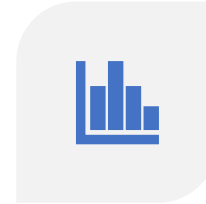
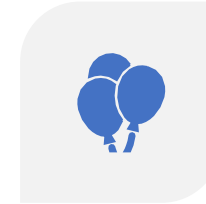




# AXIA IAS ACADEMY



EDITORIAL ANALYSIS



MAY 23



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1. Reforms will deliver 10x the savings from austerity (BUSINESS STANDARD)
2. We need to speed up economic reform, but pessimism doesn't help (THE INDIAN EXPRESS)
3. Recent FTAs could erode our policy space (THE HINDU BUSINESSLINE)
4. Cyber warfare is outpacing global legal accountability (THE HINDU)



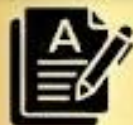
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# Reforms will deliver 10x the savings from austerity

Indians prefer saving over spending. But for this to happen naturally, it requires more than calls to save fuel or work from home



BEYOND IDEOLOGY

R JAGANNATHAN

It is difficult to fault the Prime Minister's call for austerity in the wake of mounting pressure on energy costs and the deep fractures in global supply chains. Among other things, he asked citizens to use less petrol-fuels by using public transport, exhorted farmers to reduce fertiliser consumption, and urged companies to allow employees to work from home. He also asked consumers to reduce gold purchases and foreign jaunts to conserve foreign exchange. When the economic going gets tough, voluntary belt-tightening is the first stop.

The problem with austerity measures, while well-intentioned, is that they cannot substantially move the needle on consumption trends because the underlying reasons for this demand remain largely unresolved. And they will accomplish far less than reforms.

Reforms in agriculture, which swallows trillions in subsidies for power, diesel, water, and fertiliser,

would deliver real efficiency gains that would dwarf any voluntary austerity measures that farmers may undertake — which they probably won't anyway, given the way they are politically mollycoddled by all parties. A simple way to start the process would be to price fertilisers at market rates, and shift the subsidy to cash payments per acre of farmland — which would force farmers to rethink how much fertiliser they use. The less they use, the more they save.

Then there is the perverse incentive to use private vehicles due to the poor quality of public transport. In 2025-26, Indians bought over 26 million personal vehicles (four-wheelers and two-wheelers), aided further by goods and services tax (GST) cuts in September 2025. Add this to the stock of 310 million two- and four-wheelers already on the roads at the end of the previous year, and the calculation is simple: Roughly one in four Indians now has access to a personal vehicle, though this is an oversimplification as many families may own multiple vehicles, and others may not even own a bicycle. But it underscores our overemphasis on personal transportation.

The underlying reason for this is the abject failure of public transportation in India, which has over the past few decades forced Indians to seek refuge in vehicle ownership. The growth of metros and suburban railways has not kept pace with commuter demand. Moreover, when

public transport is overcrowded, women workers will especially seek to avoid the congestion and physical crush that is unavoidable in buses and suburban trains.

Austerity calls on petrol-fuels will be of marginal help when the alternatives to personal transport are poor. Next, there is the poor quality of urban services like water and power. In most gated communities in Bengaluru, and even in high-rise buildings in Mumbai or other metros, water demand is substantially met by tankers. With power supply being unreliable, most buildings need diesel generators to make sure that at least the lifts work when power fails.

Net result, the demand for diesel is equally difficult to curtail when water tankers and diesel generators are vital to life in metros. If water and power supplies were reliable, there would be no need for these diesel-guzzling vehicles to rush about town, spilling water and belching toxic fumes all along the way.

Our metros and flyovers are also not constructed to optimise fuel consumption. Unlike metros in most cities abroad, which are built underground so that the existing road space is not restricted, in India most metros are built above the ground to save on construction costs. And most flyovers are planned just to jump over a traffic hotspot, and have inadequate service roads to accommodate vehicles that need to go under them.



ILLUSTRATION: BINAY SINHA

Let's look at work-from-home (WFH), which requires reliable Wi-Fi or high-quality mobile internet. During Covid, when employees retreated to their homes by necessity, WFH worked well for those who needed to be on the internet most of the time; the rest managed with 4G and mobile hotspots and phones. But here's the problem: If WFH has to be an effective alternative, it also has to be more reliable for the vast majority, and not just for software workers.

Now consider how Wi-Fi really comes to your home. The cable that

enters your building lives a charmed life outside, as it is slung from rooftop to rooftop, and from treetop to lamp-post. So, when these exposed wires snap for one reason or another, there is an outage, making Wi-Fi connections prone to regular disruptions. Till these cables are finally pushed underground like piped gas lines, their reliability will not be as good as they ought to be.

And, let's not forget, WFH needs the H as much as the Wi-Fi. Homes in India are priced out of reach for most middle-class households as politicians and builders use regula-

tory hurdles to slow down land supplies in order to collect rents from scarcity. After Covid, rents also went through the roof. The underlying reasons for high home costs, whether for rental or purchase, are the massive restrictions and regulations governing land use and land availability. Politicians (and pliant bureaucrats) use their ability to control land supplies to extract hefty bribes for regulatory clearances — and this is the money that often finds use in purchasing votes and for private wealth accumulation. Consider why simple solutions like

raising the floor-space index (FSI) can bring down land prices. A building with an FSI of four can build twice as many apartments as one with two, which means land costs can fall dramatically if politicians want it to happen. Even assuming that not all crowded areas can afford high FSI due to street congestion and infrastructure constraints, there is no reason why new suburbs with no limits to road infrastructure should not be significantly cheaper than they are now. But vested interests block any shift to a saner regulatory policy that increases the availability of cheaper land, and therefore affordable homes.

As for buying less gold, the problem is one of mixed signals. How can you ask households to buy less gold when our own central bank is going big on gold? How can you prevent gold buyers from assuming that the yellow metal can never lose value, when tariffs automatically push up gold prices in the domestic market? In 2024, the Narendra Modi government reduced gold import duties to bring down domestic prices; now, in calling for austerity, it is doing the opposite, thus making gold look even more lucrative as an investment.

Our problem is not austerity, for Indians have always had a penchant to save rather than spend. But for that to happen naturally, we need to think of more than just asking people to save fuel or work from home or buy less gold. We have to fix the underlying issues: Public transport, quality power and water supplies, sensible urban infrastructure, and lower land prices. And, of course, reform agriculture.

The author is a senior journalist

## • Key Terms and Explanations

- **Austerity:** A set of voluntary or policy-induced measures aimed at reducing consumption or government spending to conserve resources. In the Indian context, it often manifests as appeals to save fuel, cut down on foreign travel, reduce gold purchases, or adopt work-from-home. While non-coercive, such measures rely heavily on individual moral persuasion rather than structural change.
- **Subsidy:** A financial benefit given by the government to make essential goods or services affordable. For instance, fertilizer subsidies keep urea prices artificially low, but they also lead to overuse, soil degradation, and massive fiscal outgo. In agriculture, power and water subsidies further compound inefficiencies by encouraging wasteful irrigation practices.
- **Direct Benefit Transfer (DBT) / Cash Transfer:** Shifting subsidies from price support to direct cash payments into beneficiaries' bank accounts. A simple example: instead of selling fertilizer below market cost, the government could provide farmers a fixed per-acre cash amount, allowing them to purchase fertilizer at market price. This would incentivize efficient use while retaining income support.
- **Floor Space Index (FSI):** The ratio of built-up area to the area of the plot. A higher FSI (say 4 instead of 2) allows developers to construct more floors or housing units on the same piece of land, effectively reducing the per-unit land cost. Artificially restricted FSI in Indian cities is a key driver of high real estate prices and unaffordable rents.
- **Public Transport Deficiency:** A condition where urban and suburban mass transit systems—buses, metro, local trains—fail to match population growth, leading to overcrowding, safety concerns (especially for women), and a resultant shift toward private vehicle ownership, which increases fuel consumption and carbon emissions.
- **Work-from-Home (WFH):** A working model where employees operate remotely using internet connectivity. Its success depends on reliable last-mile broadband infrastructure, affordable housing, and power supply—all areas where India faces critical deficits beyond the software sector.
- **Gold Import Bill and Tariff Policy:** India is one of the world's largest gold importers, and high domestic demand puts pressure on the current account deficit. Duty changes directly influence domestic prices: lower duties make gold cheaper and curb smuggling, but also can stimulate demand; higher duties may reduce imports but push the parallel economy and even make gold a more attractive investment if prices rise further.
- **Structural Reforms:** Policy changes that address root causes of inefficiency, rather than merely treating symptoms. Examples include shifting from product subsidies to direct income support, reforming urban land laws to increase housing supply, and building underground utilities for reliable digital connectivity—all of which promise deeper and more sustainable economic savings than voluntary cutbacks.



- **Main Arguments and Substantive Parts**

- **Core Thesis**

The central claim is that calls for austerity, however well-meaning, can achieve only marginal savings because they do not tackle the structural drivers of consumption. In contrast, targeted reforms in agriculture, urban infrastructure, land markets, and gold policy can yield savings that are an order of magnitude higher—hence “10x the savings from austerity.”

- **Key Points and Supporting Evidence**

- *Agriculture as a Case of Perverse Subsidies:* Fertilizer subsidies encourage overuse, hurting soil health and increasing imports of raw materials and finished fertilizers. A switch to per-acre cash transfers would make the real cost of fertilizers visible to farmers, leading to rational use and a direct reduction in the government’s subsidy bill without cutting income support. The article argues that even partial reform here would dwarf any voluntary conservation by farmers, who remain politically “mollycoddled” and unlikely to voluntarily cut back.
- *Public Transport Failure and Private Vehicle Explosion:* With over 26 million personal vehicles sold in 2025-26 and a stock of 310 million, roughly one in four Indians has access to a private vehicle. This is not a sign of affluence but a forced response to broken public transport. Overcrowded buses and trains, slow metro expansion, and unsafe commuting conditions push people toward two-wheelers and cars, locking in high fuel consumption that no austerity appeal can undo.
- *Urban Services and Diesel Dependence:* In cities like Bengaluru and Mumbai, unreliable municipal water and power force housing societies to rely on diesel-guzzling water tankers and backup generators. These are not luxury choices but survival necessities. Until basic urban utilities become reliable, any call to save diesel will remain cosmetic.
- *Infrastructure Design Flaws:* Above-ground metro construction conserves capital expenditure but eats into road space, worsens congestion, and indirectly increases fuel consumption. Similarly, poorly planned flyovers without service roads create bottlenecks that cause vehicles to burn more fuel while idling or taking longer detours.
- *WFH and Connectivity Bottlenecks:* The article draws a realistic picture of India’s internet infrastructure—fiber cables slung haphazardly over trees and rooftops, leading to frequent outages. WFH, for many, remains unviable not because of corporate resistance but because basic digital utilities are unreliable. In addition, sky-high rents and unaffordable housing restrict the ‘Home’ part of WFH.
- *Housing Affordability and Land Supply:* Restrictive FSI norms, land-use regulations, and political manipulation of land supply artificially inflate property prices. This not only hurts home buyers and renters but also reduces labour mobility and increases the cost of urban living, pushing the middle class into long commutes and higher fuel use.
- *Gold Policy Contradiction:* While the government urges households to buy less gold to conserve foreign exchange, its own central bank is accumulating gold reserves, and tariff adjustments sometimes make gold an even more attractive hedge against inflation. This mixed messaging undermines austerity appeals.

- **Historical Evolution of the Issue**

- **Pre-Independence Era:** Urban public transport systems like the Bombay Suburban Railway and Calcutta Tramways were built under colonial rule primarily for administrative and commercial convenience. Agriculture was largely unsubsidized, but land tenure systems were highly unequal, laying the seeds of future rural political mobilization.
- **Green Revolution and Input Subsidies (1960s–80s):** To achieve food self-sufficiency, the government heavily subsidized fertilizers, power, and water for farmers. What began as a strategic necessity gradually morphed into a politically untouchable entitlement. Fertilizer subsidies, in particular, became linked to urea pricing, leading to imbalanced nutrient application and ecological damage.
- **Urbanization and Public Transport Lag (1970s–2000s):** Rapid urban growth post-liberalization was met with underinvestment in mass transit. The first metro rail system started in Kolkata in 1984, but large-scale metro expansion in other cities only gained momentum after the 2000s. Meanwhile, the number of private vehicles surged, helped by easy finance and rising middle-class aspirations, a trend that hollowed out bus ridership in many cities.
- **Housing and Land Regulation Timeline:** Urban land ceiling acts, rent control laws, and restrictive master plans created artificial land scarcity from the 1970s onward. Though some reforms were initiated in the 1990s, most states retained highly discretionary and corruption-prone land-use conversion processes. The Real Estate (Regulation and Development) Act, 2016 (RERA) brought some transparency but did not address the underlying issue of limited FSI and high land costs.
- **Digital Connectivity Evolution:** Internet penetration took off after 2010 with mobile data, but fixed-line broadband infrastructure remained patchy. The 2020 pandemic tested WFH readiness and exposed the fragility of aerial fiber networks. Despite policy pushes like BharatNet, last-mile reliability is still a challenge.
- **Gold Policy Oscillations:** Historically, high gold imports led to periodic hikes in import duties (e.g., 2013 to curb current account deficit). Duties were lowered in 2024 to curb smuggling and align with global prices, but the 2026 austerity call signaled a reverse concern. This back-and-forth reflects a persistent policy tension between controlling imports and maintaining market stability.
- **Recent Fiscal and Crisis Context:** The global energy price spikes and supply chain disruptions following geopolitical tensions (Russia-Ukraine, Middle East) put pressure on India's import bill, prompting the Prime Minister's austerity call. This was not the first time—similar appeals were made during the 2013 taper tantrum and post-GFC—but the structural underpinnings remained largely unaddressed.

