless international trade ecosystem.
- **Documents of Title and Negotiable Instruments:** These are critical commercial documents.
  - A **document of title** (e.g., a Bill of Lading) evidences ownership of goods and entitles the holder to take delivery. The Bill allows this to be in digital form, meaning ownership can be transferred electronically.
  - A **negotiable instrument** (e.g., a promissory note, bill of exchange) is a document guaranteeing the payment of a specific amount of money, either on demand or at a set time. Providing them legal equivalence in digital form enables faster, real-time financial settlements.
- **Turant Customs:** A flagship programme of the CBIC (Central Board of Indirect Taxes and Customs) launched in 2020, meaning "Quick Customs." Its core objective is to transform the customs clearance process by making it **faceless, contactless, and paperless**

## Main Arguments and Substantive Parts

**Core Thesis:** India is undergoing a fundamental "paradigm shift" in trade facilitation. This shift moves beyond incremental improvements to create an integrated, digitally-driven ecosystem. The ultimate goal is to enable the seamless, contactless, and paperless movement of goods from a factory to a foreign buyer, with minimal human intervention by regulatory agencies.

## Key Supporting Points and Evidence:

- **Legal Foundation for Digital Trade:** The Digital Trade Facilitation Bill, 2026, is presented as the cornerstone. By legally equating electronic documents with paper ones, it dismantles a century-old reliance on physical paperwork, enabling real-time digital transfers of rights and obligations.
- **Convergence of Reforms:** The article argues that true transformation happens when the new legal framework (the Bill) converges with operational reforms (Turant Customs, NTFAP) and technological upgrades (AI-driven scanners, CIS).
- **Technology as an Enabler:**
  - **AI and ML:** Used for "Scan Every Container" initiative, where AI-powered X-rays can detect anomalies with greater precision than humans, and for dynamic risk profiling.
  - **Automation:** The Auto Let Export Order and automated e-seal registration at ports like Nhava Sheva eliminate manual data entry and physical bottlenecks, reducing logistics time and port congestion.
  - **Integrated Systems:** The proposed Customs Integrated System (CIS) will act as a central digital backbone, integrating data from various sources (scans, seals, documents) onto a single dashboard.
- **Democratization of Benefits:** Initially, trade facilitation benefits like Direct Port Delivery (DPD) were reserved for large, high-status AEOs. The expansion of the AEO programme to create a broader "Eligible Manufacturer" category is a crucial step in extending these benefits to thousands of small and medium enterprises (MSMEs). This widens the base of trusted traders who can self-seal their goods and get faster clearances.
- **Cross-Border Integration:** The article emphasizes the importance of international coherence. The 2026 Bill's provisions for recognizing foreign digital frameworks and India's pursuit of Mutual Recognition Agreements (MRAs) for its AEO programme aim to ensure that India's digital trade ecosystem can "talk" to global systems, securing green-channel treatment for Indian goods abroad.

- **Historical Evolution of the Issue**

- **Pre-1991 (Licence Raj Era):** Trade procedures were characterized by extreme bureaucracy, physical paperwork, high tariffs, and complex licensing. The focus was on control and protectionism, not facilitation. Clearance times were long, and physical inspections were the norm.

- **1991-2000s (Post-Liberalization):** The economic reforms of 1991 marked the beginning of a shift. Tariffs were reduced, and some procedures were simplified. The focus started moving from control to promotion, but the processes remained largely paper-based and fragmented.

- **Early 2000s - 2014 (Piecemeal Reforms & WTO Engagement):**

- **2005:** India became a signatory to the WCO's SAFE Framework of Standards, planting the seed for the AEO programme .

- **2011:** Pilot of the Indian AEO programme launched.

- **2014:** India signed the WTO's Trade Facilitation Agreement (TFA) at the Bali Ministerial Conference. This was a major turning point, committing India to a set of binding global standards for transparency, efficiency, and digitization .

- **2014-2020 (Foundational Reforms):**

- Establishment of the National Committee on Trade Facilitation (NCTF) and the adoption of the comprehensive NTFAP to implement the TFA .

- Launch of the **Turant Customs** programme in 2020, introducing the concept of **Faceless Assessment** for imports on a pilot basis . This marked a significant shift in operational philosophy.

