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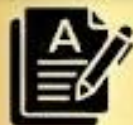
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A round of elections that signals structural dominance

The phase of Indian politics since 2014 has been widely termed the fourth party system, with the Bharatiya Janata Party (BJP) constituting a dominant pole that increasingly structures the field of competition at both the national and State levels. Some observers have periodically asked whether this BJP-dominant system represents a durable structural dominance or a more fleeting electoral dominance, largely built on and sustained by the charismatic leadership of Narendra Modi.

What drives the juggernaut

These rounds of State elections (in Assam, West Bengal, Kerala, Tamil Nadu and Puducherry) should settle that question in favour of structural dominance. The setback received by the National Democratic Alliance in the 2004 general election suggested that Mr. Modi's charismatic appeal had begun to recede from the dizzying heights it had scaled over the previous decade. Yet, the BJP has performed much better in the phase of elections between 2014-26 than it did either in 2014-16, when Mr. Modi still carried the transformative aura of the *vikas purush*, or in 2019-21, when he became the pro-poor messiah embodying an unmatched reservoir of popular trust. It is only in the present cycle that the BJP has managed to storm to power in Odisha, Delhi, and West Bengal, which is the biggest prize of them all.

Of course, Mr. Modi's leadership remains important in terms of his ability to direct and manage the machinery of the system of power. But it is the sprawling machinery itself, involving the close nexus of party organisation, wider Sangh networks, big industrial houses, and key state institutions, which drives the juggernaut of the BJP-dominant system.

In Haryana and Maharashtra, the mobilisation of the Rashtriya Swayamsevak Sangh helped the BJP blunt the spectre of anti-incumbency (especially among Dalits) that was stalking the ruling alliance after a decade in power. Similarly, in West Bengal, the Sangh Parivar laid the groundwork for the BJP campaign to mobilise scattered caste and community grievances (such as of *Mamas* and *Rajbarshis*) into a coherent, State-wide narrative of Hindu exclusion.

In addition, the BJP has, in the course of this period, also built up an architecture of power that has made it the 'natural party of governance' (in the mould of the Congress period of dominance). The instruments of this power include the above-mentioned informal alliances and control over public institutions, through which the BJP is able to structure the party system to its advantage, breaking factions of opponent parties and co-opting its leaders. But it also involves



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The Assembly election results strengthen the argument for the BJP's structural political dominance

manipulating the administrative machinery to deepen the ideological hold of Hindutva.

In Assam and West Bengal

In Assam, the Himanta Biswa Sarma government has made the category of the "Bangladeshi Muslim immigrant" (read: Bengali speaking Muslim) the master signifier coursing through everyday functioning of bureaucratic institutions and the public regulation of land and resources. The category of the "Bangladeshi immigrant" has been embedded at the core of the policies and practices of the National Register of Citizens (NRC), the 'D-voter' category (Doubtful Voter), detention centres, delimitation, eviction drives, policing, and surveillance. The interpellative capacity of the government procedures has turned the distinction between indigenous (Hindu) and outsider (Muslim) into the organising idea for Assamese society in terms of imagining collective life and approaching the political world. The communalism of the Himanta Biswa government thus goes much beyond the regular hate speeches; it is indeed baked into the very architecture of governance and how people relate to it.

In West Bengal, the BJP campaign was characterised by the underhanded tactics and partisan use of state institutions such as the Enforcement Directorate, the Central Bureau of Investigation and paramilitary forces, which were heavily deployed in an unprecedented manner in a State election (outside of Kashmir and the Northeast). Meanwhile, the shambolic and discriminatory rollout of the Special Intensive Revision of electoral rolls by the Election Commission of India ensured that a substantial chunk of the Trinamool Congress (TMC) support base (primarily Muslims) were struck off from the electoral list.

To withstand the juggernaut of the BJP-dominant system requires a politics of counter-hegemony. The Congress in Assam has failed to imagine such a politics over the last decade, let alone execute it. Instead, it turned to the scion of the Gogoi dynasty, who was dispatched from Delhi and given charge of the State a year before the election. The party relied on a dominant caste (Ahom)-led consolidation in upper Assam and Muslim-led consolidation in lower Assam. Meanwhile, the TMC banked on its narrative of Bengali pride, along with cash transfers to women and Muslim consolidation, to secure a fourth consecutive term. Both these strategies failed spectacularly.

The declining fortunes of both the established regional parties as well as the Congress can be traced back to the form of their organisation,

which is the electoral-professional party. As theorised by political scientist Angelo Panebianco, this is a party organised around the professional apparatus of campaign managers, consultants and pollsters (as opposed to ideologically motivated cadres), whose primary focus revolves around electoral competition.

The rise of the electoral-professional party is an institutional adaptation to the prevailing developmental paradigm. For State governments to attract big capital and deliver on economic growth (and amass the funds for social welfare), they are constrained to follow a similar bouquet of 'good governance' policies: pro business reforms and big infrastructure projects. This led first to the shift of the prevailing party form from the (ideological/identity-based) mass party to the (centrist) catchall party. The rise of technology-enabled direct cash transfers seeded the next transmutation from the catchall party to the electoral-professional party. The parallel professional framework becomes indispensable to connect these "techno-patrimonial" leaders (Yamini Aiyar) with their broad welfare constituency.

The southern States

As Neelanjana Sircar has noted from his fieldwork in Bengal, TMC cadres have been repurposed from overseeing delivery of benefits (outsourced to professionals) to the mobilising of voters for elections. In Tamil Nadu, even the Dravida Munnetra Kazhagam has been transformed by M.K. Stalin's 'CEO' style leadership, from a decentralised organisation of strong district secretaries into a centralised, disciplined and welfare-driven machine. A similar story could be told in Kerala of Pinarayi Vijayan's transformation of the Communist Party of India (Marxist), or CPI(M), as a disciplined party under his personalistic management.

While M.K. Stalin, Pinarayi Vijayan and Mamata Banerjee achieved some success after turning their parties from cadre-based to electoral-professional outfits, it masked the electoral fragility of such politics. The downside of a managerial, ideologically feeble politics is that it depoliticises the electorate, and makes them turn to either the populist outsider solution (as in C. Joseph Vijay's Tamilaga Vetri Kazhagam in Tamil Nadu) or the Hindu nationalist solution (as in the BJP in Assam).

While Kerala has gone for the conventional alternative in the Congress, it is not yet clear whether the deformed CPI(M), now in opposition, would be able to protect its space from the rising BJP any better than it has managed in Tripura and West Bengal.

- **Key Terms and Explanations**

- **Fourth Party System:** A phase in Indian politics starting around 2014, characterized by the end of the "Coalition Era" (1989-2014) and the rise of the BJP as the central pole around which all political competition revolves.

- **Structural vs. Electoral Dominance:**

- *Electoral Dominance:* Winning elections based on immediate factors like a popular leader (Modi) or specific slogans.
- *Structural Dominance:* When a party embeds itself into the permanent machinery of the state, civil society, and the economy, making it the "natural" ruler regardless of individual leaders.

- **Electoral-Professional Party:** A party model that relies on technical experts (pollsters, digital managers, consultants) and welfare delivery rather than a grounded, ideological cadre.

- **Techno-Patrimonialism:** A governance style where technology (like Direct Benefit Transfers) is used to create a direct link between a powerful leader and the "beneficiary" (Labharthi), bypassing local political middlemen.

- **Interpellation:** A concept where the state's procedures and language "hail" or define the citizen into a specific identity (e.g., defining someone as an "indigenous Hindu" vs. an "outsider Muslim" through bureaucratic documentation).

- **Master Signifier:** A dominant political label or idea (like "Bangladeshi immigrant") that becomes the primary lens through which all other social and economic issues are viewed.

- **Main Arguments and Substantive Parts**

- The core thesis posits that the BJP has transitioned from mere electoral success to a deep-rooted **structural hegemony**.
- **The Shift to Structural Dominance:** While the 2024 general elections suggested a dip in the "Modi wave," subsequent State elections (2024-2026) in West Bengal, Odisha, and Delhi prove the party's machinery is now independent of a single leader's charisma.
- **The Sprawling Machinery:** The "Juggernaut" is driven by a nexus of four pillars:
 - **Party Organization:** Hyper-efficient booth-level management.
 - **Sangh Networks:** The RSS providing deep social mobilization and blunting anti-incumbency.
 - **Industrial Houses:** Sustained financial backing.
 - **State Institutions:** The use of central agencies and administrative tweaks to favor the ruling party.
- **Governance as Ideology:** In states like Assam, communalism is not just rhetoric; it is "baked into governance" through land laws, NRC, and surveillance, making the "Indigenous-Outsider" divide a permanent administrative reality.
- **The Crisis of the Opposition:** Regional parties (TMC, DMK, CPM) have become "electoral-professional" outfits. While efficient at winning terms, they lack the deep ideological roots needed to withstand a structural onslaught, leading to a "depoliticized" electorate that eventually gravitates toward the BJP or populist outsiders.





- **Historical Evolution of the Issue**

- **First Party System (1952–1967) — Congress Dominance**

The Congress under Nehru enjoyed a “catch-all” character, accommodating diverse interests. It was the natural party of governance, with a weak and fragmented opposition.

- **Second Party System (1967–1989) — Fragmentation and Coalitions**

Rise of regional parties (DMK, Akali Dal, TDP), the Emergency (1975–77), the Janata experiment, and the return of Congress under Indira Gandhi. The Congress system began to crack as regional satraps asserted themselves.

- **Third Party System (1989–2014) — Coalition Era**

Mandal (OBC reservation) and Mandir (Ram Janmabhoomi movement) transformed the social base of politics. BJP’s ascent from 2 seats in 1984 to power in 1998. Coalitions became unavoidable; both NDA and UPA governed through multi-party alliances. Regional parties became kingmakers.

- **Seeds of BJP’s Structural Power**

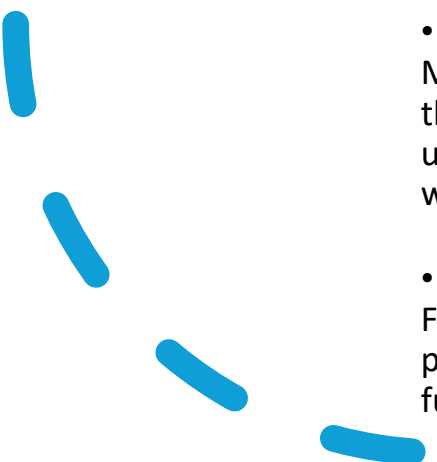
The 2002 Gujarat riots entrenched a politics of polarisation. By the early 2010s, the BJP had built formidable organisational muscle via the RSS, while the Congress’s organisational decay and the Anna movement created an anti-incumbency wave.