# AUSTERITY OR REFORMS?

## WHAT INDIA TRULY NEEDS FOR SUSTAINABLE GROWTH

CONCEPTUAL ANALYSIS FOR UPSC CSE

“The easiest choice should also be the best choice for the nation.”

### 1. KEY TERMS AND EXPLANATIONS

	<b>AUSTERITY MEASURES</b> Policies or voluntary actions aimed at reducing consumption and government deficit. Eg. Urging citizens to use less fuel or buy less gold to save foreign exchange.
	<b>STRUCTURAL REFORMS</b> Fundamental changes in the regulatory, institutional, or economic framework. Eg. Building a world-class metro so people naturally choose public transit.
	<b>DIRECT BENEFIT TRANSFER (DBT)</b> Transfers subsidies directly into the bank accounts of beneficiaries, reducing leakages. Eg. Cash subsidies to farmers instead of cheap, subsidized fertilizers.
	<b>FLOOR SPACE INDEX (FSI)</b> Determines how much you can build on a given plot of land. Eg. FSI 2 on 1,000 sq ft plot allows built-up area of 2,000 sq ft.
	<b>RENT-SEEKING</b> Gaining wealth without creating new wealth by using influence. Eg. Restricting land supply to inflate property prices and extract bribes.

### 2. MAIN ARGUMENTS AND SUBSTANTIVE PARTS

	<b>REFORMS OUTPERFORM AUSTERITY</b> Voluntary belt-tightening provides only marginal, temporary relief. Long-term economic resilience requires fixing root causes through decisive policy shifts.
	<b>THE AGRICULTURAL SUBSIDY TRAP</b> Agriculture consumes immense resources via subsidized power, water, fertilizers. Shift from price subsidies to cash transfers per acre to incentivize efficient resource use.
	<b>THE URBAN INFRASTRUCTURE DEFICIT</b> Reliance on private vehicles, diesel generators, water tankers is out of necessity, not luxury. Chronic failure of public transit, grid power and water supply forces carbon-heavy, inefficient choices.
	<b>THE REAL ESTATE PARADOX</b> “Work from home” is ideal, but homes are expensive due to restrictive land-use norms and low FSI. Politicians and bureaucrats maintain scarcity to extract rent.
	<b>MIXED MACROECONOMIC SIGNALS</b> Asking citizens to reduce gold purchases while gov't lowers import duties or RBI hoards gold sends contradictory signals that gold is a prime investment.

### 3. HISTORICAL EVOLUTION OF THE ISSUE



### 4. LOGICAL AND PHILOSOPHICAL BASE

	<b>BEHAVIORAL ECONOMICS vs. SYSTEMIC ARCHITECTURE</b> Austerity relies on moral exhortation, but individuals act on incentives. If buses are unsafe, a rational actor will buy a scooter.
	<b>THE UTILITARIAN PERSPECTIVE</b> True utility is maximized not by forcing discomfort (austerity), but by optimizing systems so the easiest choice is also the most beneficial for the nation.
	<b>THE SOCIAL CONTRACT</b> Citizens conserve resources and pay taxes; in return, expect reliable public goods. Failure breaks trust and forces people to prioritize basic needs.
	<b>STATE CAPACITY vs. CITIZEN BURDEN</b> A strong state builds institutions. A weak state asks citizens to compensate. Sustainable growth needs capable institutions, not just sacrificial citizens.

### 5. NEW FEATURES AND UNIQUE IDEAS

	<b>"CHOICE ARCHITECTURE" APPROACH</b> Design systems so that good choices are convenient and natural.
	<b>FROM SUBSIDY CULTURE TO INCENTIVE CULTURE</b> Shift from making inputs cheap to making efficient behavior rewarding.
	<b>URBANISM AS NATIONAL STRATEGY</b> Invest in cities like national infrastructure projects; they drive productivity.
	<b>ALIGNING POLICY SIGNALS</b> Consistency in government, RBI and market signals builds credibility and shapes behavior.

### 6. WAY FORWARD: REFORMS OVER AUSTERITY

AREA	REFORM-ORIENTED PATH
 Agriculture	DBT per acre, water pricing, crop diversification, rationalize power subsidies.
 Urban Infra	Mass public transit, last-mile connectivity, 24x7 power, piped water, waste management.
 Land & Housing	Rationalize FSI, ease land-use norms, transparency in land records.
 Governance	Reduce rent-seeking, digital approvals, strengthen accountability.
 Macroeconomic Consistency	Align import duties, RBI actions and public messaging on savings & investments.



### CONCLUSION

Austerity asks citizens to sacrifice today for an uncertain tomorrow. Reforms build systems where prosperity becomes the natural outcome. India's future depends not on how tightly we tighten our belts, but on how smartly we redesign the system.



- **Logical and Philosophical Base**

- **Utilitarian Logic of Reform vs. Austerity:** The article rests on a simple efficiency principle: a small tweak in a large, distorted system (fertilizer subsidies, urban land) can generate aggregate savings far exceeding the sum of millions of individual voluntary acts. In utilitarian terms, it is about maximizing the overall welfare gain with minimal individual sacrifice.

- **Libertarian Paternalism:** The proposed fertilizer DBT subtly nudges farmers toward efficient behavior without mandating cuts—farmers can still use as much fertilizer as they wish, but they will now face the true cost. This echoes the “nudge” philosophy popularized by Thaler and Sunstein, where choice architecture is redesigned to align private incentives with public good.

- **Moral Suasion vs. Structuralism:** The austerity approach assumes that citizens will change behaviour if they are made aware of a national crisis—a fundamentally idealist, even Gandhian, idea of voluntary sacrifice. The reform approach, in contrast, is structural-realist: it sees behaviour as largely shaped by the incentives and constraints embedded in systems, not by exhortation.

- **Public Choice Theory and Political Economy:** The resistance to reforms in fertilizer pricing, FSI relaxation, and underground cabling is not accidental. Politicians and bureaucrats often benefit from the current opacity and discretion—fertilizer subsidies provide opportunities for diversion; land-use control yields rent; haphazard cable networks avoid the capital cost of planned underground ducting. The article implies that austerity calls are politically safer because they impose no immediate cost on powerful interests.

- **Concept of “Natural Savings”:** The idea that Indians are naturally savers rather than spenders draws from a cultural and behavioural identity. The logical extension is that policy should remove the artificial constraints that force high consumption (e.g., buying a car because public transport is unsafe) and allow the natural propensity to save to express itself—philosophically, this is about removing impediments to self-realisation.

- **Epistemological Angle:** The article encourages policymakers to look beyond surface-level data on fuel consumption or gold imports and interrogate the “why” behind demand. It challenges the positivist notion that a policy call (austerity) is an independent variable that will directly alter behaviour; instead, it demands a critical realist inquiry into underlying mechanisms.

- **Multidimensional analysis**

- **Social**

- Access to reliable transport affects dignity, gender safety, labour mobility, and time poverty.
- Poor housing and long commutes weaken family life, health, and educational outcomes.
- Gold ownership often serves as informal household security, especially for women.

- **Political**

- Agricultural subsidies are deeply political because they combine livelihood support with electoral relevance.
- Urban reform suffers because municipal accountability is weaker than state-level politics.
- Politicians often prefer visible short-term announcements over difficult structural changes with delayed benefits.

- **Legal**

- Land reforms, tenancy rights, zoning rules, and FSI changes require legal clarity and institutional capacity.
- Public transport regulation, municipal finance, and service delivery depend on statutory frameworks and intergovernmental coordination.
- Any targeted transfer model must comply with principles of equality and non-arbitrariness.

- **Ethical**

- The issue raises a central ethical question: can the state ask citizens to sacrifice when public systems remain inadequate?
- Fairness demands reciprocal responsibility—citizens should conserve resources, but the state must provide viable alternatives.
- Ethical governance requires both prudence and justice.

- **International**

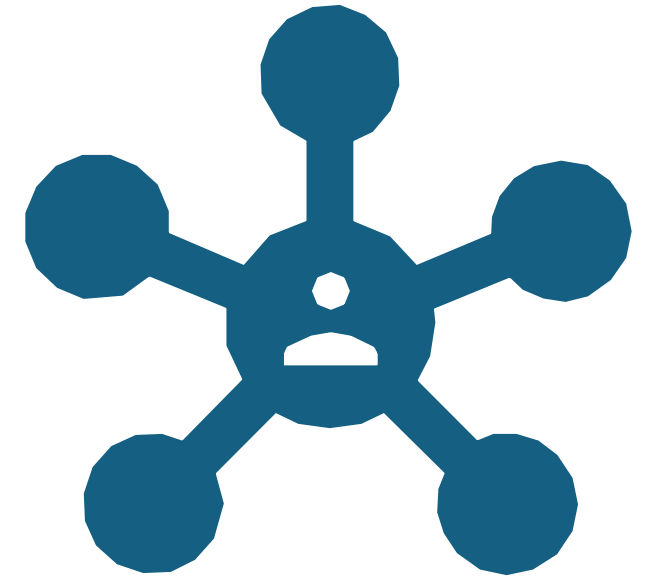
- High global energy prices, geopolitical shocks, and supply-chain disruptions increase import vulnerability.
- Gold also behaves as a global safe-haven asset, influencing domestic saving behaviour.
- Urban transport and subsidy reforms are linked to India's climate commitments and sustainable development goals.

- **Economic**

- Inefficient subsidies worsen fiscal strain and reduce productive public spending space.
  - Poor transport and housing lower labour productivity and raise logistics and living costs.
  - Structural reform improves efficiency, competitiveness, inflation resilience, and external balance over time.
-

- **Linkages with NCERTs**

- **Class 9 Economics – “People as Resource” and “Poverty as a Challenge”**
- Helps connect household decision-making, welfare, and state support with broader development outcomes.
- Useful for understanding why public services matter for productivity and human development.
- **Class 10 Economics – “Sectors of the Indian Economy”**
- Directly relevant to agriculture, services, transport, and interdependence across sectors.
- Also helps students understand why structural constraints in one sector raise costs in another.
- **Class 10 Economics – “Consumer Rights”**
- Indirect link through quality of services and state accountability, especially in utilities and transport.
- **Class 11 Indian Economic Development – “Indian Economy on the Eve of Independence”**
- Useful for historical roots of agrarian inefficiency, infrastructure gaps, and uneven development.
- **Class 11 Indian Economic Development – “Land Reforms”**
- Strong linkage with tenancy, land records, agricultural productivity, and state intervention.
- **Class 11 Indian Economic Development – “Rural Development”**
- Connects directly to agricultural subsidies, irrigation, credit, and sustainability.
- **Class 12 Macroeconomics – Government Budget and the Economy**
- Ideal for analysing subsidy burden, fiscal prudence, public expenditure priorities, and DBT.
- **Class 12 Macroeconomics – Open Economy Macroeconomics**
- Relevant for foreign exchange, import dependence, gold imports, petroleum imports, and current account concerns.
- **Class 12 Indian Society / Political Science themes**
- Urban inequality, governance capacity, public goods, and citizen-state relations connect conceptually.





- **General Studies Paper 1:**
  - *Urbanization, their problems and their remedies.* (Directly relates to land use, transport, and FSI issues).
- **General Studies Paper 2:**
  - *Issues and challenges pertaining to the federal structure.* (Municipal vs. State powers).
  - *Government policies and interventions for development in various sectors.*
- **General Studies Paper 3:**
  - *Infrastructure: Energy, Ports, Roads, Airports, Railways etc.*
  - *Issues related to direct and indirect farm subsidies and minimum support prices.*
  - *Investment models.* (Required for funding underground metros and broadband).
- **General Studies Paper 4 (Ethics):**
  - *Ethical concerns and dilemmas in government and private institutions.* (Rent-seeking by bureaucrats; the ethics of moral suasion vs. state responsibility).