- **2020-2026 (Deepening & Convergence):**

- Introduction of **Auto Let Export Order (Auto LEO)** in 2026, completing the "contactless" loop for exports.

- Development of sophisticated AI/ML models for entity codification (assigning unique IDs to foreign suppliers) and description codification, enabling a robust, data-driven Risk Management System .

- The **drafting of the Digital Trade Facilitation Bill, 2026**, which seeks to provide the necessary *legal infrastructure* for the *digital infrastructure* that had been built. This represents the culmination of the journey from physical to digital trade.

## THE PARADIGM SHIFT: OLD vs. NEW TRADE REGIME (Pre-2026)



### Trade Pre-2026

- Paper-heavy (20+ docs)
- Localized & Discretionary Assessment
- High Dwell Time & Costs

**Legal Equivalence for Digital Records:** The 2026 Bill grants digital documents the same legal status as physical paper.

### Trade Post-2026

- Fully Digital & Negotiable Documentation
- Faceless, Anonymized, & AI-led Assessment
- Auto Let Export Order (Auto LEO) Speed

**Democratizing Trust for MSMEs:** Expanding AEO benefits to smaller manufacturers based on clean GST records.

## THE DIGITAL BACKBONE: CORE OPERATIONAL PILLARS (Post-2026 Vision)



**TURANT Faceless Assessment**  
Remote appraisal by anonymized officer clusters, eliminating face-to-face corruption.



**AI-Driven 'Scan Every Container'**  
High-frequency E-seals and AI X-ray analysis replace manual cargo opening.



**Global Value Chain Integration**



**Port-Agnostic Logistics**  
Uniform digital infrastructure ensures remote ports match the efficiency of major hubs.



- **Logical and Philosophical Base**

- **Logic:** The underlying logic is that **time is a direct cost** in international trade. Every day a container is delayed at a port incurs demurrage, storage, and opportunity costs. By reducing delays through technology, India enhances the competitiveness of its exports and reduces costs for its importers. The logic is also **preventive** rather than detective: a robust RMS and AI-driven scanning can prevent revenue leakage and security threats more effectively than random physical inspections.

- **Philosophical Assumptions:**

- **Trust but Verify:** The AEO programme and risk-based management are built on this philosophy. The state assumes that most traders are honest (trust), but it uses data and technology to continuously verify this assumption, focusing its enforcement resources only on the potentially non-compliant.
- **Technology as an Objective Arbiter:** There is a foundational belief that algorithms, data, and AI-driven scans can be more objective, consistent, and less prone to corruption than human discretion. The faceless assessment model is a direct manifestation of this.
- **Minimalist State in Operations:** The philosophy shifts the role of the customs authority from an intrusive gatekeeper to a facilitative regulator. The state's job is to set the rules and use technology to ensure compliance, not to be physically present at every step of the transaction.



- **Multidimensional Analysis**

- **Social:** Expands opportunities for **MSMEs** by lowering the barriers to trade facilitation benefits. However, it also risks creating a digital divide where smaller players without tech savvy are disadvantaged. It reduces the scope for petty corruption at the factory-port interface, which has a positive social impact.
- **Political:** Showcases the government's commitment to "Ease of Doing Business" and "Digital India," which are key political narratives. The implementation of WTO TFA commitments enhances India's image as a responsible global trading partner. It also necessitates centre-state collaboration, as trade facilitation involves state-level industrial and infrastructure policies.
- **Legal:** Creates a modern, progressive legal framework (Digital Trade Facilitation Bill, 2026). However, it also generates new legal challenges around jurisdiction in cyberspace, electronic evidence admissibility, and the right to a fair hearing in a faceless system. Courts will play a crucial role in interpreting these new laws.
- **Ethical:** The shift is fundamentally ethical as it aims to replace discretionary, rent-seeking behaviour with transparent, rule-based systems. However, the use of AI raises ethical questions about algorithmic fairness and the potential for "digital redlining." The principle of **procedural fairness** (giving someone their day in court) must be upheld even in a faceless system.
- **International:** Aligns India with global best practices (WCO SAFE Framework, WTO TFA). Provisions for mutual recognition of AEOs and digital frameworks are crucial for integrating India into global supply chains. It enhances India's competitiveness as an export hub and fulfills commitments under trade agreements (e.g., with the UAE).
- **Economic:** Directly targets **transaction costs**—the hidden taxes of international trade. By reducing time and unpredictability, it lowers demurrage, storage, and working capital costs. This boosts the price competitiveness of Indian exports, enhances the ease of doing business, and can attract more foreign investment into manufacturing. It also improves tax compliance through better data and reduces revenue leakage.