- **Fourth Party System (2014–Present) — BJP Dominance**

Modi’s 2014 victory inaugurated single-party majority rule at the Centre, breaking the coalition mould. BJP expanded into the Northeast, made deep inroads in West Bengal, Odisha, and eventually formed governments in states once seen as unconquerable. Institutional mechanisms — from central agencies to the Governor’s office — were increasingly weaponised to cement this dominance.

- **Evolution of Party Forms**

From mass-based ideological parties (Congress, BJP, Left) to catch-all parties in the 1990s, and now to electoral-professional parties. The techno-patrimonial model enabled by direct benefit transfers and professional consultants has further eroded cadres, making parties shallow electoral vehicles.



UPSC CSE ANALYSIS: INDIA'S FOURTH PARTY SYSTEM & BJP'S STRUCTURAL DOMINANCE (POST-2014)

THE JUGGERNAUT: BJP'S STRUCTURAL HEGEMONY MACHINERY



TRANSITION: ELECTORAL TO STRUCTURAL DOMINANCE



OPPOSITION'S CHALLENGES: THE ELECTORAL-PROFESSIONAL PARTY



REGIONAL DYNAMICS:
Southern States as Resistance Zones vs. Northern Dominance

RISK:
Electorate Depoliticization, Turn to Majoritarianism

- **Logical and Philosophical Base**

- **Gramscian Hegemony**

Dominance is not just about coercion but about “leading” society by making one’s worldview appear natural. The BJP system manufactures consent by embedding Hindutva in everyday governance (NRC, D-voter), making the distinction between indigenous Hindu and outsider Muslim seem like common sense.

- **Structure vs. Agency**

The debate mirrors a classic social science puzzle: is the BJP’s success driven by Modi’s exceptional agency (charisma, decision-making) or by structures (party machinery, Sangh, capital, state institutions)? The answer leans towards structure, without denying that Modi’s leadership orchestrates and sharpens these forces.

- **State Fusion**

Drawing from Althusser, the article shows how “ideological state apparatuses” (bureaucracy, election machinery, security forces) do not remain neutral but actively produce majoritarian subjects. This blurs the line between the party and the state, creating a “party-state” that can shape electoral outcomes before a single vote is cast.

- **Critique of Liberal Proceduralism**

The arguments challenge the notion that free and fair elections alone define democracy. When the electoral rolls are manipulated, the media captured, and agencies used to break opponents, the *substantive* content of democracy is hollowed out, even if the procedural form remains.

- **Depoliticisation and the Rise of Populism**

When parties abandon ideology for technocratic management, politics becomes a dry business of handouts. This depoliticisation breeds cynicism and opens space for messianic populists — whether they are Hindu nationalists or celebrity outsiders — promising to “clean the system.”

- **Weberian Bureaucracy vs. Committed Bureaucracy**

The ideal of a rule-bound, neutral bureaucracy is replaced by a committed bureaucracy that sees its role as implementing the ideological agenda of the dominant party. The Assam model exemplifies this philosophical shift.

- **Multidimensional Analysis**

- **Social**

- Identity-based mobilization reshaping social cohesion.
 - Marginalization fears among minorities.

- **Political**

- Shift toward dominant-party system.
 - Decline of coalition politics and regional autonomy.

- **Legal**

- Questions on institutional independence and rule of law.
 - Electoral fairness and administrative neutrality concerns.

- **Ethical**

- Debate on majoritarianism vs pluralism.
 - Governance vs propaganda dilemma.

- **International**

- Global perception of democratic backsliding vs strong governance.
 - Impact on India's soft power and democratic credentials.

- **Economic**

- Pro-business reforms attracting investment.
 - Welfare schemes ensuring electoral support but straining finances.

- **Linkages with NCERTs**

- **Class 10 Political Science – “Political Parties”**

Explains party systems, the role of opposition, and the challenges parties face. The fourth party system and electoral-professional model illustrate the real-world evolution of these textbook concepts.

- **Class 10 Political Science – “Outcomes of Democracy”**

Discusses accountable, responsive, and legitimate government. The article’s concerns about institutional capture and communalism relate directly to the quality of democratic outcomes.

- **Class 11 Political Theory – “Secularism” and “Nationalism”**

The Indian conception of secularism (positive engagement vs. Western separation) is being reconfigured by Hindutva. The ideas here help us interrogate what happens when nationalism becomes majoritarian.

- **Class 12 Politics in India Since Independence – “Era of One-Party Dominance”**

Draws a direct parallel between the Congress system and the emerging BJP-dominant system, helping students understand the concept of a “natural party of governance.”

- **Class 12 Politics in India Since Independence – “Crisis of the Democratic Order” and “Recent Developments in Indian Politics”**

The Emergency, coalition era, Mandal-Mandir, and the post-2014 shift provide a timeline to which the current phase can be compared.

- **Class 12 Sociology – “Challenges of Cultural Diversity” and “Communalism”**

Communalism as an ideology, its causes, and consequences; the article’s examples from Assam and Bengal provide vivid illustrations of how communalism gets institutionalised.

- **Class 9 History – “Pastoralists in the Modern World” and “Forest Society and Colonialism” (indirectly)**

Issues of eviction and labelling of “outsiders” connect to colonial ideas of classification that are resurfacing in modern forms, enabling comparative analysis.

- **Linkages with UPSC CSE Syllabus**

- **GS Paper 1 – Indian Society**

Communalism, regionalism, secularism, social empowerment, effects of globalisation on Indian society, Salient features of Indian society — Directly addressed by the Hindutva-based social engineering and formation of exclusive identities.

- **GS Paper 2 – Polity and Governance**

- *Federal Structure*: Centre-state relations, misuse of Governors and central agencies, impact on state elections.
- *Separation of Powers*: Judicial and executive overreach in dealing with citizenship and electoral rolls.
- *Representation of People's Act*: D-Voter category, electoral roll revision, free and fair elections.
- *Political Parties and Pressure Groups*: Transformation of party system, fourth party system, role of RSS.
- *Governance and Civil Services*: Politicisation of bureaucracy, techno-patrimonial governance.
- *Government Policies and Interventions*: NRC, DBT, eviction drives.
- *Election Commission*: Independence, impartiality concerns.

- **GS Paper 3 – Internal Security and Economy**

- *Internal Security*: Communal tensions, illegal migration narrative, use of paramilitary forces in state elections.
- *Money Laundering*: Use of ED/CBI, electoral bonds, crony capitalism.
- *Inclusive Growth*: Welfare schemes post-2019 and their electoral link.

- **GS Paper 4 – Ethics, Integrity and Aptitude**

- *Ethics in Governance*: Partisan use of public institutions, majoritarianism vs constitutional morality.
- *Emotional Intelligence and Political Attitudes*: How communalised bureaucracy deals with minority vulnerability.
- *Case Studies*: D-voter disenfranchisement, eviction drives based on religious identity.

- **Way Forward**
- **Restore Institutional Neutrality**
 - Autonomous selection process for Election Commissioners, CBI Director, and ED head through multi-member, bipartisan committees.
 - Codify clear legal limits on the deployment of central agencies and paramilitary forces during state elections.
- **Electoral Integrity Reforms**
 - Scrap or revamp the D-voter framework; ensure any revision of electoral rolls is transparent, with mandatory local verification and appeal mechanisms.
 - State funding of elections to reduce dependence on big business and crony capital.
- **Strengthen Federal Checks**
 - Governor's role to be limited by a convention codified by the Supreme Court or through a new statute, preventing partisan destabilisation of state governments.
 - Revitalise the Inter-State Council to give states an institutional voice against over-centralisation.
- **Opposition's Ideological and Organisational Rebuilding**
 - Move beyond electoral-professional models; invest in cadre-based mobilisation rooted in a clear, inclusive counter-narrative — a “politics of counter-hegemony.”
 - Embrace internal democracy to end family rule and attract genuine grassroots talent.
 - Forge broad “coalition of the vulnerable” (marginalised castes, minorities, economically dispossessed) through meaningful shared programmes rather than pure arithmetic.
- **Civil Society and Media**
 - Encourage community-owned and non-profit media platforms that can puncture the information bubble.
 - Grassroots legal literacy campaigns to inform citizens about NRC, D-voter, and their rights under the Constitution.
- **Dialogue and Reconciliation**
 - Initiate structured dialogues with all communities in states like Assam to build trust, replacing the “outsider vs. indigenous” binary with a shared Assamese identity based on language and culture.
 - Strengthen equal treatment of all religions in public institutions as a visible reaffirmation of secularism.
- **Long-Term Cultural Work**
 - Education policy must reinforce constitutional values of fraternity and scientific temper rather than majoritarian myths.
 - Art, film, and literature can be encouraged to explore stories of composite heritage, countering the communalisation of memory.

UPSC CSE Mains

GS1

- “Communalism arises either due to power struggles or relative deprivation.” Argue by giving suitable illustrations. (2018)
- Examine the linkages between the nineteenth century’s “Indian Renaissance” and the emergence of national identity. (2019) — *Connected via ideological construction of nationhood.*
- Is diversity a challenge to national integration? Critically examine. (2021)

GS2

- “The Indian party system is passing through a phase of second dominant party system.” Critically examine. (2020)
- Discuss the role of the Election Commission of India in the light of the evolution of the Model Code of Conduct. (2022)
- How far do you agree that the role of the Governor has become a threat to the federal fabric of the Indian polity? (2021)
- “The use of central investigative agencies in the states undermines the principles of cooperative federalism.” Analyse. (2023)
- Do you think that the Constitution of India does not accept the principle of strict separation of powers rather it is based on the principle of ‘checks and balances’? Explain. (2019) — *Indirectly relevant to partisan institutional use.*

GS4

- What do you understand by ‘constitutional morality’? How does one develop constitutional morality in the citizenry and public servants? (2021)
- “The greatest threat to ethics in public life comes from the blurring of lines between the state and the ruling party.” Discuss with examples. (2019) (*paraphrased*)

An agenda for risk mitigation

CURRENT CONCERNS. India should reduce vulnerability to FPI, by reducing CAD and securing stable means of financing it



ASHIMA GOYAL

In the last column I had analysed why the impact of oil shocks may not be as large as markets seem to be pricing in. But there are other reasons why markets tend to overestimate risks for India.