- **Way Forward**

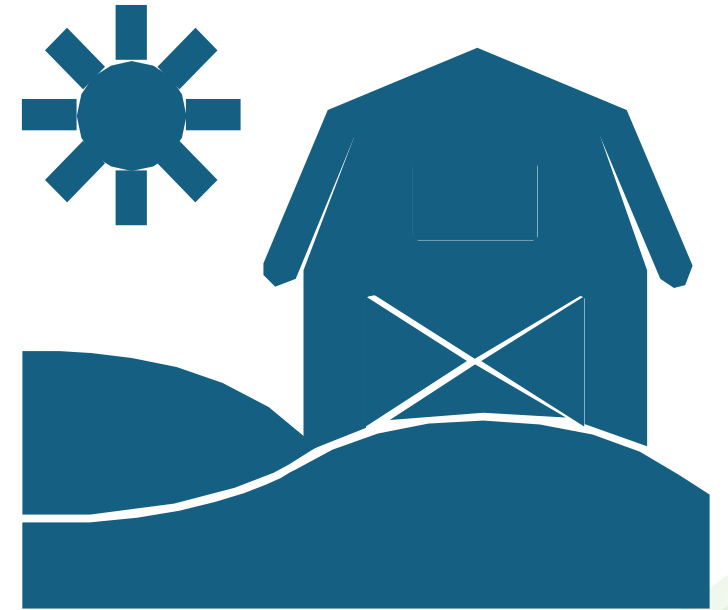
- **Agricultural Subsidy Rationalization:** Gradually transition all input subsidies (fertilizer, water, electricity) to Direct Benefit Transfers (DBT) based on landholdings, coupled with a massive push to update digital land records.

- **Empowering Local Governments:** Implement the 74th Constitutional Amendment Act in letter and spirit. Financially empower Urban Local Bodies (ULBs) to raise funds through municipal bonds for underground infrastructure.

- **Urban De-regulation:** Implement a progressive FSI policy to verticalize cities, increasing the supply of affordable housing and reducing the urban sprawl that necessitates long commutes.

- **Transit-Oriented Development (TOD):** Integrate land use and transport planning. High-density residential and commercial zones should be built directly adjacent to robust mass transit corridors.

- **Behavioral Nudges Built on Infrastructure:** Only after providing world-class public transport should the government implement disincentives for private vehicles, such as congestion pricing in city centers.



- **UPSC Mains (GS Paper 3):**
    - *2020*: "What are the main constraints in transport and communication networks in the economic development of India?"
    - *2019*: "How can the 'Direct Benefit Transfer' (DBT) scheme aid in price subsidy reform?"
    - *2017*: "Examine the developments of Airports in India through Joint Ventures under Public-Private Partnership (PPP) model. What are the challenges faced by the authorities in this regard?" (Related theme of infrastructure execution).
    - *2013*: "What are the different types of agriculture subsidies given to farmers at the national and at state levels? Critically analyze the agricultural subsidy regime with reference to the distortions created by it."
  - **UPSC Mains (GS Paper 1):**
    - *2016*: "With a brief background of quality of urban life in India, introduce the objectives and strategy of the 'Smart City Programme'."
-

# We need to speed up economic reform, but pessimism obscures, doesn't illuminate



V ANANTHA NAGESWARAN

**S**URJIT BHALLA is one of India's most independent economic voices, and his pieces in *The Indian Express* are not to be dismissed with the customary official reflex of pointing to infrastructure spending and sunrise sectors. He asks hard questions, and hard questions deserve hard answers. This one (‘The RFP is winning the election, but it's losing the economy’, IE, May 28), however, contains enough analytical ambiguity to warrant careful examination before one arrives at whatever genuine policy concern remains.

Begin with the most arresting claim: India risks joining Turkey as a residual ‘Fragile Five’, the original ‘Fragile Five’ designation — coined by Morgan Stanley in 2013 — had a specific, operationalisable content: Large current account deficits, fiscal imbalances, and acute vulnerability to Federal Reserve tapering. India's macroeconomic architecture today is categorically different from 2013 on each of those dimensions: Its monetary policy framework is methodical and inflation targeting, its fiscal consolidation trajectory is credible, and its foreign-exchange reserves are among the largest in the world. Turkey's trends, rooted in an sustained period of deeply negative real interest rates and institutional subordination of monetary policy to political preference, belong to a different analytical category. The comparison generates a striking headline — not an illuminating analysis.

The piece is also silent on what is perhaps the single most consequential development in global capital markets since the Global Financial Crisis: The end of the era of quantitative easing and near-zero interest rates. The decade of extraordinary monetary accommodation that preceded 2022 produced an artificial compression of risk premia globally, flooding emerging markets with capital that was, in effect, seeking any yield whatsoever. UNCTAD documents that global FDI rebounded sharply to \$1.58 trillion in 2023, a 64 per cent increase over the previous year. What followed was an equally sharp reversal.



ILLUSTRATION: CH. SURESH

New investment project numbers — greenfield announcements, international project finance deals, and cross-border M&As — all shifted into decline after the first quarter of 2022, with project finance values falling more than 30 per cent as financing conditions deteriorated and interest rates rose sharply across the US, the eurozone, and — for the first time in a generation — Japan. UNCTAD's World Investment Report 2023 confirms that global FDI fell for a second consecutive year. In such an environment, virtually every emerging market has faced currency and capital flow pressures. To attribute India's investment trends primarily to domestic policy failure, while ignoring the most consequential shift in global monetary conditions in four decades, is to mistake the tide for the swimmer's effort.

On RFPs, the empirical literature is far less settled than the piece implies. Bhalla treats the 2023 revision as a near-sufficient explanation for FDI trends. The academic record counsels more caution. Early papers — including Hallward-Driessner (2005) and Tobin and Rose-Ackerman (2005) — found weak or no effects of RFPs on FDI inflows. More recent work finds positive effects, but conditional on the quality of domestic institutions: RFPs function as a commitment device that complements strong institutions rather than substituting for weak ones. Most pertinently, a study examining India — Singh, Shreef, and Unnikrishnan (2022), published in the *Indian Economic*

*Review* — found that individual RFP signings do not influence FDI inflows; what matters is the cumulative stock of treaties, which signals an overall regime of investor protection. This finding, which the piece does not engage, considerably complicates the mono-causal story. Domestic institutional quality, regulatory predictability, and rule of law matter at least as much as treaty architecture — a conclusion that, if anything, broadens the reform agenda rather than narrowing it to a single legal instrument.

The FDI data itself tells a different story from the one the piece presents. Gross FDI inflows stood at \$86.29 billion through April-February of FY26, an 88 per cent jump over the previous year, and are on course to cross \$90 billion for the full fiscal year — well outside the \$70-\$80 billion range of recent years. India ranked fourth globally for greenfield project announcements in 2024, and its share of global FDI has roughly doubled over the past decade. Manufacturing FDI grew 88 per cent in FY25. These are not the indicators of investors leaving. Net FDI has been weaker, driven substantially by higher repatriation of profits and rising outward FDI as Indian companies themselves internationalise — a mark of corporate maturity, not economic distress. The piece collapses gross and net without acknowledgment, and that elision does considerable damage to the argument.

The growth ranking argument deserves similar care. Ranking India 16th in per capita GDP growth

in US dollar terms — behind Bangladesh at 6.1 per cent and Ethiopia at 7.2 per cent — is doing analytical work that the chosen denominator cannot support. Dollar-denominated per capita growth is a joint function of real growth and bilateral exchange rate movements. Currency appreciation or depreciation in Bangladesh or Ethiopia tells us something about their monetary and trade conditions. It does not constitute a welfare benchmark against which India's economic management should be evaluated. In purchasing power parity terms, which better captures actual improvements in living standards, India's performance across the RFP period looks materially different.

What Bhalla genuinely identifies — and what deserves acknowledgment — is that the investment climate requires continuous improvement, that the proliferation of quality control orders has at times crossed from quality assurance into protection, and that the RFP framework revision is incomplete. The government has recognised these issues. The Economic Survey and successive budgets have addressed deregulation, ease of doing business, and the need to signal regulatory predictability. The legitimate challenge is that the pace of reform must match the ambition. That is a fair demand. It is not, however, the same as the bracket verdict the piece's headline announces.

None of this is to claim that the macroeconomic outlook for FY27 is without genuine difficulty. The Department of Economic Affairs's monthly economic reviews have not shied from saying so. The trade deficit will widen significantly in FY27, as will the current account deficit. Inflation risks are tilted to the upside. A below-normal monsoon adds an agricultural dimension to a complex supply shock. The task of attracting stable, long-term capital — through credible tax policy, regulatory predictability, and reduced friction for investors — intensifies in these conditions. These challenges have been acknowledged in official documents.

Elections can deliver mandates. Only policy delivers prosperity. Both propositions are true, and the government accepts both. The appropriate response to Bhalla's genuine concerns is to accelerate reform — not to dispute the imperative, but to reject the analytical scaffolding that obscures rather than illuminates it.

The writer is chief economic advisor, Government of India

**The appropriate response to Bhalla's genuine concerns is to accelerate reform — not to dispute the imperative, but to reject the analytical scaffolding that obscures rather than illuminates it**

- **Key Terms and Explanations**
- **Economic Reform** means policy changes that improve productivity, competition, investment, efficiency and institutional performance. In India, reforms include liberalisation, deregulation, GST, IBC, infrastructure expansion, digital governance, labour reforms, FDI liberalisation and ease of doing business measures.
- **Macroeconomic Stability** refers to stable inflation, manageable fiscal deficit, sustainable current account deficit, adequate foreign exchange reserves and credible monetary policy. A country may grow fast for some time, but without macroeconomic stability, growth becomes vulnerable to shocks.
- **Foreign Direct Investment, or FDI**, is long-term investment by foreign entities in productive assets such as factories, services, logistics, technology or infrastructure. **Gross FDI** shows total inflows, while **net FDI** adjusts for repatriation, disinvestment and outward investment by Indian firms.
- **Greenfield Investment** means fresh investment in new facilities. For example, a foreign company setting up a semiconductor plant or manufacturing unit in India is a greenfield investment.
- **Bilateral Investment Treaty, or BIT**, is an agreement between two countries to protect investors from unfair treatment. However, BITs alone do not guarantee investment; investors also look at policy stability, contract enforcement, infrastructure, tax certainty and market size.
- **Current Account Deficit, or CAD**, means imports of goods, services and payments exceed exports and receipts. A moderate CAD is manageable, but a large CAD financed by volatile capital can create vulnerability.
- **Quality Control Orders, or QCOs**, are regulatory standards meant to ensure product quality, but if overused, they may act as disguised protectionism and raise costs for firms.
- **Purchasing Power Parity, or PPP**, compares economies by adjusting for domestic purchasing power. It is often more meaningful than dollar-based GDP for measuring living standards in developing countries.
- **Analytical Pessimism** means interpreting economic data in a way that highlights risks but sometimes ignores context, global shocks or counter-evidence. UPSC students must learn to distinguish between constructive criticism and selective negativity.

- **Main arguments and substantive parts**

- **Thesis: India needs faster, deeper economic reforms, but extreme pessimism about the present trajectory can be misleading and counter-productive.**
  - The author acknowledges valid concerns—like jobless growth, investment slowdown, inequality, and institutional weaknesses.
  - However, the argument is that analysis should distinguish between legitimate critique and sweeping pessimistic claims that ignore improvements in macro-fundamentals and reform steps already taken.
- **Re-examining macro-vulnerability labels (e.g., “Fragile Five”).**
  - The article likely challenges the continued use of the “fragile” tag for India, arguing that key indicators (forex reserves, fiscal position, external debt composition, inflation control) have improved compared to 2013.
  - It stresses that economic commentary must update its frameworks when underlying data change, instead of mechanically recycling old labels.
- **Highlighting structural improvement alongside persisting gaps.**
  - Examples of improvement: better inflation targeting framework, larger forex reserves, GST implementation, insolvency reforms, greater financial inclusion, expansion of digital infrastructure.
  - Persisting gaps: slow judicial processes, complex compliance burden for MSMEs, labour market rigidities, underinvestment in health and education, uneven state-level reforms.
- **Critique of “pessimistic scaffolding”.**
  - The author appears to argue that when analysts present highly negative meta-narratives, they may cherry-pick indicators (like one year’s investment data or a specific rating) while ignoring counter-evidence.
  - Such narratives can depress investor sentiment, discourage risk-taking, and even influence policy choices in sub-optimal ways.
- **Call for evidence-based, reform-oriented discourse.**
  - The appropriate response to India’s structural challenges is not to deny them but to use them as motivation for a renewed reform push.
  - Instead of “India is doomed” or “India has already arrived,” the desired middle path is: “India has made progress; here are the bottlenecks; here is how to accelerate reforms responsibly.”
- **Policy areas where acceleration is needed.**
  - Likely domains include: land and labour reforms, judicial and contract enforcement reforms, rationalisation of subsidies, improving urban governance, deepening financial markets, and upgrading state-capacity.
  - The article probably emphasizes that second-generation reforms are more complex and politically sensitive than 1991-style macro-stabilisation, hence require sustained consensus-building.
- **Conclusion: Optimistic realism rather than naive optimism or deep pessimism.**
  - The author’s concluding tone (judging from the headline) is: “Reform more, reform faster, but do not let pessimistic narratives become a self-fulfilling prophecy.”
  - Economic commentary should illuminate trade-offs and options, not merely perform outrage.

