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JUNE 25

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India holds its ground on BRICS turf

New Delhi desists from choosing between Washington and Beijing

C UDAY BHASKAR
DIRECTOR, SOCIETY FOR POLICY STUDIES

BALANCE : India's new approach is to engage with rivals multilaterally without conceding bilaterally

THE 16th BRICS National Security Advisers' (NSA) Meeting, hosted earlier this week by New Delhi and chaired by India's NSA Ajit Doval, brought together the 11 member nations. They exchanged views on security challenges such as terrorism, cyber threats and the impact of emerging technologies. No joint statement was issued — this was indicative of the sharp divergence among members on critical macro-security issues.

The grouping was formed in June 2009 in Yekaterinburg (Russia), initially as BRIC (Brazil, Russia, India and China); South Africa was admitted in 2011. The bloc currently has 11 full members: Brazil, China, Egypt, Ethiopia, India, Indonesia, Iran, Russia, Saudi Arabia, South Africa and the United Arab Emirates. NSAs and other representatives from these countries attended the June 22-23 event; China was represented by Foreign Minister Wang Yi.

The fact that Delhi, as the current chair of BRICS, convened such a meeting amid two wars (Ukraine and Iran) and ensured the participation of regional rivals is testimony to the deft diplomatic acumen that India brings to the global table. This was a preparatory meeting in the run-up to the BRICS summit to be held in India in September.

The more significant outcomes of the deliberations can be reviewed along two symbiotic tracks — the multilateral relating to BRICS and the India-China bilateral. Since the bloc's inception, it has been evident that the relationship between the two Asian giants has a bearing on the credibility and relevance of BRICS in global geopolitics.

Both the US and China are cognisant of this reality. Ever since India was admitted into the global nuclear order in late 2008 as an exceptional state, how Delhi has positioned itself in relation to the two major powers has impacted the geopolitical framework. In keeping with its traditional stance of non-alignment, now transmuted to strategic autonomy and multi-engagement, India has maintained this continuity.

The underlying message emerging from the BRICS forum was that Delhi would highlight security issues relevant to the Global South. At the same time, Delhi tempered US expectations that India would align against China and dampened Beijing's hope that BRICS would project anti-US/West unity. Clearly, a warming of US-China ties would alter the BRICS dynamic.

Specific to the Delhi deliberations, three tangible outcomes can be inferred, each with implications that go beyond BRICS. First, the NSAs agreed that the most urgent security challenges were no longer just tanks, ships, aircraft and missiles. The theme was "Non-traditional security challenges", which include terrorism enabled by emerging technologies, cyberattacks on critical infrastructure, weaponisation of supply chains, food, fertilisers and energy insecurity and the abiding yet intractable climate-induced instability.

> BRICS is becoming India's preferred platform to highlight issues relevant to the Global South without being seen as anti-West.

The NSAs reviewed the work of BRICS Joint Working Groups on Counter-Terrorism and ICT (information and communication technology) security. For Delhi, chairing BRICS in 2026 lends a subtle leverage. It shifts BRICS from a China-centric economic club to a security dialogue, where India's priorities such as cross-border terrorism, terror financing and cyber norms get equal billing. For the Global South, it signals that BRICS can produce policy language the West cannot ignore, especially on supply chain resilience, digital governance and the impact on human security.

The second strand was the closely watched Doval-Wang Yi meeting, which may be summarised as a case of managing a complex and long-festering rivalry within the current framework of multilateralism. Both sides described the talks as "constructive and forward-looking", but the readouts diverged sharply.

India stressed "gradual normalisation" and "stable, predictable, constructive" ties. The subtext is that no reset would be possible until the LAC (Line of Actual Control) stabilises. Peace on the contested border remains the precondition for a broader engagement.

China pushed to "respect each other's core interests" and "place the China-India border issue in an appropriate position, so that it doesn't affect the overall situation". This translates into compartmentalising the border issue, resuming trade and flights and beginning technology transfer as the first step. The gap is one of sequencing — India wants trust to be established first and then ties to be normalised, while China is keen to delink the LAC and move ahead without any consensual settlement. This would be undesirable, given that Beijing ramps up its claim on Arunachal Pradesh when relations are tense and uses the Pakistan card to stoke Indian anxiety.

Hosting Wang while sticking to its stand shows Delhi's new approach: engage with rivals multilaterally but do not concede bilaterally. In the run-up to the September BRICS summit, this gives India space to lead without letting border tensions derail its presidency theme: "Building for Resilience, Innovation, Cooperation and Sustainability".

The third strand was the manner in which India's plurilateral security diplomacy was burnished when Doval met his counterparts from Brazil, Ethiopia, South Africa and Iran's Deputy Secretary for Defence Affairs. The subtext: BRICS is not China-plus.

Delhi used this meeting to deepen ties with Africa and West Asia, discuss developmental cooperation and review the West Asia situation amid the tenuous US-Iran detente. It is evident that BRICS is becoming India's preferred platform to highlight issues relevant to the Global South without being seen as anti-West.

The Delhi NSAs' meeting did not address the India-China border dispute or create a standing BRICS army. It did something quieter: it proved that BRICS can function despite core rivalries and that India can chair it without choosing between Washington and Beijing.

For global geopolitics, that means a more fragmented and contradictory order — a contrapolar world. The US no longer sets the global security agenda and China cannot command BRICS loyalty. India has the potential to emerge as a swing state that can consensually manage emerging contradictions. Towards this end, Delhi must introspect objectively and course-correct, based on lessons learnt from the recent tilt with regard to West Asia. Is a new geopolitical grammar evolving?

- **Key Terms and Explanations**
- **Strategic Autonomy:** The ability of a nation-state to pursue its own national interests and adopt foreign policy choices without being constrained or dictated to by other powerful states. Unlike historical isolation, it emphasizes choosing issue-based partnerships rather than joining rigid military or political blocs.
- **Multi-Engagement / Multi-Alignment:** A proactive diplomatic strategy where a country simultaneously engages with multiple, often competing, global powers or groupings to maximize its strategic options. *Example:* India's concurrent membership in the West-oriented **QUAD** (Quadrilateral Security Dialogue) and the East/Global South-oriented **BRICS** and **SCO** (Shanghai Cooperation Organisation).
- **Line of Actual Control (LAC):** The loose, un-demarcated boundary line that separates Indian-controlled territory from Chinese-controlled territory in the Himalayan border regions. It is divided into Western, Middle, and Eastern sectors and remains a primary flashpoint due to differing perceptions of its alignment.
- **Non-Traditional Security Challenges:** Security threats that arise primarily from non-military sources and often transcend national borders, requiring multilateral cooperation. Unlike traditional security (tanks, missiles), these include **cyberattacks, climate change, pandemics, food insecurity, and the weaponization of critical supply chains**.
- **Contrapolar World:** A fragmented, multi-layered global architecture where power is not concentrated in one (unipolar) or two (bipolar) poles, but is instead characterized by overlapping, contradictory alignments where no single nation can completely dictate the global agenda.
- **Swing State:** In international relations, a pivotal nation that possesses significant economic, military, or diplomatic leverage, allowing it to tip the balance of power or bridge structural divides between competing global superpowers.
- **Global South:** A term broadly used to describe developing, less-developed, or emerging economies located primarily in Africa, Latin America, Asia, and Oceania. These nations often share histories of colonialism and seek equity in the global financial and political architecture.

- **Main Arguments and Substantive Parts**
- The evolving dynamics of plurilateral forums present several crucial structural insights for a civil services aspirant:
- **The Core Thesis**
- Modern plurilateralism is shifting away from ideological cohesion toward transactional, issue-based problem-solving. India's stewardship of expanded global groupings proves that a state can successfully command leadership of the Global South, manage adversarial neighbors, and maintain deep partnerships with the West—all without falling into the trap of zero-sum alliances.
- **Key Structural Pillars**
- **The Management of Intra-Bloc Rivalries:** A major hallmark of contemporary diplomacy is the ability to sustain institutional frameworks despite deep bilateral fractures. Bringing regional adversaries and major Asian competitors to the table during ongoing global conflicts demonstrates that multilateral platforms can survive even when consensus on macro-security issues is absent.
- **The Strategic Decoupling of Engagement:** A clear operational divide has emerged between multilateral cooperation and bilateral negotiations. India's current diplomatic posture reflects a firm baseline: engagement at international forums will continue, but bilateral normalization remains strictly contingent upon peace, stability, and mutual respect on the ground, particularly along disputed borders like the LAC.
- **The Pivot to Non-Traditional Security:** The global security paradigm is undergoing a fundamental reorientation. The focus is expanding beyond conventional military hardware to address systemic vulnerabilities. By prioritizing cyber infrastructure protection, supply chain resilience, and tech-driven counter-terrorism, emerging economies are crafting a policy framework that the industrialized West can no longer overlook.
- **Resisting Bloc Hegemony:** Expanded international forums are actively resisting attempts to be turned into tools for single-power dominance. India acts as a critical institutional counterweight, tempering Western expectations of a total alignment against Eastern powers, while simultaneously blocking attempts by nations like China or Russia to turn these platforms into overtly anti-Western or revisionist coalitions.

- **Historical Evolution of the Issue**
- The trajectory of India's positioning within global groupings and its relationship with major global powers can be traced across several distinct historical milestones.
- The Era of Classical Non-Alignment
- 1947–1991
- Following independence, India pioneered the Non-Aligned Movement (NAM) to avoid being drawn into the Cold War rivalry between the US and the USSR. Foreign policy focused on anti-colonialism, Afro-Asian solidarity, and strategic distance from military blocs, though tilted toward the Soviet Union after the 1971 Indo-Soviet Treaty.
- Economic Liberalization and Strategic Reorientation
- 1991–1998
- The collapse of the Soviet Union and India's 1991 economic reforms forced a pragmatic shift. India initiated the 'Look East' policy, normalized ties with Israel, and sought a structural reset with the United States, while managing a nuclearized South Asia after the 1998 Pokhran-II tests.
- The Genesis of the BRIC Grouping
- 2001–2009
- In 2001, Goldman Sachs coined the acronym 'BRIC,' identifying Brazil, Russia, India, and China as the engines of future global economic growth. In 2006, formal diplomatic dialogues commenced, culminating in the first official BRIC Summit in Yekaterinburg, Russia, in June 2009, aimed at challenging Western-dominated global governance.
- Integration into the Global Nuclear Order
- 2008
- The signing of the India-US Civil Nuclear Agreement and the subsequent waiver from the Nuclear Suppliers Group (NSG) recognized India as an exceptional nuclear power. This altered India's geopolitical weight, allowing it to engage deeply with the West while maintaining its institutional presence in Eurasian forums.
- Expansion and Institutionalization
- 2011–2023
- South Africa joined the bloc in 2011, transforming it into BRICS. The grouping established the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), creating concrete alternatives to the IMF and World Bank. However, internal friction grew as China's economic weight began to dwarf the other members.
- The LAC Crisis and Border Decoupling
- 2020–Present
- The Galwan Valley clashes in 2020 fundamentally altered the Indo-China bilateral equation. India froze several commercial touchpoints and linked overall bilateral normalization to border disengagement, while continuing to participate in multilateral setups like BRICS and the SCO to prevent China from enjoying a geopolitical walkover.
- The Expanded Order and Plurilateral Leadership
- 2024–2026
- The bloc expanded significantly to include nations like Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE. Serving as a crucial bridge, New Delhi hosted critical security dialogues, firmly establishing its role as an independent swing state capable of steering Global South priorities without adopting an anti-Western posture.

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UPSC CSE: STRATEGIC ANALYSIS - BRICS, GLOBAL GEOPOLITICS & INDIA'S AUTONOMY

SECTION 1: KEY TERMS & EXPLANATIONS

STRATEGIC AUTONOMY
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NON-ALIGNMENT to MULTI-ALIGNMENT
Timeline lendes in a teiline for conmic non alignments, and multi-alignment

GLOBAL SOUTH
Highlighted World Map, is accompassand challemerated globd width.