- **Linkages with NCERTs**
- **Class XII NCERT: Introductory Macroeconomics**
  - **Chapter: Open Economy Macroeconomics:** This chapter covers the Balance of Payments (BoP), which includes exports and imports. Trade facilitation directly impacts the BoP by making exports more competitive and reducing the cost of imports. The concept of "Ease of Doing Business" is an external factor that influences a country's trade performance.
- **Class XI NCERT: Indian Economic Development**
  - **Chapter: Economic Reforms Since 1991:** This chapter discusses the shift from a protectionist regime to a more open economy. The trade facilitation reforms are a continuation and deepening of this liberalization philosophy, moving from simply opening up to making the process of trading efficient.
- **Class XII NCERT: Business Studies - Part I**
  - **Chapter: Business Environment:** Technological and legal environment are key components of the business environment. The article is a case study of how the government (political/legal environment) is using technology to fundamentally alter the business environment for exporters and importers.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper II: Governance, International Relations:**
  - **Governance:** "Important aspects of governance, transparency and accountability" – Faceless assessments, digital trails, and e-governance initiatives in Customs are prime examples of using technology to enhance transparency and accountability.
  - **International Relations:** "Bilateral, regional and global groupings and agreements involving India or affecting India's interests" – WTO's Trade Facilitation Agreement (TFA), WCO's SAFE Framework, and bilateral Mutual Recognition Agreements (MRAs) on AEO are directly relevant.
- **GS Paper III: Economic Development, Technology:**
  - **Economic Development:** "Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth." – Trade facilitation is a key outcome of the liberalization process, directly impacting industrial competitiveness and growth.
  - "Infrastructure: Energy, Ports, Roads, Airports, Railways etc." – The article discusses port infrastructure and logistics, which are critical components of economic infrastructure.
  - **Technology:** "Indigenization of technology and developing new technology." – The development of AI/ML models for customs risk management by Indian authorities is a case study of indigenous tech development .
  - "Achievements of Indians in science & technology; indigenization of technology and developing new technology." – The development of AI/ML models for customs risk management is a case study .
- **GS Paper IV: Ethics**
  - "Probity in Governance" – The entire shift towards faceless, contactless processes is an exercise in promoting probity by reducing human discretion and the potential for corruption. The concept of "conflict of interest" is minimized by anonymizing assessments.





- **Way Forward**

- **Deepening and Widening the AEO Programme:** The suggestion to automatically grant AEO Tier-1 status to GST-registered manufacturers with a clean record and a certain tax payment threshold is a pragmatic way to bring over 90% of active manufacturing units into the trusted-trade fold. This should be implemented with clear, transparent criteria.

- **Strengthening the Risk Management System (RMS):** While AI/ML models are in place, they must be continuously refined. The focus should be on moving from "scan every container" to "intelligently scan only high-risk containers." This requires further investment in data analytics and network analysis to identify complex fraud rings, not just individual errors.

- **Ensuring Procedural Fairness in a Faceless System:** As highlighted by judicial pronouncements, the government must build "Virtual Facilitation Cells" or online hearing mechanisms within the faceless assessment framework. The system must allow for a meaningful "opportunity of being heard" and maintain a clear, auditable trail of all decisions and communications to ensure accountability.

- **Addressing the Digital Divide:** A massive capacity-building and outreach programme is needed for MSMEs and smaller customs brokers. This includes creating user-friendly interfaces, multilingual support, and helplines to help smaller stakeholders adapt to the new digital ecosystem. The transition must be inclusive.

- **Robust Data Protection and Cybersecurity Framework:** With the Customs Integrated System (CIS) becoming a repository of vast commercial data, a strong data protection law and state-of-the-art cybersecurity protocols are non-negotiable. This will build trust among traders, both domestic and international, that their data is safe.