- **Historical evolution of the issue**

- **Colonial period and early planning (pre-1947 to 1960s).**
  - British rule shaped a colonial economy with extractive land relations, limited industrialisation, and lopsided trade patterns.
  - Post-independence planners inherited deep structural deficits: low literacy, poor health, weak industrial base, and foreign exchange scarcity.
  - Reforms in this era meant building state capacity and basic industries through planning and public sector expansion, not liberalisation.
- **License-permit-quota raj and socialism-with-controls (1960s–1980s).**
  - Industrial licensing, high tariffs, foreign exchange controls and public sector dominance were justified as instruments of self-reliance and socialistic pattern of society.
  - Over time, this system created inefficiencies, rent-seeking and technological stagnation.
  - Limited internal reforms (e.g., agricultural Green Revolution policies) coexisted with overall reluctance to open the economy.
- **The 1991 crisis and first-generation reforms.**
  - Balance of payments crisis forced India to approach IMF and World Bank, triggering a structural adjustment programme.
  - Core reforms: de-licensing, trade liberalisation, rupee devaluation, partial privatisation, financial sector reforms, and macro-stabilisation (fiscal consolidation).
  - This period created a new consensus that state control must be rolled back in many areas, though social objectives remained.
- **Gradualist reform and coalition politics (1990s–2000s).**
  - Reforms proceeded in fits and starts: telecom liberalisation, banking reforms, insurance opening, VAT introduction, FRBM Act, special economic zones, etc.
  - Political economy: Different coalitions pushed or stalled reforms based on ideological positions and coalition constraints.
  - The perception of India shifted from “Hindu rate of growth” to a high-growth emerging market, but vulnerabilities like fiscal stress, infrastructure gaps and governance deficits persisted.
- **Post-2008 phase: boom, backlash and recalibration.**
  - High growth and capital inflows in mid-2000s gave way to inflation, twin deficits (fiscal + current account), and corruption scandals.
  - Policy paralysis and retrospective tax issues undermined investor sentiment.
  - The global financial crisis also influenced perceptions about external vulnerability and the need for better regulation.
- **2010s: New reform push and new anxieties.**
  - Initiatives like GST, Insolvency and Bankruptcy Code, financial inclusion (Jan Dhan, Aadhaar-based systems), DBT, and some factor-market reforms signalled renewed reform activism.
  - At the same time, demonetisation, economic slowdown post-2016, banking stress, and unemployment concerns fed a strong pessimistic narrative about the economy.
  - Global episodes like “Taper Tantrum” associated India with the “Fragile Five,” shaping commentary about vulnerability and reform urgency.
- **Recent years: Mixed picture and contested narratives.**
  - On one side: digital public infrastructure, improved inflation management, stronger forex reserves, growing manufacturing and services exports, reforms in logistics and infrastructure.
  - On the other side: pandemic scars, K-shaped recovery, MSME distress, labour market informality, and governance questions in some regulatory areas.
  - The debate today is about how to move to the next stage of reforms (urbanisation, human capital, climate-friendly growth) while maintaining social cohesion and federal balance.

# DECODING INDIA'S GROWTH PATH: SPEEDING UP REFORM | ILLUMINATING TRUTH

## ECONOMIC REFORM VS. PESSIMISM



**AXIA**  
**IAS ACADEMY**

RISE ABOVE THE REST

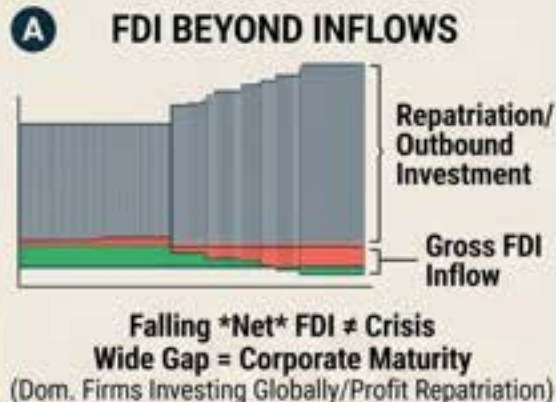
## UPSC CSE KEY TAKEAWAYS & WAY FORWARD

### UPSC LINKS

- GS-3: Economy, Mobilization of Resources, Effects of Liberalization (e.g., FDI/BITs study).
- GS-2: International Relations (Regional/Global Groupings & Agreements).
- Essay: "Economic Growth vs. Human Development", "Sovereign Credit Ratings Narratives"
- Ethics: Balancing State Regulatory Power with Investor Commitments.

## DECODING KEY METRICS

### FDI & WELFARE BENCHMARKS



## RESILIENCE & CHALLENGES

### STRUCTURAL RESILIENCE vs. GLOBAL VULNERABILITIES



Institutional quality domestic deregulation matter at least as much as treaty architecture (BITs).

### WAY FORWARD: THE AXIA VIEW

- Accelerate Factor Market Reforms (Land, Labor).
- Improve Regulatory Predictability (Stability over BITs).
- Enhance QCOs for Competitiveness, not just Protectionism.
- Climate-Proof the Economy (Water & Agri Infra).

Website: [axiaiasacademy.com](http://axiaiasacademy.com)  
Contact: +91 6002-417488



Logical and philosophical base of the arguments



### Logical structure: “Yes-but” reasoning.

Premise: India has genuine structural problems that require urgent reforms.

Counter-premise: Yet, the narrative that “nothing has improved” is empirically incorrect and analytically unhelpful.

Conclusion: Recognise progress and deficits simultaneously; use balanced analysis as the basis for reform design.



### Philosophical stance: Pragmatic liberalism.

The argument implicitly endorses market-friendly reforms, stable macro-policy and rule-of-law institutions as key for prosperity.

It is not libertarian (it does not argue for dismantling the state entirely) but emphasises a capable, predictable, limited state.

In philosophical terms, this is close to classical liberalism tempered by welfare concerns.



### Epistemic humility vs ideological rigidity.

The critique of pessimism is also a critique of **confirmation bias**: analysts may start with a negative hypothesis and then fit data to it.

The piece advocates an evidence-first approach, where theories and labels are updated regularly.

This resonates with Popperian falsification—good analysis must be open to being disproved by new evidence.

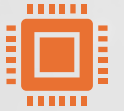


### Ethical dimension: Responsibility of public intellectuals.

Economic commentary influences expectations (of investors, voters, policymakers).

Ethically, there is a duty not to mislead, exaggerate or selectively present information for ideological gains.

Balanced critique is portrayed as a civic responsibility in a democracy.



### Underlying assumptions.

Markets, when embedded in sound institutions and reasonably regulated, are powerful engines of growth.

Long-term growth is strongly dependent on productivity-enhancing reforms rather than short-term populist measures.

Narratives shape policy choices; therefore, discourse must be responsible and anchored in data.

- **Multidimensional Analysis**

- **Social Dimension**

- Economic reforms affect people through jobs, prices, skills and mobility. A strong investment climate can create manufacturing and services employment, especially for youth and women. However, if reforms remain urban-centric or skill-biased, rural workers and informal labour may feel excluded. Social legitimacy requires skilling, labour protection and regional balance.

- **Political Dimension**

- Reform is not merely technical; it is deeply political. Governments need electoral legitimacy to implement hard decisions, but electoral victory alone does not create prosperity. Policy continuity, Centre-state cooperation and consensus-building are essential. Reform fatigue can occur when citizens see costs immediately but benefits slowly.

- **Legal Dimension**

- Investment depends on predictable law. Contract enforcement, insolvency resolution, taxation certainty, regulatory clarity and investment protection matter. A weak legal environment increases risk premium. Strong legal institutions reduce dependence on political assurances.

- **Ethical Dimension**

- Reforms must balance efficiency with justice. Deregulation should not become deregulated exploitation. Investor-friendly policy must also be worker-friendly, consumer-friendly and environment-friendly. Ethical governance requires transparency, non-arbitrariness and equal opportunity.

- **International Dimension**

- Global investment now follows geopolitics, supply chain security and strategic trust. India can benefit from China-plus-one diversification, but only if it improves logistics, standards, skilling and regulatory certainty. FTAs, BITs and trade policy must support competitiveness.

- **Economic Dimension**

- India's core challenge is to convert macro stability into higher private investment, exports, productivity and employment. Reform must move from "permission removal" to "capability creation": infrastructure, technology, finance, innovation and human capital.



- **Linkages with NCERTs**
- **Class 10 Economics – Understanding Economic Development**  
The chapters on Development, Sectors of the Indian Economy, Money and Credit, Globalisation and the Indian Economy are directly linked. Students can connect reforms with employment, global trade, private investment and inclusive development.
- **Class 11 Indian Economic Development**  
The chapters on Indian Economy on the Eve of Independence, Indian Economy 1950–1990, Liberalisation-Privatisation-Globalisation, Employment, Infrastructure and Environment are highly relevant. These chapters explain why India shifted from state-led planning to market-oriented reforms and why infrastructure and employment remain central.
- **Class 12 Macroeconomics**  
National Income, Government Budget, Balance of Payments, Money and Banking connect with fiscal deficit, CAD, FDI, exchange rate, inflation targeting and macroeconomic stability. This is useful for understanding why reforms need macroeconomic discipline.
- **Class 12 Political Science – Politics in India Since Independence**  
Planning and Development, regional aspirations and coalition politics help students understand why reforms are politically contested and why consensus matters.
- **Class 12 Contemporary World Politics**  
Globalisation, alternative centres of power and international economic institutions connect with FDI, supply chains, trade agreements and global capital flows.
- **Class 11 Political Science – Indian Constitution at Work**  
Federalism and executive-legislature relations help explain why investment reforms require Centre-state coordination.
- **Class 11 Sociology – Understanding Society**  
Social change, inequality and development debates help examine whether reform-led growth creates inclusive opportunities or deepens existing inequalities.



- **Linkages with UPSC CSE Syllabus**

- **GS Paper 1**

- Relevant under post-independence consolidation, economic transformation and effects of globalisation on Indian society. The shift from planning to liberalisation and from protectionism to global integration is a core post-1991 theme.

- **GS Paper 2**

- Links with governance, transparency, accountability, regulatory institutions, federalism and government policies. Investment climate depends on governance quality, Centre-state coordination and institutional capacity.

- **GS Paper 3**

- This is the strongest linkage. Topics include Indian economy, planning, mobilisation of resources, growth, development, employment, investment models, liberalisation, industrial policy, infrastructure, external sector, inclusive growth and effects of globalisation.

- **GS Paper 4**

- The ethical angle includes responsible policymaking, public accountability, evidence-based governance, fairness in reforms, avoidance of crony capitalism and balancing efficiency with social justice.

- **Essay Paper**

- Useful for essays on development versus distribution, reforms and welfare, optimism versus realism, India's growth story, globalisation, self-reliance and economic nationalism.



- **Way forward**

- **Deepen second-generation reforms with social cushioning.**
  - Prioritise areas like contract enforcement, land records digitisation, logistics reforms, and regulatory simplification.
  - Parallely strengthen social security (health, unemployment support, skilling) to protect vulnerable groups during transition.
- **Strengthen institutional capacity and predictability.**
  - Invest in judiciary capacity, regulatory professionalism, and stable tax regimes.
  - Avoid retrospective policy changes and ensure wide stakeholder consultation before major reforms.
- **Embed green and inclusive considerations into reform design.**
  - Integrate climate resilience, sustainable resource use and environmental safeguards into industrial, urban and infrastructure policies.
  - Focus on human capital—education, health, nutrition—to make growth inclusive and sustainable.
- **Improve data quality and transparency.**
  - Strengthen statistical systems, independent oversight of data, and open access to anonymised datasets.
  - Encourage rigorous impact evaluation of reforms, including state-level experiments.
- **Cultivate balanced public discourse.**
  - Academics, media and policymakers should consciously avoid sensationalist extremes.
  - Promote spaces (public lectures, explainers, parliamentary debates) where evidence is presented in accessible but nuanced ways.
  - Encourage comparative analysis with peer countries without cherry-picking.
- **Enhance cooperative federalism in reforms.**
  - Use platforms like GST Council, NITI Aayog, sectoral councils to build consensus, share best practices and address state-specific concerns.
  - Allow room for experimentation: what works in one state can be adapted by others, creating healthy competition.