NON-TRADITIONAL SECURITY
Combined Commined Inrensions: Cyber, Climate, Climate, and Supply Chain.

MANAGING RIVALRIES

Brazil, Russia, China, S. Africa + Iran, Saudi, etc.

India-China Bilateral

MULTI-ENGAGEMENT

DELHI AS CHAIR - Plurilateral Success

US / WEST

GLOBAL SOUTH

NO JOINT STATEMENT: Sharp macro-security differences.

INDIA'S PRIORITIES: Terror, Cyber Norms, Cross-border issues.

SECTION 5: MULTIDIMENSIONAL IMPACT

Political	• Swing State position • Contrapolar order
Economic	• Supply chain resilience • Food/Energy Security
International	• Non-West preference • Fragile balances
Security	• Modern challenges

SECTION 7: SYLLABUS LINKAGES

GS-2	IR, Bilateral, Global South
GS-3	Cyber, ICT, Terrorism Financing
Ethics	Contradiction management
Essay/Optionals	Multi-alignment

SECTION 3: HISTORICAL TIMELINE

South Africa Joins

- 2009 BRIC Yekaterinburg
- 2011 South Africa Joins
- 2016 Security Dialogue Shift
- 2026 Chair Leverage
- CURRENT CHAIR Delhi - Delhi meeting focus

SECTION 8: WAY FORWARD

1. PRIORITIZE NON-TRADITIONAL ISSUES
2. LEAD ON GLOBAL SOUTH PRIORITIES
3. STRENGTHEN DIPLOMATIC FLEXIBILITY

SECTION 9: PRELIMS FOCUS

- **BRIC-2009 → BRICS-2011 + Current 11 Members** (Egypt, Ethiopia, Iran, Saudi, UAE, etc.)
- **India as a Swing State**

- **Logical and Philosophical Base**
- **Realism vs. Liberal Institutionalism:** India's dual approach perfectly mirrors this classic tension. On bilateral terms with China, India adopts a *Realist* stance—insisting on hard-power stabilization, border deterrence, and territorial integrity before trade or technology transfers can resume. Concurrently, within the forum, India applies *Liberal Institutionalism*, recognizing that international platforms provide essential space to shape global norms, resolve non-traditional threats, and engage with adversaries without active conflict.
- **The Philosophy of Enlightened Self-Interest:** Moving beyond the passive nature of historical non-alignment, the current doctrine emphasizes active multi-engagement. It assumes that a nation's strategic space increases when it avoids permanent alliances. The guiding logic is entirely functional: cooperate where interests align (e.g., climate financing, digital public infrastructure) and counter where interests clash (e.g., cross-border terrorism, unilateral border changes).
- **The Divergent Logic of Sequencing:** The core diplomatic gridlock between New Delhi and Beijing is a fundamental conflict of logic:
    - *The Chinese Logic:* Compartmentalization. It argues that the border dispute is a historical legacy that should be placed in an appropriate niche, allowing economic ties, aviation, and technology cooperation to serve as the engine for rebuilding trust.
    - *The Indian Logic:* Causality. It maintains that peace and tranquility on the border are the foundational prerequisites for cooperation. Trust cannot be built in a vacuum while massive military deployments persist along the frontier.

- **Multidimensional Analysis**
- **Social Dimension**
- **Human Security Transformation:** The focus on non-traditional threats directly impacts the grassroots level. Climate-induced instability, supply chain blockages, and food insecurity hit vulnerable populations in the Global South first and hardest.
- **Tech-Enabled Radicalization:** The rise of localized internet access has made digital platforms prime real estate for cross-border terror recruitment and radicalization, turning cybersecurity into a direct social safety priority.
- **Political Dimension**
- **Domestic Foreign Policy Consensus:** Maintaining a firm, unyielding stance on territorial integrity while leading global forums enjoys strong domestic political consensus, reinforcing national unity on security issues.
- **Global Stature and Coalition Building:** Navigating complex relationships with rival factions elevates India's status as a credible global mediator, building political capital across both advanced and developing economies.
- **Legal Dimension**
- **Evolving International Cyber Norms:** The focus on ICT security helps build unified legal frameworks against cybercrime, data theft, and state-sponsored digital disruption where clear international laws are missing.
- **Sovereignty and Boundary Protocols:** India's insistence on existing bilateral border treaties underlines the legal sanctity of historical border protocols over unilateral assertions on the ground.
- **Ethical Dimension**
- **Democratic Representation for the Global South:** Providing a powerful global voice for developing nations that are often sidelined in Western-centric forums is a matter of international distributive justice.
- **Pragmatism vs. Normative Ethics:** Balancing cooperation with authoritarian or revisionist regimes to manage shared threats requires a careful ethical balancing act between principled ideals and national survival.
- **International Dimension**
- **Shaping a Contrapolar Order:** The expansion of alternative forums prevents a monopoly of power by either Washington or Beijing, allowing mid-tier powers to collectively balance global governance.
- **Managing the Strategic Triangle:** India's careful diplomacy tempers American expectations of an exclusive anti-China partnership, while checking Chinese ambitions of converting these groups into anti-Western coalitions.
- **Economic Dimension**
- **Securing Vulnerable Supply Chains:** Diversifying trade routes and critical inputs for things like fertilizers and energy guards against the weaponization of global trade nodes during conflicts.
- **Alternative Financial Architecture:** Supporting local currency trade settlements through mechanisms like the New Development Bank helps insulate emerging economies from Western sanctions without dismantling existing global financial networks.

Linkages with NCERTs

Class XII Political Science: Contemporary World Politics

- *Chapter: Alternative Centres of Power / New Centres of Power:* Directly linked to how organizations like BRICS, SAARC, ASEAN, and individual nations act as counterweights to unipolar configurations, transforming the global landscape.
- *Chapter: Security in the Contemporary World:* Excellent context for understanding the distinction between traditional military security and non-traditional security threats like terrorism, climate change, and human security.

Class XII Political Science: Politics in India Since Independence

- *Chapter: India’s External Relations:* Provides the historical backbone of India's foreign policy choices, tracing the roots of Non-Alignment, the evolution of ties with China (including the 1962 conflict), and the core principles governing India's strategic choices.

- **General Studies Paper II (Governance, Constitution, Polity, Social Justice and IR)**
- **Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests:** Direct application for analyzing the expansion, security focus, and strategic balance within platforms like BRICS, SCO, and QUAD.
- **Effect of policies and politics of developed and developing countries on India's interests:** Essential for evaluating the US-China-India strategic triangle and its impacts on the Global South.
- **General Studies Paper III (Science, Technology, Economic Development, Biodiversity, Environment, Security and Disaster Management)**
- **Basics of cyber security; role of media and social networking sites in internal security challenges:** Relevant to the discussions on ICT security, critical infrastructure protection, and tech-driven terror financing.
- **Security challenges and their management in border areas:** Crucial for analyzing the LAC dynamics, sequencing of normalization, and managing cross-border challenges.
- **General Studies Paper IV (Ethics, Integrity and Aptitude)**
- **Ethical dimensions in international relations and funding:** Provides excellent case study material for balancing realpolitik national security objectives with principled global equity goals.
- **Essay & Optional Subjects**
- Highly valuable for candidates with **Political Science and International Relations (PSIR)** or **Geography (Geopolitics)** optionals, especially on topics relating to transnational groupings, multi-alignment, and the changing global order.

- **Way Forward**
- **Strategic Priorities for Global Engagement**
- **Maintain Border Firmness with Multilateral Flexibility:** Continue the dual-track approach of keeping bilateral normalization tied to peace along the LAC, while actively participating in multilateral forums to prevent adversaries from dictating regional agendas.
- **Lead on Non-Traditional Security Frameworks:** Use regional presidencies to build concrete regulatory frameworks for cyber security, data localization standards, and joint intelligence sharing against tech-driven terror financing.
- **Champion De-Risking over Decoupling:** Focus on securing resilient supply chains for critical resources like active pharmaceutical ingredients (APIs), fertilizers, and semiconductors, reducing over-dependence on any single country without triggering economic isolation.
- **Act as an Institutional Bridge for the Global South:** Position the country as a reliable mediator between the G7 and the Global South, ensuring developing nations' economic needs are addressed without turning international groupings into anti-Western tools.

UPSC CSE Prelims Questions

1. With reference to the 'New Development Bank', consider the following statements: (2016)

1.It has been set up by APEC.

2.The headquarters of New Development Bank is in Shanghai. *Which of the statements given above is/are correct?* (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

2. Consider the following countries: (2014)

1.Brazil

2.Russia

3.South Africa

4.China

5.India *Which of the above are members of the grouping known as BRICS?* (a) 1, 2 and 4 only (b) 1, 3, 4 and 5 only (c) 2, 3 and 4 only (d) 1, 2, 3, 4 and 5

UPSC CSE Mains Questions

•**GS Paper II (2022):** "The multi-lateral export control regimes like the Wassenaar Arrangement, Australia Group, and MTCR have gained significant prominence. In this context, discuss India's strategic positioning and how multi-engagement strengthens its national interests."

•**GS Paper II (2020):** "Critically examine the aims and objectives of SCO. What importance does it hold for India?"

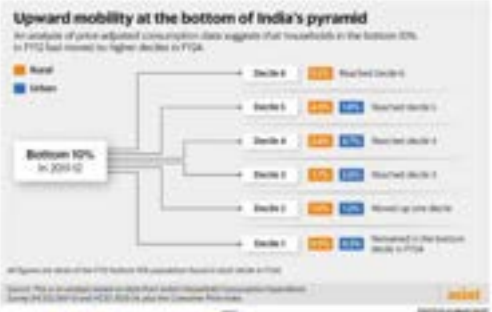
•**GS Paper II (2015):** "The ancient civilization links between India and China have been fractured by modern border disputes. Discuss how both nations can leverage multilateral institutions to manage bilateral friction."

•**GS Paper II (2014):** "The New Development Bank (NDB) established by BRICS is seen as a challenger to Western-dominated financial institutions. Evaluate its potential to address the infrastructure funding deficit in the Global South, keeping India's interests in mind."