DIVERSITY AS RISK MITIGATION

There is a belief that India has missed the AI bus, with investors preferring to go to countries in the race. But quite a few Indian AI applications have been highlighted recently. In past tech-led booms the major gains have come from applications. Small language models (SLMs) distilled from large ones and trained on more relevant data are cheaper to run.

Productivity gains of 30 per cent are feasible and will raise incomes and demand. Software companies will play a large part in adopting and applying such SLMs and in other customisations.

Household participation in equity markets has risen and the current volatility is thought to be endearing both household participation and their savings. But the equity and mutual fund share of household financial savings is still only 13 per cent, and physical assets dominate household net worth giving them a good mix of assets.

Equity is not bought from leveraged funds, so there is no pressure to sell when markets are down. Having been through several cycles, households know better than to do so. Their mutual fund SIPs are sustaining. Households, and those who invest for them, believe in the India growth story and understand how to buy in dips. The large derivative trade is predominantly through regulated institutions who understand the risks.

In a \$3.92 trillion economy even a small percentage of GDP coming into stock markets is large in absolute amounts. In 2025 domestic equity ownership has overtaken that of FPI, which, at about 15 per cent, is at a 20-year low. Comparatively, in the US 18 per cent of domestic equity is held by foreigners. In China it is 3-5 per cent. India will do well to keep this number low. More domestic participation will reduce dependence on FPI and increase returns on household savings. It has already reduced volatility of stock market indices, which kept rising through the Ukraine conflict and have only shed some gains now after more than a year of external shocks and FPI exit.



SAVINGS PATH. Gross domestic savings remain above 30 per cent

Indian private investment, domestic savings and consumption demand are all criticised as inadequate. But investment ratios of above 30 per cent are the 5th highest in the world and only behind China's 40 per cent among large economies. This is mostly private since public investment to GDP ratio is only 4 per cent.

The unorganised sector is enumerated as part of the household sector in India. This sector is borrowing and investing. Household net financial savings to GDP ratio fell, therefore, but the savings in physical assets ratio rose. Gross domestic savings remain above 30 per cent since corporate savings are rising. In the past, savings ratios have risen with growth. The current account deficit, a measure of foreign savings used, remains low at about 1 per cent.

The demand response to the GST tax cut last year has shown corporates that there is demand in India at appropriate prices and the government has tools as well as intention to moderate external shocks. Corporate investment has also picked up as manufacturing is set to benefit from free trade agreements (FTAs), green substitutions, demand for

International institutions have shrugged off their responsibility of maintaining global financial stability and do their best to convince EMs that volatility is due to something 'structurally' wrong with them

defence exports and construction. Agriculture and service exports add to Indian diversity. Even so, India's consumption/GDP percentage of about 60 makes it less dependent on exports as a source of demand, compared to China where it is about 80.

GLOBAL SHOCKS

It is strange that there is no-ones on the international financial architecture to reduce the volatility emerging markets (EMs) face from global events. Maintaining stability of the international financial system is the mandate of international institutions. But they have shrugged off responsibility and do their best to convince EMs that volatility is due to something 'structurally' wrong with them.

Believers in free markets continue to advise EMs to reduce reserve accumulation and intervention. Currencies should float even if they tend to overshoot. Markets themselves like reserve accumulation, but not the reverse. Practical central bankers, however, know multiple instruments, including buffers, have to be used to manage external shocks and persistent misalignment. Diverse actions reduce risk.

Reserves fell only in six out of 30 years when outflows reduced the capital account surplus to below the CAD. The last 2 Trump-regime volatility years are included in the six. Why shouldn't reserves accumulated in so many surplus years be used to moderate depreciation in the few years of outflows?

Strategically, intervention is avoided at the onset of outflows so they take a

loss. In 2025, however, the rupee was allowed to over-depreciate in the hope that it would help solve balance of payments pressures. The rupee depreciated with the dollar although other currencies were appreciating, yet this did not improve either CAD or inflows. The 40 country real exchange rate (REER) depreciated 10 per cent over its long-run equilibrium level to which it has always returned after past outflow episodes. In theory real depreciation should encourage exports and discourage imports. But Indian exports largely go to competitive markets where currency gains have to be shared, while there is immediate full price increase in commodity imports.

A falling nominal exchange rate discourages foreign inflows, since they expect the fall to continue. They prefer coming in only when they are confident a reversal has set in. Benefits from rupee reversal outweigh those from higher interest rates or lower hedging costs.

After the Middle-East conflict long dollar positions increased in the belief the rupee would continue to depreciate, although it was already over-depreciated. Measures are required to arrest what can become a self-fuelling cycle.

More nominal depreciation is unlikely to deliver real depreciation since it would only further raise the price of oil imports and inflation, which causes the real appreciation. It is better if the 100 REER value is reached through nominal appreciation than through inflation.

India does need to reduce its trade deficit but a competitive real exchange rate can only be one component of its strategy. Others include trade diversification in products, sources and destinations, more FTAs, a big push for green energy and reduction in logistics costs. The Middle-East conflict will give a boost to all of these. Already net oil imports/GDP has trended down from 8.5 per cent to 5.5 per cent. Oil exporters should worry.

India also needs to reduce its vulnerability to FPI volatility by reducing the CAD and increasing the more stable means of financing it. The stock of FDI to GDP in the US was about 20 per cent in 2024, in China it averaged 21.8 since 2005, in 2024 had fallen to 19.3. India's 14 per cent value can be increased towards 20 per cent by allowing more Chinese FDI.

Analysts and rating agencies who focus only on broad averages and past vulnerabilities miss the many sources of change and resilience. Post-pandemic outcomes, therefore, have tended to outperform expectations.

• Key Terms and Explanations

- **Small Language Models (SLMs):** Compact AI models derived from large language models, fine-tuned on domain-specific data. They run on modest hardware, making them cost-effective for applications like vernacular chatbots for rural healthcare.
- **Foreign Portfolio Investment (FPI):** Investment in financial assets such as stocks and bonds by non-residents. It is 'hot money'—quick to enter and exit—unlike Foreign Direct Investment (FDI) which involves long-term stake in a company.
- **Current Account Deficit (CAD):** When a country's imports of goods, services and transfers exceed its exports. A CAD of ~1% of GDP implies India's foreign exchange outflow is modest, reducing external vulnerability.
- **Real Effective Exchange Rate (REER):** A weighted average of a currency against a basket of major currencies adjusted for inflation differentials. A REER above 100 signals overvaluation; below 100, undervaluation. A 10% depreciation below long-run equilibrium indicates the rupee became cheaper in real terms.
- **Household Financial Savings:** The portion of household income saved in bank deposits, mutual funds, shares, insurance, etc. In India, physical assets (land, gold, housing) still dominate household net worth.
- **Systematic Investment Plan (SIP):** A mutual fund facility allowing investors to invest a fixed amount regularly. Sustained SIP flows even during market downturns reflect retail investor confidence.
- **Gross Domestic Savings:** The sum of savings by households, private corporate sector and public sector. Above 30% of GDP, it funds investment without excessive foreign borrowing.
- **Unorganised Sector:** Enterprises not registered under formal regulatory frameworks, counted under household sector in national accounts. They borrow informally and invest, driving physical savings.
- **Free Trade Agreements (FTAs):** Treaties reducing tariffs and non-tariff barriers between countries. India's FTAs with UAE, Australia, etc., aim to diversify exports and imports.
- **Green Substitutions:** Shifting from fossil-based to renewable energy, electric mobility, green hydrogen. Reduces oil import dependence and trade deficit.
- **Long Dollar Positions:** A speculative bet that the dollar will strengthen against the rupee, leading to further depreciation pressure and a self-fulfilling cycle.
- **Impossible Trinity:** A country cannot simultaneously have a fixed exchange rate, free capital mobility and independent monetary policy; India follows a managed float with capital controls.
- **Productivity Gains of 30%:** Efficiency improvements from deploying SLMs in services like IT, customer support, legal documentation, potentially raising output per worker substantially.

- **Main Arguments and Substantive Parts**

- **Core Thesis:** Markets systematically overestimate risks for India because they overlook structural buffers—a diversified economy, robust domestic savings, a maturing retail investor base, low external debt, and adaptive policy tools.
- **AI Application Potential Not Missed:** The notion that India has “missed the AI bus” is simplistic. Much of the value in past tech booms came from applications, not foundational models. Indian software firms can adapt SLMs for local languages and sectors, yielding 30% productivity gains and boosting incomes.
- **Household Equity Exposure Resilient:** Despite rising participation, equity and mutual funds constitute only 15% of household financial savings. Physical assets dominate, providing a natural hedge. Equity is not bought with borrowed money, so forced selling is rare. SIP flows remain steady, showing households have internalised the growth story and buy on dips.
- **Investment and Savings Ratios Healthy:** India’s investment ratio above 30% ranks fifth globally, largely private-driven (public investment/GDP only 4%). Unorganised-sector borrowing and physical asset creation keep gross domestic savings above 30%. Corporate savings are rising, and the CAD of ~1% indicates low reliance on foreign savings.
- **Consumption-Led Resilience:** Consumption/GDP ~60% makes India less export-dependent than China (~40%), insulating it from global demand shocks. The GST rate-cut demand response demonstrated that corporates can unlock demand with appropriate pricing.
- **Exchange Rate Management Philosophy:** Reserves accumulated over surplus years should cushion outflows. Strategic inaction at the onset of outflows lets speculators take losses. In 2024-25, the rupee was allowed to overshoot (REER depreciated 10% below equilibrium), yet it did not cure CAD or attract inflows—only fuelled depreciation expectations. Real depreciation via nominal fall is self-defeating because it lifts imported inflation and real appreciation. Better to steer REER back to 100 through nominal appreciation.
- **Counterarguments :** Critics say investment and consumption are inadequate. But data show investment ratios are high; savings composition shifted from financial to physical, not an absolute decline. Household net worth is well-diversified. Over-depreciation benefits are limited.