### UPSC GS-III (Mains)

“What are the major factors responsible for making the Indian economy a ‘service-led growth’ economy? What measures has the government taken to promote manufacturing?”

“Critically examine the impact of economic liberalisation on the Indian economy since 1991.”

“Industrial growth has been sluggish in recent years. Examine the reasons and suggest measures.”

“Discuss the relationship between economic growth and inequality in India.”

“The fiscal consolidation path has to balance growth needs with debt sustainability. Discuss.”



### UPSC GS-II (Mains)

“Discuss the role of Parliament in scrutinising economic policies in India.”

“Critically analyse the role of NITI Aayog in promoting cooperative federalism and economic reforms.”

“How do pressure groups and lobbyists influence economic policy-making in India?”



### UPSC Essay Paper

Topics like “Crisis faced in India – moral or economic?”, “Can capitalism bring inclusive growth?”, “Alternative technologies for a climate-change resilient India” are conceptually linked.

Essays on “India @75: Pathways to prosperity” or “Innovation is the key determinant of economic growth” similarly resonate.



### UPSC Prelims

Numerous questions on LPG reforms, FRBM Act, fiscal deficit, current account, FDI, “Fragile Five”, and macro indicators.

Questions on institutions like IMF, World Bank, WTO, multilateral development banks, and their role in reforms.



SURENDAR SINGH

The global trading system is shifting from a rule-based order to a more fragmented, transactional, and power-oriented system shaped by geopolitical contestation, regional conflicts, trade protectionism, supply chain realignment, the rise of regionalism, and bilateralism.

According to the World Trade Organisation, a total of 69 FTAs has been implemented globally between 2001 and 2025. India has also signed trade agreements with Mauritius, Australia, the United Arab Emirates, Oman, and the United Kingdom. Recently, it has formalised a trade agreement with the European Union and has released a joint statement to sign a trade deal with the United States.

Some policymakers, and geopolitical experts contend that India's increased interest in FTAs in the post-pandemic world demonstrates a broader shift in its trade strategy from defensive to a more calibrated and pragmatic approach.

India's trade agreements with the UK and the EU are portrayed as vehicles for improved market access, export diversification, supply chain realignment, and regulatory convergence. These trade agreements undoubtedly open up new business opportunities for domestic firms and integrate them into global value chain networks.

The broader discourse on these two trade agreements presents a more tinted view in terms of potential economic gains in labour-intensive sectors, such as textiles and clothing, gems and jewellery, leather, pharmaceuticals, and machinery products. They are also considered an important source of economic dynamism and competitiveness in a rapidly changing global trading environment.

However, this narrative largely overlooks how India's commitments in these trade agreements undermine its trade policy flexibilities. The potential implications of these commitments in the case of the India-UK CETA and India-EU FTA are immense and extend beyond bilateral contexts. Such commitments not only sabotage India's economic interests but also set precedents that may constrain India's trade policy autonomy and negotiating space in future trade deals.

**INDIA-UK CETA**

First, the chapter on government procurement under the India-UK CETA states that procuring entities in both countries shall receive "no less than favourable treatment" to goods, services, and suppliers. It further contends that UK firms can qualify as

# Recent FTAs could erode our policy space



**RED FLAGS.** Trade pacts with the UK and EU appear to boost market access. But the fingerprint suggests trouble for MSMEs, pharma and digital policymaking

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class II local suppliers with a domestic content of 20 per cent, thereby possibly enjoying the same preferential treatment as Indian suppliers.

This provision may enable UK firms to access Indian government procurements and tenders thereby limiting the potential business opportunities for domestic companies. Given the relative financial strength, scale and technological capabilities, it is unlikely that Indian suppliers can compete with UK firms in government tenders.

Furthermore, it significantly constrains the ability of Indian policymakers to incentivise MSMEs and start-ups participate in government tenders. This will adversely impact India's grand initiatives, such as Atmanirbhar Bharat and Make in India, which focus on bolstering domestic manufacturing capabilities.

Second, a close review of disciplines related to intellectual property rights under the India-UK CETA states that parties recognise the importance of "preferable and optimal route to promote and ensure access to medicine is through voluntary mechanisms, such as voluntary licensing." The inclusion of the voluntary licensing mechanism in the IPK chapter dilutes India's well-established practice of invoking

**The voluntary licensing mechanism in UK pact dilutes compulsory licencing, which allows domestic generic producers to supply medicines in a national emergency**

compulsory licensing to allow domestic generic producers to supply medicines at the time of a national emergency.

The most concerning provision of the IPK chapter is the elimination of the patent working disclosure requirement, thereby giving undue favour to global pharmaceutical giants. This has significant implications for our generic drug producers, as they primarily rely on "working disclosure" as an important source of market information and intelligence. This can delay the entry of generic drugs into the market, thereby severely limiting access and availability of low-cost medicines for millions of people.

**EU AGREEMENT**

Third, a significant concern for India in its trade agreement with the EU is the chapter on trade and sustainable development, as it integrates non-trade issues (labour and environment) in India's FTA template. Provisions related to labour and the environment can easily be instruments of disguised protectionism. It is a different matter that the legal text clearly states that these disciplines should not be used for "protectionist trade purposes", and that the "violation of fundamental principles and rights" at work cannot be invoked.

This provision is open to different interpretations. It provides significant leeway to EU policymakers to challenge Indian exports produced in sectors where labour practices and wage structures differ from EU norms, creating space for them to invoke disguised barriers to trade.

In this context, the EU's green trade measures such as deforestation regulations, CSDDD, and CBAM, will certainly impose strict scrutiny on

India's labour and environmental practices. These green trade measures may offset the potential market access benefits of India's labour-intensive exports.

Fourth, provisions on digital trade in trade agreements with the UAE, the UK, and the EU are in "best endeavours" language; however, the real challenge is likely to arise when India negotiates digital trade disciplines in ongoing FTA talks with the US and South Korea.

Interestingly, the digital trade chapter of the India EU FTA presents India from demanding access to source code of EU firms' software and AI systems thereby significantly constraining power of Indian regulators to understand and regulate AI system.

Further, it also places restrict on Indian authorities to audit algorithms even during investigations. There is a high possibility that the US trade negotiators will put tremendous pressure on Indian trade negotiators to convert these "best endeavours" language into slightly stronger language, possibly hard commitments in a few areas. Digital trade commitments through trade agreements could subsume significant policy space to frame domestic digital policies.

Indian policymakers should be cautious and pragmatic while negotiating trade agreements, ensuring that the quest for market access, export diversification, and GVC integration does not come at the cost of policy sovereignty, regulatory constraints, and, most importantly, development imperatives.

The writer is an Associate Professor, Jindal School of Liberal Arts and Humanities, O.P. Jindal Global University, Sonapat. Views expressed are personal.

- **Key Terms and Explanations**

- **Free Trade Agreements (FTAs) vs. Comprehensive Economic Partnership Agreements (CEPAs):** While traditional FTAs focus primarily on reducing tariffs on goods, CEPAs (like the ones India is negotiating with the UK and EU) go much further. They cover services, investment, intellectual property, digital trade, and government procurement.

- **Government Procurement and "National Treatment":** This refers to the process by which government agencies purchase goods and services. "National treatment" is a clause where a country agrees to treat foreign companies exactly the same as domestic ones in these public tenders, essentially removing preferences for local businesses.

- **Compulsory vs. Voluntary Licensing (IPR):** In the pharmaceutical world, a patent grants a monopoly. During a health crisis, governments can issue a "compulsory license," allowing local manufacturers to produce generic versions of a patented drug without the patent owner's consent, ensuring affordability. "Voluntary licensing" is when the patent holder willingly agrees to let others produce it, usually on their own terms.

- **Patent Working Disclosure:** This is a requirement for patent holders to periodically disclose how and to what extent they are commercially utilizing ("working") their patent in the host country. It prevents companies from hoarding patents simply to block competition.

- **Carbon Border Adjustment Mechanism (CBAM):** Often referred to as a carbon tax, this is an environmental policy tool (famously used by the EU) that puts a fair price on the carbon emitted during the production of carbon-intensive goods entering their market.

- **Algorithm Auditing and Source Code Protection:** In digital trade, source code is the fundamental DNA of software. Trade provisions that prevent governments from demanding access to source code or auditing AI algorithms limit a state's ability to regulate big tech for biases, security, or anti-competitive behavior.

- **Main Arguments and Substantive Parts**

- The contemporary global trading landscape is moving away from the predictable, rules-based multilateralism of the WTO toward a fragmented, bilateral system. Within this reality, a deep analytical divide exists regarding how developing nations like India should navigate "New-Age" trade pacts.
- **The Pragmatic Shift in Trade Strategy:** There is a distinct move from a defensive, protectionist posture to an aggressive pursuit of market access. Engaging with developed blocs is seen as a necessary vehicle for export diversification, attracting foreign direct investment, and plugging domestic industries into Global Value Chains (GVCs).
- **The Threat to Domestic Manufacturing Hubs:** Opening government procurement to foreign giants threatens to crowd out Micro, Small, and Medium Enterprises (MSMEs). If foreign firms are given equal footing, initiatives designed to nurture domestic manufacturing capacities risk being fundamentally undermined by better-capitalized foreign competitors.
- **Erosion of the "Pharmacy of the World" Advantage:** Agreeing to dilute intellectual property flexibilities—such as prioritizing voluntary over compulsory licensing or removing patent working disclosures—directly threatens the generic pharmaceutical industry. This isn't just an economic issue; it is a matter of public health security.
- **Weaponization of Sustainability:** Modern trade pacts increasingly bundle environmental and labor standards with trade. While ostensibly noble, these clauses can act as disguised protectionism. Western green regulations can essentially block competitively priced exports from the Global South under the guise of climate action.
- **Surrendering Digital Sovereignty:** Agreeing to "best endeavor" or hard commitments regarding data flows and AI regulation can preemptively strip a nation of its regulatory autonomy in the digital sphere, handing disproportionate power to foreign tech conglomerates.

## Historical Evolution of the Issue

The trajectory of India's trade philosophy offers a fascinating study in economic evolution, reflecting broader shifts in the global world order.

### **The Era of Import Substitution (1947–1991):**

Post-independence, the focus was on self-reliance. High tariffs and strict quotas insulated domestic industries from global competition. The overarching belief was that nascent industries needed protection to grow.

### **Liberalization and Multilateralism (1991–2000s):**

The 1991 balance of payments crisis forced open the economy. This period saw active participation in multilateral forums, culminating in the joining of the World Trade Organization (WTO) in 1995.

The focus was on rules-based, universal trade liberalization.

### **The "Look East" Bilateral Phase (2000s–2010s):**

Disillusioned with the slow pace of WTO negotiations (the Doha Round stall), there was a pivot toward regional pacts. Agreements were signed with ASEAN, Japan, and South Korea. However, this era resulted in widening trade deficits, as domestic manufacturing couldn't compete with the influx of foreign goods, leading to a defensive retreat and the eventual withdrawal from the RCEP in 2019.

### **The Post-Pandemic "Calibrated Integration" (2020–Present):**

The COVID-19 pandemic and geopolitical tensions (like the US-China trade war) highlighted the fragility of relying on single geographies for supply chains. The current era is characterized by "China+1" strategies and a flurry of comprehensive, deep-integration agreements with developed nations (UAE, Australia, and ongoing talks with the UK and EU).

# THE FUTURE OF TRADE: BILATERALISM, BALANCE & INDIA'S CHOICES

Navigating Deep Integration Without Compromising Policy Autonomy



## 1. KEY TERMS & EXPLANATIONS

	<b>FTAs vs. CEPAs:</b> FTAs focus on tariff reduction for goods. CEPAs go further – covering services, investment, IPR, digital trade, govt. procurement and more.
	<b>Government Procurement &amp; "National Treatment":</b> Opening public tenders to foreign firms on equal footing, removing preference for domestic players.
	<b>Compulsory vs. Voluntary Licensing (IPR):</b> Compulsory license allows local production of patented drugs in public interest. Voluntary license is granted by patent holder on their terms.
	<b>Patent Working Disclosure:</b> Patent holders must disclose how and to what extent the patent is being commercially utilized locally.
	<b>Carbon Border Adjustment Mechanism (CBAM):</b> A carbon tax on carbon-intensive imports to account for carbon emitted in their production.
	<b>Algorithm Auditing &amp; Source Code Protection:</b> Provisions preventing access to source code or audit rights limit states' ability to regulate big tech for security, bias or competition.

