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EDITORIAL ANALYSIS

AUGUST 5

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Making ESG disclosures meaningful

India needs to align its ESG reporting norms with globally accepted standards to attract investments

ILLUSTRATION: AJAY MOHANTY

Five years ago, in 2021, when the market regulator made business responsibility and sustainability reporting (BRSR) disclosures compulsory for listed companies in India from 2022-23 onwards, it was seen as a major step towards mandating non-financial disclosures by corporations. India was among the pioneers in doing so. Even the European Union made such disclosures compulsory only in 2024-25.

This was further strengthened by the introduction of BRSR Core in 2023, which prescribed third-party assessment of key performance indicators (KPIs), further strengthening the credibility of the scheme.

AJAY TYAGI

Environmental, social and governance (ESG)-related issues are gaining increasing importance globally. The BRSR guidelines need to be constantly reviewed in line with global developments, thereby maintaining their relevance for stakeholders. This column examines this issue and makes some suggestions for the consideration of the government and the regulator.

The BRSR guidelines mandate listed companies to disclose information under nine categories covering various aspects under ESG. As of now, the reporting templates are sector-agnostic. They need to graduate to sector-specific templates. Surely, the templates for a thermal power plant can't be similar to that of an IT industry. While the existing guidelines allow companies to report "not applicable" under columns that are not relevant to them, the disclosures can result in either information overload or a deficiency of relevant, sector-specific information. The regulator could use the National Industrial Classification to categorise different sectors while prescribing sector-specific templates.

The disclosure regime helps stakeholders to compare companies operating in the same sector. It would be more useful if disclosures under various parameters could also be compared with benchmarks, prescribed by the government/regulators for different activities. In the absence of benchmarking, it is not possible to judge the absolute performance of a company.

The government has various international commitments and domestic aspirations under different elements of ESG. It needs to figure out the contributions it expects from corporations towards meeting those commitments and aspirations.

For instance, under the environmental component of ESG, the government has committed to reducing the emission intensity of gross domestic product by 45 per cent by 2030 from 2005 levels and achieving net-zero greenhouse gas (GHG) emissions by 2070.

Naturally, these milestones cannot be achieved unless the targets are disaggregated across different activities and sectors, and progress is monitored. What does the government expect from corporations? Some sectoral GHG emission targets have recently been fixed for hard-to-abate sectors under the Carbon Credit Trading Scheme (CCTS). Companies in the covered sectors should be asked to clearly disclose their performance vis-à-vis those targets.

In fact, such targets should be fixed and performance monitored for more sectors. Going forward, specific targets should also be fixed for other parameters, such as water-use intensity and the proportion of renewables in total energy consumption.

Similarly, under the social component, quantitative and qualitative targets could be fixed for DEI (diversity, equity and inclusiveness), safety and labour code implementation. Under governance, in regulated sectors, regulators could prescribe linking executives' variable remuneration to ESG-related KPIs. Stakeholders could then assess the performance of the concerned companies against such benchmarks.

The BRSR coverage needs to go beyond the top 1,000 listed firms. While categorisation based on market capitalisation is an easy criterion to prescribe, it may not achieve the desired purpose. For instance, some of the most GHG-emitting industries could be outside the cohort of the top 1,000 listed companies. Also, many large companies whose ESG disclosures would be highly relevant prefer to remain unlisted.

Thus, the criteria need to be relooked, and the coverage expanded. Right now, the companies' boards don't have an exclusive committee to deal with ESG-related matters; the subject is typically handled by either the CSR committee or risk management committee. A separate board committee for ESG in materially significant companies needs to be prescribed by the regulator.

The inclusion of micro, small and medium enterprises under BRSR, including those that are value-chain partners of the covered entities, would need to follow a more gradual approach. They would need capacity building and hand-holding. To begin with, they could be covered under a lighter version of the regulations, say, BRSR-Lite.

While there are no universally accepted standards for ESG disclosures, for the reasons explained below, we need to gradually align our BRSR regime with international standards accepted in developed countries.

There is a general consensus among consultancy organisations, industry groups and researchers that in the foreseeable future we would need a substantial proportion of foreign funding to timely meet our sustainable growth goals. Many foreign pension funds, sovereign wealth funds, and other long-term investing funds have mandates from their investors to invest a proportion of these funds only in sustainable development projects. For them to invest in India, they would expect Indian companies to follow those standards that are applicable in their own jurisdictions.