Upward mobility among India's worst off may be a turning point

The past decade saw a striking change in household consumption: those at the bottom of the pyramid made dramatic gains

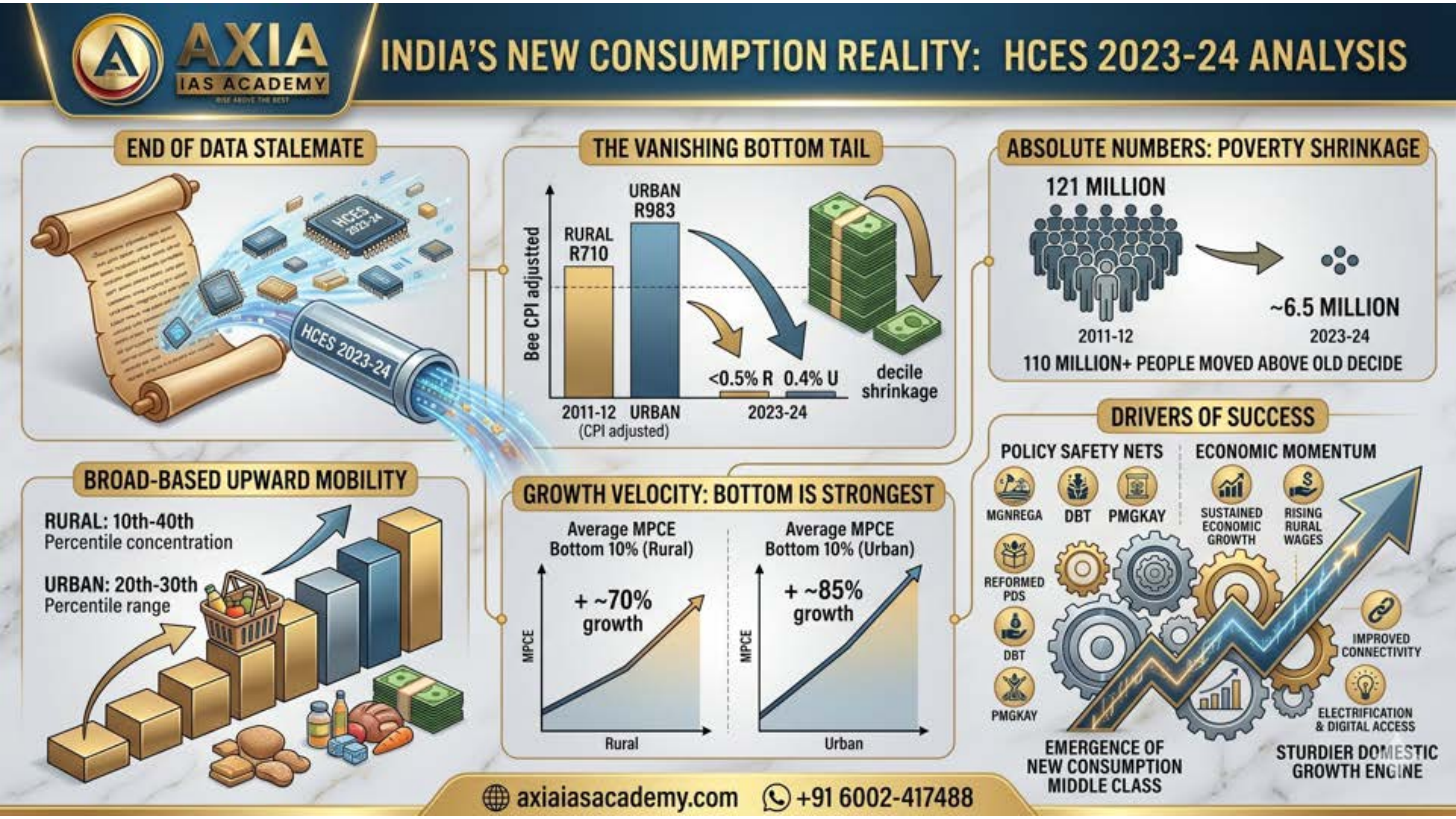
ASHISH KUMAR & PAYAL SETH



- **Key Terms and Explanations**
- **Monthly Per Capita Consumption Expenditure (MPCE):** This is the average amount of money an individual spends on goods and services for daily living within a 30-day period. It is calculated by dividing a household's total monthly consumption expenditure by its total number of members.
- **Household Consumption Expenditure Survey (HCES):** A comprehensive, large-scale survey conducted by the National Sample Survey Office (NSSO). It collects detailed data on what households across rural and urban India consume, ranging from food items to durable goods and services. It provides the empirical anchor for estimating poverty, updating inflation baskets, and evaluating socioeconomic progress.
- **Consumer Price Index (CPI) Adjustment:** The process of updating past monetary values to match current purchasing power by accounting for inflation. To compare poverty thresholds across decades fairly, older monetary limits must be adjusted to modern prices so they represent the exact same basket of real goods.
- **Fisher Index:** A sophisticated statistical tool used to measure changes in price levels over time. It is calculated as the geometric mean of two other indices: the Laspeyres Index (which uses a fixed historic basket of goods) and the Paasche Index (which uses a current basket of goods). By balancing both, it corrects for the biases of each, offering a highly accurate look at real inflation and purchasing power.
- **Consumption Pyramid:** A conceptual model that categorizes a country's population based on expenditure levels. The bottom of the pyramid represents those spending only on basic survival, while the top represents affluent consumers. A shrinking base implies that the lowest tier of society is climbing into higher expenditure brackets.
- **Cross-Sectional vs. Panel Surveys:** Independent cross-sectional surveys interview an entirely new, randomly selected group of households in each survey cycle. Panel surveys track the exact same households over many years. Because cross-sectional data measures different people at different times, it shows general shifts across the whole population rather than tracing the personal journey of a specific family over time.
- **Consumption Resilience:** The capacity of a household to maintain a steady level of spending on essential needs even when hit by unexpected economic shocks, such as a medical crisis, job loss, or crop failure.

- **Main Arguments and Substantive Parts**
- The contemporary discourse on economic welfare centers on a profound transition: the bottom tier of absolute material deprivation in India is shrinking, giving way to a broader, more secure base of everyday consumers.
- **The Shrinkage of the Bottom Tail**
- Historically, the baseline for extreme poverty was anchored to the consumption level of the poorest 10% of the population in 2011-12. When that historic baseline is adjusted for inflation to match modern prices, an unmistakable trend emerges: the proportion of individuals living at that standard of living has nearly disappeared.
- In rural areas, the old baseline of ₹710 translates to roughly ₹1,331 today. Currently, less than 0.5% of the rural population falls below this line.
- In urban areas, the old baseline of ₹983 equates to around ₹1,804 today. Only about 0.4% of urban citizens consume below this threshold.
- This means that what used to define the standard of living for tens of millions at the bottom of the economy has shrunk to a minute statistical sliver. This change holds steady across multiple ways of calculating inflation, proving that the upward shift in basic consumption is both real and durable.
- **Upward Mobility and Structural Realignment**
- This change represents a massive upward migration across the economic spectrum. Households that previously occupied the bottom 10% have moved upward into higher spending brackets:
- In absolute terms, this represents an extraordinary human migration out of deep material vulnerability. While approximately 121 million people made up the bottom decile in 2011-12, only about 6.5 million fall below that same real consumption standard today. Even when accounting for population growth, well over 110 million individuals have climbed past that historical baseline.
- **Growth Velocity at the Base**
- A notable feature of this economic transition is that consumption growth has been fastest among those who needed it most. After accounting for inflation, the average monthly consumption of the lowest 10% grew by approximately 70% in rural areas and 85% in urban areas over the past decade.
- While the middle and upper-middle tiers also saw steady gains (ranging between 40% and 70%), the rapid growth at the absolute bottom points to a broad-based improvement in living standards across the country.
- **Drivers of the Structural Shift**
- This rise in living standards is the result of dual economic forces: intentional state welfare policies working alongside broader economic momentum.
- **The Welfare Safety Net:** Comprehensive public interventions—including targeted rural employment guarantees, modernized food security networks, direct cash transfers, and subsidized utility access—have created a reliable safety net. This net prevents vulnerable families from falling below basic survival levels during difficult times.
- **Economic Drivers:** This baseline security is reinforced by steady macroeconomic growth, rising rural wages, and improved infrastructure. Expanded access to electricity, roads, and digital connectivity has unlocked new earning power, turning vulnerable households into active consumers.
- **Evolution of a Modest Middle Class**
- This upward movement is building a new consumption class. This is not the wealthy middle class seen in high-end urban markets, but a large, resilient base of households with modest but stable purchasing power.
- Instead of struggling for basic survival, these families are changing how they spend. They are buying more nutritious food, investing heavily in their children’s education, purchasing digital services, and accessing better healthcare. Their everyday demand is reshaping domestic markets and creating a steady engine for internal economic growth.

- **Historical Evolution of the Issue**
- India’s approach to measuring poverty and consumption has evolved significantly, reflecting changing political priorities, economic philosophies, and data-gathering methods over the decades.
- **Pre-Independence Foundation**
- The formal effort to quantify poverty in India began with Dadabhai Naoroji’s pioneering 1901 work, *Poverty and Un-British Rule in India*. Naoroji used a cost-of-living index based on the price of basic dietary staples (rice or flour, dal, ghee, and salt) needed for an adult laborer to survive. This early work established a long-running pattern in Indian policy: linking poverty measurement directly to the cost of basic physical survival.
- **The Post-Independence Calorie Standard**
- Following independence, the state sought a scientific way to define the minimum requirements for human dignity and economic planning:
- **1962 Planning Commission Working Group:** Formulated the first national minimum consumption standard, excluding health and education expenditures, which were assumed to be provided by the state.
- **Alagh Committee (1979):** Tied the poverty line directly to nutrition. It established a baseline of 2,400 calories per day for rural areas and 2,100 calories per day for urban areas, mapping the monetary cost of buying that food to specific expenditure brackets.
- **Lakdawala Committee (1993):** Retained the calorie-centric baseline but introduced state-specific price indices. This acknowledged that the cost of living varied widely across different states, moving away from a single, rigid national line.
- **Broadening the Scope**
- By the 2000s, it was clear that poverty was about more than just food intake. A growing economy required a more holistic look at living standards:
- **Tendulkar Committee (2009):** Moved away from pure calorie counting, recognizing that families were spending more on health, education, and energy even at low income levels. It anchored the national poverty line to a broader basket of goods, using the urban consumption patterns of the time as the new baseline.
- **Rangarajan Committee (2014):** Refined this framework further by combining an updated, multi-tiered nutritional basket (calories, proteins, and fats) with specific allowances for non-food essentials like clothing, housing, and transport.
- **The Data Gap and the Current Milestone**
- After the 2011-12 survey cycle, India entered a long data vacuum without an officially accepted consumption survey. This absence made it difficult to ground public policy debates in fresh data, leaving experts to rely on extrapolations of old statistics.
- The release of the 2023-24 Household Consumption Expenditure Survey ended this stalemate. It shifted the policy conversation from tracking absolute survival to understanding consumption resilience and the rise of a new domestic consumer base.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INDIA'S NEW CONSUMPTION REALITY: HCES 2023-24 ANALYSIS
END OF DATA STALEMATE
HCES 2023-24
HCES 2023-24
THE VANISHING BOTTOM TAIL
URBAN R983
RURAL R710
Bee CPI adjusted
<0.5% R 0.4% U
decile shrinkage
2011-12 URBAN
(CPI adjusted)
2023-24
ABSOLUTE NUMBERS: POVERTY SHRINKAGE
121 MILLION
~6.5 MILLION
2011-12
2023-24
110 MILLION+ PEOPLE MOVED ABOVE OLD DECIDE
BROAD-BASED UPWARD MOBILITY
RURAL: 10th-40th
Percentile concentration
URBAN: 20th-30th
Percentile range
GROWTH VELOCITY: BOTTOM IS STRONGEST
Average MPCE Bottom 10% (Rural)
+ ~70% growth
MPCE
Rural
Average MPCE Bottom 10% (Urban)
+ ~85% growth
MPCE
Urban
DRIVERS OF SUCCESS
POLICY SAFETY NETS
MGNREGA
DBT
PMGKAY
REFORMED PDS
DBT
PMGKAY
ECONOMIC MOMENTUM
SUSTAINED ECONOMIC GROWTH
RISING RURAL WAGES
IMPROVED CONNECTIVITY
ELECTRIFICATION & DIGITAL ACCESS
EMERGENCE OF NEW CONSUMPTION MIDDLE CLASS
STURDIER DOMESTIC GROWTH ENGINE
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- **Logical and Philosophical Base**
- The way an economy evaluates consumption and poverty depends heavily on its underlying ethical frameworks and logical assumptions. These principles shape how a society defines a decent standard of living.
- **Consumption as a Metric of Realized Capability**
- The choice to measure household consumption rather than income is based on practical logic. In an economy with a large informal sector, income can be highly irregular, seasonal, and difficult to track accurately. Consumption, by contrast, is a more stable indicator of actual well-being.
- Philosophically, this aligns with Amartya Sen's *Capability Approach*. Income is merely a means to an end, whereas consumption reflects realized capabilities—the actual food, education, healthcare, and shelter a family can secure to improve their lives.
- **The Rawlsian Justification for Welfare**
- The state's focus on supporting the lowest economic tier draws heavily on John Rawls' *Theory of Justice*, particularly the *Difference Principle*. This principle states that socio-economic inequalities are permissible only if they work to the maximum benefit of the least-advantaged members of society.
- By building a comprehensive safety net that protects the poorest 10%, public policy applies this philosophy directly, ensuring that economic growth helps raise the baseline for those most in need.
- **The Transition from Survival to Economic Security**
- The underlying logic of current development policy reflects a shift in the social contract between the state and its citizens:
- This evolution changes the focus from simply keeping people above a bare survival line to helping them build stable, economically secure lives.