## 2. MAIN ARGUMENTS & SUBSTANTIVE PARTS

	<b>Pragmatic Shift in Trade Strategy:</b> From defensive protection to proactive pursuit of market access for export diversification, FDI attraction and integration into Global Value Chains (GVCs).
	<b>Threat to Domestic Manufacturing Hubs:</b> Opening govt. procurement to foreign giants can crowd out MSMEs and undermine domestic manufacturing initiatives.
	<b>Erosion of "Pharmacy of the World" Advantage:</b> Diluting IPR flexibilities (compulsory licensing, patent working disclosure) threatens generic pharma industry and public health security.
	<b>Weaponization of Sustainability:</b> Environmental and labour standards in trade pacts can become disguised protectionism, blocking competitive exports from the Global South.
	<b>Surrendering Digital Sovereignty:</b> Hard commitments on data flows, AI and source code protection can strip regulatory autonomy and empower foreign tech conglomerates.

## 3. HISTORICAL EVOLUTION OF THE ISSUE

	<b>The Era of Import Substitution (1947-1991)</b> High tariffs, quotas and state control. Focus on self-reliance and protection of nascent industries.
	<b>Liberalization &amp; Multilateralism (1991-2000s)</b> 1991 crisis forced reforms. Joined WTO in 1995. Focus on rules-based, universal trade liberalization.
	<b>"Look East" Bilateral Phase (2000s-2010s)</b> Pivoted to regional pacts (ASEAN, Japan, South Korea). Widening trade deficits led to defensive retreat. Withdrew from RCEP in 2019.
	<b>Post-Pandemic "Calibrated Integration" (2020-Present)</b> COVID-19 & geopolitics exposed supply chain vulnerabilities. Rise of "China+1". Deep integration with developed nations (UAE, Australia, UK, EU talks).

## 4. LOGICAL CONNECTIONS: TRADE-OFF ANALYSIS

GAINS FROM DEEP INTEGRATION	RISKS TO POLICY AUTONOMY
<ul style="list-style-type: none"> <li>Market Access &amp; Export Diversification</li> <li>Attracts FDI &amp; Technology</li> <li>Integration into GVCs</li> <li>Efficiency, Competition &amp; Innovation</li> <li>Stronger Strategic Partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Erosion of Regulatory Space</li> <li>Threat to MSMEs &amp; Jobs</li> <li>Higher Costs to Public Health</li> <li>Exposure to External Shocks &amp; Standards</li> <li>Loss of Strategic Policy Tools</li> </ul>

**THE BALANCE IS KEY:** Engage, but with a clear red-line approach to safeguard sovereignty and developmental priorities.

## 5. WAY FORWARD: A CALIBRATED APPROACH

	<b>Red-Line Non-Negotiables:</b> Protect IPR flexibilities, policy space for health, food, environment, MSMEs, and digital sovereignty.
	<b>Strategic Issue Linkage:</b> Concede in market access where competitive; hold firm where it impacts core interests.
	<b>Embed Safeguards &amp; Review Clauses:</b> Include carve-outs, public interest exceptions, and sunset clauses with periodic review.
	<b>Build Domestic Capabilities:</b> Strengthen MSMEs, innovation, infrastructure and skills to compete globally.
	<b>Forge South-South &amp; Global Coalitions:</b> Work with like-minded countries to resist unfair standards and reform global rules.

## 6. CONCLUSION

	In a fragmented world, bilateralism is a reality, not a choice. India must not reject engagement, but shape it on its own terms. The goal is not isolation, but intelligent integration—where economic opportunities are maximized without mortgaging policy autonomy, developmental priorities and the welfare of future generations.
	<b>“Sovereignty in the 21<sup>st</sup> century is not about building walls, but about setting the terms.”</b>

Source: Comprehensive analysis based on economic policy discourse and trade negotiations.



- **Logical and Philosophical Base**

- At its core, this debate rests on a clash of economic philosophies and the fundamental definition of sovereign development.

- **Neoliberalism vs. Strategic Autonomy:** The push for comprehensive trade agreements is rooted in classical neoliberal economics—the idea that reducing barriers maximizes efficiency, drives down prices, and spurs innovation. Conversely, the hesitation reflects the philosophy of strategic autonomy, which argues that a state must retain the power to intervene in markets to protect vulnerable populations, nurture infant industries, and ensure national security.

- **Utilitarianism in Intellectual Property:** The IPR debate is fundamentally utilitarian. Does society benefit more from granting strict monopolies to pharmaceutical companies to incentivize future research, or does it benefit more from allowing generic reproduction to save maximum lives today? Developing nations traditionally lean toward the latter to ensure equitable health access.

- **The Epistemology of "Fair Trade":** When developed nations insist on stringent labor and environmental standards, they operate from a standpoint that their historical development trajectory is the universal baseline. The Global South counters this with the principle of "Common but Differentiated Responsibilities," arguing that it is philosophically unjust to penalize developing nations for industrializing using the same methods the West used a century ago.

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- **Multidimensional Analysis**

- **Economic:** It is a tightrope walk between achieving export-led growth and protecting domestic sectors from dumping. Integration into GVCs is critical for technology transfer, but not at the cost of turning the domestic economy into a mere assembly hub.
- **Social:** The shift impacts employment directly. While export growth in textiles or leather can create millions of blue-collar jobs, stringent labor chapters or the collapse of MSMEs could trigger severe unemployment and social unrest.
- **Political:** Trade policy is increasingly an instrument of foreign policy. Engaging economically with strategic partners solidifies geopolitical alliances (e.g., counterbalancing China), but giving away too much policy space can lead to domestic political backlash.
- **Legal:** Committing to international trade rules requires significant overhauls of domestic legal frameworks, from the Patents Act to the Digital Personal Data Protection laws, sparking debates about the supremacy of the parliament versus international treaty obligations.
- **Ethical:** The push to eliminate patent working disclosures or enforce strict data monopolies raises profound ethical questions about corporate profiteering at the expense of human welfare, particularly regarding life-saving medicines and agricultural seeds.
- **International:** The proliferation of bilateral deals marks a crisis of confidence in the WTO. It risks creating a "spaghetti bowl" effect of overlapping, contradictory rules that ultimately make global trade more complicated, not less.

- **Linkages with NCERTs**

- **Class 10 Economics – ‘Globalisation and the Indian Economy’ (Chapter 4):** Discusses the impact of liberalisation on producers and workers, the role of WTO, and the debate over fair globalisation. The FTA discourse directly connects to how developing countries negotiate trade rules and protect domestic industries.
- **Class 12 Political Science – ‘Globalisation’ (Chapter 9, Contemporary World Politics):** Examines the shift from welfare state to market-oriented policies, the influence of international economic institutions, and the tension between state sovereignty and global interdependence. The article’s concern about policy space echoes these themes.
- **Class 12 Economics – ‘International Trade’ (Part B, Macro Economics):** Although primarily conceptual, the idea of terms of trade, protectionism, and balance of payments can be linked to the rationale behind FTAs.
- **Class 11 Economics – ‘Indian Economy on the Eve of Independence’ and ‘Liberalisation, Privatisation and Globalisation’:** Provides historical context on India’s trade policy evolution and the logic of self-reliance, relevant to understanding the Atmanirbhar Bharat tension.
- **Class 10 Political Science – ‘Political Parties’ and ‘Outcomes of Democracy’:** Can be indirectly linked when discussing how trade decisions reflect political ideologies and their social consequences.

### Linkages with UPSC CSE Syllabus

**GS Paper 2 – International Relations:** Bilateral, regional and global groupings and agreements involving India; effect of policies of developed and developing countries on India's interests.

**GS Paper 3 – Indian Economy and Issues:** Trade policy; WTO; IPR issues; effects of liberalisation on the economy; infrastructure and supply chains; Make in India.

**GS Paper 4 – Ethics, Integrity and Aptitude:** Ethics in international relations; concept of fairness in trade negotiations; balancing development with commercial interests.

**Essay Paper:** Possible topics: "Trade vs. Sovereignty in a Fragmented World," "Globalisation and the developing world's dilemma," "Should India sacrifice policy space for market access?"

### Optional Subjects:

- **Economics:** International trade theory, trade policies, WTO and its implications for developing nations.
- **Political Science and International Relations:** International political economy, North-South dialogue, sovereignty and supranational organizations.
- **Public Administration:** Public policy and trade agreements, regulatory space in global governance.
- **Commerce / Management:** International business environment, FTA impact analysis.



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- **Way Forward**

- **Demand Sectoral Carve-Outs:** Negotiators must ensure rigid protections (carve-outs) for critical sectors like public healthcare, agriculture, and sensitive MSMEs. Blanket "national treatment" in government procurement must be avoided.
- **Strengthen Domestic Regulatory Frameworks First:** Before signing away the right to audit algorithms, domestic laws on AI and data governance must be ironclad. You cannot protect what you haven't yet defined.
- **Capacity Building for Trade Negotiators:** There is an urgent need to build a cadre of specialized trade lawyers and economists who can read between the lines of "best endeavor" clauses and model the macroeconomic impacts of environmental trade barriers.
- **Phased Transition for Green Norms:** Rather than accepting immediate compliance with Western green standards, negotiations should focus on phased timelines, coupled with agreements for technology transfer and climate finance.
- **Institutionalize Multi-Stakeholder Consultations:** Trade agreements should not be negotiated in silos. Extensive consultations with industry bodies, farmers' unions, civil society, and tech startups must precede any binding commitment.

- **All Previous Years' UPSC Questions**

- **GS Paper 2 (2023):** "What do you understand by the term 'Rule of Law'? How does it relate to international trade and human rights?" (Touches upon the rules-based order).
- **GS Paper 3 (2021):** "What are the key features of the National Education Policy 2020?" (Though unrelated, 2021 featured a question on WTO: "WTO is an important international organization where the decisions are taken by consensus. What are the issues preventing consensus and what has been India's stance?")
- **GS Paper 3 (2018):** "In the context of the growing importance of the digital economy, discuss the issues of data localization and its implications for India's trade and economic growth."
- **GS Paper 2 (2015):** "The broader aims and objectives of WTO are to manage and promote international trade in the era of globalization. But the Doha round of negotiations seem doomed due to differences between the developed and the developing countries." Discuss.
- **GS Paper 3 (2014):** "In a globalized world, Intellectual Property Rights assume significance and are a source of litigation. Broadly distinguish between the terms—Copyrights, Patents and Trade Secrets."



# Cyber warfare is outpacing global legal accountability

**R**ecent tensions involving the United States, Israel and Iran highlight a clear shift in how force is exercised today. According to reporting and policy analyses, the recent strikes were accompanied not only by conventional military action but also by cyber operations, which has included the hacking of news websites and widely used applications to disrupt communication and influence the information environment. The use of cyber means is not an isolated development, but is part of a broader pattern in which digital disruption operates alongside traditional military force. Cyber operations are increasingly being used to support conventional military action, including by disrupting communication and defence systems ahead of physical strikes.

Recent cyber incidents during the conflict have been linked to groups such as the Handala Hack Team, which has claimed responsibility for attacks on entities including a U.S.-based medical technology company. While such activity shows how cyber operations can extend conflict well beyond physical battlefields, it remains unclear how the law responds to this shift.

## Establishing threshold is difficult

In reality, international law does not lack relevant principles. The prohibition on the use of force under Article 2(4) of the United Nations Charter, along with the framework of state responsibility, applies to cyberspace in principle. When cyber operations affect infrastructure or essential services, serious legal issues may arise. Determining when such conduct crosses the threshold and becomes sufficiently serious to be classified as an internationally wrongful act or a prohibited use of force is the most complicated part. Such actions could lead to state responsibility and even claims for compensation, in theory. In practice, however, establishing this threshold remains extremely difficult.



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Cyber conflict is challenging traditional principles governing force and state responsibility

This gap between what the law allows and what actually happens has become increasingly visible. As noted in recent analyses, including those by Just Security, victims of cyber operations rarely succeed in bringing cases before courts or obtaining remedies through legal processes. The problem, therefore, is not simply whether the law applies, but whether it can actually be used.

A major reason for this gap lies in attribution. To establish a breach of international law, the act must be attributed to a state. However, cyber operations are, by their nature, secretive and routed through multiple networks and jurisdictions. Even when governments are reasonably certain about who is responsible for the operation, it is much harder to translate that into legally admissible evidence. This creates a gap between political certainty and legal proof.