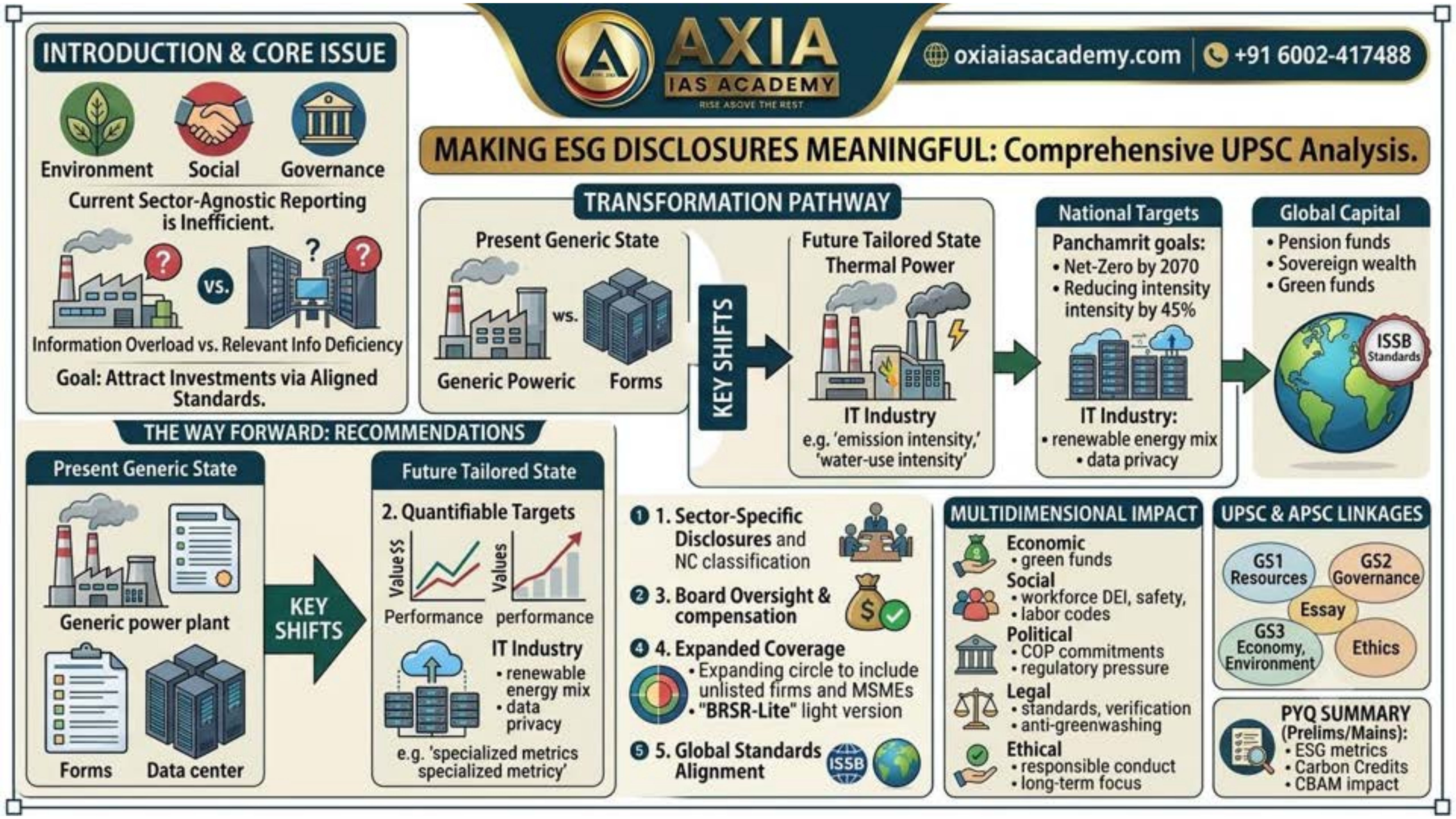
Over the past few years, the sustainability reporting standards developed by the International Sustainability Standards Board, a body under the international financial reporting standards, have been largely accepted globally, and more and more jurisdictions have moved/are moving towards adopting them. We should, in consultation with all stakeholders, set a roadmap to align BRSR with these standards. If, based on our local conditions, we need to carve out some exceptions under certain parameters, we should have valid and convincing arguments to satisfy international investors.