- **Historical Evolution of the Issue**

- **Pre-Independence to 1991:** Indian economy was low-savings, inward-looking. The 1991 balance of payments crisis forced liberalisation, opening to FPI and FDI, and a move from fixed to market-determined exchange rates.
- **1991-2000s Liberal Reforms:** Gradual capital account convertibility, NRI deposit schemes, buildup of forex reserves. The 1997 Asian Crisis underscored the danger of hot money; India's cautious approach proved wise.
- **2008 Global Financial Crisis:** RBI used reserves to curb volatility, imposed temporary capital controls. India emerged with a strengthened view that self-insurance through reserves is vital.
- **2013 Taper Tantrum:** US Fed signalling QE withdrawal triggered massive FPI outflows. RBI's special swap windows and a temporary tightening stabilised the rupee. This episode ingrained the "fragile five" tag, but India tightened macro fundamentals.
- **Post-2014 Structural Shifts:** Jan Dhan-Aadhaar-Mobile trinity expanded financial inclusion. Systematic Investment Plans (SIPs) took off, bringing a new class of retail investors. Mutual fund AUM grew multi-fold, reducing dependence on FPI.
- **2016 Demonetisation and GST:** Short-term disruptions but eventually formalised the economy, boosting tax base and formal savings.
- **COVID-19 and Aftermath:** Massive fiscal-monetary stimulus, V-shaped recovery. Reserves peaked above \$600 billion. Global supply-chain shifts and PLI schemes began to diversify manufacturing.
- **Russia-Ukraine War, Oil Shocks, US Rate Hikes (2022-24):** Triggered FPI outflows. Yet India's stock market kept rising until late 2024, driven by domestic inflows. Rupee faced depreciation pressure but RBI used reserves judiciously.
- **2025 Context:** Trade diversification, renewable push, FTAs, and domestic manufacturing investments strengthened fundamentals. Domestic equity ownership overtook FPI (at a 20-year low of ~15%), lowering index volatility. The experience of multiple cycles has matured households' investment behaviour.

Analyzing the multi-dimensional buffers transforming India into a resilient global economic player

FINANCIAL DEMOCRATIZATION & STABILITY

Domestic vs. FPI Ownership

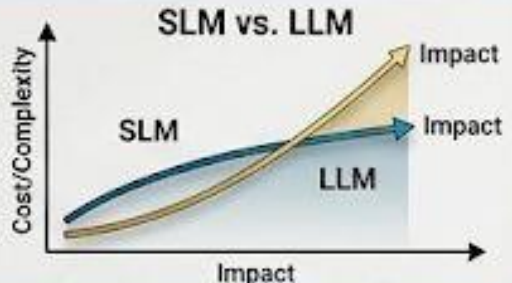


2025

- Rise of Domestic Retail Investors
- SIPs (Mutual Funds) provide **Sticky Capital**
- Minimal Market Contagion (Ukraine/M-E Conflicts)


TECHNOLOGICAL APPLICATION (AI)

SLM vs. LLM



Cost/Complexity vs. Impact

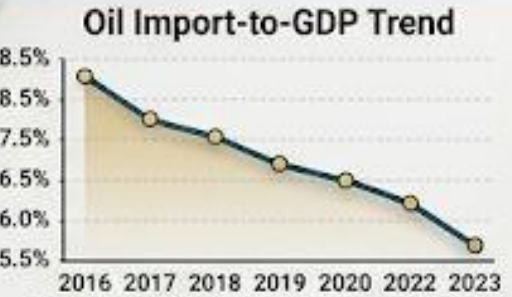
Small Language Models (SLMs)



- AI Application-led Strategy
- Targeted Productivity Gains (~30%)
- Lower Compute Cost, Higher Local Impact

STRUCTURAL & ENERGY TRADE DIVERSITY

Oil Import-to-GDP Trend



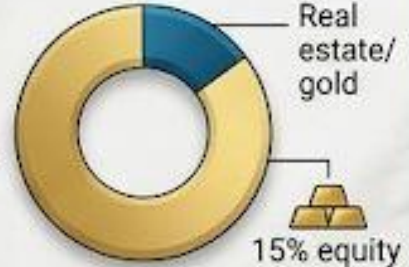
2016 2017 2018 2019 2020 2022 2023

- Push for Green Substitutions & Energy Transitions
- Expanded FTAs (Free Trade Agreements)
- Defense Exports
- Reduced Vulnerability to External Shocks

SAVINGS & INVESTMENT PILLARS

Indian Investment Ratio > 30% (vs China 40%)

Household Asset Mix



- Real estate
- Real estate/gold (15% equity)
- Leverage-Free Household Equity Participation
- Rising Gross Domestic Savings


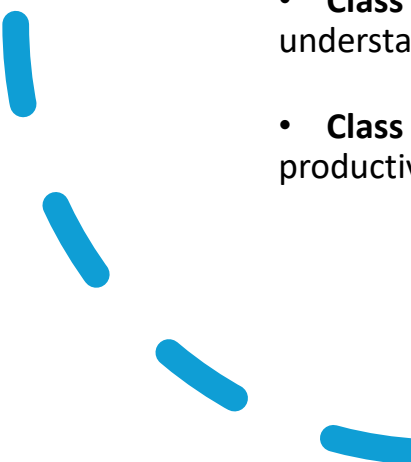
- **Logical and Philosophical Base**

- **Underlying Logic — Diversity as Resilience:** Just as a diverse portfolio reduces risk, a diversified economic structure (consumption, services, agriculture, manufacturing, multiple export destinations) absorbs sector-specific shocks. This draws from systems theory — complex adaptive systems are more stable.
- **Market Behavioural Assumptions:** Financial markets often succumb to herd behaviour and narrative biases. They overreact to short-term global cues, underestimating structural strengths. The Indian household's counter-cyclical buying (SIPs) challenges the efficient-market hypothesis.
- **Keynesian Uncertainty and Animal Spirits:** Keynes argued that investment decisions cannot be reduced to pure rational calculation because the future is uncertain. Households sticking to SIPs display confidence in the long-term growth story, tempering market swings.
- **Gandhian Self-Sufficiency and Swadeshi:** The emphasis on domestic savings, low external debt, and reducing import dependence echoes the philosophy of self-reliance — Atmanirbhar Bharat being its modern articulation.
- **Amartya Sen's Capability Approach:** Diversifying the economy expands people's capabilities to cope with shocks. AI-led productivity gains can enhance income-earning capacities, contributing to substantive freedoms.
- **Neoclassical vs. Structuralist Debate:** Orthodox advice (IMF, rating agencies) often assumes free-floating currencies cure trade deficits. The analysis challenges this by showing India's exports are price-inelastic and imports are price-inelastic (oil), so nominal depreciation fails to adjust the current account; structural changes (FTAs, logistics, green energy) matter more.
- **Epistemological Angle:** How do we know markets overestimate risks? Historical evidence: Post-pandemic outcomes have consistently beaten pessimistic forecasts. The narrative of "India's structural weaknesses" often relies on static ratios, missing dynamic shifts like digitisation and formalisation.



- **Multidimensional Analysis**
- **Social:** Financialization of savings (moving from gold/land to equity) democratizes wealth but requires high levels of financial literacy to prevent retail "bubbles."
- **Political:** High inflation (via Rupee depreciation) is "political suicide." Therefore, the government's intent to moderate external shocks is driven by the need for domestic price stability.
- **Legal:** The shift to GST and the formalization of the "unorganized sector" provides the data needed for SLMs to train on, creating a legal-technological synergy.
- **Ethical:** Is it ethical for international institutions to blame EMs for volatility caused by Western monetary policy? The article argues "No," calling for a more accountable international financial architecture.
- **International:** India is positioning itself as a "Stabilizing Power"—less dependent on the Dollar than other EMs and more capable of independent monetary policy.
- **Economic:** The transition from an export-led model (like China/East Asia) to a domestic consumption-led model (60% of GDP) provides a natural hedge against global recessions.



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- **Linkages with NCERTs**
 - **Class 12 Macroeconomics — Chapter 6: Open Economy Macroeconomics:** Explains balance of payments, exchange rate systems, managed floating, CAD, capital account. Directly linked to rupee depreciation, reserves, FPI/FDI.
 - **Class 12 Macroeconomics — Chapter 5: Government Budget and the Economy:** Fiscal prudence, public investment ratio — relevant to claim that public investment is only 4% of GDP.
 - **Class 12 Macroeconomics — Chapter 4: Determination of Income and Employment:** Consumption function, savings, investment. Links to consumption/GDP ratio and savings behaviour.
 - **Class 11 Indian Economic Development — Chapter 3: Liberalisation, Privatisation and Globalisation:** Post-1991 reforms, capital flows, WTO, foreign investment. Evolution of FPI/FDI.
 - **Class 11 Indian Economic Development — Chapter 10: Comparative Development Experiences:** Comparing India, China; export-led vs consumption-led growth; FDI stock differences.
 - **Class 10 Economics — Chapter 4: Globalisation and the Indian Economy:** MNCs, foreign trade, WTO, impact of imports. Basic understanding of FPI and exchange rate.
 - **Class 9 Economics — Chapter 2: People as Resource:** Human capital, role of education and skill development — link to AI productivity gains.
- 

- **Linkages with UPSC CSE Syllabus**

- **GS Paper 3: Indian Economy**

- Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment. (Investment ratios, savings, household financial participation)
- Inclusive growth and issues arising from it. (AI applications for inclusive productivity, equity culture)
- Effects of liberalisation on the economy, changes in industrial policy and their effects on industrial growth. (FPI, FDI, trade policy)
- Infrastructure: Energy, Ports, Roads, Airports, Railways etc. (Green energy, logistics cost)
- Investment models. (Public-private savings-investment dynamics)
- Science and Technology- developments and their applications and effects in everyday life. (AI, SLMs)

- **GS Paper 2: International Relations**

- Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests. (FTAs, Chinese FDI, de-dollarisation)
- Effect of policies and politics of developed and developing countries on India's interests, Indian diaspora. (US Fed policy, geopolitical conflicts)

- **GS Paper 1: Society**

- Population and associated issues, poverty and developmental issues. (Demand response, inclusive AI, household asset diversification)

- **GS Paper 4: Ethics**

- Corporate governance. (Transparency in derivatives, investor protection)

- **Essay:** Themes like “Resilience of Indian Economy”, “Technology and Human Welfare”, “Globalisation and Self-Reliance”.