## Concerns that hinder litigation

The unavailability of an appropriate forum for such disputes is also a practical constraint. Sensitive cyber disputes are unlikely to be heard by international courts, including the International Court of Justice, without the consent of states. Domestic courts also face similar challenges, particularly because foreign states are often protected by sovereign immunity. As a result, there are very few forums where cyber-related claims can be effectively heard. There is also a strategic reason why states may avoid legal processes. Bringing a case might escalate inter-state tensions or invite retaliation and may require the disclosure of sensitive intelligence or capabilities. For this reason, many cyber incidents are handled politically or diplomatically, rather than through courts.

Another challenge is evidence. Cyber incidents involve technical data, classified intelligence and complex chains of causation. It can therefore be extremely difficult in a court setting to show who carried out an operation, how much damage it

caused, and how it led to specific harm. This makes legal action both complicated and uncertain. International awareness of this matter is reflected in instruments such as the Budapest Convention on Cybercrime and the United Nations Convention against Cybercrime, which aim to create a broader global framework to address incidents of cybercrime. However, these initiatives primarily focus on cybercrime and law enforcement. They fall short in addressing issues of state responsibility when cyber operations are part of geopolitical conflict.

The result is a growing mismatch. Incidents of cyber operations are becoming more frequent and, in some cases, more damaging. Yet, they rarely lead to legal consequences. This does not imply that international law is no longer relevant, but it does suggest that applying existing legal frameworks to this type of conflict remains a significant challenge.

## India must help shape cyber norms

This is a particularly significant issue for a country such as India. In recent times, India has become increasingly reliant on digital infrastructure across sectors such as finance, energy and governance. As a result, it faces both greater vulnerability and has a larger stake in shaping international regulations. Strengthening domestic cyber resilience is important, but it is also essential to engage actively in international discussions on accountability, attribution and responsible behaviour in cyberspace.

The challenge, therefore, is not only to recognise that cyber operations have become part of modern conflict but also to ensure that the law is able to respond in a meaningful way. If cyber operations continue to expand without credible pathways to accountability, the gap between law and reality will only widen, leaving a form of conflict that causes real harm, yet remains largely beyond the reach of the law.

## • Key Terms and Explanations

- **Cyber Operations:** Actions in or through cyberspace to disrupt, disable, manipulate or gather information from computer networks. These range from defacing a website to shutting down a power grid. *Example:* The Stuxnet worm that damaged Iranian centrifuges is a destructive cyber operation.
- **Use of Force (Article 2(4) of the UN Charter):** This foundational principle of international law prohibits states from using armed force against the territorial integrity or political independence of another state. The challenge is defining when a cyber operation crosses the invisible line from mere interference to a “use of force” comparable to a kinetic strike.
- **State Responsibility:** The set of international legal rules that determine when a state is held accountable for a wrongful act. For cyber operations, it must be shown that the act is attributable to the state and constitutes a breach of an international obligation. *Example:* If country A’s intelligence agency hacks country B’s dam and causes flooding, country A could bear state responsibility.
- **Attribution:** The process of identifying who is behind a cyber operation – technically (which computer), organizationally (which group), and jurisdictionally (which state). Technical attribution traces IP addresses and malware code, but legal attribution requires clear, admissible evidence linking the act to a state’s organs or agents. The gap between a political certainty (“we know it was them”) and legal proof is enormous.
- **Internationally Wrongful Act:** An action or omission that violates international law and can trigger state responsibility, potentially leading to reparations or countermeasures. A cyber operation that breaches sovereignty or amounts to prohibited intervention can be such an act.
- **Budapest Convention on Cybercrime (2001):** The first international treaty focused on cybercrime, providing tools for harmonizing domestic laws, improving investigative techniques, and boosting cooperation among signatory states. It largely addresses crimes by individuals and criminal groups, not state-on-state cyber conflict.
- **United Nations Convention against Cybercrime (2023):** A new, broader UN-led treaty aiming to create a global framework for combating cybercrime, including state involvement concerns. However, critics argue it may not adequately address state-sponsored operations disguised as crime.
- **Sovereign Immunity:** The principle that a state cannot be sued before the courts of another state. This becomes a formidable barrier when a victim state or private entity tries to seek compensation in domestic courts for damage caused by a foreign state’s cyber operation.
- **Handala Hack Team:** A hacktivist group aligned with pro-Palestinian causes, claiming responsibility for attacks on entities like a U.S. medical technology company. Such non-state groups blur the lines of conflict, making legal attribution even more complex.
- **Hybrid Warfare:** The integrated use of conventional military force, irregular tactics, cyber attacks, disinformation, and economic pressure to achieve strategic objectives. Recent tensions show cyber operations are now a seamless part of this mix, used to disrupt communication and shape the information environment ahead of physical strikes.

- **Main Arguments and Substantive Parts**

- The core thesis of the conceptual analysis is that the nature of force is transforming, yet the international legal framework is struggling to keep pace. This is not because the law is absent, but because its application is hobbled by practical, evidentiary and political hurdles.
- **Shift in How Force is Exercised:** The primary argument is that cyber operations are no longer a standalone threat but an integrated instrument in modern conflict. They serve to disrupt communication and defence systems, soften targets, and manipulate public perception before, during, and after conventional military strikes. The hacking of news websites and apps to influence the information environment exemplifies this.
- **The Law Exists, but the Threshold is Blurry:** Article 2(4) of the UN Charter and the framework of state responsibility unquestionably apply to cyberspace. The difficulty is not a legal vacuum; it is an operational one. When does a cyber intrusion that disrupts essential services become a prohibited “use of force” or an “internationally wrongful act”? There is no bright line, only a complex assessment of scale and effects, making the law hard to trigger in practice.
- **The Accountability Gap is Wide:** Victims of state-sponsored cyber operations rarely secure remedies through courts. This gap stems from a chain of interlocking problems. The article points to a mismatch between the growing frequency and severity of cyber incidents and the near absence of legal consequences.
- **Attribution is the Keystone Problem:** To legally establish a breach, you must attribute the act to a state with admissible evidence. Cyber operations are designed to be anonymous, routed through multiple jurisdictions, and often use false flags. The gulf between political certainty (intelligence agencies know who did it) and legal proof (evidence that holds up in an international court) is a chasm that often prevents formal action.
- **Lack of Appropriate Forums:** Even with solid attribution, states cannot easily sue each other. The International Court of Justice (ICJ) requires the consent of both parties for jurisdiction. Domestic courts are blocked by sovereign immunity doctrines. Strategic considerations – fear of escalating tensions, exposing intelligence sources, or inviting retaliatory attacks – further discourage states from pursuing legal avenues.
- **Evidence Hurdles and Technical Complexity:** Cyber incidents leave a trail of technical data, but translating that into a coherent legal case demonstrating causation, damage, and the identity of the perpetrator is extraordinarily difficult. This makes litigation both technically demanding and legally uncertain.
- **Existing Treaties Fall Short:** Instruments like the Budapest Convention and the new UN Convention against Cybercrime focus primarily on crime and law enforcement. They do not provide a mechanism for resolving disputes between states when cyber operations are part of geopolitical conflict. This leaves state-on-state cyber operations in a legal grey zone.
- **India’s Stake and Role:** The argument culminates in a call for countries like India, with growing digital dependence and vulnerability, to not merely build resilience but actively shape international norms on accountability, attribution, and responsible state behaviour in cyberspace. The implication is that if existing frameworks cannot deliver accountability, the conversation must shift from passive adherence to active norm-building.

## • **Historical Evolution of the Issue**

- The journey from viewing cyberspace as a technical domain to a theatre of conflict with legal implications has been rapid and is still unfolding. Tracing this evolution helps situate the current predicament.
- **Pre-Internet Foundations of the Laws of War:** Long before the first computer virus, customary international law and the UN Charter (1945) established principles like necessity, proportionality, distinction, and the prohibition on the use of force. These were designed for kinetic warfare, but their core logic – regulating hostile acts between states – was meant to be technologically neutral.
- **The Advent of State-Sponsored Cyber Disruption (Late 1990s–2007):** Early instances were often crude. The 1999 Kosovo conflict saw limited website defacements. The real wake-up call came in 2007, when Estonia, a highly digitized society, faced a massive, coordinated denial-of-service attack that paralysed banks, media, and government sites following a political dispute with Russia. Attribution was politically clear but legally impossible to prove conclusively. This forced NATO and the international community to seriously debate whether such acts could trigger collective defence.
- **From Disruption to Destruction (2008–2015):** The 2008 Russia-Georgia conflict demonstrated cyber attacks synchronised with conventional military movement. Stuxnet (discovered in 2010), a highly sophisticated worm targeting Iran's Natanz nuclear facility, blurred the line between sabotage and use of force. It was the first known cyber weapon to cause physical destruction, raising fundamental legal questions: Was it a violation of sovereignty? An armed attack? The Tallinn Manual process (first edition 2013) attempted to apply existing international law to cyber warfare, becoming a key reference even though it is not officially binding.
- **Institutionalization of Norms (2013–2020):** The UN Group of Governmental Experts (UN GGE) began developing a framework for responsible state behaviour, affirming that international law, and specifically the UN Charter, applies to cyberspace. Concepts like the duty to assist, respect for sovereignty, and the protection of critical infrastructure gained traction. Yet, consensus remained fragile, with deep divisions between Western states, Russia, and China on issues like the right to self-defence against cyber attacks and information security.
- **Cyber in Mainstream Geopolitical Conflict (2020–Present):** The Russia-Ukraine war from 2022 onward has been a watershed. Cyber operations have been used extensively alongside kinetic strikes – targeting power grids, satellite communications (the ViaSat hack), and government databases. The conflict analysed conceptually here, involving the U.S., Israel and Iran, exemplifies the same fusion: hacking of communication apps and news sites accompanies physical strikes to disrupt and influence. This era reveals hybrid warfare as the norm, and the legal system's inability to deliver meaningful accountability has become glaring.
- **India's Evolving Position:** India's journey has been from a cautious observer to an active participant. With rapid digitization (Aadhaar, UPI, digital health missions), its vulnerability surface has exploded. India has engaged with the UN GGE and OEWG (Open-Ended Working Group) processes, advocating for an open, secure, and interoperable internet. However, domestic legal frameworks like the IT Act 2000 and the upcoming Digital India Act are still evolving to deal with state-sponsored cyber threats, and India has historically been reluctant to join binding multilateral cyber crime treaties like Budapest.

# 1 KEY CONCEPTS

**CYBER WARFARE**  
Cyber warfare is missile stream about binary stream trend of internations.

**ATTRIBUTION PROBLEM**  
Fingerprint made of code of meds onade fingerprint mild af code of amanorptous fingerprint

**PLAUSIBLE DENIABILITY**  
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**UN CHARTER ART 2(4)**  
UN Charter Art 2(4): an enisruation of gavels ronrtared comitinentes

**STATE RESPONSIBILITY**  
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→ Gocuinheor-malitation plausible deniability

**SOVEREIGN IMMUNITY**  
Sovereign immunity is anomch enooantan.



# 2 HISTORICAL EVOLUTION



# 3 THE PHILOSOPHICAL BASE

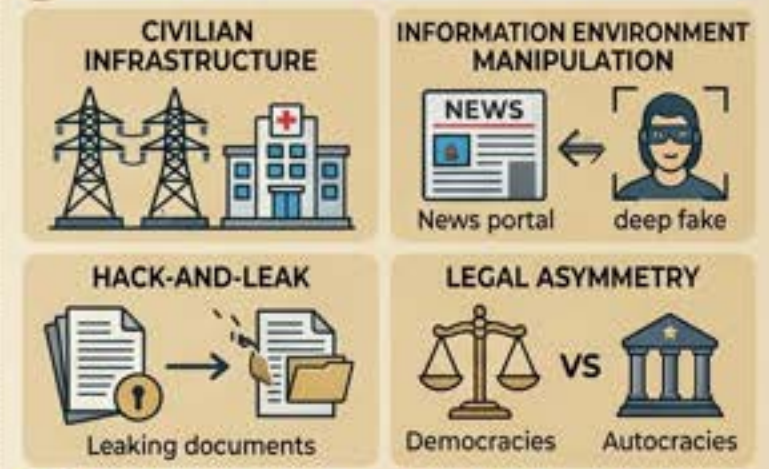


# CYBER WARFARE & INTERNATIONAL LAW: THE DIGITAL FRONT

## A COMPREHENSIVE ANALYSIS



# 4 NEW TACTICAL FEATURES



# 5 UNSUSTAINABILITY & CHALLENGES



# 6 MULTIDIMENSIONAL ANALYSIS



UPSC CSE: THEMATIC LINKAGES (GS 2, GS 3, GS 4, Essay) | NCERT CONNECTIONS (Pol Sc, Geog)