The writer, a distinguished fellow at the Observer Research Foundation, is a former chairman of Sebi

- **Key Terms and Explanations**
  - **Environmental, Social, and Governance (ESG):** A holistic evaluation framework used by investors and regulators to assess a company's operational sustainability and ethical impact. *Example:* A thermal power company evaluating its coal emissions (Environmental), employee safety protocols (Social), and board independence (Governance).
  - **Business Responsibility and Sustainability Reporting (BRSR):** A standardized reporting template mandated by the Securities and Exchange Board of India (SEBI) for top listed entities to disclose their performance on environmental, social, and ethical parameters alongside financial results.
  - **BRSR Core:** A refined subset of key performance indicators (KPIs) within the broader BRSR framework that requires mandatory third-party audit and assurance. *Example:* An independent auditor verifying a company's claimed 20% reduction in water usage before it is published to investors.
  - **Sector-Agnostic vs. Sector-Specific Reporting:** Sector-agnostic rules apply a single disclosure template across all industries regardless of their operational nature. Sector-specific reporting tailors parameters based on unique industrial impacts, such as measuring hazardous waste for chemical plants versus data privacy metrics for IT firms.
  - **International Sustainability Standards Board (ISSB):** An independent body established under the International Financial Reporting Standards (IFRS) Foundation designed to establish a global baseline for sustainability-related financial disclosures.
  - **Carbon Credit Trading Scheme (CCTS):** A market-based mechanism established by the Government of India that allows entities in hard-to-abate industries to buy and sell carbon credits to meet national greenhouse gas emission reduction targets.
  - **BRSR-Lite:** A simplified, less resource-intensive reporting version designed for Micro, Small, and Medium Enterprises (MSMEs) and supply chain partners, easing compliance burdens while ensuring value-chain sustainability.

- **Main Arguments and Substantive Parts**
- The evolution of corporate sustainability disclosure in emerging economies faces a structural shift from basic compliance to strategic, value-driven reporting:
  - **Transition from Generic to Sector-Specific Frameworks:** A central limitation of current non-financial reporting is its sector-agnostic nature. A software service firm and a heavy metallurgical plant cannot be evaluated on the same reporting template. Regulators must utilize standardized economic classification tools, such as the National Industrial Classification (NIC), to craft tailored disclosure modules that reflect sector-specific environmental footprints.
  - **Integrating Domestic Policy Goals with Corporate Metrics:** Disclosure frameworks must actively align with national climate targets, such as India's COP26 Panchamrit commitments—specifically reducing GDP emission intensity by 45% by 2030 and achieving Net-Zero by 2070. Regulators must establish clear sectoral benchmarks for water intensity, renewable energy mix, and carbon reduction that allow investors to assess a firm's contribution to national climate goals.
  - **Addressing Coverage Gaps Beyond Market Capitalization:** Mandating disclosures purely based on market capitalization creates blind spots. Heavy GHG-emitting industries or large unlisted private entities often fall outside top-market-cap categories despite possessing significant environmental footprints. Mandatory disclosures must pivot toward emission intensity and industrial classification rather than market valuation alone.
  - **Strengthening Board-Level Oversight and Compensation:** Sustainability mandates frequently suffer when relegated to generic Corporate Social Responsibility (CSR) or risk management committees. Materially significant firms require dedicated Board-level ESG Committees. Furthermore, linking executive variable remuneration directly to sustainability Key Performance Indicators (KPIs) ensures institutional accountability.
  - **Harmonization with Global Capital Standards:** To attract long-term global capital—such as foreign pension funds, sovereign wealth funds, and green funds—domestic reporting norms must progressively align with international baselines like the ISSB, while maintaining necessary exceptions for local economic conditions.

