AXIA IAS ACADEMY

EDITORIAL ANALYSIS

JULY 8

CONSISTENT COMPREHENSIVE AND CREDIBLE

UNIQUE AND BEST IN QUALITY

1. India’s economic prospects after the West Asian crisis (THE HINDU)
2. Reform Express: India’s economy is fast being transformed but we have a long journey ahead (MINT)
3. Beyond US and China, India and others are building a ‘G Minus Two’ for Indo-Pacific (THE INDIAN EXPRESS)
4. Indias energy stress test: How agile policy kept the economy moving (BUSINESS STANDARD)

India's economic prospects after the West Asian crisis

C. Rangarajan

Former Chairman, Prime Minister's Economic Advisory Council, and former Governor, Reserve Bank of India

D.K. Srivastava

Former Director, Madras School of Economics

The United States and Iran agreed to a 14-point preliminary Memorandum of Understanding (MoU) towards ending the West Asian crisis and reopening the Strait of Hormuz. Although there have been initial hiccups, it is expected that, with the reopening of the Strait, global crude oil supply will stabilise and prices will normalise at a lower level. Following these developments, India should adjust its strategies, keeping in mind both the 2026-27 outlook and medium-term growth prospects.

The West Asian crisis had resulted in a period of relatively higher crude prices. The monthly average price of the Indian crude oil basket was \$114.5 per bbl in April 2026. It declined to \$106.2 per bbl in May 2026 and further to \$86.3 per bbl as of June 24, 2026. For the remaining three quarters of 2026-27, crude oil prices are expected to remain below this level, provided the truce continues.

2026-27 growth prospects

The National Statistical Office's provisional estimates of GDP growth of 7.7% for 2025-26 confirm India's strong post-COVID-19 pandemic recovery. This was preceded by real GDP growth rates of 7.2% and 7.1%, respectively, in 2023-24 and 2024-25 as per the new GDP series. Real Gross Value Added (GVA) growth was even more impressive at 7.9% in 2025-26, with the manufacturing, trade, transport, and financial and real estate sectors recording growth rates exceeding 10%. With nominal GDP growth at 8.9%, the implicit price deflator-based inflation rate stood at 1.1% in 2025-26.

For 2026-27, growth prospects are likely to be impacted because of the disruptions in crude supply and higher prices affecting the first quarter, and due to a deficiency in rainfall associated with the onset of El Niño. The India Meteorological Department has estimated a 10% shortfall (as compared with the Long Period average). Up to June 24, 2026, the estimated shortfall is nearly 43%.

The combination of El Niño and fertilizer shortages pose a potential risk to India's agricultural output in 2026-27. In particular, in the immediate term, the *kharif* crop is likely to be affected. There may also be an impact on the *rabi* crop which is to follow. Therefore, it is important to build up fertilizer reserves and address issues of potential shortages when it comes to important crops, which may warrant a reconsideration of crop-specific import and export policies. The Reserve Bank of India (RBI) has projected real GDP growth of 6.6% for 2026-27.

Changing dynamics present opportunities and challenges for the economy

Fiscal prospects, petroleum economy

One important feature of 2026-27 growth is the likelihood of relatively higher nominal GDP growth as compared to 2025-26. This is because the implicit price deflator (IPD), which depends on Wholesale Price Index (WPI) and Consumer Price Index (CPI) inflation, is likely to be higher than the 2025-26 level of 1.1%. The RBI's June 2026 Professional Forecasters' median projections for WPI and CPI inflation for 2026-27 are 8% and 4.9%, respectively. With a resolution of the West Asian crisis, we consider WPI and CPI inflation rates for the full year to be lower at 6% and 4.5%; using weights of 60% and 40%, respectively, we can broadly estimate IPD-based inflation to be 5.4%. Combining this with a real GDP growth of 6.6%, we may have a nominal growth of about 12.4% in 2026-27, higher than the budgeted growth of 10.1%. This would have a positive impact on tax revenues. The Government of India should be able to realise its budgeted estimate of tax revenues absorbing the adverse revenue impact of any excise duty cuts. On the expenditure side, however, subsidies may be higher than budgeted.

The RBI has given a dividend of ₹2.69 lakh crore to the Government. This amount covers a significant portion of the budgeted 'Dividends and profits from RBI and Financial Institutions' in 2026-27 at ₹3.16 lakh crore. Given these developments, we expect the 2026-27 budgeted fiscal deficit at 4.3% of GDP to be either realised or only marginally exceeded.

The evolution of India's petroleum economy has been characterised by certain notable features. First, India's dependence on imported crude oil has increased to more than 90% in 2025-26 from 54.9% in 1998-99. Second, the volume of domestic production of crude oil has fallen over time to 26 million metric tons (MMT) in 2025-26 from a peak of 35.9 MMT in 2011-12. Third, demand for petroleum products/petroleum, oil, and lubricants (PoL) has increased, thereby generating the need for larger imports. Fourth, domestic consumption of PoL products has increased to 243.2 MMT in 2025-26 from 90.6 MMT in 1998-99. Fifth, India has developed an impressive capacity for refining crude to produce various PoL products. This capacity has improved over time. Sixth, the energy intensity of India's output, as well as the intensity of use of PoL products in GDP, has fallen over time. This augurs well for sustaining an energy-efficient growth at a reasonably high level for a relatively longer period.

India may continue to augment its refining capacity, which has helped save refining costs compared to the situation if it had directly imported refined petroleum products. The trend towards growing dependence on imported crude oil needs to be reversed by emphasising the exploitation of domestic crude resources while accelerating the transition to greener and alternative energy sources, including nuclear power.

Build reserves

With a lowering of global crude prices and normalisation of supplies, the government should shore up its fertilizer reserves and reserves for other critical primary commodities including crude. There is a need to further diversify sources of imported crude and also reduce reliance on imports through the Strait of Hormuz. A policy for building strategic reserves of key primary commodities, along with estimates of the required volumes and needed infrastructure, should be put in place.

The current account deficit was 0.6% of GDP in 2025-26, with the fourth quarter showing a surplus of 0.7% of GDP. Prospects for 2026-27 indicate a deterioration in this magnitude. The RBI's June 2026 Survey of Professional Forecasters had estimated a current account deficit of 2.1% of GDP for 2026-27, as per their median estimate. With normalisation of the global oil market and the opening of the Hormuz strait, we expect this to be lower at about 1.5% of GDP.

The prospects of the Indian economy outlined above is on the assumption that peace will prevail in West Asia from now on. If this assumption turns out to be incorrect and if the war continues, India along with many other countries will face an extremely difficult situation.

The views expressed are personal

- **Key Terms and Explanations**
- **Implicit Price Deflator (IPD):** This is the most comprehensive measure of inflation in an economy. Unlike the Consumer Price Index (CPI) or Wholesale Price Index (WPI) which track a fixed basket of goods, the IPD is the ratio of Nominal GDP to Real GDP. It dynamically reflects the price changes of all domestically produced goods and services.
  - *Example:* If India's nominal output expands purely due to rising prices while actual physical production remains stagnant, the IPD will spike, signalling hidden inflationary pressures.
- **Real vs. Nominal GDP:** Nominal GDP evaluates economic output at current market prices, meaning it includes inflation. Real GDP adjusts for inflation by evaluating output at constant base-year prices.
- *Example:* If India produces 100 cars in two consecutive years, but the price doubles, Nominal GDP doubles while Real GDP shows 0% growth, revealing the true physical health of the economy.
- **Gross Value Added (GVA):** GVA measures the total value of goods and services produced in an economy, looking at the supply side. The relationship is defined by the formula:
- $\text{GDP} = \text{GVA} + \text{Taxes on Products} - \text{Subsidies on Products}$
- . It helps policymakers understand which sectors (like manufacturing or services) are driving actual wealth generation.
- **Current Account Deficit (CAD):** This represents the shortfall when a country's total value of imported goods, services, and transfers exceeds the total value of its exports.
- *Example:* When global crude prices shoot up, India's import bill expands massively while its exports remain constant, widening the CAD and putting downward pressure on the Indian Rupee.
- **Strait of Hormuz:** A vital maritime chokepoint between the Persian Gulf and the Gulf of Oman. It handles roughly a fifth of the world's petroleum consumption. Any geopolitical friction here directly bottlenecks global energy supply chains, causing immediate oil price shocks for import-dependent nations like India.
- **Long Period Average (LPA):** This is the benchmark calculated by the India Meteorological Department (IMD) to determine if a monsoon is normal, deficient, or excess. It represents the average rainfall recorded over a 50-year period. A 10% shortfall against the LPA signals a significant drought risk.

- **Main Arguments and Substantive Parts**
- The core macroeconomic puzzle centers on how India can leverage a sudden geopolitical de-escalation in West Asia to offset domestic climate shocks and structural energy vulnerabilities.
- **The Macro-Growth Paradox**
- Recent data shows strong economic momentum, with a robust post-pandemic recovery driving real GDP growth to **7.7%** and GVA growth to **7.9%**, powered by double-digit expansions in manufacturing, trade, and real estate. However, the outlook introduces a dual challenge: supply-side oil disruptions from the West Asian crisis coupled with an El Niño-induced rainfall deficit (with early shortfalls hitting **43%**). Despite this, real GDP growth is projected at a resilient **6.6%**.
- **The Fiscal Math and Nominal Cushion**
- A fascinating counter-intuitive trend emerges in the fiscal sector. While real growth may moderate slightly, a higher Implicit Price Deflator (IPD)—driven by projected WPI and CPI rates of **6%** and **4.5%** respectively—will push nominal GDP growth to an impressive **12.4%** (well above the budgeted **10.1%**). This nominal expansion acts as a natural buffer:
- It expands the tax base, allowing the government to comfortably realize its budgeted tax revenue targets.
- It absorbs the fiscal shocks of unexpected excise duty cuts and escalating fertilizer subsidy bills.
- A massive **₹2.69 lakh crore** RBI dividend payout significantly bridges the fiscal gap, ensuring the budgeted fiscal deficit target of **4.3% of GDP** remains highly achievable.
- **Structural Realities of the Petroleum Economy**
- The long-term structural landscape reveals a deep vulnerability alongside a key industrial strength:
- **Rising Import Dependency:** India’s reliance on imported crude has surged from **54.9%** in 1998-99 to over **90%**, exacerbated by a steady decline in domestic crude production to **26 MMT** (down from a peak of 35.9 MMT in 2011-12).
- **Refining Resilience:** On the positive side, India has transformed into a global refining hub, expanding domestic consumption of Petroleum, Oil, and Lubricants (PoL) products to **243.2 MMT**. Refining crude domestically saves substantial costs compared to importing finished petroleum products.
- **Decoupling Energy Intensity:** Crucially, the energy intensity of India's overall economic output has steadily declined, meaning the economy is becoming more energy-efficient and better insulated against prolonged global commodity shocks.

- **Historical Evolution of the Issue**
- **The Early Post-Independence Era (1947–1970s):** India's early industrialization was primarily powered by domestic coal and state-led infrastructure. Oil consumption was low, and exploration was entirely managed by the public sector (the creation of ONGC in 1956). The global energy landscape was relatively stable, keeping India's external trade balance manageable.
- **The Global Oil Shocks (1973 & 1979):** The OPEC oil embargoes exposed India's underlying vulnerabilities. Skyrocketing crude prices triggered severe domestic inflation, strained foreign exchange reserves, and forced a policy shift toward domestic exploration, leading to the successful development of the Bombay High offshore fields.
- **The 1991 Crisis and Liberalization:** A balance of payments crisis, triggered in part by oil price spikes during the Gulf War, forced India to open its economy. The subsequent New Exploration Licensing Policy (NELP) in the late 1990s welcomed private and foreign investment into the upstream oil sector, while domestic import dependence stood at a modest **54.9%** in 1998-99.
- **The Refining Resurgence and Production Peak (2000–2012):** India pivoted strategically by rapidly expanding its downstream refining capacity. Domestic crude production peaked at **35.9 MMT** in 2011-12. This period established India as a major exporter of refined petroleum products, even as its appetite for raw crude continued to grow.
- **The Current Deep Dependency Paradigm:** Over the last decade, stagnant domestic exploration combined with a rapidly expanding vehicle market and industrial base has pushed import dependency past the **90%** threshold. This leaves the modern Indian economy deeply exposed to maritime chokepoint disruptions, such as frictions in the Strait of Hormuz.