Dimension	Historical Paradigm	Modern Paradigm
Primary Goal	**Absolute Deprivation Mitigation:** Preventing starvation and extreme poverty.	**Consumption Resilience:** Securing households against economic shocks.
State Focus	Providing basic survival commodities (calories).	Broad-based capacity building (infrastructure, digital access, health).
Citizen Status	Passive recipient of survival-level relief.	Active consumer participating in the domestic market.

- **Multidimensional Analysis**
- **Social Dimension**
- As households move out of extreme poverty, their spending habits undergo a major structural shift. According to *Engel's Law*, as income rises, the proportion of budget spent on basic food staples declines, allowing families to spend more on other priorities.
- **Human Capital Reinvestment:** Extra income is frequently directed toward better nutrition, quality healthcare, and education for children. This creates a positive cycle that improves intergenerational social mobility.
- **Empowerment and Status:** Moving away from the daily struggle for survival gives marginalized communities greater social agency. It allows vulnerable households to participate more fully in community life and reduces their dependence on exploitative local economic relationships.
- **Political Dimension**
- The rise of a more secure consumer base has reshaped public policy and political strategy.
- **The Rise of Welfare-Based Citizenship:** The visible impact of direct benefit transfers, public housing, and food security programs has made effective welfare delivery a central piece of political accountability.
- **From Patronage to Rights-Based Delivery:** The political narrative has shifted from old-style patronage systems to transparent, tech-driven distribution. This change has created a recognizable group of beneficiaries who expect reliable, high-quality public services as part of their relationship with the state.
- **Legal Dimension**
- An increase in real purchasing power helps turn legal promises into practical realities on the ground.
- **Realizing Statutory Rights:** Laws like the *Right to Education (RTE) Act* and the *National Food Security Act (NFSA)* provide a legal framework for welfare. However, when households are trapped in extreme poverty, using these rights can be difficult due to indirect costs like transportation, uniform expenses, or lost daily wages.
- **Economic Security Enables Justice:** As basic economic pressure eases, families gain the stability needed to access the legal system, protect their property, and exercise their constitutional rights more effectively.
- **Ethical Dimension**
- At its core, reducing extreme poverty is an ethical achievement that directly connects to the values of human dignity found in the Indian Constitution.
- **Restoring Individual Dignity:** Living in absolute poverty often forces individuals into undignified compromises just to survive. Rising consumption floors give families choice, autonomy, and control over their lives.
- **Addressing Economic Disparities:** While wealth inequality remains an ongoing challenge, raising the minimum standard of living fulfills a basic moral duty: ensuring that a nation's growth benefits its most vulnerable citizens first.
- **International Dimension**
- India's changing consumption landscape alters its position on the global stage.
- **Advancing Global Goals:** As home to a significant portion of the world's population, India's success in lifting millions above historical poverty lines is vital for meeting *Sustainable Development Goal 1 (No Poverty)*.
- **A Resilient Investment Destination:** A rising consumption floor creates a massive, reliable domestic market. This makes the country less vulnerable to global trade shocks and enhances its status as an attractive destination for international investment.
- **Economic Dimension**
- This shift alters the basic structure of the domestic market, changing how businesses plan for the long term.
- **Expanding Domestic Demand:** Millions of families stepping beyond basic survival creates steady demand for everyday consumer goods, telecom services, and improved mobility. This deepens economic activity in rural and semi-urban areas.
- **Structural Economic Rebalancing:** A stronger internal consumption base reduces reliance on external export demand, creating a more stable, self-sustaining model for national growth.
- **Strategic Market Shifts:** Companies and financial institutions are adjusting their strategies to serve this emerging middle market. They are adapting product sizes, extending micro-credit options, and reorganizing local supply chains to reach a broader base of consumers.

- **Linkages with NCERTs**
- **Class XI: Indian Economic Development**
- **Chapter 4: Poverty:** This chapter details the historical tools used to measure poverty lines in India, including the work of the Tendulkar and Rangarajan committees. The current data helps illustrate how these historical baselines function when applied to modern economic realities.
- **Chapter 8: Infrastructure:** This section highlights how investments in rural roads, electricity, and digital networks directly lower transaction costs for households, helping to convert basic welfare support into sustained earning and spending power.
- **Class XII: Macroeconomics**
- **Chapter 2: National Income Accounting:** This text explains the theoretical differences between tracking welfare via income methods versus expenditure methods. It highlights why consumption data serves as a stable, reliable proxy for real-world living standards.
- **Chapter 3: Money and Banking:** This chapter outlines how financial inclusion initiatives, direct benefit transfers, and micro-credit access help stabilize household consumption, preventing families from falling back into poverty when facing unexpected shocks.
- **Class XII: Sociology (Indian Society & Social Change)**
- **Social Inequality and Exclusion:** These chapters analyze how economic shifts can alter traditional caste and class hierarchies in rural areas. Increased economic independence allows marginalized groups to challenge historical inequities and exercise greater social choices.

- **Linkages with UPSC CSE Syllabus**
- **General Studies Paper 1 (GS1)**
- **Poverty and Developmental Issues:** Analyzing the changing nature of absolute deprivation, the urbanization of consumption patterns, and geographic variations in living standards.
- **Social Empowerment:** Evaluating how rising consumption baselines help break down traditional social barriers, giving marginalized groups greater independence and economic agency.
- **General Studies Paper 2 (GS2)**
- **Welfare Schemes for Vulnerable Sections:** Assessing how large-scale public programs (such as the PM Garib Kalyan Yojana, direct cash transfers, and rural employment guarantees) act as an economic floor for vulnerable families.
- **Issues Relating to Poverty and Hunger:** Shifting the policy focus from absolute food security to building long-term consumption resilience and protecting vulnerable populations from unexpected economic shocks.
- **General Studies Paper 3 (GS3)**
- **Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, and Development:** Understanding how a broader consumption base stabilizes internal economic demand and drives domestic growth.
- **Inclusive Growth:** Examining whether consumption gains are distributed evenly across the population, and analyzing the velocity of growth at the bottom versus the top tiers.
- **Essay & Optional Subjects**
- **Essay Paper:** Provides clear, data-driven examples for essays focused on economic equity, inclusive national development, and human-centric progress.
- **Optional Alignments:** Offers useful case studies for advanced papers in **Economics** (growth models, poverty metrics), **Sociology** (stratification, rural transformation), and **Public Administration** (welfare delivery systems, digital governance).

- **Way Forward**
- **Institutionalizing Consumption Resilience**
- Public policy needs to look beyond basic poverty lines and focus on securing the gains households have already made. Millions of families have climbed past the old poverty thresholds but remain clustered just above them. This makes them vulnerable to falling back down due to health crises, extreme weather events, or sudden economic shifts.
- To protect these families, the state should design adaptive safety nets—such as weather-indexed insurance and flexible social security options—that automatically expand during economic downturns or climate emergencies.
- **Strengthening Essential Public Services**
- To turn rising consumption into long-term human development, households need access to high-quality public services. If a family has to spend their extra income on expensive private healthcare or remedial schooling, their economic progress stalls.
- **Universal, Quality Healthcare:** Expanding public health infrastructure and insurance protection is vital. This prevents out-of-pocket medical expenses from turning into a major source of household debt.
- **Upgrading Public Education:** Improving public schools ensures that rising household incomes can be invested in advanced skills and higher education, rather than basic primary schooling.
- **Nutritional Diversification:** Shifting public food programs from just providing basic calories to ensuring access to diverse nutrients, helping to address long-term challenges like anemia and childhood stunting.
- **Balancing Growth and Tracking Distribution**
- To keep economic growth broad-based and sustainable, the country needs to regularly monitor how consumption is changing across all income levels.
- **Regular Data Collection:** Setting up a predictable schedule for Household Consumption Expenditure Surveys to avoid long periods without reliable data, ensuring public debates are grounded in fresh facts.
- **Targeted Regional Development:** Focusing infrastructure and job creation programs on specific districts where consumption growth remains slower than the national average.
- **Supporting the Rural Non-Farm Economy:** Encouraging small businesses, agro-processing centers, and local services in semi-urban areas to provide steady jobs outside of traditional agriculture.
- **Adapting Market and Supply Chain Strategies**
- Both public policy and private enterprise need to recognize that the domestic market is expanding horizontally.
- **Tailored Financial Products:** Designing micro-pension, micro-insurance, and small-business credit options tailored to households with modest but steady monthly cash flows.
- **Decentralized Supply Chains:** Investing in rural cold storage facilities, local distribution networks, and regional transport links to better connect emerging production centers with new consumer bases.

Prelims Questions

Which of the following committees are associated with the estimation of poverty in India?

1. Alagh Committee
2. Lakdawala Committee
3. Tendulkar Committee
4. Rangarajan Committee *Select the correct answer using the code given below:*

(a) 1 and 3 only
(b) 2 and 4 only
(c) 1, 2 and 3 only
(d) 1, 2, 3 and 4

1.In India, poverty lines are traditionally mapped using which of the following primary metrics?

(a) Annual Gross Household Income
(b) Monthly Per Capita Consumption Expenditure (MPCE)
(c) Total Household Wealth and Asset Ownership
(d) Individual Access to Institutional Credit

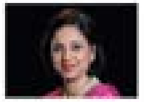
1.Consider the following statements regarding the Tendulkar Committee's methodology for poverty estimation:

1. It moved away from a poverty line anchored purely to calorie requirements.
2. It introduced explicit price adjustments for health and education expenditures.
3. It led to a uniform national poverty line basket across both rural and urban India.

Which of the statements given above is/are correct?

(a) 1 only
(b) 1 and 2 only
(c) 2 and 3 only
(d) 1, 2 and 3

PACOM, the deeper meaning behind a dropped prefix



Suhasini Haidar

The decision by the United States military to change the name of its naval command in the region from "US INDOPACOM" to "US PACOM" – United States Indo-Pacific Command to United States Pacific Command – reverting to its original name that was changed in 2018 can be dismissed as superficial, even trivial. Many have already responded with the Shakespearean "What's in a name?", even as the U.S. Department of War pointed out that US PACOM's area of responsibility, from "the waters off the West Coast of the United States to the western border of India" or what had once been described as "Hollywood to Bollywood, from polar bears to penguins", has never changed. In 2018, U.S. Defence Secretary Jim Mattis said that the name INDOPACOM was a recognition of the "growing significance" of the Indian Ocean, the Indian subcontinent, and India itself, and the U.S. dropped the term "Asia-Pacific" to "Indo-Pacific".

Current U.S. Secretary of War Pete Hegseth gave the signal, on May 30, that this understanding has now changed, at his speech at the annual Shangri-La Dialogue in Singapore – compared to more than 30 references to the "Indo-Pacific" in his speech in 2025, his speech this year contained not a single reference to the Indo-Pacific region or strategy.

Given the centre stage that the U.S.'s Indo-Pacific policy has had in India's strategic calculus since 2018, it is necessary, therefore, to go beyond the superficial to the subterranean or submarine, in this case. New Delhi must study how broader trends in U.S. policy are attempting to recast both the region and India's position within it in terms of three broader geographies.

U.S.-China ties and the Quad

The first, is the U.S.'s outreach to China, and concurrently diminishing salience of the Quad (India, Japan Australia, the U.S.), which Beijing has always protested as an "exclusive clique" or derisively as "ocean foam". In the long term, the U.S. and China cannot shy away from the fierce rivalry between them, but it is clear that in the immediate term, Trump 2.0 has decided to play nice.