- **Harmonizing Inter-Agency Processes:** The "single window" should not just be for customs. The government must work to bring all Partner Government Agencies (PGAs) onto a single digital platform with synchronized risk-based clearances, so a consignment is not held up by one agency after being cleared by all others.

### UPSC CSE Prelims:

- **2017:** Question on WTO's Trade Facilitation Agreement (TFA) ratification and its timeline. (Directly tests knowledge of TFA, which is the overarching global framework for the article's subject) .
- **2016:** Question on 'Amber Box, Blue Box and Green Box' in the context of WTO affairs. (While related to agriculture subsidies, it tests general awareness of WTO terminology and agreements) .
- **2021 (Expected):** Questions on Ease of Doing Business Index (World Bank) or institutions like WTO, WCO.

### UPSC CSE Mains:

- **GS Paper II (Governance):**
  - "E-governance in India is not just about digitization but about a fundamental shift in the philosophy of governance." Analyze this statement in the context of recent trade facilitation reforms. (Hypothetical, but directly based on the article's theme)
  - "Transparency and accountability are the cornerstones of good governance." Discuss how faceless assessment in customs promotes these principles.
- **GS Paper III (Economic Development):**
  - **2023:** "Explain the potential of the 'Ease of Doing Business' reforms in attracting Foreign Direct Investment (FDI) into India." (Trade facilitation is a major component of EoDB reforms).
  - **2020:** "Trade facilitation agreements are essential for integrating India's economy with global value chains." Comment.
  - **2019:** "How would the recent strengthening of the Authorised Economic Operator (AEO) programme help in promoting India's exports?" (Directly relevant to AEO and trade facilitation).
  - **2018:** "India needs to reduce its logistics cost to improve its export competitiveness." Examine the measures taken by the government in this direction.



RAVI VARANASI

**T**he Reserve Bank of India's proposal to allow banks to lend directly to Real Estate Investment Trusts (REITs) is a welcome and potentially transformative reform. It signals regulatory confidence in India's evolving real estate capital markets and recognises the growing importance of REITs as institutional financing vehicles.

However, the long-term success of this reform will depend less on the decision itself but more on how the lending framework is designed and supervised. Done well, this reform can accelerate capital formation and improve real estate governance. Done poorly, it risks recreating legacy real estate credit vulnerabilities that India has spent years trying to correct.

The opportunity is significant. So is the responsibility.

India's REIT ecosystem continues to lag global benchmarks in depth and scale. This gap persists despite significant expansion in modern logistics infrastructure, commercial office space and organised retail assets, sectors that typically anchor institutional real estate ownership worldwide.

One of the biggest structural constraints has been funding concentration.

Indian REITs have relied predominantly on capital market borrowing through equity issuance and lined debt. While this provides transparency and market discipline, it also introduces cyclicity. Fundraising windows depend heavily on market sentiment and interest rate cycles.

Allowing bank lending introduces financing diversification. It provides REITs with stable credit channels, improves acquisition flexibility and lowers cost of capital.

Most importantly, it strengthens the asset recycling mechanism that allows developers to monetise stabilised assets and redeploy capital into new infrastructure creation.

From a macro perspective, this aligns well with India's urbanisation and infrastructure growth trajectory.

Historically, India's banking sector has faced stress primarily from lending



# Bank credit may unlock REIT growth

**THRUST AREA.** Policy design must ensure bank lending to REITs is treated as an income-yield credit product rather than project finance

to real estate development projects rather than stabilised income-generating assets. REITs, by design, are fundamentally different from developers. They hold completed assets with rental cash flows, tenant diversification and disclosure standards. However, if lending frameworks fail to recognise these structural differences, banks may either overestimate or underestimate sector risks.

Policy design must therefore focus on ensuring that bank lending to REITs is treated as an income-yield credit product rather than project finance.

## FIVE POLICY DESIGN PRINCIPLES

**Cash flow-based lending frameworks** must be mandatory: Traditional real estate lending in India has been asset or collateral driven. REIT lending must instead prioritise cash flow underwriting. Banks should be required to evaluate: lease tenure stability; tenant concentration exposure; occupancy track records; rental escalation visibility; and weighted average lease maturity profiles.