+91 6002-417488
axiaiasacademy.com

AXIA IAS ACADEMY
ESTD : 2024
RISE ABOVE THE REST

INDIA'S ECONOMIC PROSPECTS:
BEYOND THE WEST ASIAN CRISIS & STRUCTURAL CHALLENGES

KEY ECONOMIC CONCEPTS & INDICATORS (ILLUSTRATIVE)

- **GVA (Gross Value Added):** Measures sectoral output
- **REAL GDP:** Inflation-adjusted growth
- **NOMINAL GDP:** Current market prices
- **IPD (Implicit Price Deflator):** Comprehensive inflation measure

GVA SECTORAL GROWTH RATES (HYPOTHETICAL):

DUAL CHALLENGE FRAMEWORK: OIL & CLIMATE

OIL DISRUPTIONS & PRICE SHOCKS

- **Strait of Hormuz Chokepoint** (Blocked ships)
- Oil Price Spikes
- Dependency **> 90%** (illustrative)
- CAD lowering to ~1.5% GDP

RBI Dividend ₹2.69 Lakh Cr (hypothetical) & **Excise duty cuts**

EL NIÑO & CLIMATE SHOCKS

- **Cloud and Sun** (El Niño effect)
- Dry earth
- **Rainfall Shortfall ~ 10-43%** (illustrative)
- **Crop Yield Risks** (Kharif, Rabi)

HISTORICAL EVOLUTION & PHILOSOPHICAL BASE

Pre-Independence Economy	**LPG Reforms** (1991)	**Refining Boom**	**Structural Dependence** (Present)
Iindependence Economy	Reforms (1991)	Refining Boom (2000s-2010s)	Present

LOGICAL BASE

State-led growth — Balance of Trade — Strategic Primary Reserves — Self-Reliance

diagram

MULTIDIMENSIONAL IMPACT ANALYSIS

- **SOCIAL** (Food Inflation, Welfare priority)
- **POLITICAL** (Tax revenue realization, Federal relations)
- **LEGAL** (Strategic reserves policy, Import regulations)
- **ETHICAL** (Intergenerational equity, Fair distribution)
- **INTERNATIONAL** (Geopolitical strategy, Maritime security)
- **ECONOMIC** (Nominal GDP buffer, Current Account Deficit)

UPSC CSE SYLLABUS & NCERT MAPPING

GS Paper I (Geography-El Niño)
- Sub-categories
- Disonomy & ronamnies
- Soples Topics
- Eoonnic, Economı & Trade

GS Paper II (IR-Energy Diplomacy)
- Geogaphy-Economy & Elimaqg
- Sample Economy, Sample Topics

GS Paper III (Economy, Agriculture, Infra, Environment)
- Economic Economy
- Agriculture, Agriculture
- Infra, Environment

GS Paper IV (Ethics)
- Subcategorics
- Crmple Topics Topics

NCERTs Map

- **Class XI Economy** (Ch 1-2, 7)
- **Class XII Macroeconomics** (Ch 3, 5)

WAY FORWARD & PRACTICE QUESTIONS

STRATEGIC RECOMMENDATIONS

- Build Primary Reserves (Crude, Fertilizer)
- Diversify crude sources
- Reduce route dependence
- Accelerate Green Transition (Biofuels, Green Hydrogen)

PRACTICE SKILLS: PYQ SAMPLES (ILLUSTRATIVE)

PRELIMS SAMPLE:
1. Comprehensive inflation indicator?

MAINS SAMPLE:
2. Discuss the dual challenge of oil and climate variations.

APSC SAMPLE:
3. Critically examine the evolution of India's petroleum policy.

- **Logical and Philosophical Base**
- Macroeconomic policy planning balances competing priorities, navigating the trade-offs between immediate welfare needs and long-term financial stability.
- **Realist Pragmatism in Fiscal Management**
- The underlying fiscal strategy relies on structured pragmatism rather than rigid economic doctrine. It acknowledges that when global supply chains break down, the state must step in as a cushion. By absorbing high oil and fertilizer costs through enhanced subsidies and excise cuts, the government protects vulnerable populations from extreme inflation, relying on nominal GDP growth and central bank dividends to maintain fiscal discipline.
- **The Interconnectedness of Macroeconomic Variables**
- The conceptual core of this analysis highlights how deeply intertwined global geopolitics, local weather patterns, and national finances really are.
- Conflict in Strait of Hormuz ⟶ Global Oil Spike ⟶ Higher Fertilizer Inputs ⟶ Domestic Agricultural Stress
- When you combine a global shock with a domestic El Niño rainfall deficit, it creates a compounding effect. Managing this requires looking beyond isolated sectors to build holistic policies that bridge trade, agriculture, and energy.
- **Structural De-risking vs. Cyclical Adjustments**
- There is a clear distinction between short-term fixes and long-term structural changes. While utilizing central bank dividends or adjusting import tariffs can resolve a single year's fiscal challenges, they do not fix the underlying issue. True long-term resilience requires decoupling economic growth from fossil fuels by scaling up alternative energy and expanding strategic reserves.

- **Multidimensional Analysis**
- **Social Dimension**
- **Food Security Vulnerability:** A combined shortfall in rainfall and potential fertilizer shortages poses a direct threat to *Kharif* and *Rabi* crop yields, raising the risk of structural food inflation.
- **Asymmetric Inflation Impact:** High fuel and food prices act as a regressive tax, disproportionately impacting lower-income groups who allocate a larger share of their household budgets to basic necessities.
- **Political Dimension**
- **Welfare vs. Capital Expenditure:** Rising subsidy bills can crowd out public capital expenditure on long-term infrastructure, forcing political leadership to carefully balance immediate welfare demands with future growth.
- **Fiscal Federalism:** Unilateral cuts in central excise duties on petroleum products directly reduce the divisible pool of tax revenues shared with state governments, which can create friction within India's fiscal federalism.
- **Legal and Policy Dimension**
- **Strategic Reserves Mandate:** The vulnerability of maritime trade routes highlights the need for a stronger legal and regulatory framework to govern India's Strategic Petroleum Reserves (SPR), ensuring mandatory minimum stock levels for key commodities.
- **Agri-Trade Policy Flexibility:** Dynamic supply conditions require agile import-export frameworks under the Foreign Trade Act to quickly adjust to crop-specific shortages without disrupting domestic markets.
- **Ethical Dimension**
- **Intergenerational Equity:** Continued heavy reliance on imported fossil fuels raises important ethical questions regarding environmental degradation and the financial burdens passed on to future generations.
- **Resource Allocation Justice:** Policymakers face the ethical challenge of balancing corporate energy demands with direct financial support for small and marginal farmers facing climate-induced crop failures.
- **International Dimension**
- **Strategic Autonomy:** Depending on the Strait of Hormuz for over 90% of crude imports exposes India to external vulnerabilities, underscoring the importance of diversifying supply routes through partnerships in Africa, Central Asia, and the Americas.
- **Energy Diplomacy:** Securing critical shipping lanes and negotiating alternative trade routes reinforces India's role as a stabilizing security provider in the Indian Ocean Region.
- **Economic Dimension**
- **External Sector Vulnerability:** While a stabilizing global oil market can help lower the Current Account Deficit (CAD) from an estimated **2.1%** down to a safer **1.5% of GDP**, any renewed geopolitical friction could quickly pressure the balance of payments.
- **Decoupling Efficiency:** The steady decline in the energy intensity of India’s GDP is a promising structural trend, demonstrating that the country can sustain long-term economic growth with relatively lower energy consumption.

- **Linkages with NCERTs**
- **Class XI: Indian Economic Development**
    - *Chapter on Agriculture:* Directly relevant to understanding how monsoon shortfalls impact *Kharif* and *Rabi* output, and why consistent fertilizer supply chains are vital for food security.
    - *Chapter on Infrastructure (Energy Sub-section):* Contextualizes India's long-term transition from traditional fossil fuels to renewable alternatives, highlighting the challenges of high import dependency.
- **Class XII: Introductory Macroeconomics**
    - *Chapter on National Income Accounting:* Explains the mathematical and conceptual differences between Real and Nominal GDP, and shows how the Implicit Price Deflator measures systemic inflation.
    - *Chapter on Government Budget and the Economy:* Breaks down the components of fiscal deficit management, the role of non-tax revenues (like RBI dividends), and the economic impact of subsidies.
    - *Chapter on Open Economy Macroeconomics:* Provides the foundational theory for analyzing the Current Account Deficit (CAD), import-export dynamics, and how global commodity shocks influence the national balance of payments.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper 3 (Primary Linkage):** Indian Economy and issues relating to planning, mobilization of resources, growth, development, and employment. Inclusive growth and issues arising from it. Government Budgeting. Major crops-cropping patterns, inflation, and infrastructure (Energy).
- **GS Paper 2:** India and its neighborhood-relations; Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests. (Focus: West Asian peace agreements and maritime security along the Strait of Hormuz).
- **GS Paper 1:** Salient features of world's physical geography (Focus: El Niño phenomenon, critical geographical features like global maritime chokepoints).
- **Essay & Optional Papers:** Ideal for essays addressing economic self-reliance, energy security, and climate resilience. Highly relevant for optional subjects such as Economics, Public Administration, Geography, and Political Science & International Relations (PSIR).

- **Way Forward**
- **Accelerating the Strategic Reserves Framework**

- India should capitalize on periods of lower global crude prices to expand its Strategic Petroleum Reserves (SPR). Beyond oil, creating strategic stockpiles of critical agricultural inputs, such as fertilizers and primary commodities, will help insulate domestic farmers from sudden global supply chain disruptions.

- **Geopolitical Diversification of Energy Imports**

- To reduce reliance on vulnerable maritime chokepoints like the Strait of Hormuz, India must actively diversify its crude oil sourcing. Strengthening energy partnerships with nations in Africa, South America, and Central Asia, while expanding access to alternative shipping routes, will enhance supply chain security.

- **Promoting Alternative Energy Transitions**

- Long-term economic security relies on reducing overall fossil fuel dependence. Accelerating investments in green hydrogen, solar energy, next-generation bio-fuels, and domestic nuclear power will help India sustain robust economic growth while continuing to lower its GDP energy intensity.

- **Enhancing Climate-Resilient Agriculture**

- To counter recurring climate shocks like El Niño, the agricultural strategy must pivot toward climate-resilient practices. This includes promoting micro-irrigation systems, optimizing crop-specific import-export tariffs in real time, and encouraging a shift toward less water-intensive crops to protect rural incomes.

UPSC CSE Prelims Questions

1. Which one of the following statements best describes the term 'Implicit Price Deflator'?

(a) It measures the price changes of a fixed basket of consumer goods over time.
(b) It is the ratio of Nominal GDP to Real GDP and reflects inflation across all domestically produced goods and services.
(c) It determines the wholesale price fluctuations of primary commodities in international markets.
(d) It is an index used exclusively by the central bank to adjust interest rates.

2. With reference to the Indian economy, a rise in the Current Account Deficit (CAD) can be caused by which of the following?

1.Steep escalation in global crude oil import prices.
2.Robust growth in domestic service sector exports.
3.Surge in non-monetary gold imports.

Select the correct answer using the code given below:

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

3. The 'Strait of Hormuz', often mentioned in international news as a critical maritime chokepoint, connects which two water bodies?

(a) Red Sea and Gulf of Aden
(b) Persian Gulf and Gulf of Oman
(c) Caspian Sea and Black Sea
(d) Mediterranean Sea and Red Sea

UPSC CSE Mains Questions

•**GS Paper 3 (2023):** "Faster economic growth requires increased energy access, yet domestic fossil fuel production is steadily declining. Discuss India's options to mitigate its critical energy import dependence while maintaining fiscal prudence."
•**GS Paper 3 (2022):** "Explain the interrelation between the monsoon patterns in India and macroeconomic stability, with special reference to the challenges posed by El Niño on agricultural growth and food inflation."
•**GS Paper 2 (2020):** "The political volatility in West Asia has direct ramifications on India’s economic prospects and energy security. Evaluate India's strategic responses to vulnerabilities along major global maritime chokepoints."