U.S. President Donald Trump's visit to Beijing in May 2026 and Chinese President Xi Jinping's upcoming visit to the U.S. on September 24, indicate that the two sides do not want their differences to overcome the relationship, and the U.S. is tiptoeing around the Taiwan issue. Mr. Trump's references to a "G-2", including during a press availability with Mr. Modi on the sidelines of the 52nd G-7 summit in France (June 15 to 17), are an early warning of a plan to recast the world into "spheres of influence", where China would be the predominant power in the continent, not as one pole in a multipolar Asia, as India envisions.

As a result, the Quad, rebuilt in Trump 1.0 as a counter to China in the region, appears to be floundering. The U.S.'s National Defense Strategy released in January 2026 does not mention the Quad even once. In terms of substance, the Quad's combined agenda has been pared down to four areas of cooperation – maritime security, economic prosperity, critical and emerging minerals technology and disaster responses. Even within these limited objectives, there have been setbacks, such as over Artificial Intelligence cooperation. Despite Quad countries signing on to Pax Silica, and Critical Minerals Initiative Framework with the U.S., the Trump administration ordered Anthropic to end access to its latest models for all non-Americans.

Another question concerns the Quad Summit, which India has unsuccessfully sought to host since January 2024. During U.S. Secretary of State Marco Rubio's visit to Delhi in May 2026, he offered no firm commitment that Mr. Trump would visit Delhi this year, amid indications that the Quad may be relegated to a Foreign Ministers' level grouping. The U.S. Navy's reported actions involving Iranian ship *IRIS Dena* (March 2006) and recent attacks on three ships in which three Indians were killed underscore maritime security and domain awareness concerns within the Quad framework. In July, when he hosts Japanese Prime Minister Sanae Takaichi and travels to Indonesia, Australia and New Zealand, Prime Minister Narendra Modi must discuss alternative maritime coalitions and revive the Australia-India-Japan trilateral.

The U.S.-Iran MoU and West Asia

The second geography of concern is West Asia. The U.S. ceasefire with Iran, after just a few months of a surprisingly badly planned war, is indicative of a general fatigue in Trump 2.0 with U.S. friends and allies in the region. The situation is even more volatile today than it was prior to February 28, especially given the short shrift Israel has received in negotiations with Iran, and Prime Minister Benjamin Netanyahu's defiance over the ceasefire for Lebanon.

A closer look at the 14-paragraph "Islamabad MoU" released by Iran reveals several signals for the region. Paragraph four states that the U.S. commits to "remove its forces from the proximity of the Islamic Republic of Iran" within 30 days after the final deal. Paragraph five says that, after the Hormuz Strait is demined, Iran and Oman will define the Strait's future administration in consultation with Persian Gulf littoral states.

Paragraph 6 stipulates that the U.S., along with regional allies, will provide at least $300 billion for Iran's reconstruction. These provisions imply commitments on behalf of the Cooperation Council for the Arab States of the Gulf (GCC) states while giving Iran leverage on key issues – military, connectivity, and economic security. Oman and Qatar are now closer to Iran than before and have been part of the Pakistan-led mediation process, while countries such as Saudi Arabia are seeking new security arrangements with Türkiye, Pakistan, and Ukraine.

India's policy towards the region requires a rapid revision in light of the post-war, post-deal power structure. What was once a finely balanced approach now appears tilted towards Israel and the United Arab Emirates. New Delhi must also urgently reconsider its compliance with U.S. sanctions on Iranian oil and the Chabahar port, given Washington's shifting positions.

The U.S. and South Asia

Finally, India must study the implications of U.S. foreign policy decisions in its neighbourhood. The appointment of Sergio Gor as both U.S. Ambassador to India and Special Envoy for South and Central Asia signals Washington's growing regional ambitions. New Delhi has pushed back on attempts by the U.S. to become a supra entity in South Asia, as well as its efforts to resolve intra-regional conflicts between India and Pakistan. This ambition was hinted at during Operation Sindoor (May 2025), and repeated by Mr. Trump over the past year, especially as he met the Pakistani leadership many times in this period.

Mr. Gor's recent travels to Kathmandu, Thimphu, Dhaka and Colombo indicate that the U.S. is keen to broaden its efforts across the region. In the absence of effective pan-regional frameworks such as the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) – both are constrained by New Delhi's political tensions with Islamabad and Dhaka – it is clear that the U.S. is entering into competition with China for influence in South Asia.

Beijing has already built several mechanisms for cooperation with South Asia, and both powers side-stepping India. India, as chair of the Indian Ocean Rim Association, and with Mr. Modi due to attend the planned BIMSTEC summit in Bangladesh and the Shanghai Cooperation Organisation (SCO) summit in Pakistan next year, has an opportunity to reassert its regional leadership. Given the opportunities, a revival of the SAARC grouping and other pan-regional initiatives must be considered.

Concerns over the U.S.'s moves across India's geographies may seem contrary to the bonhomie at the Modi-Trump meeting at the G-7 meet in France, and the red carpet for Mr. Rubio's India visit. Shorn of the rhetoric, however, the trends in U.S. policy are clear, and New Delhi must plan accordingly, acknowledging that the shifts run far deeper than the ripples on the surface caused by a dropped prefix.

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The U.S.'s reversion from INDOPACOM to PACOM suggests that its regional shifts run deeper than a simple name change

- **Key Terms and Explanations**
- **US PACOM vs. US INDOPACOM:** Formed originally as the United States Pacific Command (US PACOM), this is the oldest and largest Unified Combatant Command of the US military. In 2018, it was renamed US Indo-Pacific Command (US INDOPACOM) to symbolically integrate the Indian Ocean and recognize India's growing role. Reverting to "US PACOM" signals a mental and strategic retraction back to the core Pacific theater (primarily the Western Pacific and the Taiwan Strait), explicitly decoupling the Indian Ocean from the primary American combat focus.
- **G-2 (Group of Two):** A conceptual geopolitical design where the world's two largest superpowers—the United States and China—bypassing broader multilateral institutions to directly manage global economic and security stability. Rather than fostering a multipolar world where intermediate powers like India have equal systemic weight, a G-2 arrangement divides global affairs into exclusive spheres of influence between Washington and Beijing.
- **The Quadrilateral Security Dialogue (Quad):** A diplomatic and strategic security architecture comprising India, Japan, Australia, and the United States. Initiated to ensure a "Free and Open Indo-Pacific," it functions as a plurilateral arrangement to maintain an equilibrium of power in the face of assertive regional maneuvers.
- **Pax Silica & Critical Minerals Initiative:** Strategic economic frameworks designed to secure technology supply chains among trusted allies. *Pax Silica* refers to an allied ecosystem aimed at dominating semiconductor and advanced digital infrastructure, while the *Critical Minerals Initiative* focuses on securing rare earth elements essential for clean energy and defense applications.
- **Islamabad MoU (2026):** A 14-paragraph framework agreement brokered to halt direct hostilities between the US, Israel, and Iran. While opening critical chokepoints like the Strait of Hormuz, it signals a significant recalibration by requiring the retraction of US forward military presence from the proximity of Iran and establishing new regional financing and management mechanisms.
- **Operation Sindoor (2025):** A critical, measured cross-border counter-terrorism operation executed by India in response to asymmetric provocations, which drew intense international mediation efforts and highlighted the complex security architecture of South Asia.
- **Supra Entity:** A political or strategic phenomenon where an external global superpower attempts to positioning itself as an overarching arbiter or supreme manager within a specific geographic sub-region, overriding the traditional primacy of the resident regional power.

- **Main Arguments and Substantive Parts**
- The contemporary international landscape is defined by an American pivot toward a transactionalist paradigm. This evolution shakes the core foundations of India's external security calculations across three distinct geographic rings.
- **The Strategic Dilution of the Indo-Pacific and the Quad**
- The core thesis revolves around the reality that changing administrative vocabulary reflects deep structural realignments. Dropping the "Indo" prefix from the Pacific Command represents a calculated message from the Pentagon: the Indian Ocean is no longer viewed as central to countering near-peer adversaries.
- **The Taiwan Strait Priority:** The US military posture is consolidating heavily around the First and Second Island Chains to secure Taiwan and the Philippines, leaving the security architecture of the Indian Ocean to resident partners.
- **Institutional De-prioritization:** This structural deprioritization is manifested in the exclusion of the Quad from the US National Defense Strategy. The grouping's agenda is being scaled back to less controversial functional areas like maritime domain awareness, humanitarian assistance, and disaster relief.
- **Technology Protectionism:** Despite shared diplomatic frameworks, strict domestic mandates have restricted access to foundational artificial intelligence and dual-use technological models for non-American partners, exposing the limits of technology sharing under a transaction-first model.
- **West Asian Realignment: The Islamabad MoU**
- The conclusion of hostilities in West Asia via the Islamabad MoU has dramatically altered the security balance of the Persian Gulf, forcing regional states to seek self-reliance.
- **US Security Retraction:** By committing to withdraw military assets from Iran's immediate proximity and shifting the administration of the Strait of Hormuz to regional partnerships (such as Iran and Oman), Washington has effectively signaled a reduction of its traditional security umbrella in the Middle East.
- **Economic Realignment:** The mandate requiring a multi-billion dollar reconstruction fund, alongside the immediate waiver of oil export sanctions on Tehran, shifts leverage back to continental Eurasian partnerships, disrupting the diplomatic equations that India had built with traditional Gulf partners.
- **South Asian Dynamic and Encirclement**
- Closer to home, the appointment of unified special envoys for South and Central Asia marks a renewed American push to secure independent strategic footprints in India’s immediate neighborhood.
- **Superpower Competition in the Backyard:** External diplomatic maneuvers across Kathmandu, Thimphu, Dhaka, and Colombo show that the US is actively competing with China for local influence.
- **Bypassing Regional Architecture:** Because regional frameworks like SAARC and BIMSTEC face ongoing political blockages, major global powers are increasingly bypass New Delhi to engage directly with smaller regional states, challenging India's historic role as the primary security provider in South Asia.

- **Historical Evolution of the Issue**
- **The Cold War Estrangement (1947–1991):** During this period, US PACOM's operational layout treated the Indian Ocean as an isolated theater. Washington focused heavily on an island-chain strategy in the Western Pacific to contain communism, while India pursued non-alignment, viewing external naval deployments in the Indian Ocean with deep suspicion.
- **The Post-Cold War Convergence (1991–2011):** The opening of India's economy paired with its "Look East" policy laid the groundwork for closer strategic ties. The birth of the Malabar naval exercises in 1992 signaled an expanding maritime relationship, though the operational boundaries of the US military commands remained split down the middle of the Indian subcontinent.
- **The Indo-Pacific Synthesis (2011–2018):** Prompted by the late Japanese Prime Minister Shinzo Abe's vision of the "Confluence of the Two Seas," the concept of the Indo-Pacific gained traction. This culminated in 2018 when US Secretary of Defense Jim Mattis officially changed the name to US INDOPACOM. This was a direct acknowledgment that the Indian and Pacific Oceans formed a single, interconnected strategic space.
- **The Present Realist Correction (2024–2026):** Confronted by high defense costs and massive industrial-military demands, American policy has shifted toward hard transactional realism. Reverting to US PACOM marks a deliberate step to narrow Washington's security commitments, focusing resources strictly on core Pacific flashpoints while encouraging regional partners to handle their own neighborhoods.