- **Historical Evolution of the Issue**
- The transformation of corporate responsibility in India reflects an evolution from voluntary philanthropy to mandatory statutory reporting:
  - **Pre-Independence to Post-Independence Era:** Rooted in early 20th-century Indian industrialization, corporate social responsibility operated primarily on voluntary philanthropic foundations, heavily influenced by Mahatma Gandhi's concept of "Trusteeship," where businesses held wealth in trust for society.
  - **Voluntary Guidelines Era (2009–2011):** The Ministry of Corporate Affairs (MCA) released the *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs)* in 2009, updated in 2011. This marked the initial formal push toward encouraging companies to report non-financial indicators.
  - **Mandatory Frameworks and Companies Act (2012–2013):** SEBI introduced mandatory Business Responsibility Reporting (BRR) in 2012 for the top 100 listed companies by market capitalization. Simultaneously, Section 135 of the Companies Act, 2013 made India one of the first countries to legally mandate CSR spending (2% of net profits) for specified corporate entities.
  - **NGRBC and the Birth of BRSR (2019–2021):** MCA revised the voluntary guidelines into the *National Guidelines on Responsible Business Conduct (NGRBC)* in 2019. Building on this, SEBI introduced the Business Responsibility and Sustainability Report (BRSR) in 2021, replacing BRR for the top 1,000 listed entities from 2022–23 onwards.
  - **Assurance and International Harmonization (2023–Present):** SEBI introduced **BRSR Core** in 2023, mandating reasonable third-party assurance for key indicators to prevent greenwashing. The current phase focuses on aligning domestic frameworks with global bodies like the ISSB, integrating Carbon Credit Trading Schemes, and extending value-chain accountability.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MAKING ESG DISCLOSURES MEANINGFUL: Comprehensive UPSC Analysis.
INTRODUCTION & CORE ISSUE
Environment
Social
Governance
Current Sector-Agnostic Reporting is Inefficient.
vs.
Information Overload vs. Relevant Info Deficiency
Goal: Attract Investments via Aligned Standards.
TRANSFORMATION PATHWAY
Present Generic State
ws.
Generic Poweric
Forms
KEY SHIFTS
Future Tailored State Thermal Power
IT Industry
e.g. 'emission intensity,' 'water-use intensity'
National Targets
Panchamrit goals:
• Net-Zero by 2070
• Reducing intensity intensity by 45%
IT Industry:
• renewable energy mix
• data privacy
Global Capital
• Pension funds
• Sovereign wealth
• Green funds
ISSB Standards
THE WAY FORWARD: RECOMMENDATIONS
Present Generic State
Generic power plant
Forms
Data center
KEY SHIFTS
Future Tailored State
2. Quantifiable Targets
Value $$
Performance
Values
performance
IT Industry
• renewable energy mix
• data privacy
e.g. 'specialized metrics specialized metricy'
1 1. Sector-Specific Disclosures and NC classification
2 3. Board Oversight & compensation
4 4. Expanded Coverage
• Expanding circle to include unlisted firms and MSMEs
• "BRSR-Lite" light version
5 5. Global Standards Alignment
ISSB
MULTIDIMENSIONAL IMPACT
Economic
• green funds
Social
• workforce DEI, safety,
• labor codes
Political
• COP commitments
• regulatory pressure
Legal
• standards, verification
• anti-greenwashing
Ethical
• responsible conduct
• long-term focus
UPSC & APSC LINKAGES
GS1 Resources
GS2 Governance
Essay
GS3 Economy, Environment
Ethics
PYQ SUMMARY (Prelims/Mains):
• ESG metrics
• Carbon Credits
• CBAM impact

- **Logical and Philosophical Base**
- The debate surrounding sustainability reporting rests on fundamental economic and ethical theories:
  - **Shareholder Primacy vs. Stakeholder Capitalism:** Traditional corporate governance, anchored in Milton Friedman’s doctrine, argues that a corporation's primary duty is to maximize profits for shareholders. Modern sustainability frameworks align with R. Edward Freeman’s Stakeholder Theory, which posits that corporations are embedded in wider ecological and social systems and owe duties to workers, communities, and future generations.
  - **Gandhian Concept of Trusteeship:** The philosophical core of Indian business ethics suggests that capital accumulation is legitimate only when wealth is viewed as a public trust. ESG disclosures serve as a formal mechanism to demonstrate how well businesses manage this trust.
  - **Principle of Common but Differentiated Responsibilities (CBDR):** Originating in international environmental law, CBDR applies internally to the corporate ecosystem. Large multi-national corporations possess the capital and capacity to adhere to strict ESG metrics immediately, whereas MSMEs require tiered, lighter compliance standards (BRSR-Lite) and support mechanisms to prevent operational disruption.
  - **Precautionary Principle and Intergenerational Equity:** Based on sustainable development principles established in international conventions (Brundtland Report, Rio Declaration), corporations must take proactive measures to prevent ecological harm before irreversible damage occurs, safeguarding environmental capital for future generations.