The Reforms Express is gaining speed but has a long way to go

Indian reforms will deliver the goods once the culture of governance changes in ways that enable India to reach its destination

B.V.R. SUBRAHMANYAM & PIYUSH DOSHI
are, respectively, former CEO, Niti Aayog, and operating partner, The Convergence Foundation

Ernest Hemingway once described bankruptcy as happening in "two ways: gradually, then suddenly." The same observation applies to meaningful change. Alternatively put, change whispers for years before it finally shouts. India's reform journey reflects this pattern—starting slowly, gathering momentum over time and now accelerating.

Over the past decade, India has made significant strides on economic reforms. The Insolvency and Bankruptcy Code of 2016 marked a pivotal step toward improving recovery outcomes for creditors and expediting resolution processes. Tax reforms followed over the next few years, including the roll-out of India's Goods and Services Tax (GST) in 2017, corporate tax cuts and the introduction of faceless income-tax assessments in 2019, and subsequent GST rate rationalization. Labour codes were introduced in 2020 and have recently been notified, while Jan Vishwas Acts (2023, 2026) decriminalized over 800 provisions across 120-plus laws.

Alongside, the economy has been progressively liberalized. Foreign Direct Investment limits have been eased in sectors such as insurance, defence and telecommunications. Even atomic energy has been opened to private participation. Institutional mechanisms such as the Business Reform Action Plan foster competitive federalism by ranking states based on reform implementation.

What began as incremental changes has now snowballed into a broader reform momentum, particularly over the past year. The *Economic Survey 2024-25* called for continuous regulatory reforms for industries to operate efficiently and cost-effectively. It proposed a structured three-step approach for states: identify areas for deregulation, benchmark regulations against other jurisdictions and estimate their cost impact on enterprises.

To deliver on these goals, the Centre set up a taskforce on deregulation and compliance reduction under the cabinet secretary. The taskforce has focused on identifying priority reform areas and monitoring their implementation across states, covering sectors such as land use, construction, utilities, labour, environment, education and health. Several states have begun to make progressive changes, such as removing restrictions on women working night shifts, easing limits on working hours, reducing setback requirements, increasing the threshold for registration under labour laws, rationalizing pollution board approval requirements and restrictions under building by-laws and eliminating stringent land requirements for private schools.

In August 2025, a high-level committee on deregulation was constituted under the chairmanship of Rajiv Gauba, member, Niti Aayog, and former cabinet secretary. The committee includes senior officials from the Department for Promotion of Industry and Internal Trade, ministry of micro, small and medium enterprises (MSMEs) and so on, along with industry representatives. This panel has recommended a series of high-impact reforms across ministries and industrial sectors. Many of these recommendations have already been implemented, including the rationalization of green-cover requirements, simplification of environmental clearances, streamlined approvals under the Petroleum and Explosives Safety Organisation, and removal of certain approvals for research from the purview of the Central Drugs Standard Control Organization (CDSCO).

The economic impact of these reforms will be substantial. For instance, the removal of CDSCO test licence requirements is expected to save pharmaceutical companies about ₹250 crore—around 2% of their R&D expenditure—thereby spurring innovation. Similarly, easing green-cover norms could unlock 120,000 hectares of industrial land and reduce project costs by 5-20% in urban areas. Compliance cost reductions are estimated at ₹3-5 lakh per unit, alongside a reduction in timelines for environmental clearances by three to six months.

However, these mark baby steps in India's Viksit Bharat journey. Becoming a $30 trillion economy requires reforms to be treated as a continually evolving process rather than a one-time effort. The West Asian crisis added urgency to this agenda and opened up opportunities. Geopolitical instability has triggered supply-chain disruptions, energy price volatility and a reconfiguration of global capital flows. Seizing opportunities demands reforms that go beyond compliance simplification. Tariffs on inputs need not just significant rationalization but complete elimination. The current structure still imposes avoidable costs on domestic manufacturers and undermines manufacturing and export competitiveness across several sectors. It disincentivizes Indian firms from being part of global value chains and is particularly biased against labour-intensive MSMEs. Tariff policy must not become an instrument of protectionism, particularly for inefficient domestic manufacturers.

Clear tax policy must deliver genuine certainty. Foreign investors consistently cite tax unpredictability as a deterrent, and retrospective changes erode long-term confidence. Land acquisition frameworks, depth of capital markets and the quality of dispute resolution require sustained attention if India is to compete for [illegible] and global capital. The geopolitical window is real but will not stay open indefinitely.

Many companies and individuals remain rightly sceptical of whether reforms on paper translate into a different experience on the ground. In India's regulatory ecosystem, a bureaucrat bent on denying permission will always find grounds to do so—and equally, one who is disposed to enable will find a way through. This discretion is the core problem that process reforms alone cannot solve.

The shift needed is in mindset: from a culture of the 'referee' who enforces rules to that of a 'coach' who enables outcomes. Reform will only deliver its full potential when accompanied by a corresponding change in the culture of governance—and that is a harder, slower task than passing any law.

The clarion call of reforms from Prime Minister Narendra Modi must now be absorbed by the executive in both letter and spirit. The scaffolding of policy is increasingly in place. What remains is the will—at every level of the governance system—to make it work.

- **Key Terms and Explanations**
- **Insolvency and Bankruptcy Code (IBC), 2016:** A landmark consolidated legal framework that created a time-bound process for resolving insolvency among corporate debtors, individuals, and partnership firms. It shifted the balance of power from the debtor to the creditor, significantly improving non-performing asset (NPA) recovery rates.
- **GST Rate Rationalization:** The ongoing process of simplifying the multi-tier Goods and Services Tax structure by merging tax slabs, eliminating anomalies (such as inverted duty structures), and reducing exemptions to create a more streamlined indirect tax regime.
- **Faceless Income Tax Assessment:** A structural governance reform introduced to eliminate the physical interface between the taxpayer and the income tax department. By utilizing data analytics and centralized automated allocation, it reduces corruption, ensures objectivity, and minimizes bureaucratic harassment.
- **Jan Vishwas Acts:** Legislative measures aimed at improving the ease of living and doing business by decriminalizing minor, procedural, and technical offenses across dozens of central laws. Monies or minor compliance slips are shifted from criminal imprisonment to civil monetary penalties.
- **Competitive Federalism:** An economic dynamic where states compete with each other to attract investments, domestic capital, and human resources by improving governance, infrastructure, and regulatory ease.
- **Business Reform Action Plan (BRAP):** An annual ranking mechanism conducted by the Department for Promotion of Industry and Internal Trade (DPIIT) that rates states based on their implementation of specified regulatory reform points.
- **Viksit Bharat:** The strategic vision to transform India into a fully developed nation by the centenary of its independence (2047), requiring a projected transition into a $30 trillion economy driven by structural macro-reforms and high sustained growth rates.
- **Global Value Chains (GVCs):** The fragmented, cross-border network of production where a product's conception, design, assembly, and marketing happen across multiple countries. Seamless participation requires near-zero transaction and tariff costs on intermediate inputs.
- **Discretionary Bureaucratic Power:** The operational leeway available to administrative officers to interpret vague rules, grant or deny licenses, and enforce compliances. High levels of unchecked discretion often act as entry barriers for industries.

- **Main Arguments and Substantive Parts**
- The core architecture of India's current economic trajectory relies on understanding how micro-level regulatory shifts aggregate into macroeconomic performance.
- **The Trajectory of Reform Momentum**
- Economic transformations rarely happen overnight; they operate on a lag. India's reform landscape follows an evolutionary path where minor changes gradually build momentum before resulting in a visible structural shift. Early foundational pillars—such as the legal consolidation of bankruptcy frameworks under the IBC and the unification of indirect taxes via the GST—have laid a baseline. This baseline has allowed current policy cycles to shift from macro-legislative overhauls toward targeted, aggressive micro-level deregulation.
- **The Economic Math of Compliance Reduction**
- Deregulation is not just an administrative exercise; it carries direct, quantifiable financial dividends that boost industrial efficiency:
- **Unlocking Idle Factors of Production:** Easing stringent spatial constraints, such as green-cover mandates in urban peripheries, has the potential to instantly free up vast tracts of industrial land (estimated up to 120,000 hectares), reducing fixed project setup costs by 5% to 20%.
- **Slashing Non-Productive Capital Expenditure:** Removing redundant compliance layers—such as specific test licensing for pharmaceutical research—directly saves enterprise capital (e.g., hundreds of crores across the pharma sector alone), effectively redirecting scarce corporate resources toward actual Research and Development (R&D).
- **Time Compression:** Trimming environmental and administrative approval timelines by three to six months minimizes capital lock-in periods, making domestic manufacturing units nimble enough to meet volatile global demands.
- **The Geopolitical Imperative & Global Value Chains**
- External macroeconomic realignments, particularly supply-chain fragilities highlighted by regional conflicts like the West Asian crisis, present a finite window of opportunity. As global capital seeks alternative manufacturing hubs, India's internal tariff architecture becomes a decisive factor.
- High tariffs on intermediate inputs serve as a double-edged sword: they protect inefficient domestic producers but actively penalize export competitiveness. For Micro, Small, and Medium Enterprises (MSMEs) attempting to integrate into Global Value Chains (GVCs), input tariffs act as an artificial tax, decoupling them from global assembly lines.
- **The Core Administrative Bottleneck**
- The ultimate limit to economic policy is not the law itself, but how it is executed on the ground. A persistent gap remains between statutory ease and administrative reality. The structural vulnerability within India’s regulatory ecosystem lies in localized bureaucratic discretion.
- Process rationalization yields limited results if the underlying administrative posture remains risk-averse or defensive. The real bottleneck is a governance culture that prioritizes rule enforcement over outcome facilitation.

- **Historical Evolution of the Issue**
- **Pre-1991: The Command-and-Control Era**
- **Regulatory Paradigm:** Characterized by the License-Permit-Quota Raj, governed by the Industries (Development and Regulation) Act, 1951, and the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969.
- **Administrative Focus:** The state acted as the primary economic driver and gatekeeper. High import tariffs, strict foreign exchange controls (under FERA), and capital rationing deliberately restricted private capacity to prevent wealth concentration.
- **1991: First-Generation Liberalization**
- **The Catalyst:** A severe Balance of Payments (BoP) crisis forced structural adjustments.
- **Policy Shifts:** The New Economic Policy dismantled industrial licensing, abolished the MRTP threshold limits, devalued the rupee, and initiated external sector liberalization by lowering peak customs duties. The state shifted from a controller to a supervisor of markets.
- **2000s to 2014: Macroeconomic Expansion and Second-Generation Friction**
- **The Dynamic:** High GDP growth fueled by global liquidity and domestic services expansion.
- **Emerging Bottlenecks:** While the macro-economy expanded, factor markets (land, labor, capital) remained heavily bound by archaic laws. Rising judicial interventions over natural resource allocations highlighted severe regulatory ambiguities and alternative risks like retrospective taxation.
- **2014 to 2020: Structural Formalization Phase**
- **Legislative Consolidation:** Introduction of systemic, pan-India frameworks to formalize the unorganized sector and address banking system stress.
- **Key Interventions:** Implementation of the Insolvency and Bankruptcy Code (2016), the roll-out of the Goods and Services Tax (2017), the Real Estate (Regulation and Development) Act (RERA), and sharp reductions in corporate tax rates to bring India in line with global averages.
- **2021 to 2026: Next-Generation Deregulation & Factor Market Push**
- **Modern Shift:** The current focus has transitioned from passing monolithic laws to deep administrative process re-engineering.
- **Key Milestones:** Decriminalization of economic offenses through consecutive Jan Vishwas Acts, statutory notification of streamlined labor codes, opening sensitive sectors like atomic energy and defense to private participation, and deploying institutional bodies under the Cabinet Secretariat to systemically monitor state-level compliance rollbacks.