ANALYSIS: SHIFTING GEOPOLITICS, U.S. POLICY CHANGES, & INDIA'S STRATEGIC CALCULATION

AXIA IAS ACADEMY
RISE ABOVE THE REST

1. U.S. MILITARY COMMAND RENAMING: SUPERFICIAL OR SUBSTANTIVE?

2018

PACOM → INDOPACOM (acknowledging Indian Ocean)

NOW → BACK TO PACOM

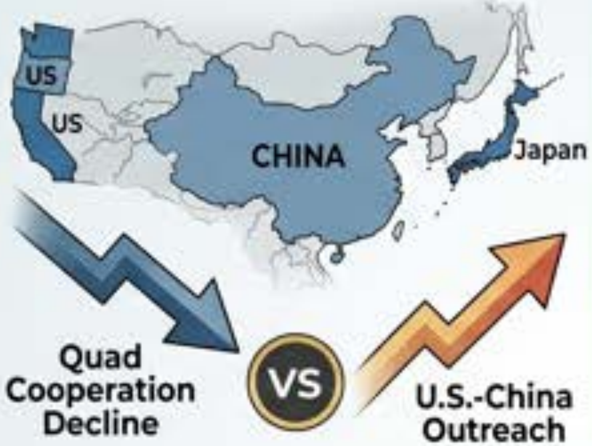
- AOR geographically unchanged
  - dropping the Indo prefix is a major signal

Command rank structure

Key figures' roles, roles, or roles and aımral ammors

Shangri-La dialogue signal in Singapore

2. U.S.-CHINA & THE QUAD'S DIMINISHING SALIENCE



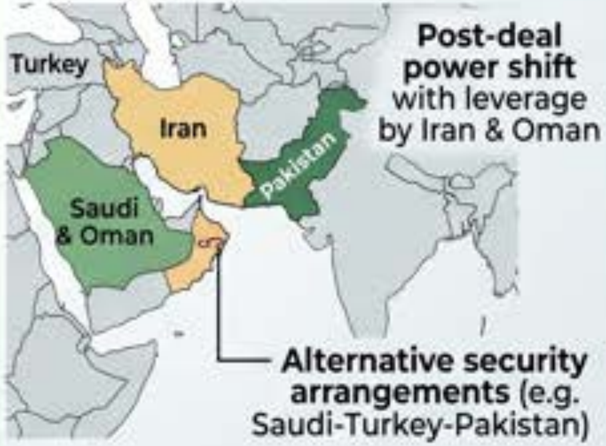
- **G-2 SPHERES OF INFLUENCE**

US-dominated continent | MULTIPOLAR ASIA

- **Dwindling Quad substance**
  - Tech restrictions (e.g.)
  - AI /Pax Silica limitats ιιmax limitations)
- **Need for alternative minilaterals** (e.g.. Trilateral Australia-India-Japan)

3. ISLAMABAD MoU & WEST ASIA REALIGNMENT

1. Paragraph 4: US Force Removal
5. Paragraph 5: Hormuz Strait demining & joint admin with Oman and GCC
6. Paragraph 6: $300 billion US/ Ally-funded reconstruction



Post-deal power shift with leverage by Iran & Oman

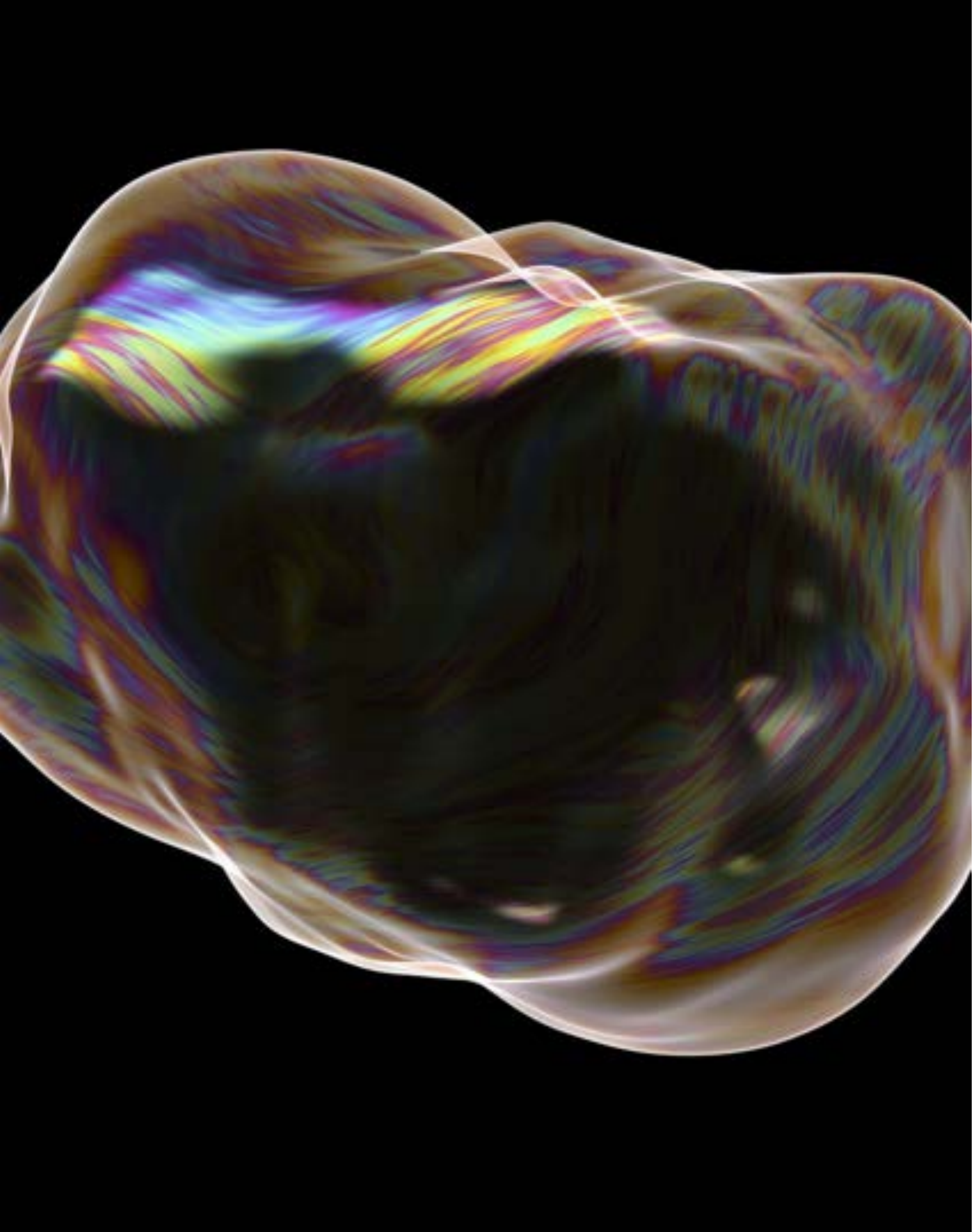
Alternative security arrangements (e.g. Saudi-Turkey-Pakistan)

- **India's needed policy revision**
  - e.g.. Chabahar
  - Chabahar
  - Oil sanctions (e.g.)

4. U.S. & SOUTH ASIA NEIGHBOURHOOD

Competitive vectors vs. China

- **US "Supra Entity" ambition**
  - Competition with China
- **Competition with China**
  - Competitive vector for competitium with China vs. China
- **Failure of regional bodies**
  - SAARC/BIMSTEC constraints
  - SAARTS of BIMSTEC constraints
- **India's reassertion of leadership**
  - IORA Chair (ambition)
  - Future summits at vimal
  - SAARC revival (arpportund)



- **Logical and Philosophical Base**
- Analyzing international relations through a purely descriptive lens leaves out the structural motives behind state behavior. The current shift is a classic demonstration of specific competing theories of international relations.
- **Structural Realism (Neorealism):** States are rational actors operating within an anarchic international system where survival dictates the balance of power. The American return to a Pacific focus reflects a classic consolidation of power. Faced with resource limits, a superpower will prioritize its core strategic interests (the Western Pacific) over far-reaching global commitments.
- **Transactional Bilateralism vs. Liberal Institutionalism:** The declining focus on the Quad shows a clear preference for transactional, bilateral deals over complex multilateral groupings. In this view, multilateral frameworks are seen as slow and inefficient. Instead, policy centers on direct "give-and-take" arrangements driven strictly by immediate national interests.
- **Spheres of Influence vs. Democratic Multipolarity:** The logical foundation of a potential "G-2" arrangement relies on the idea of stable spheres of influence. This approach assumes global peace is best kept when dominant powers manage their respective geographic zones. This clashes directly with India's core strategic philosophy: a democratic, multipolar Asia where no single power holds a regional veto.

- **Multidimensional Analysis**
- **International & Strategic Dimension**
- The structural shift in the US command name removes the Indian Ocean from Washington's primary combat theater. This risks creating a security vacuum in the western maritime reaches, an area increasingly vulnerable to drone proliferation and non-state threats. Furthermore, an American shift toward a "G-2" structure undercuts India's vision of a multipolar Asia, as it effectively cedes land-based primacy in Eurasia to Beijing.
- **Political & Diplomatic Dimension**
- These developments present a clear challenge to India's long-standing foreign policy calculations. For nearly a decade, New Delhi placed significant strategic emphasis on the Quad as a vital balance against regional challenges. A less active Quad forces India to diversify its alliances, look to alternative minilateral formats, and fast-track defense ties with middle powers like Japan, Australia, and France.
- **Economic & Technological Dimension**
- The sudden shift toward tech protectionism—such as limiting access to advanced computing models despite shared technological pacts—highlights the rise of techno-nationalism. On the maritime front, instability in the Strait of Hormuz directly threatens India's vital energy supply lines. Any disruptions there can quickly trigger domestic inflation and strain the country's current account deficit.
- **Legal & Sovereign Dimension**
- Washington's shifting stance on Iran tests India's legal compliance frameworks. New Delhi must now decide whether to keep following unilateral US energy sanctions or assert its strategic autonomy by expanding investments in critical hubs like the Chabahar port. This scenario underscores the reality that under international law, state sovereignty is maintained through independent strategic choices.
- **Social & Diaspora Dimension**
- Geopolitical changes in West Asia have a direct human impact on India's vast expatriate community. Over 8.5 million Indian citizens live and work across the Gulf region, sending home billions of dollars in remittances that strengthen India's balance of payments. Any major change in the regional security order directly threatens the safety and livelihoods of this vital diaspora.
- **Ethical Dimension**
- From an ethical perspective, these shifts highlight the core tension between values-based diplomacy and cold, interest-driven realism. When a global power scales back its security commitments to focus strictly on its own interests, it raises fundamental questions about the reliability of international partnerships and the fairness of dividing the world into exclusive spheres of influence.

- **Linkages with NCERTs**
- **Class XII Political Science: *Contemporary World Politics***
  - **Chapter on Alternative Centres of Power:** This chapter explores how regional organizations like the European Union and ASEAN act as balances against single-power dominance. The current rise of minilateral formats like the India-Japan-Australia trilateral serves as a modern extension of this concept, creating new centers of regional stability.
  - **Chapter on US Hegemony in World Politics:** This section details the nature of structural, soft, and hard power. The Pentagon's recent command restructuring and shift toward technology restrictions are clear real-world examples of a superpower using its structural and hard power to protect its core national interests.
- **Class XII Geography: *Fundamentals of Human Geography***
  - **Chapter on Transport and Communication:** This chapter highlights the critical role of global maritime chokepoints like the Strait of Hormuz and the Malacca Strait. Current security challenges at these sea lines of communication illustrate why maritime domain awareness remains a top priority for global trade and economic security.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper II (International Relations):**
  - *Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.* (Directly connects to evaluating the changing focus of the Quad and the impact of the Islamabad MoU).
  - *Effect of policies and politics of developed and developing countries on India's interests, Indian diaspora.* (Applies to analyzing how changes in US military command structures and technology policies impact India's strategic choices).
- **GS Paper III (Security):**
  - *Security challenges and their management in border areas; linkages of organized crime with terrorism.* (Relevant to managing maritime security in the Indian Ocean, protecting critical sea lanes, and responding to asymmetric security threats).
- **Essay Market & Optional Papers (PSIR / Geography):**
  - Highly relevant for essays focusing on global transitions, the relevance of multilateralism, or the geopolitics of the Indian Ocean region.