WAY FORWARD: CODIED THRESHOLDS, NEUTRAL ATTRIBUTION, DOMESTIC RESILIENCE, DIPLOMATIC LEADERSHIP | +91 6002-417488

- **Logical and Philosophical Base**

- Every policy prescription rests on certain assumptions and logical structures. The analysis presented is grounded in liberal institutionalism yet deeply aware of realist constraints.
- **Assumption of a Rules-Based International Order:** The fundamental premise is that international law should, and can, effectively regulate state behaviour even in a domain as novel as cyberspace. This is a classic liberal internationalist position, which believes that institutions and norms can temper power politics. The very call to “close the gap” between law and reality assumes that a stronger legal architecture is both desirable and feasible.
- **Sovereignty and Non-Intervention as Bedrock:** The argument draws on the Westphalian logic that states have the right to control their territory, including digital infrastructure. A cyber operation that causes significant effects on another state’s territory is a violation of sovereignty, even if it does not rise to the level of a use of force. This philosophical expansion of sovereignty into the digital realm is central to modern cyber law.
- **The Just War Theory in Cyberspace:** The analysis implicitly invokes *jus ad bellum* (the right to resort to force) and *jus in bello* (conduct during conflict). The struggle to define when a cyber operation constitutes an “armed attack” invoking self-defence reflects the proportionality and necessity criteria. The hacking of news websites to shape the information environment also touches on the principle of distinction, as civilian communications infrastructure is being weaponized.
- **The Epistemological Gap:** A profound philosophical challenge underlies the entire analysis: the gap between knowledge and proof. States often possess intelligence that convinces them, politically, of an adversary’s responsibility. Yet translating that into legal evidence that meets courtroom standards is an epistemological hurdle. This raises questions about what we can “know” in the secretive world of cyber espionage, and whether a different standard of proof might be needed for international claims.
- **Realist Logic of Strategic Disincentives:** Despite the legal logic, the article acknowledges the realist counter-current. States often avoid litigation because disclosure of intelligence could harm national security, or because a legal battle might escalate into a broader confrontation. This is a classic security dilemma logic: even when wronged, a state may calculate that silence serves its interests better than justice.
- **The Social Contract in the Digital Age:** The analysis implies a philosophical contract between the state and its citizens. As India pushes for digital empowerment, it has a corresponding duty to protect citizens and infrastructure from harm. If cyber attacks disrupt hospitals, power grids, or financial systems, the state’s very reason for existence – providing security – is challenged. Law’s failure to provide accountability fractures that contract, creating a demand for new norms that are not just inter-state but also citizen-centric.

- **Multidimensional Analysis**

- Cyber operations in modern conflict are not a narrow technical issue; they ripple across every facet of society and statecraft.

- **Social Dimension:** Disruption of hospital networks, power grids, or financial systems directly affects public safety and trust. The hacking of communication apps and news sites erodes the shared information environment, sowing confusion and anxiety. Vulnerable populations, who rely on digital public services, are disproportionately harmed. Persistent feelings of insecurity can lead to digital paranoia and a societal demand for strong state control, potentially threatening civil liberties.

- **Political Dimension:** Cyber operations are now a core tool of statecraft, used for coercion, espionage, and influence. The lack of clear legal accountability gives aggressive states a low-cost, high-deniability avenue to achieve political objectives. Domestically, governments may use the threat of foreign cyber aggression to justify expansive surveillance laws and crack down on dissent, framing it as a national security imperative. The “politics of attribution” – deciding when and how to publicly accuse another state – becomes a delicate diplomatic weapon.

- **Legal Dimension:** At the heart of the debate is the adaptation of international law. The principles of sovereignty, non-intervention, and the prohibition of the use of force are under continuous pressure. Gaps exist not just in international but also in domestic law regarding jurisdiction, sovereign immunity waivers, and evidentiary standards for digital proof. The Budapest and UN Conventions represent separate attempts to forge consensus, but they don't cover state-on-state conflict, leaving a legal void that needs urgent doctrinal development.

- **Ethical Dimension:** The deliberate targeting of civilian digital infrastructure, such as medical technology companies, raises profound ethical questions. Distinction, a cardinal principle of humanitarian law, is dangerously eroded when civilian apps become part of the information warfare toolbox. There's also an ethical tension between a state's duty to protect its citizens and the methods it uses – hoarding zero-day vulnerabilities for offensive purposes, for instance, leaves its own society open to the same exploits. The ethics of maintaining deniability while knowing the perpetrator also amounts to a moral hazard.

- **International Dimension:** Cyber conflict is testing the fundamental fabric of international order. Alliances like NATO have declared that a serious cyber attack could trigger Article 5 (collective defence), but have deliberately kept the threshold ambiguous. The UN GGE and OEWG processes demonstrate both the desire for norms and deep power rivalries. Small states, often used as launching pads for attacks, grapple with due diligence obligations. The issue also intersects with the global digital divide; developing nations lack the capacity to meaningfully participate in norm-setting, risking a rules system written by and for the technologically powerful.

- **Economic Dimension:** Cyber operations that disrupt critical infrastructure cause enormous financial losses – from business interruption, data theft, and remediation costs. The ambiguity around legal remedies makes the cyber insurance market volatile and expensive. Moreover, a pervasive sense of insecurity can deter foreign investment and slow the digital economy's growth. For India, a \$5 trillion economy ambition rests on a secure digital backbone; the economic costs of inaction in the legal realm are thus directly linked to development goals.

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- **Linkages with NCERTs**

- **Class 10, Democratic Politics – II, Chapter 7: Outcomes of Democracy:** This chapter discusses how citizens expect security and accountability from a democratic government. Cyber insecurity directly undermines these outcomes, and the inability to hold foreign perpetrators legally accountable can erode faith in democratic institutions' ability to protect.
- **Class 11, Political Theory, Chapter 5: Rights:** The discourse on rights includes the right to life and liberty. In the digital age, the right to life extends to protection from attacks on digital health infrastructure. The chapter also covers duties of the state, which directly connects to the state's duty to secure its digital domain.
- **Class 11, Political Theory, Chapter 10: Development:** It discusses sustainable development and inclusive growth. The analysis links cyber resilience and legal accountability to economic stability, a precondition for development, making the chapter relevant.
- **Class 12, Contemporary World Politics, Chapter 1: The End of Bipolarity:** Understanding the post-Cold War fluidity helps explain the rise of new forms of conflict and non-state actors that make cyber attribution messy. The chapter on international organizations (Ch. 6) is crucial because it examines the UN's role in peace and security, and the problem of cyber conflict shows both the necessity and limits of UN-led norm-building.
- **Class 12, Contemporary World Politics, Chapter 7: Security in the Contemporary World:** This chapter is the most direct NCERT link. It discusses non-traditional security threats, including cyber security. The concept of "hybrid warfare" is an extension of the non-traditional threat paradigm. The chapter's analysis of how security challenges transcend national boundaries and require cooperative security frameworks is perfectly illustrated by the attribution and legal forum problems.
- **Class 12, Political Science – II, Chapter 5: Challenges to and Restoration of the Congress System** (contextual, not direct): While about political history, one can draw a parallel about institutional decay and the need to reinvent mechanisms to sustain trust, much like international legal institutions need reinvention for the cyber age.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper 2: Governance, Constitution, Polity, Social Justice and International Relations:**
  - *International Relations:* Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests. The UN GGE, OEWG, and Budapest Convention are directly covered here.
  - *Effect of policies and politics of developed and developing countries on India's interests:* The cyber posture of the US, Israel, Iran, China, and Russia and its implications for India's strategic and digital interests.
  - *Important International institutions, agencies and fora – their structure, mandate:* ICJ, UN, and the limits of these bodies in the cyber domain.
- **GS Paper 3: Technology, Economic Development, Biodiversity, Environment, Security and Disaster Management:**
  - *Challenges to internal security through communication networks, role of media and social networking sites in internal security challenges, basics of cyber security:* This is a direct hit. Cyber operations disrupting news websites and apps to influence the information environment is a textbook case.
  - *Various Security forces and agencies and their mandate:* The role of CERT-In, NTRO, and the proposed National Cyber Security Coordinator in attribution and response.
  - *Awareness in the fields of IT, Space, Computers, robotics, nano-technology:* Cyber operations are a core application of IT and computer technology in conflict.
  - *Role of external state and non-state actors in creating challenges to internal security:* State-sponsored cyber attacks against India's critical infrastructure exemplify this.
- **GS Paper 4: Ethics, Integrity and Aptitude:**
  - *Ethics in international relations:* The ethical dilemma of covert cyber operations, deniability, civilian targeting, and the moral responsibility of technologically advanced states.
  - *Probity in Governance:* The need for transparent and accountable processes even in sensitive security domains, such as disclosure of zero-day vulnerabilities (the "equities process").

- **Way Forward**

- **Strengthen the Normative Framework Brick by Brick:** Instead of aiming for a grand, binding cyber treaty, focus on state practice. Like-minded states, including India, should consistently articulate legal positions – for instance, that severe cyber operations against critical infrastructure constitute a violation of sovereignty and may trigger countermeasures. Collective declarations through the UN GGE and regional forums can crystallize customary international law over time.
- **Build a Credible Evidentiary Alliance:** India could lead in forming a coalition of technologically capable democracies to develop shared standards for cyber attribution evidence that can be partially declassified for legal processes. This “alliance of proof” could create a template for taking cases to international arbitration or even domestic courts, providing a safer pathway for disclosing intelligence without full exposure.
- **Activate the Domestic Legal Pathway with Smart Reforms:** India can pass a “Cyber Foreign Sovereign Immunities Act” that carves out an exception to sovereign immunity in cases where a foreign state causes significant damage to critical national infrastructure through cyber means. Combined with stringent evidence-protection procedures (in-camera trials, security-cleared judges), this could provide a credible domestic forum for redress, setting a global precedent.
- **Institutionalize Cyber Mediation and Arbitration:** Encourage the Permanent Court of Arbitration in The Hague to develop a specialized panel on cyber disputes. This allows states to resolve conflicts quietly through consent-based mediation rather than open litigation, reducing the strategic risk of escalation while still providing a neutral legal process.
- **Prioritize Critical Infrastructure Protection with Firm Red Lines:** India must unilaterally declare certain critical infrastructure sectors (health, energy, water, financial) as no-go zones for cyber operations by any actor. It can then work through bilateral and plurilateral tracks to gain reciprocal commitments. Clear red lines reduce the ambiguity that currently shields aggressors.
- **Internal Capacity and Whole-of-Society Resilience:** No international legal fix can substitute for robust domestic preparedness. India needs a dedicated, legally-trained cyber diplomacy cadre, greater public-private fusion centres for real-time threat sharing, and mandatory digital literacy programs that include awareness about disinformation. A resilient society is less easily coerced, thereby reducing the strategic value of cyber operations against it.
- **Leverage the UN Convention against Cybercrime Wisely:** While the new treaty is not perfect, India must engage proactively to ensure that its implementation guidelines and review mechanisms create space for discussing state-sponsored attacks disguised as cybercrime, preventing the treaty from being misused to shield state actors.

- **UPSC Civil Services Preliminary Examination**
- 2017: The term 'Digital Single Market Strategy' seen in the news refers to... (Relevant to EU cybersecurity norms)
- 2020: With reference to the 'Blockchain Technology', consider the following statements... (Cybersecurity enabler)
- 2022: 'Right to be forgotten' is related to... (Data protection, cyber law)
- **UPSC Civil Services Mains Examination**
- **GS Paper 2:**
  - 2021: "Besides the welfare schemes, India needs deft management of inflation and unemployment." (Not directly, but economic impact of cyber attacks relates to economic management)
  - 2022: "What is the significance of the Budapest Convention on Cybercrime? Discuss its relevance for India." (Direct)
  - 2023: "The long-sustained image of India as a leader of the oppressed and marginalised nations has disappeared on account of its new found role in the emerging global order." (Can be linked to India's role in cyber norm-setting)
- **GS Paper 3:**
  - 2013: "Cyber warfare is considered by some defence analysts to be a larger threat than even Al Qaeda or terrorism. What do you understand by Cyber warfare? Outline the cyber threats which India is vulnerable to and bring out the state of the country's preparedness to deal with the same." (Highly Direct)
  - 2017: "Discuss the potential threats of Cyber attack and the security framework to prevent it." (Direct)
  - 2019: "What is CyberDome Project? Explain how it can be useful in controlling internet crimes in India." (Specific, but related)
  - 2021: "Keeping in view India's internal security, analyse the impact of cross-border cyber attacks. Also discuss defensive measures against these sophisticated attacks." (Highly Direct)
  - 2023: "What are the internal security challenges being faced by India? Give out the role of Central Intelligence Agencies at every stage." (Cyber is a key challenge)



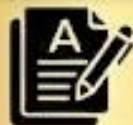
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