AXIA
IAS ACADEMY
RISE ABOVE THE REST
COMPREHENSIVE ANALYSIS: INDIA'S ECONOMIC TRANSFORMATION & REFORMS JOURNEY
A Path Towards Viksit Bharat by 2047
GRADUALLY, THEN SUDDENLY
STARTING SLOWLY...
Insolvency and Bankruptcy Code (IBC) 2016
Shifting creditor righteg creditor rights
GST 2017 & GST Rationalization
• Simplified tax flow, unified market
GATHERING MOMENTUM...
Labour Codes
• Formalization
• Deciminalization
Faceless Assessment & Corporate Tax Cuts 2019
Cloud, acloud, automted system
Jan Vishwas Acts
• Broken chains
• Decriminalization
Puactice
Broken chains, Decriminalization
Accelerating Now...
FACTOR MARKET & DEREGULATION PUSH
COMPETITIVE FEDERALISM
Competing courees
Business Reform Action Plan (BRAP) ranking
Women's night shifts
Reduced Boundary Boundary lines
State-Level Actions:
• Easing Hours
• Pollution Approvals
• Setback Requirements
• School Land
Fast Pollution Board Permit
School with more available land
LIBERALIZATION
FDI
Defence
Insurance
FDI
Telecommunics
Atomic Energy
Atomic Energy Opened to Private Participation
IMPACT & FUTURE OUTLOOK
ECONOMIC IMPACT
PHARMA R&D SAVINGS (E.G., ₹250 CR)
UNLOCKED INDUSTRIAL LAND (E.G., 120,000 HECTARES)
REDUCED PROJECT COSTS & TIMELINES
FUTURE CHALLENGES & SHIFT
West Asian crisis affecting Global supply chains
Global Value Chains
COMPLETE ELIMINATION OF INPUT TARIFFS
VIKSIT BHARAT
$30 TRILLION ECONOMY BY 2047
MINDSET SHIFT (Crucial)
REFEREE (Blockers)
COACH (Enablers)
From Enforcement to Facilitation
CONTACT
CONTACT
AXIA IAS ACADEMY
axiaiasacademy.com
+91 6002-417488

- **Logical and Philosophical Base**
- **Gradualism vs. Shock Therapy:** India's economic architecture explicitly rejects sudden "shock therapy" transitions. It relies on a democratic consensus model where reforms are introduced incrementally to let market institutions adapt. This ensures political stability but risks prolonged implementation lags until a critical mass is reached.
- **From "State Overreach" to "Trust-Based Governance":** Historically, Indian administrative law operated on a baseline assumption of private-sector non-compliance, creating an expansive web of criminal penalties for minor procedural slips. The philosophical foundation of recent decriminalization initiatives (like the Jan Vishwas framework) marks a shift toward trust-based governance, treating errors as civil infractions rather than criminal acts.
- **The Principle of Subsidiarity via Competitive Federalism:** The 3-step state deregulation framework (identify, benchmark, and estimate cost impact) acknowledges that doing business happens at the state and municipal levels, not at the center. By utilizing institutional mechanisms like the BRAP rankings, the center leverages market competition to incentivize states to voluntarily dilute their regulatory monopolies.
- **The Governance Paradigm Shift (The Coach vs. The Referee):** This classic public administration dilemma contrasts a passive regulatory framework with proactive state support. A "referee" state waits for infractions to occur and penalizes them, stalling economic speed. A "coach" state focuses on facilitating market outcomes, treating private enterprises as partners in national development rather than entities that require constant containment.

- **Multidimensional Analysis**
- **Social Dimension**
- **Demographic Dividend and Employment Quality:** Streamlining labor thresholds and allowing operational flexibilities directly encourages informal units to scale into formalized enterprises. This provides workers with statutory social security benefits.
- **Gender Parity in the Workforce:** Reforming archaic provincial labor restrictions, such as allowing women to work night shifts with verified employer safety mandates, expands the talent pool and improves India's low Female Labor Force Participation (FLFP) rate.
- **Access to Social Services:** Easing restrictive land and infrastructure criteria for private education and health institutions lowers entry barriers, increasing institutional density in tier-2 and tier-3 locations.
- **Political Dimension**
- **Reconfiguration of Center-State Dynamics:** While the center provides policy blueprints, the operationalization of factor market reforms rests with the states. This creates a healthy friction where states that prioritize administrative agility are rewarded with higher capital inflows, rewriting political narratives around development performance.
- **Managing Protectionist Interest Groups:** Rationalizing input tariffs often faces political pushback from entrenched domestic manufacturing lobbies that benefit from import protection. Balancing these domestic political equations against global trade commitments requires careful economic diplomacy.
- **Legal Dimension**
- **Decriminalization of the Economy:** Shifting minor operational infractions from criminal courts to administrative tribunals reduces judicial pendency, allowing courts to prioritize complex commercial disputes and constitutional matters.
- **Addressing Regulatory Discretion:** Vaguely worded statutes invite arbitrary bureaucratic interpretations. Crafting precise legal texts with mandatory timelines (such as automatic approvals via single-window portals) curbs rent-seeking opportunities.
- **Ethical Dimension**
- **Dismantling Rent-Seeking Ecosystems:** Complex compliance webs create structural avenues for low-level corruption, disproportionately penalizing resource-constrained small entrepreneurs. Simplifying entry and operational rules acts as an ethical corrective.
- **Corporate Responsibility vs. State Facilitation:** Trust-based governance places an ethical burden on private enterprises. Self-regulation and self-certification demand high standards of corporate governance to prevent regulatory easing from leading to environmental degradation or labor exploitation.
- **International Dimension**
- **Global Supply Chain Re-alignment:** As multinational corporations actively pursue "China Plus One" strategies to diversify supply chains, India's internal transaction costs directly impact its geopolitical competitiveness against alternative hubs like Vietnam, Thailand, or Mexico.
- **Integration with Global Trade Architecture:** High, unpredictable tariff structures isolate domestic industries from high-tech global production lines, weakening India's bargaining position in mega-regional Free Trade Agreements (FTAs).
- **Economic Dimension**
- **Enhancing Total Factor Productivity (TFP):** Reducing the time, capital, and administrative hours spent on licenses shifts corporate focuses toward operational efficiency, product innovation, and R&D.
- **Unlocking Dead Capital:** Efficient bankruptcy mechanisms via the IBC and rationalized land-use zoning laws prevent capital from remaining trapped in unviable units, returning productive assets back to the economic bloodstream.

Linkages with NCERTs

Class XI Economics: *Indian Economic Development* — Chapter 3 (Liberalisation, Privatisation and Globalisation: An Appraisal): This chapter provides the baseline historical perspective needed to contrast the post-1991 reforms with the modern push toward micro-level factor market deregulation and compliance reduction.

Class XII Political Science: *Politics in India Since Independence* — Chapter on Economic Development / Rise of New Economic Policy: Essential for analyzing the shifting political consensus away from the socialist command economy toward state-facilitated, market-led development models.

Class XI Political Science: *Indian Constitution at Work* — Chapter on Federalism: Connects directly with the concepts of competitive and cooperative federalism, illustrating the constitutional division of powers over fields like land, labor, and state taxation.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper II (Governance, Constitution, and Polity)**
- Statutory, regulatory, and various quasi-judicial bodies.
- Government policies and interventions for development in various sectors and issues arising out of their design and implementation.
- Role of civil services in a democracy (specifically the evolution from administrative control to economic facilitation).
- **GS Paper III (Economic Development)**
- Indian Economy and issues relating to planning, mobilization of resources, growth, development, and employment.
- Effects of liberalization on the economy, changes in industrial policy, and their effects on industrial growth.
- Infrastructure: Energy, Ports, Roads, Airports, Railways, etc.
- **GS Paper IV (Ethics, Integrity, and Aptitude)**
- Public/Civil service values and Ethics in Public administration: Status and problems; ethical dilemmas in bureaucratic discretion; accountability and ethical governance.
- **Essay & Optional Alignment**
- **Essay Themes:** "The governance of a country is tested not by the volume of its laws, but by the performance of its outcomes"; "Viksit Bharat: Challenges and opportunities on the road to 2047."
- **Optional Subjects:** Public Administration (Administrative Behavior, Development Administration); Economics (Industrial Growth, International Trade, Fiscal Policy).

- **Way Forward**
- **Institutionalize a Standardized Three-Step State Deregulation Framework**
- States should systematically implement the model proposed by the Economic Survey: identify redundant state-level rules, benchmark process steps against agile peer economies, and objectively quantify the compliance cost impact on enterprises. This framework should be extended down to municipal-level urban local body (ULB) bylaws.
- **Complete and Predictable Input Tariff Rationalization**
- To prevent domestic manufacturers from being cut off from global supply chains, India should adopt a phased, predictable roadmap for eliminating or lowering customs duties on critical intermediate components. Tariff structures should avoid protectionist mechanisms that shield domestic inefficiencies at the cost of broader export competitiveness.
- **Execute Civil Service Capacity Re-engineering**
- Through initiatives like Mission Karmayogi, structural training programs should be retooled to fundamentally shift administrative mindsets. Performance evaluation matrices for executive bureaucrats should pivot from tracking process compliance to measuring institutional outcomes, reducing arbitrary administrative discretion.
- **Implement Factor Market Deepening**
- Accelerate land monetization and infrastructure unlocking by creating digital land banks and transparent, geo-tagged zoning systems. Concurrently, optimize commercial dispute resolution mechanisms by expanding specialized commercial courts, reducing the processing times of the IBC, and utilizing alternative dispute resolution avenues like mediation.
- **Maintain Regulatory Stability and Tax Certainty**
- To build long-term foreign investor confidence, establish a statutory commitment against retrospective regulatory and fiscal changes. Draft policies with clear timelines and use automatic, deemed-approval mechanisms across single-window clearances to ensure that reforms on paper match the operational experience on the ground.

- **UPSC CSE Mains Questions**
- "Trace the changes in industrial policy since 1991, with special reference to deregulation and privatization. Assess their impact on economic growth." **(GS Paper III, 2017)**
- "The ground-level implementation of labor reforms remains a major hurdle for enhancing manufacturing competitiveness in India. Discuss the statement in light of recent initiatives." **(GS Paper III, 2020)**
- "Effectiveness of the government's digital initiatives like single-window systems depends heavily on reforming the administrative culture. Critically analyze." **(GS Paper II, 2022)**
- "Explain the concepts of Cooperative and Competitive Federalism. How have recent institutional changes helped in fostering these dynamics within the Indian polity?" **(GS Paper II, 2023)**
- **UPSC CSE Specially Selected Prelims Focus Themes**
- **Insolvency and Bankruptcy Code (IBC):** Focus on the roles of the National Company Law Tribunal (NCLT), Insolvency Professionals, and the Insolvency and Bankruptcy Board of India (IBBI).
- **GST Structure and Administration:** Focus on the composition, voting powers, and constitutional status of the GST Council (Article 279A), as well as the concepts of destination-based taxation and inverted duty structures.
- **Ease of Doing Business Indices:** Focus on domestic institutional indicators like the Business Reform Action Plan (BRAP) rankings, the ministries involved, and the parameters used to measure inter-state performance.

For the Indo-Pacific, a 'G Minus 2' strategy

RAJA MANDALA
BY C RAJA MOHAN

PRIME MINISTER Narendra Modi's eastward journey this week — from Indonesia to Australia and New Zealand — marks the consolidation of a new Indo-Pacific approach that might be called "G Minus Two". The idea of a US-China condominium in Asia has always made Indian strategists uneasy. President Donald Trump's occasional references to a G2, along with his administration's decision to discard the Indo-Pacific terminology, have reinforced those anxieties.

Delhi is responding to the new dynamic between Washington and Beijing by expanding its cooperation with the rest of Asia. This is similar to the ways in which several Asian powers are dealing with the changes in US-China relations. The unfolding Asian pattern of "G Minus Two" should help shift India's Indo-Pacific debate away from sterile slogans about American intentions or Chinese ambitions. The more practical question is what India can build with the rest of Asia.

The visits to Delhi by Japanese PM Sanae Takaichi this month and South Korean President Lee Jae-myung in April underlined the urgency in Tokyo and Seoul, two key Asian allies of Washington, to widen their Asian ties. Modi's visits to Jakarta, Melbourne and Auckland point to the same logic — the importance of expanding the geopolitical room for manoeuvre by strengthening cooperation among themselves.

"G Minus Two" is not about Asia turning its back on America. Quite the contrary. Most Asian countries recognise that there can be no stable balance of power in Asia without a sustained US strategic presence. China's rising military weight cannot be balanced by the rest of Asia, even if they act in concert. That is why Japan, South Korea, Australia and New Zealand continue to build on their security partnerships with Washington. If anything, uncertainty under Trump has increased the incentive to bind the US more closely to Asian security.

India and Indonesia, despite their non-aligned tradition, have reached similar conclusions. As China flexes its military muscle, both have intensified defence cooperation with the US. Their "strategic autonomy" under China's shadow rests not on keeping America at arm's length, but on working with it and navigating Trump's mercurial diplomacy. Both Delhi and Jakarta are now "major defence partners" of Washington.