- **Way Forward**
- **Reviving and Recalibrating Minilateral Frameworks**
- India should lead the revival of focused minilateral arrangements, such as the Australia-India-Japan trilateral. By concentrating on practical maritime security and specialized supply chain resilience, these groupings can maintain regional balance even if broader multilateral architectures face gridlock.
- **Reclaiming Leadership in the Immediate Neighborhood**
- New Delhi needs to re-energize pan-regional frameworks like BIMSTEC and selectively utilize forums like the Indian Ocean Rim Association (IORA) and the Shanghai Cooperation Organisation (SCO). Taking a proactive role at upcoming regional summits will help India counter external attempts to carve out independent spheres of influence in South Asia.
- **Enhancing Strategic Autonomy and Energy Security**
- In response to changing international dynamics, India should diversify its energy import channels and expand strategic investments in vital transport hubs like the Chabahar port in Iran. Asserting strategic autonomy means basing trade and infrastructure decisions primarily on long-term national interests rather than external sanctions.
- **Achieving Self-Reliance in Critical Technologies**
- The rise of technology protectionism underscores the need for robust domestic alternatives. India must fast-track its national technology initiatives, secure independent critical mineral supply chains, and build domestic capabilities in artificial intelligence and semiconductor manufacturing to reduce vulnerability to external policy shifts.

Civil Services Examination (Mains)

- **GS Paper II (2023):** "The Quad is transforming itself into a trade bloc from a military alliance, in present times. Discuss."
- **GS Paper II (2022):** "The USA is facing an existential threat in the form of a rising China, what according to you can be the strategy of the USA to counter this challenge? Support your answer with relevant examples."
- **GS Paper II (2021):** "The newly introduced 'Quad' has emerged as an important strategic player in the changing global geopolitical landscape. Critically analyze its role in securing a free, open, and inclusive Indo-Pacific region."
- **GS Paper II (2020):** "What is the significance of the Indo-Pacific region for India? Discuss the security and economic challenges India faces in this region."
- **GS Paper II (2019):** "The critical challenge for Indian foreign policy today is navigating the growing rivalry between the United States and China. Examine India's options in this context."

1. Consider the following statements regarding the United States military commands:

1. The United States Pacific Command (US PACOM) is the oldest unified combatant command.
2. The change from US PACOM to US INDOPACOM in 2018 altered the designated statutory boundaries of its operational area of responsibility. *Which of the statements given above is/are correct?* (a) 1 only
3. (b) 2 only
4. (c) Both 1 and 2
5. (d) Neither 1 nor 2

Greenspan era: market economics went too far

Central bank heads globally mustn't forget how an asset bubble got inflated under the once celebrated US Federal Reserve chair's watch. They should trust markets, but verify their role

For all the encomiums penned after Alan Greenspan passed away on Monday at the age of 100, a dispassionate view of his career points to the perils of placing mortals on pedestals. On scrutiny, feet of clay are easily exposed. So it was with the man who served as chair of the US Federal Reserve for 18 years from 1987 till he retired in 2006, just two years before the West's financial crisis of 2008. To put this in perspective, his term at the Fed's helm overlapped that of five Reserve Bank of India (RBI) governors, R.N. Malhotra, S. Venkitaramanan, C. Rangarajan, Bimal Jalan and Y.V. Reddy. Greenspan's longevity as Fed chair owed as much to his skill as a central banker as to his ability to navigate shifting political waters under four US presidents, Ronald Reagan, George H.W. Bush, Bill Clinton and George W. Bush. At the Fed, Greenspan presided over one of the longest phases of sustained growth and price stability in the US economy, an era that came to be known as America's Great Moderation. Such was his aura that in 1999, he was elevated to the status of a member of a "Committee to Save the World" by *Time* magazine, a trio with former US Treasury secretaries Larry Summers and Robert Rubin as the other two. Only to have it all come tumbling down with the collapse of America's sub-prime mortgage market that led to a Great Recession.

Although signs of asset bubbles had grown while Greenspan was still in charge, his reluctance to intervene is now held responsible for the financial quakes that shook the global economy two years after he retired. The irony of it was captured by his 1996 poser: "How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions?" As an all-out libertarian—he was a friend of Ayn Rand—Greenspan preferred to pick up the pieces after a bubble had burst rather than prick it while it was inflating. The idea of 'taking away the punch bowl just as the party got going,' a practice that we in India benefited from under former governor Reddy in the run-up to the US crisis, was too interventionist for him. Arguably, his markets-know-best philosophy led investors to believe he would always come to their rescue. However, the famed 'Greenspan put' proved perilous. The subprime shake-down lost him the praise he had earned for being among the first to note the role of technology in raising productivity, back in the 1990s, and for refusing to raise the Fed's policy rate even as the US economy seemed to overheat.

"I found a flaw in the model that I perceived as the critical functioning structure that defines how the world works, so to speak," Greenspan told a US oversight panel in 2008. Testifying later for a crisis inquiry commission, he argued, "I was right 70% of the time, but I was wrong 30% of the time." In its 2011 final report, the commission was less charitable: it blamed "more than 30 years of deregulation and reliance on self-regulation by financial institutions" championed by Greenspan and others for stripping away "key safeguards" that could have "helped avoid catastrophe." Today, as the new Fed Chair Kevin Warsh weighs the effects of AI, he could crunch that era into two big lessons. *First*, with markets, the best rule is a Russian proverb made famous by Ronald Reagan, "Trust but verify." And *second*, on Fed communication, nothing beats clarity.

- **Key Terms and Explanations**
- **The Great Moderation:** A period spanning from the mid-1980s to the mid-2000s characterized by a noticeable decline in macroeconomic volatility. During this era, developed economies—particularly the United States—experienced sustained economic growth, low inflation, and infrequent, mild recessions. This calm environment often fostered a false sense of permanent stability, leading regulators to underestimate systemic risks.
- **Irrational Exuberance:** A term popularized to describe psychological herd behavior in financial markets where asset prices are driven far above their intrinsic or fundamental value. Driven by speculative enthusiasm, investors continue buying based on the expectation that prices will keep rising, creating unsustainable asset bubbles.
- **The "Greenspan Put":** A market phenomenon and psychological safety net where investors believe that the central bank will always step in to rescue the markets during a downturn. By lowering interest rates and injecting massive liquidity whenever asset prices drop sharply, the central bank effectively caps investor losses. This creates a safety net similar to a financial "put option."
- **Moral Hazard:** An economic anomaly that occurs when an entity is insulated from the financial consequences of its risky behavior. When commercial banks or institutional investors know they will be bailed out by the central bank (the safety net of the "Put"), they take on excessive, reckless risks to maximize short-term profits, knowing that the eventual losses will be borne by the public.
- **Subprime Mortgage Market:** A segment of the financial sector that extends home loans to borrowers with weak credit histories or low credit scores. Because these borrowers carry a higher risk of default, subprime mortgages feature significantly higher interest rates. The aggressive packaging of these high-risk loans into complex financial derivatives directly triggered the 2008 Global Financial Crisis.
- **"Taking Away the Punch Bowl":** A classic central banking metaphor coined by former Fed Chairman William McChesney Martin. It implies that a central bank's primary duty is to act as a counter-cyclical regulator—tightening monetary policy and raising interest rates just as the economy begins to overheat and speculate, effectively stopping the economic "party" before it turns into a dangerous bubble.

- **Main Arguments and Substantive Parts**
- The core debate surrounding modern central banking centers on the tension between ideological non-intervention and proactive macroprudential regulation. Evaluating this dynamic requires analyzing both the successes and structural failures of the hands-off economic model.
- **The Central Thesis**
- The deification of central bankers often masks systemic structural vulnerabilities. Long-term economic stability cannot rely purely on the perceived infallibility of a single individual or an uncritical trust in self-regulating markets. True financial stability requires structural safeguards, institutional skepticism, and proactive regulation.
- **Core Arguments and Supporting Evidence**
- **The Fallacy of Post-Crisis Cleanup:** A major argument against ultra-libertarian central banking is the preference for "picking up the pieces" after an asset bubble bursts rather than pricking it while it inflates. While non-intervention allows short-term growth to skyrocket, the eventual fallout of letting a massive bubble burst causes widespread, multi-year global recessions that far outweigh the benefits of temporary growth.
- **The Perils of the Central Bank Guarantee:** The institutionalization of policy backstops like the "Greenspan Put" fundamentally alters investor psychology. Evidence shows that maintaining rock-bottom policy rates when an economy shows signs of structural overheating distorts price discovery, encourages subprime lending, and fuels speculative mania across housing and equity markets.
- **The Contrast of Conservative Macroprudentialism:** The efficacy of alternative regulatory models is highlighted by contrasting the hands-off Western approach with the conservative style practiced by the Reserve Bank of India (RBI) during the same era. By actively tightening lending norms and implementing counter-cyclical measures, the RBI demonstrated that "taking away the punch bowl" shields emerging economies from severe global contagion.
- **Counter-Narratives and Nuance**
- It is vital to recognize that the hands-off policy era was not entirely devoid of economic merit. Proponents highlight that the decision to keep interest rates low during the 1990s was a calculated, data-driven response to structural shifts in the economy. Central bankers were among the first to realize that the digital revolution and rapid technological adoption had drastically boosted worker productivity. This allowed the economy to grow at an accelerated pace without sparking hyper-inflation, justifying a more accommodative monetary stance at the time.

- **Historical Evolution of the Issue**
- **The Pre-1970s Era of Strict Control:** Following the Great Depression, global central banking was defined by rigid structural walls. In the United States, laws like the Glass-Steagall Act strictly separated boring, utility-like commercial banking (checking and savings accounts) from high-risk investment banking. Financial stability was maintained through direct state oversight and capital controls.
- **The 1970s and 1980s Shift:** The advent of stagflation—simultaneous high inflation and stagnant growth—exposed the limitations of early Keynesian economic models. This ushered in the era of neoliberalism, spearheaded by Reaganomics in the US and Thatcherism in the UK. The policy focus shifted toward deregulation, tax cuts, and a strong belief that free markets are inherently self-correcting.
- **The 1987–2006 Deepening of Deregulation:** This period marked the height of the Great Moderation. Legislative safeguards were progressively dismantled, culminating in the 1999 repeal of the Glass-Steagall Act. This allowed commercial banks to engage in speculative investment activities. Concurrently, complex financial innovations like credit default swaps and derivatives were left entirely unregulated, under the assumption that financial institutions could police themselves.
- **The 2007–2008 Crisis and Admission of Flaws:** The unchecked growth of the subprime mortgage market triggered a systemic freeze in global credit. The collapse of major financial institutions forced central bankers to openly admit that their underlying economic models contained a fundamental flaw regarding how modern financial markets operate, prompting a massive pivot back toward state intervention.
- **The Post-Crisis to Present Landscape:** The post-2008 era has seen the institutionalization of the Basel III framework globally, mandating higher capital reserves and stricter liquidity ratios for banks. Today, central banks face an entirely new frontier, grappling with the rapid integration of Artificial Intelligence (AI) in high-frequency trading and algorithmic risk assessment, forcing a shift from historical economic modeling to real-time predictive regulation.