Globally, REIT credit evaluation is

**Allowing bank lending provides REITs with stable credit channels, improves acquisition flexibility and lowers cost of capital**

driven by rental yield resilience rather than asset valuation alone. Adopting similar frameworks will reduce credit cyclicity.

**Conservative leverage guardrails** should be preserved: India's REIT regulations already prescribe leverage limits. Bank lending guidelines should align closely with these caps rather than creating parallel leverage build-up through layered debt structures. Prudential norms could consider: loan-to-value ceilings linked to stabilised asset valuations; debt service coverage ratio thresholds; and restrictions on refinancing that extends beyond underlying lease visibility.

This would prevent excessive financial engineering while preserving capital discipline.

**Exposure diversification norms** for banks are essential: REIT assets are geographically and sectorally concentrated by nature. Bank exposure guidelines must therefore ensure diversification across multiple REIT sponsors; different asset classes such as office, logistics and retail; and regional concentration risks.

Concentration risk has historically amplified banking sector stress in real estate cycles. Preventing such clustering will be critical.

**Encourage specialised real estate credit expertise** within banks: One under-discussed challenge is the limited institutional experience. Indian banks have in underwriting rental yield-based

real-estate financing at scale. The RBI could consider encouraging: dedicated real estate credit verticals within banks; sector-specific risk modelling frameworks; and data-driven performance monitoring of REIT assets.

Over time, this would help create specialised credit capability comparable to global real estate lending markets.

**Align lending incentives** with long-term stability: REIT lending should ideally favour stabilised assets rather than aggressive acquisition-driven leverage expansion. Policy incentives could encourage lending structures tied to operational asset performance rather than speculative growth.

This would reinforce the core purpose of REITs as yield vehicles rather than leveraged asset accumulation platforms.

## THE WAY FORWARD

The RBI's move deserves strong support. It reflects regulatory pragmatism and confidence in India's maturing financial architecture.

The next phase must focus on designing a robust, forward-looking prudential framework that recognises the unique risk profile of REIT financing. Policymakers, banks and market participants should treat this reform as an opportunity to build a globally competitive real estate financing ecosystem rather than merely expanding credit availability.

The writer is Founding Partner, SPWV Consultants

- **Key Terms and Explanations**

- **Real Estate Investment Trust (REIT):** A company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors to own a portfolio of properties (like office buildings, malls, or logistics parks). They are mandated to distribute a majority (at least 90% in India) of their taxable income to shareholders as dividends, making them a popular income-yield investment.
  - **Simple Example:** Instead of buying a single shopping mall, an investor buys units of a "Mall REIT." The REIT owns 10 malls across India. The rent collected from these malls, after expenses, is passed on to the unit-holder as a dividend.
- **Infrastructure Investment Trust (InvIT):** A trust that works similarly to a REIT but its underlying assets are revenue-generating infrastructure projects, such as toll roads, power transmission lines, or telecom towers .
- **Income-Yield Credit Product:** A type of loan where the lender's primary security is the steady, predictable income stream (cash flow) generated by the asset, rather than just the underlying asset's market value. For a REIT, this income is the rent from its properties.
- **Project Finance:** A traditional method of funding real estate where the loan is repaid from the cash flows generated by a specific project (e.g., a new building under construction). It is considered riskier due to construction delays, regulatory approvals, and market uncertainty during the development phase.
- **Asset Recycling:** A process where capital locked in mature, operational assets (like a fully-leased office park) is freed up by selling that asset to an entity like a REIT. The original developer can then use this capital to invest in new infrastructure or real estate projects, thus "recycling" the asset for economic growth .
- **Prudential Norms:** These are regulations set by financial authorities like the RBI to ensure the safety and soundness of the financial system. They include guidelines on capital adequacy (how much capital a bank must hold), exposure limits (how much it can lend to a single sector), and asset classification (how to categorize performing and non-performing loans).

## Main Arguments and Substantive Parts

**Core Thesis:** Bank credit can unlock significant growth for India's REIT ecosystem, but only if the lending framework is built on a foundation of income-yield analysis rather than traditional, asset-heavy project finance logic.