If "G Minus Two" is not about distancing from the US, neither is it about containing China. Every major Asian nation, including India and the three countries Modi is visiting this week, knows that Chinese power in Asia and the Indo-Pacific is a reality that must be managed. They also have to deal with the extraordinary economic interdependence with China.

The Asian objective is to "de-risk" Beijing's weaponisation of interdependence. India's annual trade with China is now at $150 billion. Comparable figures for America's Asian partners underline the same reality: South Korea trades roughly $300 billion with China, Japan more than $300 billion, Australia over $200 billion, while ASEAN's trade with China has crossed the trillion-dollar mark. Commercial decoupling is not a realistic option. The Asian imperative for deeper economic cooperation among the regional powers has been reinforced by Trump's tariff wars. This logic was evident during President Lee's visit, which emphasised strategic economic cooperation, and during PM Takaichi's visit, which expanded the agenda on economic security. Similar themes of economic resilience and defence cooperation will dominate Modi's discussions in Indonesia, Australia and New Zealand.

The objective is neither an anti-China coalition nor an alternative to the American alliance system. Nor is it an attempt to create an independent bloc of middle powers. It is a practical effort to strengthen India's partnerships with the major industrial, technological and maritime powers of Asia.

Japan brings advanced manufacturing, defence technology and infrastructure finance. South Korea offers world-class capabilities in shipbuilding, semiconductors and defence production. Australia has become indispensable in critical minerals, maritime security and the stabilisation of the eastern Indian Ocean. New Zealand offers important opportunities in trade, higher education, agriculture and advanced technologies.

Whether Washington uses the term Indo-Pacific or not, Indonesia remains the geographical and geopolitical heart of that concept. Sitting astride the confluence of the Indian and Pacific Oceans, it occupies one of the most consequential strategic locations in the world.

> Every major Asian nation, including India and the three countries Modi is visiting this week, knows that Chinese power in Asia and the Indo-Pacific is a reality that must be managed

Greater economic integration between two of Asia's largest markets and deeper security cooperation between Delhi and Jakarta have long been missing links in the regional search for peace and prosperity.

Taken individually, India's partnerships with Japan, South Korea, Indonesia, Australia and New Zealand each advance important national interests. Collectively, however, they create something larger. They widen the strategic space available to all these countries between the US and China.

That is the essence of "G Minus Two".

Asia now has a remarkably capable group of industrial, technological and maritime powers. Together, they account for a substantial share of global manufacturing, innovation, shipping and trade. Their mutual cooperation cannot replace either Washington or Beijing. It can, however, widen Asia's strategic horizons beyond the constricting imagery of a G2 world.

Ultimately, the success of India's "G Minus Two" will depend less on Modi's summit diplomacy than on India's own urgency for internal economic reform and defence modernisation. The more competitive India's economy becomes, and the stronger its defence industrial base grows, the deeper its partnerships with the rest of Asia can be. That, more than the endless speculation about US-China relations and their consequences, will determine India's place in the emerging Asian order.

The writer is a contributing editor on international affairs for The Indian Express. He is distinguished professor at the Motwani-Jadeja Institute of American Studies, Jindal Global University and the Korea Foundation Chair in Asian Geopolitics at the Council for Strategic and Defence Research, Delhi

- **Key Terms and Explanations**
- **G2 (US-China Condominium):** This refers to a hypothetical geopolitical arrangement where the United States and China form a bilateral duopoly to manage global affairs and dictate the security architecture of the Indo-Pacific.
    - *Example:* A scenario where Washington and Beijing unilaterally carve out spheres of influence in the South China Sea without consulting regional stakeholders like Vietnam or the Philippines.
- **G Minus 2 Strategy:** A strategic posture adopted by regional middle powers to enhance security and economic cooperation among themselves. The goal is to expand their geopolitical room for maneuver, ensuring they are not forced to choose between US leadership and Chinese dominance, nor left vulnerable to a sudden US-China consensus.
    - *Example:* India, Japan, and Australia deepening maritime security pacts and supply chain initiatives independently of direct US oversight.
- **Strategic Autonomy:** The ability of a nation-state to pursue its national interests and adopt foreign policy choices without being structurally constrained or dictated to by other powerful states.
    - *Example:* India maintaining robust defense ties with Russia while simultaneously elevating its status as a "major defense partner" of the United States.
- **Weaponization of Interdependence:** The act of using economic networks, global supply chains, or monopoly over critical assets as tools of geopolitical coercion and statecraft.
    - *Example:* A dominant economic power restricting the export of critical rare earth minerals to a neighbor during a diplomatic or territorial dispute.
- **De-risking vs. Decoupling:** Decoupling implies a complete economic and commercial severance between trading nations, which is highly unrealistic in an integrated global economy. De-risking, by contrast, involves mitigating vulnerabilities by diversifying supply chains, securing critical infrastructure, and reducing over-reliance on a single dominant market.
    - *Example:* India launching the Production Linked Incentive (PLI) schemes to build domestic manufacturing capacity in active pharmaceutical ingredients (APIs), reducing its heavy reliance on Chinese imports.

- **Main Arguments and Substantive Parts**
- The core thesis of modern Indo-Pacific diplomacy revolves around the rise of a distinct middle-power collective defense framework, catalyzed by deep anxieties over a potential US-China duopoly and unpredictable major-power behavior.
- **The Push for Regional Minilateralism**
- Middle powers are moving away from sterile ideological debates and toward practical, task-oriented coalitions. Asian states recognize that no single nation can balance China's massive military and economic weight alone. Consequently, countries like India, Japan, South Korea, Australia, and Indonesia are weaving a dense web of bilateral and minilateral partnerships to broaden their strategic horizons.
- **The Double-Edged Dilemma of the US and China**
- Regional states face a complex dual challenge:
- **The Unpredictability of Washington:** While the US remains indispensable for regional military stability, transactional political shifts, protectionist tariffs, and vacillating commitment to Indo-Pacific frameworks create persistent underlying anxieties among its closest allies.
- **The Reality of Chinese Power:** China's shadow is immense, and total economic decoupling is functionally impossible. The sheer volume of trade—such as ASEAN's trade crossing the trillion-dollar mark, and India's trade with Beijing hovering around $150 billion—means Asian nations must manage, rather than entirely contain, Chinese influence.
- **Counterarguments and Structural Limitations**
- Critics argue that a "G Minus 2" approach has clear limits. A loose coalition of middle powers cannot fully replace the structural deterrence provided by the United States, nor can it match the massive economic gravity of China. Furthermore, the ultimate success of this strategy does not rest solely on external diplomacy; it depends heavily on India's capacity to execute deep domestic economic reforms and accelerate its defense industrial modernization.

- **Historical Evolution of the Issue**
- The strategic architecture of Asia has transitioned through several distinct phases since the mid-20th century, evolving from rigid Cold War blocs to the flexible networks seen today.
- **Post-Independence and the Cold War Era (1940s–1980s)**
- **1955 (The Bandung Framework):** The era of Afro-Asian solidarity and the birth of Non-Alignment. India and Indonesia championed a policy of keeping a calculated distance from both the US and Soviet blocs, focusing heavily on anti-colonialism.
- **1970s (The US-China Rapprochement):** The geopolitical landscape shifted dramatically when the US reached an understanding with Beijing to counter the Soviet Union. This early precursor to a G2 arrangement effectively marginalized other Asian voices and reshaped regional dynamics.
- **The Post-Cold War Transition (1990s–2010s)**
- **1991 (Look East Policy):** Facing economic isolation and the collapse of the Soviet Union, India launched its "Look East" policy to systematically reintegrate itself with the booming economies of Southeast Asia.
- **2007 (The Initial Quad Concept):** Japanese Prime Minister Shinzo Abe mooted the concept of the "Arc of Freedom and Prosperity" and the Quadrilateral Security Dialogue. However, due to regional hesitation and fears of provoking Beijing, the initiative initially failed to gain sustained traction.
- **The Act East and Indo-Pacific Era (2014–Present)**
- **2014 (Act East Policy):** India upgraded its strategic posture to "Act East," transforming economic engagement into deeper security, institutional, and defense partnerships across the region.
- **2017–2020 (The Quad Revival and Galwan Clash):** Escalating Chinese assertiveness along India's borders and across the South China Sea led to the formal revival of the Quad. The term "Indo-Pacific" replaced the older, more limited "Asia-Pacific" framework.
- **Present Day (2026 Shift to Middle-Power Networks):** Recognizing structural shifts in US domestic politics and the weaponization of trade supply chains, the strategic focus has pivoted toward horizontal integration. Middle powers are actively building resilient networks among themselves to safeguard their strategic autonomy.

UNDERSTANDING CONTEMPORARY INDO-PACIFIC SHIFTS & THE 'G MINUS 2' STRATEGY

axiaiasacademy.com
+91 6002-417488

KEY TERMS & EXPLANATIONS

G2 (US-CHINA CONDOMINIUM)

Two large suporpowers, (USA, China) and while arrows dictating, spheres of influence e.g., South China Sea carve-out

G MINUS 2 STRATEGY

Aus etc.

A collective of smaller nations (India, Japan, Aus, S. Korea, Indonesia, etc.) **collaborating, moving independently. Expanding Room for Maneuver**

STRATEGIC AUTONOMY

Balanced pursuit of national interests (e.g., India's defense with Russia vs. US major partner)

WEAPONIZATION OF INTERDEPENDENCE

WEAPONIZATION vs INTERDEPENDENCE

A factory and port with a chain, coercive economic tools (e.g., Rare earth mineral restrictions)

DE-RISKING vs. DECOUPLING

De-risking: diversified supply chains, domestic capacity (e.g., India's PLI schemes)

Decoupling: a broken link, unrealistic

MAIN ARGUMENTS: EMERGENCE OF MIDDLE POWER MINILATERALISM

US Uncertainty / Trump Tariff Wars & China's Aggressive Rise / Coercion

↓

Anxieties of a 'G2' Condominium over Asia

↓

Emergence of the 'G Minus 2' Strategy

↓

- Horizontal Integration of Middle Powers (India, Japan, S. Korea, Aus, Indonesia)
- Preserving Strategic Autonomy (Engaging US, Managing China)

Key points on US transactionalism vs. Chinese reality:

- ASEAN \$1T+ trade, India \$150B trade
- India \$150B trade, India 1150B trade
- India \$1300B trade and per reality
- US trands from mate is coonessed in ima trade

HISTORICAL EVOLUTION OF THE INDO-PACIFIC

- **1955** — 1955 Bandung Framework, Non-Alignment
- **1970s** — US-China Rapoment Marginalization
- **1991** — Look East Policy, ASEAN reintegration
- **2007** — Initial Quad Concept, Abe, failed traction
- **2014** — Act East Policy, Security partnerships
- **2017-2020** — 2017-2020 Quad Revival, Galwan Clash, Indo-Pacific concept
- **Present** — 2026 Shift to Middle Power Networks

LOGICAL & PHILOSOPHICAL BASE

STRUCTURAL REALISM

- A scale and balanced poles
- Pooling capabilities for Multipolar Equilibrium
- Detering wrong revisionism

COMPLEX INTERDEPENDENCE & DE-RISKING

- A dense economic web
- **Total Decoupling ≠ Economic Rationality**
- Hedging against vulnerabilities

PRAGMATISM OVER DOGMATISM

- Flexible issue-based alignments (critical minerals, semiconductors, maritime domain awareness)
- National interest priority

MULTIDIMENSIONAL ANALYSIS

Social | Political | Legal | Ethical | Yiitaoe | Erotitici | International | Economic

- People-to-people links
- Diaspora
- Strategic Autonomy
- Rule-Based Order (UNCLOS)
- Democratic Accountability vs. Coercion
- Global Commons
- Strategic Convergence
- Supply Chain Resilience
- Market Diversification

LINKAGES FOR IAS ASPIRANTS (NCERT & UPSC CSE SYLLABUS)

NCERT (Class 12)

Alternative Centres of Power (ASEAN, India, Japan vs. US Hegemony/

India's External Relations (Nehruvian Non-Alignment to interest-based partnerships)

UPSC CSE SYLLABUS

GS 2: Groupings (Quad), External Relations, Developed/Developing Politics

GS 3: Security (Maritime), Economic Development/Supply Chains

GS 4: Ethics (International Relations)

Essay & PSIR

WAY FORWARD & PREVIOUS YEARS' QUESTIONS (PYQs)

- **Accelerate Domestic Economic Reforms** (PLI, logistics, tech manufacturing)
- **Deepen Defense Industrialization** (co-production with Japan, S. Korea)
- **Expand Targeted Minilateralism** (maritime, cyber, critical minerals)
- **Champion Transparent Infrastructure** (financing with Australia, Japan)

Rephrased Prelinased Prelims & Mains PYQ:

- Quad origins/role
- US vs. China threat
- Strategic Autonomy
- Act East vs. China

- **Logical and Philosophical Base**
- **Structural Realism and the Balance of Power**
- At its core, this approach is driven by classical balance-of-power logic. In structural realism, an unchecked hegemon naturally provokes defensive balancing behavior from surrounding states. Because a single middle power lacks the material capabilities to counter a dominant regional power, they pool their capabilities. This creates a more stable, multipolar equilibrium that deters unilateral revisionism.
- **Complex Interdependence and De-risking**
- The strategy explicitly rejects old Cold War binary thinking, acknowledging the realities of neoliberal economic interdependence.
- Total Decoupling ≠ Economic Rationality
- Nations accept that total economic separation causes mutual financial damage. Therefore, the underlying philosophy shifts from confrontation to structural resilience—hedging against vulnerabilities while maintaining vital commercial engagement.
- **Pragmatism Over Dogmatism**
- This paradigm marks a clear philosophical break from rigid, moralistic alignment systems. It replaces permanent alliances with fluid, issue-based alignments. The focus centers entirely on functional cooperation—such as critical mineral supply chains, semiconductor development, and maritime domain awareness—prioritizing national interest over shared ideological dogmas.