- **Way Forward**

- **Exchange Rate Policy:** Adopt a clear communication framework — the RBI should signal that it will not allow self-fulfilling depreciation spirals and will use reserves to curb excessive volatility while targeting a competitive but stable REER.
- **FDI Enhancement:** Gradual, screened opening to Chinese FDI in non-sensitive sectors (electronics, renewable components) with technology-transfer conditions, complemented by domestic capability building.
- **AI and Digital Skilling:** Launch a national mission for SLMs in 22 scheduled languages, linking with AICTE/UGC curricula. Provide compute-as-a-service to startups via common infrastructure.
- **Deepening Domestic Capital Markets:** Promote corporate bond market development, enable credit default swaps, and encourage pension/insurance funds to invest in equity — creating a long-term patient capital base.
- **Trade Diversification:** Fast-track FTA negotiations with EU, UK, GCC, while strengthening supply chains via PLI-like schemes for green energy components.
- **Logistics and Green Energy:** Accelerate PM Gati Shakti multimodal corridors and National Green Hydrogen Mission to reduce oil dependence and export costs.
- **Financial Literacy and Inclusion:** Integrate financial literacy in school curricula, use digital platforms to reach rural areas, and ensure grievance redressal mechanisms for retail investors.
- **Global Advocacy:** Use G20 and BRICS platforms to push for a more equitable international financial safety net — a permanent swap facility for EMs, reducing the need for excessive self-insurance.

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- **GS3 2023:** “Household savings in India have shifted from physical assets to financial assets in recent years. Analyse the implications for the Indian economy.”
 - **GS3 2022:** “Oil price shocks have often derailed India’s macro-stability. Discuss the measures taken by the government and RBI to insulate the economy from such external shocks.”
 - **GS3 2021:** “Discuss the role of domestic institutional investors in stabilising Indian capital markets. How do they compare with foreign portfolio investors in this regard?”
 - **GS3 2020:** “Explain the concept of ‘impossible trinity’ with reference to India’s exchange rate management. What trade-offs does the RBI face?”
 - **GS3 2019:** “Foreign capital flows have both benefits and risks for an emerging economy. Elaborate with reference to India’s experience in the last decade.”
 - **GS3 2018:** “Investment ratio in India has been stagnating. Examine the reasons and suggest measures to boost private investment.”
 - **GS2 2017:** “The volatility in global financial markets triggered by US monetary policy normalisation has implications for emerging economies. How can India protect itself?”
 - **GS3 2016:** “Despite high savings rate, India’s capital formation has not picked up proportionately. Identify the constraints and suggest remedial measures.”
 - **Essay 2022:** “A self-reliant India: myth or reality?”
 - **Essay 2021:** “Technology is a useful servant but a dangerous master.”

Unshackling India's labour laws

Exiting outdated ILO conventions won't make India anti-worker



In 2021, when Karnataka amended its Factories Act to allow 12-hour shifts for approved factory workers, trade unions lodged a complaint with the International Labour Organisation (ILO) in Geneva. The complaint argued that the change violated India's obligations under the ILO's Hours of Work (Industry) Convention, 1919 (C101), which fixes a maximum of eight hours per day and 48 per week. What should have been a domestic debate about trade-offs between productivity, wages, and worker choice became an international case file.

This is not a one-off incident. It is the predictable outcome of a century-old decision: India bound itself to one of the most intrusive parts of the ILO rulebook on working time.

An eight-hour day written in stone: India is a founding member of the ILO and has been a permanent member of its Governing Body since 1922. Over time, we have ratified 47 ILO conventions and one protocol, 39 of which are still in force. Amongst the earliest was Convention No 1 on Hours of Work (Industry), ratified in 1921. As a consequence, whenever anyone in India wants to experiment with different models of working time, say a four-day week with longer shifts or accommodating seasonal surges in export sectors, we are battling an international treaty.

This would be less of a problem if the convention reflected universal consensus. Only 32 of the ILO's 187 member states have ratified C101, and only 30 have ratified the accompanying Hours of Work (Commerce and Offices) Convention, 1930 (C103). Major manufacturing powerhouses like the United States, Germany, China, South Korea, and Vietnam have not ratified C101. New Zealand, in fact, took the opposite route. After r ratifying the convention for several decades, it "denounced" the working hours convention, and now regulates working time through national law and bargaining.

India is, therefore, in a curious club: A large, still-industrialising, labour-gifted economy that has voluntarily put itself under a strict 8-hr hour treaty that most of its export competitors have avoided. Not just in working hours, India, with its 47 signed conventions, has been far more active than other large manufacturing countries such as the US with 14, and China with 28. Labour has been assigned to the Constraint list in India's Constitution: that is, labour is in the ambit of both the Union and state governments, but Union laws override.

Therefore, whenever the national government signs an ILO convention, it automatically overrules any state-level action. But that is not all.

How the ILO can influence domestic policy: Why is all of this a problem beyond firm and worker flexibility? ILO conventions are not mere recommendations. What makes the ILO unusual among United Nations bodies is its direct complaint machinery and tripartite nature. Any employees' or workers' organisation, another member state, a delegate to the International Labour Conference, or the ILO's own Governing Body can lodge a representation or complaint. In serious and persistent cases, this can result in a Commission of Inquiry. If a government does not agree to implement a Commission's recommendations, the ILO Governing Body may recommend to the International Labour Conference "such action as it may deem wise and expedient". Besides, ILO rulings factor into trade and aid conditionalities, particularly with the European Union, and can cause international embarrassment.

For India, this means that those unhappy with reforms need not work only through the political process and the legislature. They can circumvent the normal political process and directly appeal to Geneva, cite C101 and similar instruments, and trigger a formal pro-

cess that ties the government's hands. Since 2020, many labour unions have reportedly approached the ILO on the new labour Codes, which may have contributed to the delay in their implementation.

Sovereignty is about who decides trade-offs: The question is not whether limits on working hours or the constraints in other conventions are good. The real question is who decides the trade-off between working time, wages, productivity, and employment in India: Our own Parliament and state legislatures, accountable to Indian citizens, workers, firms, or a Geneva-based apparatus of committees, experts, and bodies that are not accountable to our institutions?

We have to do what is right for India and Indians. India is still transitioning out of informality. Rigid formal-sector ceilings on hours can perversely push marginal employees and workers to stay informal. India's large labour unions, which can use the global body's powers, see themselves not subject to many rules. The ILO is designed on tripartite principles: labour unions are parties whose rights are protected through many conventions. However, these same unions are not accountable and, therefore, cannot be censured by the ILO. In other words, it is a one-sided platform where governments voluntarily reduce control over their own laws.

India is competing in global markets with non-ratifying peers like the US, China, South Korea, and Vietnam who only face pressure to adjust working-time regimes. Experimentation with four-day weeks, compressed shifts, and flexible regular hours over extended periods that workers can opt into during peak months are all off the table if we remain locked into our ILO obligations. Even something as basic as the Diwali demand surge cannot be serviced efficiently by the formal manufacturing sector, leaving consumers deprived of quality products and workers stripped of earning opportunities.

None of this means turning our back on core labour rights. India has its own laws that protect its workers. Moreover, India has already ratified six of the 10 "fundamental" ILO conventions, including those on forced labour, equal remuneration, non-discrimination, and child labour. Some, like the child labour convention (C138), now enjoy universal ratification across all 187 ILO members and reflect a genuine global minimum standard. Moreover, nothing stops us from having robust social dialogue at home. In fact, it would be healthier if Indian workers, employers, and governments debated these questions in Indian forums, negotiating domestic constraints.

The ILO was born in a world of imperial powers and early industrialisation. A century later, India is a large, self-governing democracy trying to create jobs, move workers out of informality, and compete in global value chains. Our engagement with Geneva should reflect that shift. Reassessing and ending from a handful of outdated conventions would not make India anti-worker. It would simply free us to determine and execute domestic policy in line with the national interest.

The authors are president of CIEP and CEO of Pragsathi, respectively. The views are personal.



LUVVISH BHAMBHANI & SHRUWANA AHAND

- **Key Terms and Explanations**

- **International Labour Organization (ILO):** A specialized UN agency founded in 1919 under the Treaty of Versailles, focused on promoting social justice and internationally recognized human and labour rights. Its unique tripartite structure includes governments, employers, and workers' representatives. It sets labour standards through Conventions and Recommendations.
- **Convention No. 1 (C001) – Hours of Work (Industry) Convention, 1919:** One of the earliest ILO conventions, it mandates a maximum 8-hour workday and 48-hour workweek in industrial undertakings. India ratified it in 1921, committing to uphold these limits through domestic law.
- **Ratification:** A formal act by which a member state agrees to be legally bound by an ILO convention. Ratifying states must align national laws and practices with the convention's provisions, and submit to international supervisory mechanisms.
- **Denunciation:** The formal process of withdrawing from a ratified convention. ILO conventions allow denunciation after fixed periods (often 10 years), after which a country is freed from its legal obligations under that instrument.
- **Tripartism:** The ILO's foundational principle that dialogue and decision-making on labour standards must involve three parties: governments, employers' organizations, and workers' unions in equal standing. This principle shapes all ILO supervisory mechanisms.
- **Karnataka Factories Act Amendment (2023):** A state-level legal change to permit 12-hour work shifts for factory workers, subject to certain approvals and overtime safeguards, triggering a trade union complaint to the ILO.
- **Representation/Complaint under ILO Constitution:** Articles 24 and 26 allow workers' or employers' organizations, other states, or delegates to lodge complaints alleging non-observance of a ratified convention. The process can escalate to a Commission of Inquiry and, in severe cases, international monitoring and pressure.
- **EU Trade Conditionalities:** The European Union often incorporates compliance with core international labour and environmental standards as conditions in trade preference programs (e.g., GSP+). Adverse ILO findings can jeopardize trade benefits for developing countries.
- **Formal vs. Informal Sector:** Formal sector enterprises are registered, follow statutory labour laws, and provide social security. The informal sector, comprising over 80% of India's workforce, operates outside these regulatory frameworks, often because rigid formal rules discourage registration.
- **Four-day Workweek/Compressed Shifts:** Alternative working-time models that pack the same total weekly hours into fewer but longer days. They offer flexibility for workers and employers but may conflict with daily hour limits under C001.