### Supporting Arguments (The Opportunity):

- **Funding Diversification:** Indian REITs currently rely heavily on capital markets, which are cyclical and sentiment-driven. Bank lending provides a stable, alternative credit channel, reducing the cost of capital and enabling smoother acquisition financing.
- **Strengthening Asset Recycling:** By providing cheaper debt, bank lending makes REITs more efficient buyers of stabilised assets. This allows developers to monetise completed projects and reinvest the capital into new construction, fueling a virtuous cycle of growth in urban infrastructure.
- **Regulatory Confidence:** The proposal signals that the RBI views the regulatory framework for REITs (overseen by SEBI) as mature and robust enough to manage the risks associated with institutional credit.

### Supporting Arguments (The Risk & The Solution):

- **Risk of Misdiagnosis:** The article argues that legacy banking stress in India has come from lending to *development* projects (construction risk, regulatory delays). REITs hold *completed*, income-generating assets. If banks fail to understand this structural difference, they could either lend too cautiously (missing the opportunity) or too liberally (recreating old vulnerabilities).
- **The Prescription - Five Design Principles:** The article proposes five key policy principles to mitigate risks:
  - **Cash Flow-Based Lending:** Mandate underwriting based on lease tenure, tenant quality, and rental yield resilience, not just collateral value.
  - **Conservative Leverage Guardrails:** Align bank lending limits with existing SEBI regulations for REITs to prevent excessive debt buildup.
  - **Exposure Diversification:** Ensure banks diversify their REIT lending across different sponsors and asset classes (office, retail, logistics) to avoid concentration risk.
  - **Specialised Credit Expertise:** Encourage banks to build in-house expertise to evaluate rental-yield-based financing, moving away from generic real estate lending teams.
  - **Long-Term Stability Incentives:** Design lending structures that favour operational, stabilised assets over speculative, acquisition-driven expansion.

- **Historical Evolution of the Issue**

- Tracing the evolution of real estate financing and regulation in India helps contextualise this reform.

- **Pre-2016 (The Unregulated Era):** The real estate sector was largely unregulated. Developers launched projects based on "super built-up area" pricing with little transparency. Homebuyers paid upfront, but funds were often diverted to other projects. Bank lending to the sector was primarily project finance, fraught with risk and leading to a high incidence of stalled projects and Non-Performing Assets (NPAs). This was the era of the "builder-banker" nexus that contributed to the bad loan crisis.

- **2016 (The Regulatory Inflection):**

- **RERA:** The Real Estate (Regulation and Development) Act was a watershed moment. It mandated project registration, forced developers to deposit 70% of collections in an escrow account, standardised pricing on "carpet area," and imposed strict timelines. This brought transparency and accountability, slowly transforming real estate from a speculative gamble into a more formal industry .
- **REIT Regulations:** SEBI first notified the REIT Regulations in 2014, but the ecosystem took time to develop. The regulatory framework mandated a trust structure, high distribution payouts, and a focus on completed assets.

- **2019-Present (The REIT Era Begins):** India saw its first listed REIT (Embassy Office Parks) in 2019. Since then, the market has grown slowly but steadily. The primary challenge has been the shallow pool of domestic capital and the reliance on foreign institutional investors and high-net-worth individuals, highlighting the need for deeper funding sources like bank credit .

- **2024-2026 (The Deepening Phase):** This is where the article's proposal fits in.

- **Budget 2026:** The Union Budget proposed using REITs to monetise land and properties held by Central Public Sector Enterprises (CPSEs), signaling strong government intent to use REITs as a key asset recycling tool .
- **RBI Draft Directions (Feb 2026):** The RBI released draft directions explicitly permitting bank lending to REITs with stringent conditions: REITs must be listed, have three years of operational history with positive cash flows, and loans must be fully secured. An exposure cap of 49% of the REIT's asset value was proposed

## FROM SPECULATION TO RENTAL STABILITY: THE OLD PARADIGM



**Traditional Developer & Construction Risk**

**Primary Risk:**  
Construction & Approvals  
(Uncertain Future Sales)



**RERA**  
(Project Level)

**Repayment Source:**  
Future Sales  
(Uncertain)

### COMPARISON OF RISK MODELS

Feature	Traditional Developer	Listed REIT
Primary Risk	Construction & Approvals	Vacancy & Macroeconomic
Repayment Source	Future Sales (Uncertain)	Existing Rent (Predictable)
Regulation	RERA (Project Level)	SEBI & RBI (Institutional Level)