- **Multidimensional Analysis**
- **Social Dimension**
- **People-to-People Connectivity:** Deepening ties with nations like Australia and New Zealand expands avenues for higher education, skilled migration, and knowledge exchange.
- **Diaspora and Soft Power:** A robust regional footprint elevates the status and security of the Indian diaspora across the Indo-Pacific, creating an organic network for cultural and economic diplomacy.
- **Political Dimension**
- **Strengthening Strategic Autonomy:** By building a diversified matrix of partnerships, India avoids becoming a junior partner in a US-led alliance system while effectively resisting Chinese regional dominance.
- **Bipartisan Consensual Foreign Policy:** This pragmatic approach balances traditional non-alignment with modern security requirements, fostering a steady political consensus within domestic governance.
- **Legal Dimension**
- **Defending a Rules-Based Order:** The coalition emphasizes adherence to the United Nations Convention on the Law of the Sea (UNCLOS), freedom of navigation, and overflight rights in contested waters.
- **Standardization of Emerging Tech:** Collaborative governance among tech-capable middle powers helps set transparent legal standards for artificial intelligence, cyber security, and data privacy, countering authoritarian digital models.
- **Ethical Dimension**
- **Democratic Accountability vs. Coercion:** The approach offers an ethical alternative to predatory infrastructure financing and economic coercion, promoting a transparent, inclusive, and equitable regional order.
- **Global Commons Protection:** It addresses shared ethical responsibilities, including disaster relief, humanitarian assistance, and climate mitigation in vulnerable island nations across the Indian and Pacific Oceans.
- **International Dimension**
- **Re-shaping Geopolitical Geometry:** The shift from a rigid unipolar or bipolar model to a flexible network of middle powers directly facilitates the rise of a multipolar world order.
- **Strategic Convergence with Maritime Anchors:** Deepening defense integration with key maritime choke-points—particularly Indonesia, which sits astride the critical confluence of the Indian and Pacific Oceans—redefines regional maritime security.
- **Economic Dimension**
- **Supply Chain Resilience:** Joint initiatives in critical minerals (with Australia) and semiconductors (with South Korea and Japan) insulate economies from unexpected geopolitical shocks.
- **Market Diversification:** Deepening trade integration within Asia provides alternative markets for goods, services, and investments, reducing over-reliance on any single economic superpower.

- **Linkages with NCERTs**
- **Class 12 Political Science: *Contemporary World Politics***
    - *Chapter on "Alternative Centres of Power":* Directly addresses how organizations like ASEAN and nations like Japan and India emerge as critical poles to challenge unipolarity or bipolarity.
    - *Chapter on "US Hegemony in World Politics":* Provides essential context on the structural nature of superpower dominance and the various strategies (like hedging and balancing) that nations employ to protect their autonomy.
- **Class 12 Political Science: *Politics in India Since Independence***
    - *Chapter on "India's External Relations":* Traces the historical evolution of India's foreign policy, from early Nehruvian Non-Alignment to modern, interest-based strategic partnerships. This foundational context helps students understand the shift from ideological distance to active regional integration.

Paper	Syllabus Segment	Core Relevance
GS Paper 2	*Bilateral, Regional & Global Groupings involving India*	Explains the structural shift toward minilateralism (Quad, India-Japan-Australia triads) and relations with East/Southeast Asian nations.
GS Paper 2	*Effect of Policies & Politics of Developed/Developing Countries*	Analyzes how US economic policies and China's maritime assertiveness directly impact India's strategic choices.
GS Paper 3	*Security Challenges & Their Management in Border/Maritime Areas*	Focuses on maritime domain awareness, safeguarding sea lines of communication (SLOCs), and defending the Indian Ocean region.
GS Paper 3	*Economic Development & Supply Chains*	Evaluates the domestic manufacturing imperatives, critical mineral acquisitions, and semiconductor partnerships necessary for economic resilience.
GS Paper 4	*Ethics in International Relations*	Examines the balance between pragmatic national self-interest and ethical duties, such as maintaining open global commons and avoiding economic coercion.
Essay & PSIR	*Global Geopolitics / Indian Foreign Policy*	Serves as an excellent case study for essays on multipolarity, strategic autonomy, or optional papers focusing on India's evolving role in a changing global order.

- **Way Forward**
- To successfully navigate this shifting landscape, India must combine active external diplomacy with focused internal capacity building.
- **Accelerate Domestic Economic Reforms:** External strategic alignments are only as strong as internal economic capabilities. India must fast-track regulatory easing, improve infrastructure logistics, and foster an environment conducive to high-tech manufacturing to become a genuine alternative hub in global supply chains.
- **Deepen Defense Industrialization:** Reducing reliance on foreign defense imports is an urgent strategic necessity. India should expand co-development and co-production initiatives for advanced defense technologies with technologically robust partners like Japan and South Korea.
- **Expand Targeted Minilateralism:** Rather than focusing solely on large, unwieldy multilateral forums, Delhi should continue to invest in agile, functional three-way or four-way groupings. These smaller frameworks can focus on specific, actionable goals like maritime security, cyber resilience, and critical mineral processing.
- **Champion a Transparent Infrastructure Architecture:** In tandem with partners like Australia and Japan, India should offer viable, transparent, and sustainable infrastructure financing alternatives to developing states in the Indian Ocean littoral, ensuring regional stability and preventing debt-trap dependencies.

UPSC CSE Prelims Relevant Themes

1.With reference to 'Quadrilateral Security Dialogue (Quad)', consider the following statements:

1. The concept of Quad was first conceptualized by Shinzo Abe in 2007.
2. It aims to ensure a free, open, and inclusive Indo-Pacific region.

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.The term 'Free and Open Indo-Pacific' is frequently seen in the news in the context of discussions concerning the international affairs of:

(A) European Union

(B) G20

(C) Quad and regional middle powers

(D) Shanghai Cooperation Organisation

UPSC CSE Mains Questions

•**GS Paper 2 (2023):** "The Quadrilateral Security Dialogue (QUAD) is transforming itself into a trade bloc from a military alliance, in present times." Discuss the statement with emphasis on India's strategic and economic interests.

•**GS Paper 2 (2021):** "The USA is facing an existential threat in the form of a rising China, that is much more challenging than the erstwhile Soviet Union." Evaluate the statement in light of India's option of exercising 'Strategic Autonomy'.

•**GS Paper 2 (2020):** "Critically examine the aims and objectives of QUAD. What significance does it hold for India?"

•**GS Paper 2 (2018):** "With respect to the South China Sea, evaluate how India's 'Act East Policy' serves as a counter-balance to China's rising geopolitical ambitions in the region."

OPINION

India's energy stress test: How agile policy kept the economy moving

VANDANA HARI

India may not have escaped the US-Iran war unscathed, but it managed one of the most severe energy shocks in its modern history far better than many would have expected.

When the Strait of Hormuz effectively closed in late February, the country faced an immediate threat to its energy supplies, especially crude oil and liquefied petroleum gas (LPG). Yet four months later, there were no fuel shortages. LPG distribution continued uninterrupted, refineries largely maintained operations and the shock was largely prevented from feeding through into broader inflation and economic activity.

That was no small achievement. India imports nearly 90 per cent of its crude oil and around 60 per cent of its LPG, much of it normally arriving from the Gulf. The war disruption therefore threatened not only physical supply, but also inflation, industrial production and public confidence.

India's response demonstrated that modern energy security rests on multiple layers of resilience. Strategic petroleum reserves remain an indispensable first line of defence, but this crisis showed they must be complemented by diversified procurement, commercial inventories, flexible refining systems, effective energy diplomacy and the ability of government and industry to respond swiftly and in concert.

India's strategic reserve, while invaluable, remains modest by international standards. But substantial commercial inventories held by refiners bought precious time while replacement cargoes were secured and trade flows reconfigured. Refiners collectively held around 190 million barrels of commercial reserves — crude, LPG, gasoline, diesel and jet fuel — when the war began, or nearly 35 days' worth of national consumption.

Years of crude supply diversification proved another critical pillar of support. Indian refiners have steadily invested in infrastructure to expand the range of grades they can process, enabling them to substitute supplies from different regions far more readily than in the past. India now imports crude from at least 41 countries, up from 27 just 12 years ago.

Relatively small producers and only occasional suppliers to India — including Congo-Brazzaville, Colombia, Azerbaijan, Egypt, Gabon, Sudan and Cameroon — were tapped for cargoes, while imports from the US also increased, as Washington encouraged higher exports to help offset the loss of West Asian supply.

With several Asian importers scouting for replacement supplies, speedy outreach and quick procurement decisions were critical. That necessitated unprecedented coordination between the public sector undertakings, private refiners and the government, supported by continuous monitoring of inventories, shipping schedules and refinery requirements.

India's overall crude import arrivals dipped slightly to around 4.7-4.8 million barrels per day (bpd) through March and April from an average of 5.3 million bpd over January-March but bounced back above 5 million bpd through May and June, shipping data shows.

Russia became the anchor supplier in June, with arrivals climbing to around 2.56 million bpd, accounting for just over half of India's crude imports during the month. LPG or cooking gas was the country's most immediate vulnerability. Rather than relying solely on expensive replacement imports, refinery operations were quickly reconfigured to maximise domestic production.

Within days of the outbreak of the war, refineries were instructed to maximise LPG production by redirecting propane, butane and associated hydrocarbon streams. That boosted daily domestic production from roughly 35,000 mt to around 54,000 mt within a week, substantially reducing import requirements. Some refineries that had never previously produced LPG were reconfigured to do so.

That operational flexibility may have been one of the most consequential decisions taken during the crisis, helping reduce exposure to an increasingly stressed international LPG market.

New Delhi also pursued quiet energy diplomacy with Tehran to secure the safe passage of Indian-flagged LPG tankers through the Strait of Hormuz. At least 10 Indian-flagged vessels — nine carrying LPG and one crude — completed the transit between March and May after coordination with the Iranian authorities even as commercial traffic remained heavily restricted. Those cargoes helped bridge one of the most vulnerable phases of the crisis until domestic production increased and replacement imports from outside the Gulf could take up the slack.

Demand management reinforced supply-side measures. Where pipeline infrastructure existed, consumers were encouraged to switch to piped natural gas, easing pressure on LPG demand, while commercial LPG allocations were temporarily adjusted to prioritise household consumption. Securing supplies, however, was only half the battle: Preventing the inevitable spike in international energy prices from feeding through into the wider economy was just as important.

The government's decision to cushion retail fuel prices has inevitably attracted debate over the fiscal cost. Viewed narrowly, absorbing under-recoveries through oil marketing companies and excise duty reductions appears expensive. Seen through a macroeconomic lens, however, the calculation looks rather different.