- **Main Arguments and Substantive Parts**

- **Core Thesis:** India's continued adherence to early 20th-century ILO conventions, particularly C001 on working hours, erodes national sovereignty and prevents states from experimenting with modern, flexible labour policies suited to a developing, competitive economy.

- **Key Evidence and Reasoning:**

- India ratified C001 in 1921, but only 52 of 187 ILO members have done so. Major manufacturing rivals—the US, Germany, China, South Korea, Vietnam—have not ratified it. New Zealand denounced it to reclaim domestic policy space.
- The ILO's complaint mechanism allows trade unions to bypass Indian legislatures and courts, directly appealing to Geneva, tying the government's hands and delaying reforms (e.g., the new Labour Codes).
- The treaty commitment automatically overrides state-level flexibility. Under the Concurrent List, Union-signed ILO conventions prevent states from adjusting working hours even for seasonal demand or export-oriented sectors.
- Rigid hour ceilings perversely incentivize informality: marginal firms avoid the formal sector to escape rigid rules, denying workers stable jobs and social security.
- India has ratified 47 conventions, far more than the US (14) or China (28), hobbling itself in a competitive global market while non-ratifying peers enjoy greater regulatory freedom.

- **Counterarguments:**

- *Protection vs. Flexibility:* Critics argue scrapping conventions would dilute hard-won worker protections. The authors counter that India's own laws already provide safeguards, and core rights (forced labour, child labour) are not under question—only outdated, rigid ones.
- *International Image:* Exiting might invite criticism, but the article argues sovereignty over labour policy is a legitimate democratic choice; many advanced economies never signed the same conventions.
- *Workers' Choice:* Unions claim to protect workers, but rigid rules deny individual workers the option to work longer shifts for overtime pay, especially during festive or seasonal peaks like Diwali.

- **Balanced Nuance:** The authors do not advocate withdrawing from all ILO conventions. They distinguish between universally ratified fundamental conventions (e.g., on child labour) and old, narrowly adopted technical conventions that lack global consensus. Robust domestic social dialogue is presented as a healthier alternative.

- **Historical Evolution of the Issue**

- **Pre-Independence (1919–1947):** India became an ILO founding member in 1919 and a permanent Governing Body member in 1922. The colonial government ratified C001 in 1921, binding the Indian economy to an 8-hour day without a domestic democratic mandate. The Factories Act of 1948 (precursor to modern law) encoded these limits post-independence.

- **Post-Independence Labour Architecture (1950s–1990s):** The Constitution placed labour in the Concurrent List, allowing both Union and states to legislate. India's labour jurisprudence grew around statutory limits on working hours, overtime, and factory conditions. However, India continued ratifying ILO conventions selectively, accumulating 47 ratifications by the present.

- **Liberalization Era (1991 onwards):** Economic reforms exposed the conflict between rigid labour laws and the need for manufacturing competitiveness. States like Gujarat and Rajasthan attempted incremental reforms within constitutional bounds but faced union resistance and the constitutional ceiling of Union obligations under ratified treaties.

- **Attempts at Labour Law Simplification (2000s–2020s):** Multiple committees recommended consolidation of 44 central labour laws into four Labour Codes. These Codes sought to introduce limited flexibility (e.g., flexible working hours in certain sectors) while preserving social security. However, ratification of C001 remained a constraint on how far reforms could go.

- **Karnataka Amendment & ILO Complaint (2023):** Karnataka amended its Factories Act to permit 12-hour shifts under certain conditions, envisioning a 4-day workweek model. Trade unions lodged an Article 23 representation with the ILO, arguing violation of C001. The complaint transformed a state-level policy debate into an international legal challenge.

- **Present Impasse:** The implementation of new Labour Codes, passed by Parliament, remains stalled partly due to union opposition amplified via ILO channels. The tension between India's sovereign legislative choices and its treaty obligations continues to stymie both Union and state-level innovation.

UNSHACKLING INDIA'S LABOUR LAWS: A COMPREHENSIVE UPSC ANALYSIS

THE TRIGGER



Karnataka's 2023 amendment to allow 12-hour shift or shifts for approved factory workers
Trade union files a complaint at the final ILO

TRIGGER

THE CORE CONFLICT: INDIA vs. ILO CONVENTION C001 (1919)



POLICY EROSION & CONSEQUENCES



MULTIDIMENSIONAL IMPACTS (UPSC GS 2 & 3)

- SOCIAL**
 - Informality to formality transition
 - Amrovanement for 12 hour shifts
- ECONOMIC**
 - ICOR improvement, 24/7 factories
 - 24/7 factories
- INTERNATIONAL**
 - Western-centric vs. Global South needs
 - Global South immention



THE WAY FORWARD: A SOVEREIGN LABOUR FRAMEWORK

Detailed a balanced solution.

- **SELECTIVE DENUNCIATION** of Outdated Conventions
- **IMPLEMENT NEW LABOUR CODES (2020).** Implement new Labour CODES (2021)
- **STRENGTHEN DOMESTIC TRIPARTISM (ILC)** Drive domestic informal sector
- **EXPAND SOCIAL SECURITY NET.** Expand social securittely net

- **Logical and Philosophical Base**

- **Principle of Sovereignty:** The argument rests on the Westphalian notion that ultimate decision-making authority on internal economic and social policy must rest with a nation's own democratic institutions, not external treaty bodies. The article asserts that trade-offs between working hours, wages, and productivity are essentially political, to be settled by Indian legislatures accountable to citizens.
- **Subsidiarity:** Policy decisions should be taken as close to the affected people as possible. A 1919 treaty negotiated in a world of imperial powers and tiny industrial workforces cannot reflect the complex realities of 21st-century India's vast informal sector. States, being closer to local conditions, are better placed to experiment.
- **Utilitarian Pragmatism:** The analysis is implicitly consequentialist—if rigid hour limits push workers and firms into informality, the net welfare loss (no social security, precarious work) outweighs the formal-sector benefit of an 8-hour cap. Flexibility, with worker consent, could maximize overall utility by generating more formal employment and income.
- **Democratic Legitimacy vs. International Legalism:** The ILO's complaint mechanism allows non-elected bodies (unions, external committees) to override parliamentary decisions. From a democratic theory perspective, this is a legitimacy deficit—the ILO apparatus is not directly accountable to the Indian electorate. The article frames the choice as a defence of procedural democracy.
- **Rights-versus-Growth Dichotomy and Its Resolution:** Philosophically, the piece refuses a simplistic trade-off between labour rights and growth. It redefines genuine rights not as fixed, immutable laws frozen in 1919, but as the freedom for a poor worker to choose longer shifts for better pay, and for a state to design context-specific protections. It argues that clinging to outdated external definitions of rights may be anti-worker in effect.
- **Assumption of National Capacity:** Underlying the logic is confidence that India's domestic legal and political framework—its Constitution, courts, and democratic processes—is mature enough to protect workers without an external straightjacket. It treats India as a “self-governing democracy,” not a colony needing tutelage from Geneva.

- **Multidimensional Analysis**

- **Social:** Transitions workers from the "invisible" informal sector to the formal sector, providing them with basic social security even if shifts are longer.
- **Political:** Tests the "Cooperative Federalism" model. Will the Union allow States enough autonomy to deviate from central/international norms?
- **Legal:** Highlights the friction between Article 253 (Treaty power) and the actual needs of local governance in a diverse economy.
- **Ethical:** Raises the question—is it more ethical to have an 8-hour day for the 10% in the formal sector, or a flexible day that allows the 90% in the informal sector to enter the protected workforce?
- **International:** Challenges the "Western-centric" labor standards that do not account for the developmental needs of Global South nations.
- **Economic:** Focuses on improving the **Incremental Capital-Output Ratio (ICOR)** by allowing factories to run 24/7 with more efficient shift rotations.



- **Linkages with NCERTs**

- **Class 10 Democratic Politics – Chapter 2: Federalism:** The article directly illustrates how the Concurrent List and Union treaty-making power impact state autonomy. The Karnataka case is a textbook example of Centre-state dynamics in labour policy, perfect for discussing how federal balance works in practice.
- **Class 11 Political Theory – Chapter 10: The Philosophy of the Constitution:** The values of sovereignty and democratic decision-making underpin the debate. The analysis connects the idea that laws must reflect the will of the people, not external diktats.
- **Class 12 Economics (Macroeconomics) – Chapter 7: Employment: Growth, Informalisation and Other Issues:** The discussion on informal sector workers, formal-informal linkages, and how rigid labour laws can impede job creation directly ties into the chapter's treatment of labour force participation and formalization challenges.
- **Class 12 History (Theme 11: Rebels and the Raj, and broader colonial context):** The colonial origins of India's Factory Acts and ILO membership can be linked to the broader legacy of colonial framing of Indian economy, where labour regulations were often copied from British models without adaptation to local realities.
- **Class 11 Sociology (Introducing Sociology) – Chapter 5: Doing Sociology: Research Methods:** While indirect, the article's underlying assumption—that rigid laws cause informality—invites empirical testing. It can be used to discuss hypothesis formulation in policy research.

Linkages with UPSC CSE Syllabus

GS Paper 1:

- Social Issues: Labour issues, informal sector, impact of globalization on workers, social empowerment through employment.
- History: Industrialization and labour movements, post-independence consolidation.

GS Paper 2:

- Indian Constitution: Federalism, Centre-state relations, Concurrent List, treaty-making power (Art. 253).
- Parliament and State Legislatures: law-making powers, labour in Seventh Schedule.
- International Relations: India and ILO, international institutions, foreign policy implications of treaty withdrawal.

GS Paper 3:

- Indian Economy: Labour reforms, ease of doing business, formalization, industrial policy, employment generation.
- Effects of Liberalization: Aligning labour policy with global manufacturing competitiveness.
- Inclusive Growth: Creating formal jobs with social security versus protecting existing formal workers.

GS Paper 4 (Ethics, Integrity, and Aptitude):

- Ethical Dilemmas in Governance: Trade-off between sovereign policy choice and international obligations, worker welfare vs. economic development.
- Public/Civil Service Values: Accountability, transparency in labour administration.
- International Ethics: Commitment to global norms vs. pressing domestic needs.