**Project Finance: High-Risk, Under-Construction Projects**

Focus on Speculative Housing, Not Income

## THE NEW PARADIGM: REITs as a 'Mutual Fund for Real Estate'

**Primary Risk:**  
Vacancy & Macroeconomic  
(Predictable Existing Rent)



**SEBI & RBI**  
(Institutional Level)

**Repayment Source:**  
Existing Rent  
(Predictable)



**Listed REIT & Income-Yield Assets**

**Income-Yield Credit: Backed by Finished, Rent-Paying Assets**

Pool Investor Money to Manage Professional, Income-Generating Properties.  
De-Coupling Risk: Separating Low-Risk Finished Assets from Speculative Projects.

### THE VIRTUOUS CYCLE OF ASSET RECYCLING



- **Logical and Philosophical Base**

- **Underlying Logic (Instrumental Rationality):** The primary logic is one of **efficient capital allocation**. The economy has sunk capital into mature, income-generating assets (like IT parks). A REIT allows this capital to be "released" (via public markets or bank loans) and reinvested into greenfield projects. Bank lending to REITs is a logical extension, creating a cheaper, more stable source of capital for this recycling mechanism. It's about moving from a static pool of assets to a dynamic flow of capital.

- **Philosophical Foundation (Regulatory Pragmatism):** The philosophy here is a shift from a purely **precautionary** regulatory stance to a more **facilitative** one. The RBI is acknowledging that a maturing financial system needs diverse credit products. It implicitly trusts the institutional framework (SEBI's REIT regulations, corporate governance standards of listed entities) to manage micro-level risks, allowing the RBI to focus on macro-prudential stability. This reflects a philosophical belief in **regulated market efficiency** over absolute state control of credit.

- **Assumptions:**

- The primary assumption is that the future cash flows (rental income) of a REIT are stable and predictable enough to service debt.
- It assumes that the governance and disclosure standards of listed REITs are robust enough to prevent the kind of financial fraud seen in the pre-RERA era.
- It assumes that banks can, over time, build the intellectual capital required to underwrite this new class of risk.



- **Multidimensional Analysis**
- **8.1 Social Dimension**
  - Faster trade can generate jobs in manufacturing, logistics, warehousing, ports, and export ecosystems.
  - Reduced delays can help smaller producers enter external markets.
  - But digital compliance can widen the divide between large formal firms and smaller semi-formal units.
  - Social legitimacy will depend on inclusion, handholding, and simplification.
- **8.2 Political Dimension**
  - Trade facilitation supports the broader developmental narrative of efficiency and competitiveness.
  - It strengthens the image of a reforming state.
- **8.3 Legal Dimension**
  - The issue sits at the intersection of customs law, commercial law, contract law, evidence law, and digital governance.
  - The legal architecture must define authenticity, control, transfer, liability, and admissibility of digital records.
  - Due process and right to appeal remain essential in automated environments.
- **8.4 Ethical Dimension**
  - The ethical case for reform is strong: honest traders should not suffer avoidable delays and discretionary burdens.
- **8.5 International Dimension**
  - Efficient customs directly affect export competitiveness and global supply-chain integration.
  - Mutual recognition of trusted operators can improve India's standing in international trade.
- **8.6 Economic Dimension**
  - Lower logistics friction improves cost competitiveness.
  - Working capital efficiency rises through faster clearance and deferred duty mechanisms.
  - Predictability encourages export-oriented manufacturing.
  - Trade facilitation has multiplier effects on industrialization, investment, and formalization.



- **Linkages with NCERTs**
- **Class 12 - Macroeconomics, Chapter 3 (Money and Banking):** Explains the functions of commercial banks, the process of credit creation, and the role of the RBI in regulating money supply and credit. This article is a live example of the RBI's role in shaping the *direction* of credit, not just its quantity.
- **Class 11 - Indian Economic Development, Chapter 8 (Infrastructure):** Discusses the critical role of infrastructure in economic development and the challenges in financing it. The REIT-InvIT framework is a direct policy solution to these infrastructure financing challenges.
- **Class 10 - Understanding Economic Development, Chapter 4 (Globalisation and the Indian Economy):** This chapter touches upon the integration of Indian markets with the world. REITs are a product of global financial integration, and this reform makes Indian markets more aligned with global standards, attracting foreign investment.