Sharp increases in diesel and LPG prices would almost certainly have fed rapidly into freight costs, food inflation, manufacturing input prices and broader inflation expectations. In an economy growing strongly while continuing post-pandemic fiscal consolidation, the objective was not simply to shield consumers, but to preserve economic stability.

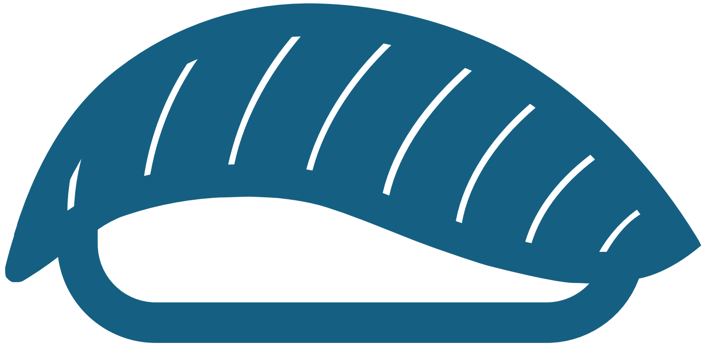
If there is one lesson from the US-Iran war, it is that resilience is built in layers.

Commercial inventories performed exceptionally well during this crisis, but they need to be backed up by government-controlled emergency stocks. The successive geopolitical disruptions of recent years have already given an impetus to government plans to expand emergency stockpiles, and this momentum should be maintained.

A phase 2 expansion, already approved, will add 6.5 million mt or about 47.5 million barrels to the existing 5.33 million mt capacity in strategic reserves, while feasibility work has begun on three additional projects. The broader objective is to move towards 90 days' worth of net import cover in strategic and commercial inventories, the benchmark used by the International Energy Agency.

A bigger strategic oil buffer would give policymakers greater flexibility during future disruptions, reduce pressure on commercial operators and strengthen New Delhi's bargaining position during periods of extreme market stress. That would complete a strategy whose success lay not in any single measure, but in the combination of long-term preparedness and adaptive crisis management.

The writer is an energy markets analyst with more than three decades of experience, and founder of Vanda Insights, a Singapore-based provider of global oil markets macro-analysis



- **Key Terms and Explanations**
- **Chokepoints (e.g., Strait of Hormuz):** Narrow channels along widely used global sea routes that are critical for international transit. The Strait of Hormuz is the world's most vital energy artery, wedged between Oman and Iran, connecting the Persian Gulf with the Gulf of Oman and the Arabian Sea.
    - *UPSC Context:* A disruption here directly threatens nearly 90% of India's crude imports and 60% of its Liquefied Petroleum Gas (LPG) intake.
- **Strategic Petroleum Reserves (SPR):** Massive underground rock caverns designated to store emergency crude oil stocks. These act as a liquidity buffer during severe supply-side shocks rather than regular commercial volatility.
    - *Example:* India’s existing SPR facilities at Visakhapatnam, Mangaluru, and Padur hold 5.33 million metric tonnes (MMT) of crude, acting as an institutional insurance policy.
- **Commercial Inventories:** Oil, gas, and refined products held directly by public and private sector oil refiners and distributors for regular operational requirements. Unlike SPRs, these are dynamic and actively managed to bridge immediate gaps during supply delays, providing an indispensable second layer of national defense.
- **Refinery Agility/Operational Flexibility:** The technical capacity of oil refineries to rapidly alter their processing configurations, allowing them to shift output ratios or process unfamiliar, diverse grades of crude oil.
    - *Example:* Quickly reconfiguring domestic refinery streams to redirect propane and butane, thereby skyrocketing domestic LPG production from 35,000 metric tonnes to 54,000 metric tonnes within a single week during a crisis.
- **Under-Recoveries and Fiscal Cushioning:** The difference between the manufacturing/import cost of petroleum products and the regulated retail price at which public sector Oil Marketing Companies (OMCs) sell them to consumers. When the government absorbs this cost or slashes excise duties, it prevents international price volatility from fueling domestic retail inflation.
- **Energy Diplomacy:** The use of foreign policy and bilateral/multilateral negotiations to secure a nation's energy supply lines, diversify import origins, and protect merchant shipping routes during geopolitical conflicts.

- **Main Arguments and Substantive Parts**
- The core thesis of modern Indian energy policy is that true security does not lie in a single, static defense mechanism, but in **multi-layered, dynamic resilience**
- **The Core Pillars of India’s Crisis Management:**
- **Strategic and Commercial Buffers as First Responders:** While SPRs provide sovereign backup, commercial inventories held by refiners (amounting to roughly 190 million barrels or 35 days of national consumption) buy crucial time. This buffer allows the state to reconfigure global trade flows without triggering immediate domestic panic.
- **Aggressive Geographical Diversification:** Relying on traditional energy hubs is a structural risk. Expanding the import matrix to over 41 countries—including smaller, non-traditional producers like Colombia, Azerbaijan, Gabon, and Congo-Brazzaville—ensures that if one door closes, dozens of others remain open.
- **Refinery Agility as a Supply Multiplier:** When import lines for critical consumer fuels like cooking gas (LPG) face blockades, internal industrial adaptation must take over. Instructing refineries to maximize domestic LPG output by altering hydrocarbon streams minimizes reliance on prohibitively expensive spot-market imports.
- **Quiet Backchannel Diplomacy:** Maintaining open communication channels with antagonistic regional actors ensures the safe passage of national assets. Securing the unhindered transit of Indian-flagged tankers through active conflict zones demonstrates that tactical diplomacy is as vital as physical infrastructure.
- **Prioritizing Macroeconomic Stability Over Short-Term Fiscal Discipline:** During global energy spikes, the state faces a trade-off: allow domestic prices to skyrocket (protecting the fiscal deficit) or absorb the price shock (protecting the economy). The argument heavily favors the latter; shielding retail fuel prices prevents cross-sectoral inflation in freight and food, preserving broader economic growth.

- **Historical Evolution of the Issue**
- India’s journey from absolute vulnerability to tactical agility in energy management highlights its shifting geopolitical standing and economic priorities.
- **The Post-Independence Phase (1947–1970s): Absolute Vulnerability:** India was overwhelmingly dependent on multinational oil corporations (such as Burmah Shell and Caltex) for both crude supply and refining. The country possessed virtually no domestic cushion against global supply manipulations.
- **The Shock of the 1970s: The Birth of Public Sector Enterprise:** The OPEC oil shocks of 1973 and 1979 forced India to nationalize foreign oil companies and establish state-led behemoths like ONGC and Indian Oil. The emphasis shifted toward state-controlled refining and domestic exploration, though import dependence remained a structural challenge.
- **The 1990–91 Gulf War: The Catalyst for Structural Reform:** The Iraqi invasion of Kuwait caused global oil prices to surge, triggering India’s historic Balance of Payments (BOP) crisis. With foreign exchange reserves depleted to just a few weeks, the Indian state realized that energy vulnerability could collapse the entire macroeconomic framework, sparking the 1991 LPG (Liberalization, Privatization, Globalization) reforms.
- **The 2005 Watershed: The Concept of Strategic Reserves:** Recognizing the vulnerability of its sea lines of communication, the government approved the construction of Phase 1 of the Strategic Petroleum Reserves in 2005 under Indian Strategic Petroleum Reserves Limited (ISPRL).
- **The Modern Paradigm (2014–Present): Deep Diversification and Agility:** Moving beyond basic storage, India's current strategy involves navigating complex geopolitics by purchasing discounted crude, expanding its import footprint to over 41 nations, and initiating Phase 2 of its SPR program. This phase adds 6.5 million metric tonnes of capacity, aiming for the International Energy Agency (IEA) benchmark of 90 days of net import cover.

INDIA'S ENERGY STRESS TEST: A COMPREHENSIVE POLICY ANALYSIS.

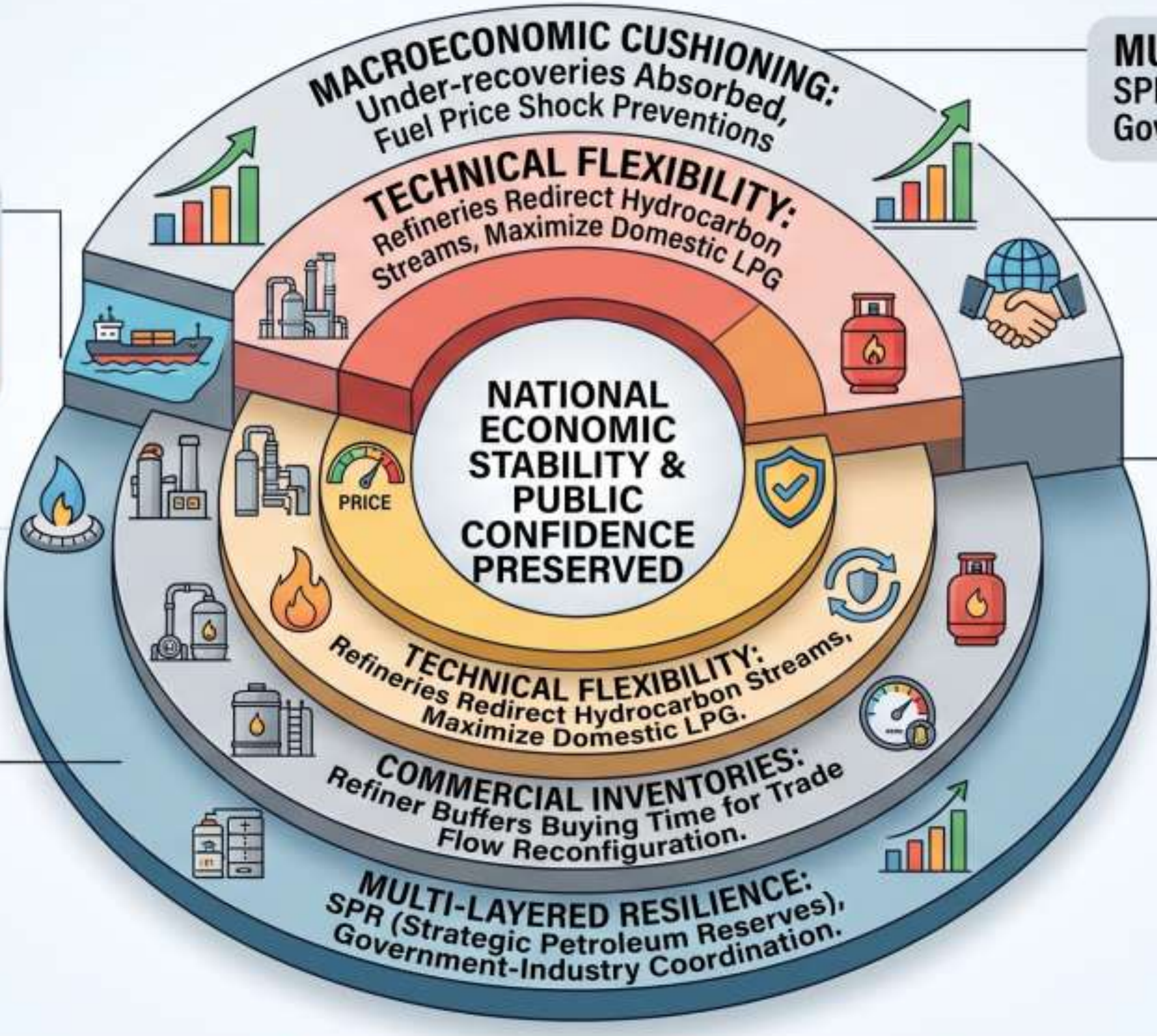
AGILE POLICY AND GEOPOLITICAL RESILIENCE

AXIA
IAS ACADEMY
RISE ABOVE THE REST

THE CRUNCH POINT:
Strait of Hormuz Closure Risk.

DEMAND MANAGEMENT:
Encouraged PNG Use, Eased LPG Demand.

DIVERSIFICATION:
Importing from Diverse Origins, Reconfigured Trade.