AXIA
IAS ACADEMY
RISE ABOVE THE REST

COMPREHENSIVE ANALYSIS: CENTRAL BANKING PHILOSOPHIES & THE GLOBAL FINANCIAL CRISIS (for UPSC CSE)

TWO VISIONS, ONE CRISIS

- **longevity** (18 yrs)
- **libertarian** approach
- let bubbles burst
- market-knows-best

Lesial · Poual president · Foun terms

CENTRAL BANK CHAIR

Feet of clay

ECONOMY PARTY

Central Banker's
- **Conservative Macroprudentialism**
  - qualitative credit controls
  - counter-cyclical

1st Governor · 2.6. India · 3rd Governor · 4.19. Desce · 5th Governor

Ive RBI governors' overlap

Uwicon (known) · Itvertkel (vwown)

Subprime Mortgage Collapse in the 2008 Great Recession

- Of Greenspan's self-admitted flaw of admted flaw (70% right, 30% wrong)

GREENSPAN PUT

A safety net under a falling market graph market proves interest rate arrows

MORAL HAZARD

Interest rate · Interest rate · Falling market

The RBI governors & mark or roms-ra concpls are unaotalty and seconnot rate on economy comeony, marketareservand on the grapt of the economc colling materials

EVOLUTION OF GLOBAL MONETARY POLICY

Pre-1970s	1970s-80s	1987-2006	2007-08	Post-2008
Safe/ Firewall	Neoliberal/ Market	Greenspan/ Derivatives/ Deregulation	Subprime collapse	Basel III, Dodd-Frank, Dodd-Frank, AI

CONFLICTING MARKET PHILOSOPHIES

LIBERTARIAN/OBJECTIVIST
- Efficient Market Hypothesis

Math model · Self-policing · Model

- Ayn Rand is a text-book concept

Flawed broken or flawed model

VS

INTERVENTIONIST/ COUNTER-CYCLICAL

State Referee · Market instability

ECONOMY PARTY

'Take Away Punch Bowl' in conous t a concept as a virtue

KEY TERMS DEFINED

- The Great Moderation Irrational Exuberance
- Greenspan Put
- Moral Hazard
- Subprime Mortgage
- Take Away Punch Bowl

MULTIDIMENSIONAL ANALYSIS

- **Social**
  - Inequality
- **Legal**
  - Statutory safeguards vs. soft self-regulation
- **Political**
  - Cycle
- **Ethical**
  - Socialization of private losses
- **Legal**
  - Statutory safeguards
  - Soft self-regulation
- **International**
  - Dollar dominance effects
- **Economic**
  - Balancing price & financial stability

WAY FORWARD & AI ERA LESSONS

AI

Two big lessons:
1. Trust but verify
   "Reagan proverb to prexfmali your local of mae povers of cncorurrication" and communication," - verification
2. clarity of communication

- Also, proactive Macroprudentialism
- Agile frameworks for the AI/Digital Era (predictive monitoring)

NCERT & UPSC CSE LINKAGES

NCERT MACRO XII

XI INDIAN ECON DEV XI

GS3
- Indian Economy
- Indian Economy
- Indian Economies
- Radian Economy
- Pender Economy
- Indian Economy

GS4

Ethics:
- Moral hazard case study
- Accountability
- Corporate governance

Essay Paper
- Theme at lowzs
- Corporate governacs
- Predictive momitoring

- **Logical and Philosophical Base**
- The debates around financial regulation are deeply rooted in conflicting philosophical worldviews regarding human nature, market efficiency, and the role of the state.
- **Libertarianism and Objectivism**
- The hands-off approach to central banking is anchored in the libertarian philosophy of absolute free markets and laissez-faire capitalism, heavily influenced by thinkers like Ayn Rand. This worldview assumes that rational self-interest is the ultimate economic driver.
- In a truly free market, individual actors and private institutions will automatically self-regulate to protect their own capital. According to this logic, government intervention is inherently flawed because it distorts natural price signals, stifles innovation, and reduces overall economic efficiency.
- **The Assumed Infallibility of Market Models**
- This school of thought relies on the structural assumption that markets are efficient processing machines capable of pricing risk accurately. It presumes that financial institutions possess sophisticated, foolproof mathematical models to manage exposure. Therefore, the state does not need to act as an aggressive referee; the market's internal reward-and-punishment mechanism will naturally weed out reckless actors without causing systemic damage.
- **The Interventionist Counter-Logic**
- The counter-argument, which aligns closely with the regulatory approach historically favored by the RBI, is built on the reality of human fallibility and collective irrationality. This philosophy recognizes that market participants are prone to herd mentality and short-term greed, which naturally generates asset bubbles.
- The core logical premise here is that financial markets left entirely to themselves are structurally unstable. The state must step in as an active regulator because the societal cost of a systemic economic collapse is too high to be left to the whims of self-regulation.

- **Multidimensional Analysis**
- **Social Dimension**
- Unchecked asset inflation and subsequent economic collapses worsen structural income inequality. During asset booms, wealth concentrates rapidly at the top among those holding equities and real estate.
- When the bubble inevitably bursts, the resulting recessions lead to mass unemployment, home foreclosures, and the erosion of middle- and lower-class savings. This creates a deeply fractured society where economic vulnerability rises sharply.
- **Political Dimension**
- Central banking autonomy exists in a delicate balance with political cycles. Navigating multiple presidential administrations requires immense political dexterity, but it also creates room for subtle compromises.
- Politicians naturally prefer low interest rates because cheap credit fuels short-term economic booms that help them win elections. A central bank that succumbs to this pressure risks compromising its long-term stability mandate to serve short-term political gains.
- **Legal and Regulatory Dimension**
- This analysis highlights a profound shift in regulatory law: the replacement of formal statutory safeguards with soft, discretionary self-regulation.
- When laws are stripped away in favor of letting financial institutions police themselves, regulatory agencies lose their legal teeth. This leaves them unable to intervene effectively until after a crisis has already begun.
- **Ethical Dimension**
- The hands-off regulatory approach creates a profound ethical dilemma known as the asymmetry of risk. When a central bank steps in to rescue failing institutions during a crisis, it creates a system where profits are privatized during the boom years, while losses are socialized during the bust. Taxpayers end up funding the bailouts of wealthy financial institutions, a dynamic that violates basic principles of distributive justice and public fairness.
- **International Dimension**
- In a highly globalized economy, the monetary policy decisions of a dominant central bank like the US Federal Reserve cannot be viewed in isolation. Due to the global dominance of the US dollar, changes in American interest rates trigger massive capital flight, currency volatility, and inflationary pressures across emerging market economies.
- India's ability to withstand these shocks in 2008 stands as proof that strong domestic regulatory firewalls can successfully insulate an economy from global financial contagion.
- **Economic Dimension**
- The fundamental challenge for modern central banking is balancing price stability with financial stability. An economy can display perfectly stable consumer inflation and steady GDP growth on paper while massive, toxic asset bubbles are quietly inflating in the background.
- As central banks enter the age of Artificial Intelligence and automated trading, traditional monetary transmission models are breaking down, requiring regulators to look beyond simple inflation metrics to monitor systemic financial health.

- **Linkages with NCERTs**
- **Class XII: Introductory Macroeconomics**
- **Chapter: Money and Banking**
    - **Core Concepts:** Functions of the Central Bank, Quantitative Credit Control Instruments (Bank Rate, Repo Rate, Reverse Repo Rate, Statutory Liquidity Ratio - SLR, Cash Reserve Ratio - CRR), and Qualitative Credit Controls.
    - **UPSC Connection:** This chapter explains how a central bank manages liquidity. Understanding the mechanics of standard monetary tools helps students see the contrast between the hands-off approach of Western central banking and the active use of qualitative and quantitative credit controls by the RBI to curb speculative bubbles.
- **Class XI: Indian Economic Development**
- **Chapter: Economic Reforms Since 1991**
    - **Core Concepts:** Liberalization, Privatization, and Globalization (LPG Reforms); Financial Sector Reforms; Stabilization vs. Structural Adjustment Policies.
    - **UPSC Connection:** The text details the risks and rewards of deregulating financial markets. Linking this to the NCERT chapter allows students to analyze how India carefully balanced financial liberalization with strong regulatory oversight from the RBI, enabling the nation to benefit from global capital integration without falling victim to unmonitored speculation.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper 3: Economic Development**
- **Syllabus Topic:** Indian Economy and issues relating to planning, mobilization of resources, growth, development, and employment. Inclusive growth and issues arising from it.
- **Syllabus Topic:** Banking sector reforms, monetary policy framework, and the role of the Reserve Bank of India (RBI).
- **Analytical Application:** This framework provides a direct case study for comparing the macroeconomic stability architectures of developed vs. emerging markets, highlighting why macroprudential regulation is vital for sustainable resource mobilization.
- **GS Paper 4: Ethics and Human Interface**
- **Syllabus Topic:** Public/Civil Service Values and Ethics in Public Administration; Ethical dilemmas in governance; Accountability and ethical oversight.
- **Syllabus Topic:** Corporate Governance and the ethics of financial management.
- **Analytical Application:** The concepts of "Moral Hazard" and the "socialization of private losses" serve as excellent examples for essays or case studies addressing ethical failures in economic regulatory policy and public accountability.
- **The Essay Paper**
- **Theme Integration:** Highly relevant for philosophical and economic essays focusing on themes such as:
    - *“The perils of placing mortals on pedestals: Leadership vs. Institutional Integrity.”*
    - *“Markets know best, until they don't: Striking the right balance between liberty and regulation.”*
- **Optional Subjects**
- **Economics Optional:** Paper-I (Monetary Theory, Central Banking Objectives, International Financial Institutions) and Paper-II (Post-Independence Indian Banking Sector Reforms).
- **Management / Commerce & Accountancy Optional:** Financial Markets, Financial Services, Risk Management, and Corporate Governance Frameworks.

- **Way Forward**
- **Institutionalizing Proactive Macroprudential Regulation:** Central banks must abandon the passive policy of merely cleaning up after a financial crisis. Regulators need to deploy dynamic, counter-cyclical buffers—such as adjusting capital requirements and tightening lending norms for sector-specific real estate and equity markets—whenever asset values begin to rise sharply above historical trends.
- **Operationalizing Reagan's Principle ("Trust but Verify"):** While financial innovation should be encouraged, regulators cannot rely on blind faith in market self-regulation or internal corporate risk models. Regulatory bodies must possess the statutory power and technical capability to independently audit and verify complex financial instruments, high-frequency trading algorithms, and shadow-banking activities before they pose a systemic risk.
- **Enforcing Communication Clarity and Eliminating the "Put":** Central banks must move away from intentionally ambiguous language or signaling explicit safety nets that guarantee market bailouts. Clear, transparent, and unambiguous forward guidance is essential to minimize speculative behavior and signal to the market that reckless risk-taking will not be rescued by public funds.
- **Developing Agile Frameworks for the AI and Digital Era:** As financial markets increasingly rely on advanced Artificial Intelligence, algorithmic trading, and decentralized financial systems, monetary authorities must upgrade their tech infrastructure. Regulatory frameworks need to transition from analyzing backward-looking, historical economic data to utilizing real-time, predictive monitoring tools capable of identifying systemic flash points before they escalate.

UPSC Civil Services Examination

Question (2020): If the RBI decides to adopt an expansionist monetary policy, which of the following would it **not** do?

- Cut and optimize the Statutory Liquidity Ratio.
- Increase the Marginal Standing Facility Rate.
- Cut the Bank Rate and Repo Rate. Select the correct answer using the code given below: (a) 1 and 2 only (b) 2 only (c) 1 and 3 only (d) 1, 2 and 3

•**Question (2015):** With reference to the Indian economy, consider the following statements:

- The rate of growth of Real Gross Domestic Product has steadily increased in the last decade.
- The Gross Domestic Product at market prices (in Rupees) has steadily increased in the last decade. Which of the statements given above is/are correct? (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

•**Question (2015):** When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points, which of the following is likely to happen? (a) India's GDP growth rate increases drastically. (b) Foreign Institutional Investors may bring more capital into our country. (c) Scheduled Commercial Banks may cut their lending rates. (d) It may drastically reduce the liquidity to the banking system.