- **Way Forward**

- **Phased and Selective Denunciation:** Government should review all 47 ratified conventions and identify non-fundamental, low-ratification ones (like C001, C030) for denunciation. A white paper detailing the rationale, competitor-country ratification status, and domestic safeguards can build public and parliamentary consensus.
- **Simultaneous Strengthening of Domestic Social Dialogue:** Before or alongside denunciation, establish robust tripartite bodies at Centre and state levels with teeth to negotiate working-time models, wage floors, and safety standards. This would signal that India is not abandoning labour protection but internalizing it democratically.
- **Enact Flexible Working-Time Legislation with Safeguards:** Parliament and states must craft model laws allowing compressed shifts, annualized hours, or four-day weeks, but with strict conditions: written worker consent, maximum total weekly hours, mandatory health checks, overtime premia, and digital attendance records to prevent abuse.
- **Invest in Labour Administration Capacity:** Increase inspectorate numbers, train them in tech-enabled monitoring, and create fast-track grievance tribunals. Flexibility without enforcement is a recipe for exploitation; credible state capacity is the prerequisite.
- **Diplomatic Outreach and Narrative Management:** Proactively brief ILO, EU, and major trade partners about India's move, emphasizing continued adherence to all fundamental conventions and the domestic safeguards being enacted. Frame the decision as an evolution, not a retreat.
- **State-Level Pilot Projects:** Allow pioneer states like Karnataka to introduce flexible-hours models with sunset clauses and independent impact assessments. Successful pilots that show increased formal jobs without health risks can be scaled nationally.
- **Link with Labour Code Implementation:** Use the momentum of implementing the four Labour Codes to simultaneously notify rules that operationalize flexible working time in the organized sector, aligning domestic law with the post-denunciation regime.
- **Protect Vulnerable Workers Through Floor-Level Rights:** Codify non-negotiable rights—minimum wage, social security, occupational safety—as immutable statutory floors, making clear that flexibility applies above the floor, not below it.

- **UPSC CSE Prelims**

- 2023: With reference to the “International Labour Organization”, consider the following statements... (MCQ on ILO conventions/India’s membership).
- 2020: Which of the following are the functions of the International Labour Organization? (MCQ on standard-setting, technical cooperation).
- 2019: With reference to the “Concurrent List” in the Indian Constitution, which of the following statements is/are correct? (On state vs. Union legislation).
- 2017: The term “Core Conventions” of the ILO refers to: (MCQ on fundamental labour conventions).
- 2016: Consider the following statements: The Factories Act, 1948 provides for... (MCQ on working hours, overtime).

- **UPSC CSE Mains**

- GS2 2023: Explain the role of the International Labour Organization in setting global labour standards. Also, critically examine India’s compliance with ILO conventions.
- GS2 2022: Discuss the significance of the Concurrent List in the Indian Constitution with regard to Centre-state legislative relations. How has its existence influenced the implementation of labour reforms?
- GS3 2021: Despite various labour laws and reforms, a large section of India’s workforce remains in the informal sector. What are the reasons? How can labour reforms help?
- GS3 2019: How far have the recent labour law reforms addressed the rigidity of the labour market in India? Discuss.
- GS2 2015: Discuss the possible factors that inhibit India from ratifying ILO Convention No. 87 (Freedom of Association) and No. 98 (Right to Organize and Collective Bargaining).
- GS4 2022: (Ethics Case Study) A factory owner wants to increase working hours to meet an export order. Workers consent but the law prohibits it. What ethical dilemmas are involved, and what should the manager do?
- Essay 2021: “The labour reforms in India: Flexibility vs. Security.”
- Essay 2018: “Globalization and its impact on labour in India.”

- **Key Terms and Explanations**

- **Real Effective Exchange Rate (REER):** A measure of the value of a currency against a weighted average of several foreign currencies, adjusted for inflation. It indicates a country's international competitiveness.

- *Example:* If India's inflation is higher than its trading partners but the nominal Rupee doesn't fall, the REER rises, making Indian exports more expensive.

- **Current Account Deficit (CAD):** The shortfall between a country's total exports of goods, services, and transfers versus its imports.

- **Global Capability Centres (GCCs):** Offsite units established by multinational corporations to perform specialized tasks (R&D, IT, analytics) rather than just basic back-office work.

- **AI Investment Supercycle:** A period of intense, rapid capital flow into artificial intelligence technologies, often leading to "narrative-driven" market valuations.

- **Dutch Disease (Implicit):** A situation where a large inflow of foreign currency (like the current AI-driven flow to the US) leads to the appreciation of one currency, making other sectors of the economy (or other countries) less competitive.

- **Frugal Innovation:** The process of reducing the complexity and cost of a good and its production. India's UPI is a prime example of high-tech infrastructure built at a low cost.

- **Main Arguments and Substantive Parts**

- **Core Paradox:**

India's macroeconomic fundamentals—fastest large-economy growth, contained inflation, low CAD and external debt, credible fiscal path, and multiple sovereign rating upgrades—should bolster the rupee. Instead, it depreciated over 15% since January 2023, suggesting exchange rates can become decoupled from fundamentals during global flow distortions.

- **AI-Driven Capital Reallocation:**

The artificial intelligence investment cycle of 2023-26 functioned as a momentum machine. Dollars migrated from emerging-market allocations to the US, not because India or Korea deteriorated, but because investors chased AI-related dollar assets. The rupee's slide is thus a flow story, not a fundamentals verdict.

- **India's Contrasting AI Strategy:**

India did not pursue hyper-scale data centres or chip-heavy AI infrastructure. Instead, it leaned on demand-side, frugal innovation—like its digital public infrastructure (Aadhaar, UPI, U-Win). This choice may eventually be vindicated if the prevailing capital-intensive AI narrative loses its sheen.

- **IT Services Resilience Through GCCs:**

The pessimism that AI will devastate India's IT-services employment misses the evolution from commoditised call-centre work to high-value GCC output. While roughly half of GCC tasks are automatable, the other half involves complex problem-solving that AI is more likely to augment than replace.

- **Nuanced Manufacturing Worry:**

India's merchandise trade deficit appears alarming but is skewed by oil imports. Excluding oil, the non-oil deficit is less daunting, with emerging export niches in pharmaceuticals, electronics components, defence equipment and engineering goods.

- **REER Correction as a Silver Lining:**

The depreciation corrected a prior REER overvaluation that had quietly eroded export competitiveness. By 2024-25, India's REER roughly realigned with China's, giving exports a breather that nominal depreciation headlines ignore.

- **FDI as a True Confidence Signal:**

The sharp break in gross FDI above the \$70-80 billion range signals patient, decade-scale commitments. Long-term investors see productive capacity expansion that quarterly sentiment swings cannot capture.

- **Counter-Narratives:**

Fears that AI will structurally undermine India's labour arbitrage or that China will forever squeeze manufacturing are challenged as linear projections that ignore the evolution GCCs have already shown and India's capacity to defy static forecasts, much as it did with the IT-boom in the 1990s.

- **Historical Evolution of the Issue**

- **Pre-Independence to 1991:**

Colonial India had a fixed exchange rate under the sterling system. Post-independence, the rupee was pegged to the pound and later to a basket of currencies, gradually depreciating as India followed import-substitution industrialisation. The 1991 balance-of-payments crisis forced a two-step devaluation and the move to a market-determined exchange rate.

- **1991 Reforms and Managed Float:**

Liberalisation introduced a Liberalised Exchange Rate Management System, eventually settling into a managed float where the RBI intervenes only to curb excessive volatility. This regime placed the rupee's value increasingly at the mercy of global capital flows.

- **2000s IT-Services Take-off:**

The rise of outsourcing turned India into a services export powerhouse, generating structural dollar inflows that often supported the rupee. However, the 2008 global financial crisis and the 2013 “taper tantrum” exposed how swiftly hot money could reverse, causing sharp depreciations despite decent fundamentals.

- **2013 Taper Tantrum:**

When the US Fed hinted at reducing bond purchases, emerging markets saw sudden capital flight. The rupee plunged, underlining that even sound current-account metrics cannot insulate a currency from global liquidity swings.

- **Pandemic-Era and Post-2021 Recovery:**

COVID-19 triggered an initial flight to dollar safety. Subsequently, ultra-easy US monetary policy and then aggressive rate hikes from 2022 created two-way volatility. India's solid recovery kept growth high, but the dollar strengthened on hawkish Fed policy.

- **AI Supercycle (2023-Present):**

The launch of generative AI tools sparked a capital-expenditure narrative, directing enormous sums into US tech infrastructure. This concentrated dollar demand, pulling money out of virtually all emerging markets—including those with current-account surpluses—and weakening currencies like the rupee and won even as their domestic stories remained robust.

- **FDI Surge as a Structural Shift:**

Since 2020, India has consistently attracted FDI, and the 2025-26 figure leap marks a potential new plateau. This trend shows that the “China plus one” strategy and domestic reforms have begun reshaping investor perceptions beyond short-term currency movements.

THE RUPEE-FUNDAMENTALS PARADOX: AN UPSC PREPARATION GUIDE

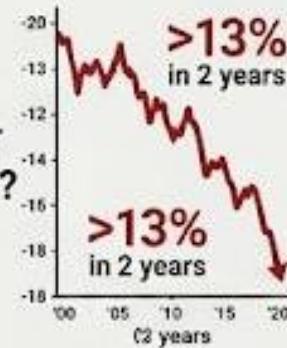
1. THE DISCOMFORTING PARADOX

India's Fundamentals
(Strongest among EM)



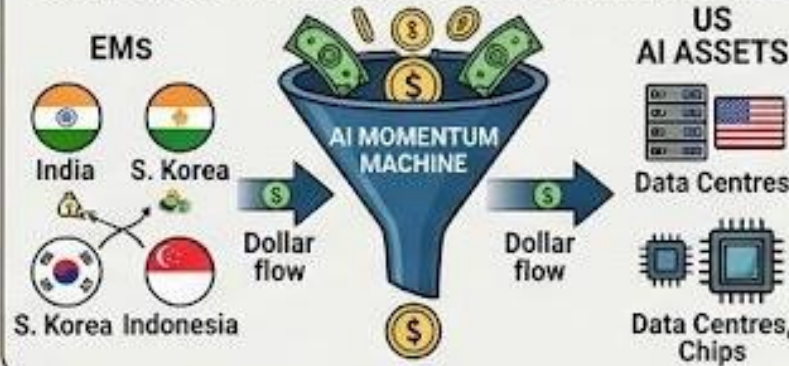
AN UNJUST VERDICT?