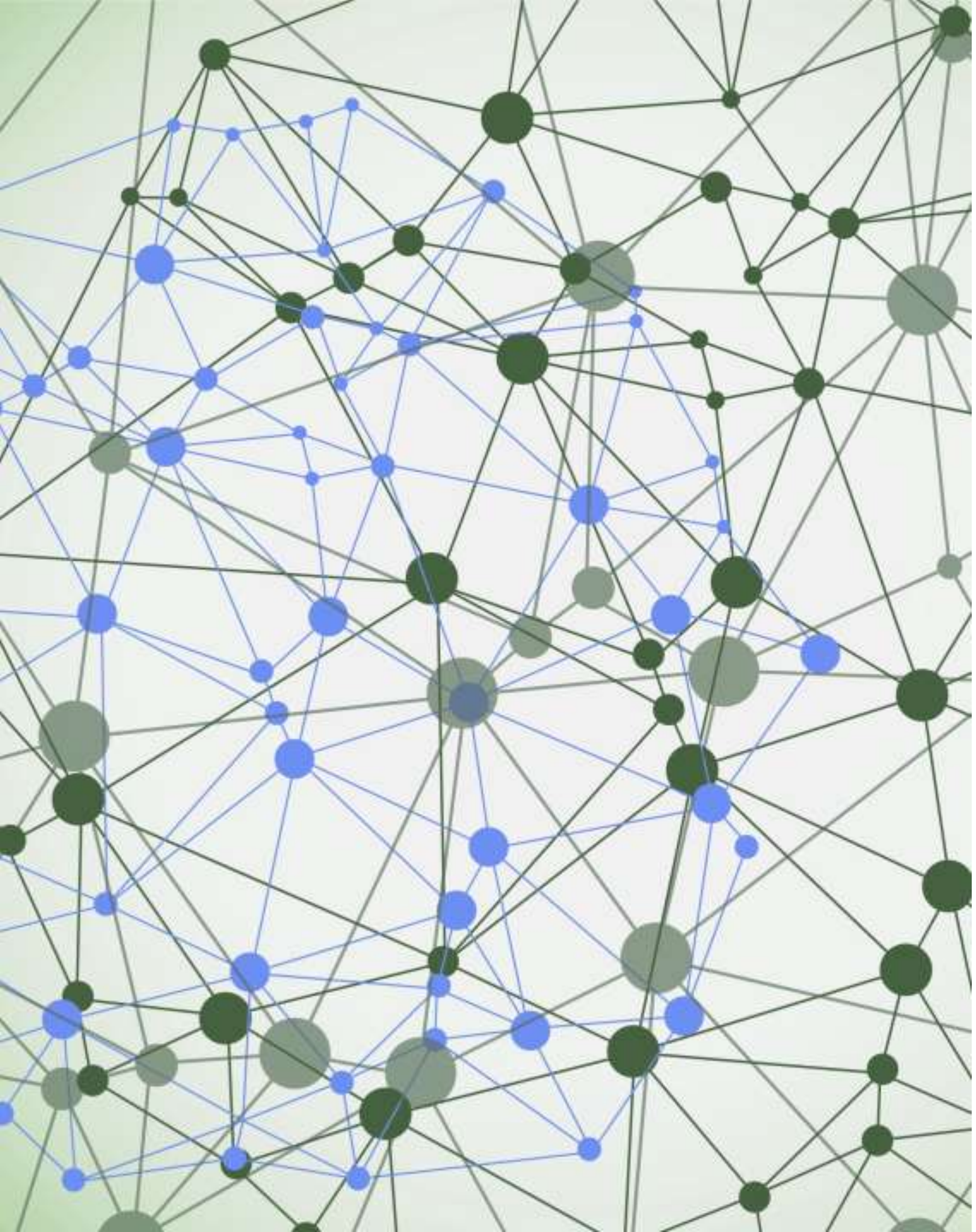
MULTI-LAYERED RESILIENCE:
SPR (Strategic Petroleum Reserves)
Government-Industry Coordination.

STRATEGIC DIPLOMACY:
Quiet Backchannels,
Tehran Coordination for Safe Tanker Passage through Chokepoints.

COMMERCIAL INVENTORIES:
Refiner Buffers
Buying Time for Trade Flow Reconfiguration.

KEY POLICY LESSONS
(with checkmarks):

- Maintain and Expand Stockpiles
- Boost Refinery Adaptive Capacity
- Develop Crisis Protocols



- **Logical and Philosophical Base**
- **The Realist Doctrine of Strategic Autonomy**
- In international relations, energy security is a prerequisite for sovereign decision-making. By building massive commercial buffers, broadening its supplier base, and engaging in multi-vectored diplomacy, India avoids getting caught in zero-sum geopolitical conflicts. The underlying logic dictates that a nation dependent on external lifelines must maintain the capability to protect its domestic interests independently of external pressures.
- **The Precautionary Principle and Redundancy Theory**
- Traditional free-market economics prioritizes "just-in-time" supply chains to minimize storage costs and maximize efficiency. However, India's energy policy utilizes a "just-in-case" model. Building multi-layered reserves (SPR + commercial inventories) acknowledges that black swan events are inevitable, making built-in systemic redundancy highly valuable during crises.
- **Welfare State Obligations vs. Fiscal Fundamentalism**
- The decision to absorb high global energy costs through oil marketing companies and excise cuts reflects a commitment to welfare economics over strict fiscal conservatism. The logical premise is that allowing a sharp spike in retail fuel prices functions as a regressive tax on the poor, driving up food and freight costs. Protecting the consumer base helps maintain public confidence and preserves the core drivers of domestic economic growth.

- **Multidimensional Analysis**
- **Social Dimension**
- Energy security is directly linked to social equity and poverty alleviation. In India, LPG is not a luxury item; it is an essential tool for public health, liberating millions of rural women from the hazardous health effects of solid biomass fuels. Any disruption in LPG distribution immediately impacts household stability and food security. Therefore, prioritizing domestic cooking gas over commercial use during supply crunches acts as a critical social safety net.
- **Political Dimension**
- In a vibrant democracy like India, fuel inflation can quickly lead to political instability. Historically, unmitigated rises in the prices of diesel, petrol, and cooking gas have triggered public unrest and impacted electoral outcomes. Demonstrating an agile policy response that prevents fuel shortages or sudden price hikes reinforces domestic political stability and strengthens public trust in state institutions.
- **Legal and Institutional Dimension**
- The seamless execution of crisis strategies relies on strong institutional coordination. The synergy between the Ministry of Petroleum and Natural Gas, public sector undertakings, and private refiners highlights effective state direction. Legally, the Essential Commodities Act and sovereign emergency directives allow the state to regulate supply lines and reallocate hydrocarbon resources to critical areas during national emergencies.
- **Ethical Dimension**
- This issue touches on the core ethical question of resource allocation and the state's duty of care. During an international supply crisis, should the state prioritize fiscal discipline to appease global rating agencies, or absorb losses to protect its most vulnerable citizens? Choosing to protect the public from severe inflation fulfills an ethical obligation of governance. Furthermore, building strategic reserves reflects an commitment to intergenerational equity, ensuring the economy remains resilient against future external shocks.
- **International Dimension**
- India's energy response highlights its skilled navigation of multi-aligned foreign policy. Managing to secure safe passage for its vessels through a contested maritime corridor like the Strait of Hormuz requires balanced diplomatic engagements with regional powers. It shows India's capacity to separate economic survival from global ideological rifts, maintaining its stance of strategic autonomy.
- **Economic Dimension**
- From a macroeconomic perspective, energy acts as the primary input for all industrial and agricultural activity. Unchecked fuel costs quickly drive up freight charges, manufacturing input costs, and overall inflation expectations. While absorbing these costs widens the fiscal deficit in the short term, it protects long-term GDP growth, keeps domestic consumption steady, and prevents the economy from slipping into a stagflationary trap.

- **Linkages with NCERT Textbooks**
- **Class XII – India: People and Economy (Geography): Chapter on "Mineral and Energy Resources":** This chapter provides the baseline understanding of India's conventional energy dependencies, the spatial distribution of oil refineries, and the structural reliance on crude imports. The current challenges with maritime chokepoints directly build upon the vulnerabilities highlighted in this text.
- **Class XI – Indian Economic Development: Chapter on "Infrastructure" and "Inflation":** This text explains how energy functions as an essential economic infrastructure. It details how energy shocks cause cascading inflation across agricultural and industrial value chains, illustrating why the government prioritizes price stabilization during global crises.
- **Class XII – Contemporary World Politics (Political Science): Chapter on "Environment and Natural Resources":** This chapter discusses the geopolitics of resource allocation, global supply lines, and the critical role of resource security in shaping foreign policy. The strategic importance of maritime chokepoints like the Strait of Hormuz directly mirrors the global resource conflicts covered in this NCERT text.

- **Linkages with UPSC CSE Syllabus**
- **General Studies Paper II (GS-2)**
- **Syllabus Topic:** *Effect of policies and politics of developed and developing countries on India’s interests; India and its neighborhood- relations.*
- **Application:** Analyzing how West Asian conflicts or US-Iran tensions impact India's domestic energy security, and evaluating India's diplomatic strategies for securing safe maritime transit.
- **General Studies Paper III (GS-3)**
- **Syllabus Topic:** *Infrastructure: Energy; Indian Economy and issues relating to planning, mobilization of resources, growth, development, and employment.*
- **Application:** Evaluating the architectural framework of Strategic Petroleum Reserves (SPR), the fiscal implications of oil under-recoveries, and the supply-side management of domestic refining capacity.
- **Essays and Optional Subjects**
- **Essay Paper:** Highly relevant for themes centered around *"Strategic Autonomy vs Global Interdependence," "Resilience as the True Measure of National Development,"* or *"The Geopolitics of Resource Security."*
- **Geography Optional (Paper I & II):** Directly relates to Global Economic Geography, Marine Routes, Geopolitics of the Indian Ocean Region, and India’s Resource Base.
- **Political Science & International Relations (PSIR) Optional (Paper II):** Essential for analyses on India's Foreign Policy, Non-Alignment/Multi-Alignment strategies, and the impact of global energy cartels on national sovereignty.

- **Way Forward**
- **Expediting SPR Phase 2 Infrastructure:** India should accelerate the construction of its approved Phase 2 commercial-cum-strategic underground caverns (adding 6.5 MMT at locations like Chandikhol and Padur). Achieving the IEA benchmark of 90 days of net import cover is essential to protect against prolonged geopolitical blockades.
- **Deepening Public-Private Refining Integration:** The institutional coordination between public sector undertakings and private oil refiners needs to be formalized into a permanent emergency response framework. This ensures that technical changes, such as reconfiguring hydrocarbon streams to boost critical consumer fuels, can occur within hours of an emerging shock.
- **Institutionalizing Maritime Security and Convoy Escorts:** Building on successful backchannel diplomacy, India should develop permanent maritime security and naval escort protocols (similar to Operation Sankalp) for Indian-flagged vessels transiting vital chokepoints like the Strait of Hormuz and the Bab-el-Mandeb during active conflict scenarios.
- **Expanding Smart Demand-Side Management:** The temporary strategy of encouraging industrial consumers to switch to piped natural gas (PNG) while prioritizing household LPG should be formalized into an automated energy management system. Expanding city gas distribution infrastructure creates an integrated network that reduces pressure on liquid petroleum imports during crises.
- **Accelerating Structural Decoupling Through Green Energy:** The ultimate solution to energy vulnerability is reducing dependence on the fossil fuel supply chain. By aggressively expanding its renewable energy capacity, scaling up green hydrogen production, and building domestic electric vehicle infrastructure, India can decouple its macroeconomic growth from international energy crises.

Previous Years' UPSC and State PSC Questions
Civil Services Examination (Mains)
1."With the changing dimensions of global energy geopolitics, evaluate India's options to secure its long-term energy requirements." **(GS-3, 2018)**
2."The Strategic Petroleum Reserves (SPR) project is not just an energy security measure, but an essential component of India's sovereign foreign policy." Critically analyze this statement in light of recent global supply chain disruptions. **(GS-2/GS-3 Structural Question)**
3."Access to affordable, reliable, and sustainable energy is a prerequisite for achieving India's developmental goals." Discuss the socio-economic and geopolitical challenges India faces in securing its energy pathways. **(GS-3, 2022)**

Civil Services Examination (Prelims Focus)
1. Consider the following statements regarding the Strategic Petroleum Reserves (SPR) program in India:
1.The existing strategic crude oil storages are managed by the Indian Strategic Petroleum Reserves Limited (ISPRL).
2.The International Energy Agency (IEA) mandates that every member country maintain emergency oil reserves equivalent to at least 90 days of net imports.
3.All Phase 1 and Phase 2 SPR facilities in India are exclusively located in inland, landlocked states for defense protection.
Which of the statements given above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2, and 3