## Linkages with UPSC CSE Syllabus

**GS Paper 3 (Indian Economy):** This is the strongest linkage.

- **Banking & Financial Sector:** Issues relating to planning, mobilization of resources, growth, development, and employment. The article is a classic example of financial sector reform aimed at mobilizing resources (through REITs) and improving credit delivery.
- **Infrastructure:** Investment models. The article directly addresses the model for financing urban and commercial infrastructure through asset recycling and deepening capital markets.
- **Government Policies & Interventions:** The article is a direct analysis of a government/RBI policy intervention and its intended and potential unintended consequences.

**GS Paper 2 (Governance):**

- **Regulatory Bodies:** The article highlights the roles and coordination between two key statutory regulators: the RBI and SEBI.
- **Government Policies & Interventions:** The RERA Act and the budget proposal for CPSE REITs form the broader policy backdrop.

**GS Paper 4 (Ethics):**

- **Ethics in Public Administration:** The article touches upon the ethical dimensions of policy-making—balancing the public good of economic growth (consequentialist ethics) with the duty of care to prevent financial instability (deontological duty of a regulator). It also discusses "regulatory capture" and the importance of transparency to prevent cronyism.

**Essay Paper:** Topics like "Capital: The Lifeline of an Economy," "Urbanization and its Challenges," or "Reforming the Reformers" can draw heavily from the themes in this article.

## Way Forward

### For Policymakers (RBI/Government):

- **Finalise a Hybrid Prudential Framework:** The RBI's draft is a good start. The final framework should explicitly mandate the five design principles from the article, especially the focus on cash flow (DSCR) over mere collateral (LTV).
- **Foster Regulatory Sandboxes:** Create a sandbox environment where banks and REITs can experiment with different lending models under the regulator's supervision, allowing for data-driven policy fine-tuning.
- **Capacity Building Mandate:** Issue advisories to banks, especially public sector ones, to form dedicated teams for real estate and infrastructure finance, with training programs conducted in partnership with institutions like the National Institute of Bank Management (NIBM).

### For Banks:

- **Develop In-House Expertise:** Proactively hire and train professionals with skills in commercial real estate valuation, lease analysis, and property law, moving beyond traditional relationship banking.
- **Robust Due Diligence:** Go beyond the REIT's books. Conduct deep dives into the tenant profile of the underlying assets, the lease expiry schedules, and the quality of the asset managers.

### For REITs and Market Participants:

- **Maintain High Governance Standards:** The access to cheaper credit is a "governance dividend." REITs must maintain impeccable transparency and disclosure standards to retain the confidence of both the market and the banks.
- **Diversify Asset Base:** To attract a wider pool of bank credit, the industry should work towards creating REITs focused on different asset classes like warehousing, data centres, and potentially affordable rental housing, thereby reducing concentration risk for lenders.

## **Prelims:**

### **•2023:**

- Consider the following statements: (About InvIts and REITs - Direct question on their structure)
- With reference to Digital Rupee, consider the following statements: (Context of RBI's financial innovations)

### **•2022:**

- With reference to the Indian economy, consider the following statements: (About "Bad Bank" and NPAs - related to credit risk)
- "G-Secs" are issued by the Government of India. With reference to this, which of the following statements is/are correct? (Context of deepening bond markets)

### **•2021:**

- Which of the following factors are responsible for the rising NPAs in the Indian banking sector? (Historical context for why the RBI is being cautious now)
- Consider the following statements: (About Monetary Policy Committee - relates to RBI's role)

### **•2020:**

- With reference to the Indian economy, "Collateral Borrowing and Lending Obligations (CBLO)" is/are? (Relates to money market instruments)

### **•2018:**

- Consider the following statements about the Insolvency and Bankruptcy Code (IBC), 2016: (Crucial for understanding the legal framework for stressed assets)

### **•2016:**

- With reference to 'Bitcoin', sometimes seen in the news, which of the following statements is/are correct? (Broader context of financial innovation)



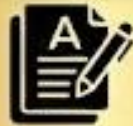
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