Rupee Depreciation



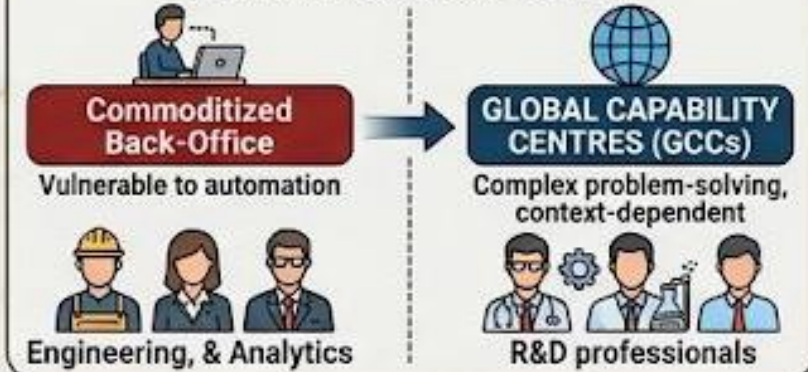
2. THE EXTERNAL DISRUPTOR

Global Capital Vacuum: The AI Investment Supercycle



3. EVOLUTION, NOT EXTINCTION

Re-evaluating Indian Services



4. MANUFACTURING RETHINK

Merchandise Trade Deficit



Evolving exports



5. THE REER SILVER LINING

Old (Trade-weighted non-competitive)



Real effective exchange rates in those reasonn ramrs of the relative parity with China

VS

New (Competitiveness misaligned Rupee corrects)



Real effective exchange rates, in thas one of the relative parity with China

6. LONG-TERM CONFIDENCE

GROSS FDI INFLOWS (FY26)

\$90-95 BILLION



UPSC EXAM RELEVANCE: EXTERNAL SECTOR, GS3 ECONOMY, S&T



- **Logical and Philosophical Base**

- **Exchange Rate as a Verdict, but of What?**

The argument begins with the assumption that exchange rates summarise sovereign health. However, when capital flows are driven by narratives divorced from valuation, the proposition fails. The article applies a logical corrective: look at the flow environment before interpreting the price signal.

- **Behavioural and Reflexivity Logic:**

George Soros's concept of reflexivity—where market perceptions shape fundamentals and vice-versa—is implicit. The AI narrative became self-reinforcing, drawing in more dollars and further weakening emerging-market currencies, irrespective of underlying data.

- **Complexity and Humility in Forecasting:**

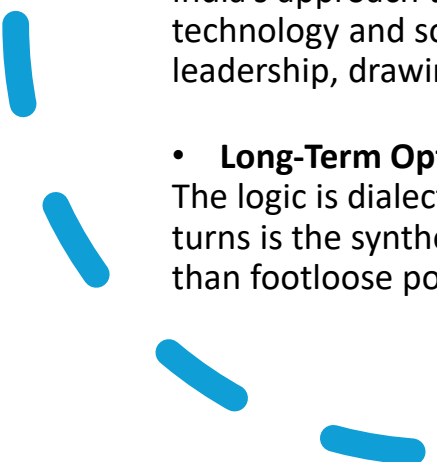
A philosophical thread critiques linear structural projections. Just as 1990s sceptics could not foresee the IT-services boom, today's doubters may be wrong about manufacturing or AI. The underlying epistemology warns against hubristic, extrapolative analysis; instead, it advises humility because economies are complex adaptive systems.

- **Frugal Innovation Paradigm:**

India's approach to AI—doing more with less, building on digital public goods—reflects a philosophical preference for appropriate technology and sovereign self-reliance. It implicitly rejects the idea that heavy capital expenditure is the only path to technological leadership, drawing on Gandhian and Schumacherian notions of “small is beautiful” recast for the digital age.

- **Long-Term Optimism Rooted in Resilience:**

The logic is dialectical: current depreciation is the thesis, fundamentals are the antithesis, and the eventual realignment when the AI cycle turns is the synthesis. The philosophical base is that patient, productivity-linked capital (FDI) aligns more truly with long-run development than footloose portfolio money.



- **Multidimensional Analysis**
- **Social:** Risk of a "K-shaped" recovery in employment—high-end tech jobs flourish while basic service jobs vanish.
- **Political:** Maintaining "fiscal consolidation" is politically difficult in an era of global populism, yet necessary for sovereign ratings.
- **Legal/Regulatory:** The need for robust data protection laws to support the growth of GCCs and sovereign AI data.
- **Ethical:** Addressing the digital divide so that AI-driven growth doesn't exacerbate existing inequalities.
- **International:** India's role as a "Middle Power" that provides an alternative to the US-China tech duopoly.
- **Economic:** The transition from a "cost-arbitrage" economy to a "value-addition" economy.



- **Linkages with NCERTs**
- **Class 12 Macroeconomics (Introductory Macroeconomics):**
 - *Chapter 6: Open Economy Macroeconomics* — Concepts of exchange rate (nominal, real, REER), balance of payments, current account deficit, capital account, managed floating. The article's paradox directly applies these concepts, making it a textbook-perfect illustration of how the BOP and exchange rate can deviate from fundamentals.
- **Class 11 Indian Economic Development:**
 - *Chapter 3: Liberalisation, Privatisation and Globalisation* — The 1991 crisis and shift to a market-determined exchange rate, evolution of IT and services export story, FDI policy. The article's historical and structural backdrop on IT-services and FDI pickup ties to this chapter's narrative of India's integration with the global economy.
 - *Chapter 10: Comparative Development Experiences of India and its Neighbours* — China's manufacturing squeeze on India is relatable here; students can compare growth models.
- **Class 10 Economics (Understanding Economic Development):**
 - *Chapter 4: Globalisation and the Indian Economy* — Discusses MNCs, foreign investment, impact on Indian producers and workers. The GCC story and AI-capital flow theme update this chapter for a contemporary exam perspective.
- **Class 12 Political Science (Contemporary World Politics):**
 - *Chapter 9: Globalisation* — Critically examines economic and cultural globalisation, uneven benefits. The AI supercycle pulling capital away from EMs demonstrates the structural power of the US in a globalised financial system, a key political-science angle.

Linkages with UPSC CSE Syllabus

General Studies Paper 3 (Economy):

- Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment.
- Effects of liberalisation on the economy, changes in industrial policy and their effects on industrial growth.
- Infrastructure (DPI, digital infrastructure).
- Investment models (FDI, portfolio flows).
- Inclusive growth and issues arising from it (AI and employment).
- External sector: exchange rate, BOP, trade deficit, WTO, capital flows — this article is a direct fit.

General Studies Paper 2 (Governance):

- Government policies and interventions for development in various sectors (AI policy, Digital India, DPI).
- e-Governance applications (Aadhaar, UPI as models for frugal AI).
- Important aspects of governance, transparency and accountability (data protection law).

General Studies Paper 1 (Society):

- Effects of globalisation on Indian society — IT-services evolution and GCCs reflect social transformation and urban middle-class growth.

Essay Paper:

- Themes on technology and employment, globalisation's discontents, India's development paradigm, the paradox of sound fundamentals and weak currency lend themselves to philosophical essays.

Ethics Paper (GS4):

- Ethical concerns around AI and job displacement, fairness in reskilling, privacy and consent in digital public infrastructure. The concept of frugal innovation as a distributive-justice idea.

- **Way Forward**

- **Deepen Domestic Financial Markets:**

Develop a broader, deeper corporate bond market and rupee-denominated derivatives to absorb capital-flow volatility. This would reduce the economy's sensitivity to FPI swings and allow the rupee to find a level more reflective of medium-term fundamentals.

- **Actively Use the REER Compass:**

The RBI should complement nominal intervention with REER-based assessments, communicating that some depreciation is a self-equilibrating mechanism. This can soothe market panic and educate stakeholders that a 15% nominal fall may not imply a proportionate loss in trade competitiveness.

- **Accelerate Green Energy Transition:**

Reducing crude oil dependency through electric mobility, biofuels, and renewable energy-storage solutions directly tackles the structural trade deficit that keeps the rupee vulnerable. Faster progress can shrink the CAD-fuel-led component and build a natural floor.

- **Build a Future-Proof Workforce for AI Augmentation:**

Launch a national mission for AI-augmented skills, focusing on complex problem-solving, creative design, and domain expertise that complements AI. Couple this with a portable social-security net for workers displaced during the transition, ensuring ethical justice.

- **Scale GCCs into Innovation Hubs:**

Policy should incentivise GCCs to move up the value chain into strategic R&D and patent creation. This can be done through tax incentives for deep-tech GCCs and easier intellectual property registration, converting the cost-arbitrage model into an innovation-arbitrage model.

- **Expand Sovereign Digital Infrastructure into AI-as-a-Service:**

Following the DPI template, build open-source AI models trained on anonymised public data for use in agriculture, health, and education. This will not only create public good but also demonstrate a viable, frugal AI model to the world, potentially attracting a new category of impact-focused foreign capital.

- **Maintain a Predictable and Stable Policy Regime:**

Consistency in taxation, contract enforcement, and regulatory approvals—especially for FDI—must continue. The FDI surge is a reward for recent stability; any unpredictable policy reversal could squander the hard-won confidence that patient capital has shown.

UPSC Civil Services Mains Examination:

GS3 (Economy):

- 2023: Explain the role of foreign capital inflows in the economic development of India. How is it different from domestic capital? (FDI vs portfolio distinction and long-term commitment)
- 2021: What are the reasons for the recent depreciation of the Indian rupee? Examine its impact on the Indian economy. (practically the same core question)
- 2019: What is Real Effective Exchange Rate (REER)? How is it different from Nominal Effective Exchange Rate (NEER)? Discuss its significance. (directly tests REER)
- 2018: "Capital account convertibility is a double-edged sword." Comment. (capital flow vulnerability discussed)
- 2017: Among several factors for India's potential growth, the savings rate is the most effective one. Do you agree? What are the other factors? (links to investment and FDI)
- 2016: What is 'Global Capability Centre'? How does it help in the growth process of a developing country like India? (directly asks about GCCs)

GS2 (Governance):

- 2022: E-governance is not just about technology but a tool of transformation. Discuss with reference to India's digital public infrastructure. (DPI as a model for frugal AI)



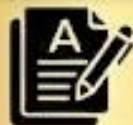
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