- **Multidimensional Analysis**
  - **Social Dimension:**
    - *Workforce Welfare & Inclusivity:* Enhances Diversity, Equity, and Inclusivity (DEI) targets within corporate hierarchies, ensuring fair representation for underrepresented groups.
    - *Labor Rights:* Enforces compliance with consolidated labor codes, addressing occupational health, workplace safety, and wage transparency across supply chains.
  - **Political Dimension:**
    - *State-Market Relations:* Redefines the social contract between private enterprise and the state, shifting corporate activity from passive tax compliance to active participation in national decarbonization targets.
    - *Regulatory Federalism:* Demands synchronized execution between central market regulators (SEBI, MCA) and state-level environmental enforcement agencies (State Pollution Control Boards).
  - **Legal Dimension:**
    - *Statutory Enforceability:* Links reporting directly with SEBI (LODR) Regulations, 2015, elevating sustainability misstatements to actionable corporate fraud.
    - *Greenwashing Prevention:* Establishes legal liability for exaggerated environmental claims by mandating third-party assurance through BRSR Core.
  - **Ethical Dimension:**
    - *Corporate Transparency:* Mitigates information asymmetry between internal corporate boards and external retail investors, curbing selective disclosure practices.
    - *Remuneration Fairness:* Mandates linking executive compensation to long-term ESG outcomes, reducing the incentive for short-term profit-seeking at environmental expense.
  - **International Dimension:**
    - *Global Trade Competitiveness:* Helps Indian exporters navigate stringent international cross-border regulations, such as the European Union's Carbon Border Adjustment Mechanism (CBAM) and Corporate Sustainability Due Diligence Directive (CSDDD).
    - *Cross-Border Capital Attractiveness:* Positions Indian capital markets to capture growing foreign ESG funds, sovereign wealth funds, and green bonds by speaking a common disclosure language (ISSB).
  - **Economic Dimension:**
    - *Capital Allocation:* Reduces the cost of capital for compliant firms, as global funds increasingly factor ESG risks into credit ratings and equity pricing.
    - *MSME Supply Chain Integration:* Protects MSMEs from being excluded from global value chains by establishing gradual, light-touch integration strategies.

Linkages with NCERTs

- **Class 11 Business Studies – Chapter 6: *Social Responsibilities of Business and Business Ethics***
  - *Relevance:* Directly covers the fundamental concepts of business ethics, environmental protection, and the evolving responsibilities of corporations toward society, providing the foundation for understanding non-financial reporting.
- **Class 11 Economics: *Indian Economic Development* – Chapter 9: *Environment and Sustainable Development***
  - *Relevance:* Analyzes the trade-off between rapid economic growth and ecological degradation, providing context on why industrial sectors must disaggregate and track emission intensity, water usage, and resource consumption.
- **Class 12 Political Science: *Contemporary World Politics* – Chapter 8: *Environment and Natural Resources***
  - *Relevance:* Introduces global environmental governance, global commons, and the principle of Common but Differentiated Responsibilities (CBDR), parallel to tiered regulatory approaches for large firms versus MSMEs.
- **Class 11 Sociology: *Introducing Sociology* – Chapter 3: *Understanding Social Institutions***
  - *Relevance:* Explores the relationship between market structures, labor, and social inequality, offering theoretical grounding for the "Social" component of ESG frameworks.

- **Linkages with UPSC CSE Syllabus**
  - **General Studies Paper 1 (Geography & Society):**
    - *Sub-topic:* Industrial location factors, resource depletion, and sustainable urban/industrial development.
  - **General Studies Paper 2 (Governance & Regulatory Bodies):**
    - *Sub-topic:* Statutory, regulatory, and quasi-judicial bodies (SEBI’s regulatory role); Government policies and interventions for development in various sectors.
  - **General Studies Paper 3 (Economy & Environment):**
    - *Sub-topic:* Inclusive growth and issues arising from it; Infrastructure and investment models; Conservation, environmental pollution, degradation, and Environmental Impact Assessment (EIA).
  - **General Studies Paper 4 (Ethics, Integrity & Aptitude):**
    - *Sub-topic:* Corporate Governance; Ethical concerns and dilemmas in government and private institutions; Environmental ethics and corporate social responsibility.
  - **Optional Subjects (Commerce & Accountancy / Public Administration / Sociology):**
    - *Commerce:* Financial vs. non-financial reporting, accounting standards, and corporate governance mechanisms.
    - *Public Administration:* Regulatory governance, state-market dynamics, and public policy formulation.
    - *Sociology:* Corporate accountability, industrialization, labor rights, and environmental sociology.

- **Way Forward**
  - **Adoption of Sector-Specific Disclosure Templates:**
    - SEBI and the Ministry of Corporate Affairs should move away from broad, one-size-fits-all frameworks. Utilizing the National Industrial Classification (NIC), distinct reporting templates should be created for high-impact sectors like energy, mining, software, and manufacturing.
  - **Implementation of BRSR-Lite for MSMEs:**
    - To prevent supply chain bottlenecks, a light-touch framework (BRSR-Lite) with voluntary compliance periods, subsidies, and capacity-building support must be established for small and medium enterprises before enforcing full value-chain disclosures.
  - **Mandatory Board-Level ESG Committees:**
    - Corporate governance rules should require materially significant entities to establish dedicated Board ESG Committees. These committees should oversee climate strategies and tie executive compensation directly to verifiable sustainability metrics.
  - **Strategic Alignment with Global Standards (ISSB):**
    - India should establish a structured roadmap to align BRSR with International Sustainability Standards Board (ISSB) metrics. While adopting these baselines, India can carve out specific exceptions that reflect local developmental needs without losing international credibility.
  - **Establishment of Clear Regulatory Benchmarks:**
    - Regulators must define clear quantitative baselines for carbon intensity, water usage, and diversity goals. Integrating BRSR disclosures directly with India’s Carbon Credit Trading Scheme (CCTS) will create a verifiable, market-driven mechanism for corporate decarbonization.

- **Mains Questions (UPSC CSE & APSC)**
  - **General Studies Paper 3 (2023):** "Environmental Impact Assessment (EIA) processes are critical for sustainable development, yet corporate reporting often falls short of true ecological accountability." In light of this statement, critically evaluate how frameworks like BRSR can bridge the gap between economic growth and environmental sustainability in India. *(15 Marks, 250 Words)*
  - **General Studies Paper 4 (2020):** "Corporate Governance is not merely about compliance with legal regulations, but about building ethical foundations that align business goals with societal well-being." Discuss in the context of increasing global emphasis on Environmental, Social, and Governance (ESG) criteria. *(10 Marks, 150 Words)*
  - **General Studies Paper 3 / APSC Mains:** Discuss the challenges faced by Indian Micro, Small, and Medium Enterprises (MSMEs) in complying with global ESG and sustainability standards. What policy measures are required to ensure that compliance burdens do not hurt their global competitiveness? *(15 Marks, 250 Words)*

As Gen Z leads change in Subcontinent, is Pakistan doomed to be the exception?

C RAJA MOHAN

ILLUSTRATION: C R SASIKUMAR

ACROSS SOUTH Asia, Generation Z has emerged as an unexpected force in politics. Over the last few years, students and youth in Bangladesh, Nepal and Sri Lanka have driven unprecedented political change. In India too, the political consequences of an increasingly assertive Gen Z could be profound over the longer term. What about Pakistan? Will it forever remain the Subcontinent's exception?

Pakistan has the same youthful demographics as the rest of the region, and even deeper economic anxieties. Yet its youth has struggled to shape the country's political trajectory. The army's pervasive dominance and extensive control have made popular mobilisation exceptionally difficult. Change still appears to come from the top: the army remains the principal source of political change. While the rest of South Asia debates how young citizens are reshaping politics, Pakistan is once again discussing Rawalpindi's power grab dressed up as reform.

The latest debate was triggered by Interior Minister Mohsin Naqvi's declaration that Pakistan's system of governance had effectively collapsed and required a sweeping overhaul. If he were an ordinary political figure, Naqvi's call for radical reform would have been dismissed as loose talk. Coming from Rawalpindi's current civilian subordinate, however, Naqvi's remarks deserve close attention.

It is evident that Pakistan's military establishment is contemplating not merely another intervention in politics but a redesign of the state. No authoritative draft of a revised political structure is in the public domain. Yet the direction is unmistakable. The discussion reportedly ranges from breaking up the existing provinces into smaller units and revising fiscal federalism in favour of the Centre to vesting greater authority in the army leadership and its preferred technocrats.

This represents an important evolution in Pakistan's political history. Ayub Khan, Yahya Khan, Ziaul Haq and Pervez Musharraf all interrupted constitutional politics through military coups. General Asim Munir is pursuing something more ambitious: Institutionalising military predominance within the constitutional framework itself.

The confidence behind this project has been reinforced by the new White House warmth towards Asim Munir. The Anglo-American media that only a short while ago was pleading the case for the release of Imran Khan, jailed by Munir, is now celebrating the self-promoted field marshal as a strategic genius. Anglo-American support has always emboldened Rawalpindi to tighten its grip over Pakistan's polity and society.

The more interesting question, however, is not what Munir wants or what the Anglo-Americans like. It is whether Pakistan's civilian politicians are once again preparing to help the generals consolidate power and write their own political death warrant. In their endless internecine struggles, Pakistan's civilian parties have repeatedly turned to the army to gain advantage over one another. That allowed Rawalpindi to install and uninstall civilian governments at will. Had the civilian parties chosen collective action over short-term partisan gain, they could have pushed the army back into the barracks long ago.

> In their endless internecine struggles, Pakistan's civilian parties have repeatedly turned to the army to gain advantage over one another. That allowed Rawalpindi to install and uninstall civilian governments at will

There was one brief moment of hope. In 2006, Benazir Bhutto and Nawaz Sharif signed the Charter of Democracy. Having both experienced repeated military interventions, they recognised that democracy could survive only if civilian parties stopped inviting the army into their partisan battles.

The moment did not last. Both the Pakistan People's Party and the Pakistan Muslim League soon reverted to the familiar temptation of seeking tactical advantage over each other. Later, Imran Khan's Pakistan Tehreek-e-Insaf repeated the same mistake, initially benefiting from military patronage before becoming its victim.

That pattern is now set to repeat itself as the army shows the door to the current civilian government. The generals may design the blueprint, but they still need the civilian parliament to approve it. But the prospects of a united opposition to the Army's project appear bleak. Pakistan's missing Gen Z movement reinforces this imbalance. The country has no shortage of youthful anger. But the Army's instrumentalisation of religious nationalism and the ever-expanding state control over society have prevented that frustration from coalescing into a nationwide democratic movement comparable to those witnessed elsewhere in South Asia.

The Pakistan army is well placed to get what it wants. Yet Rawalpindi's ability to deliver positive change is limited. The reforms pushed by the army over the decades have been less about strengthening institutions than about concentrating greater authority in its own hands. The justification remains the same — that civilian politicians are corrupt and incompetent.

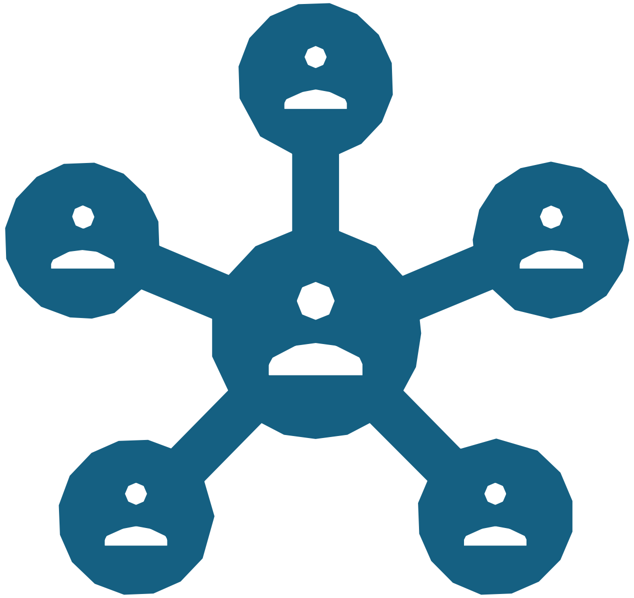
While the army's political power has steadily expanded, its capacity to generate broader social and economic gains has always fallen short. History offers many examples of authoritarian regimes that have delivered sustained economic growth. Pakistan is not one of them. Despite privileged ties with the world's leading economic powers, the US and now China, and close association with the oil-rich Gulf states, Pakistan has been on the path of economic decline over the last three decades.

There is little evidence to suggest that giving still greater authority to the field marshal will produce dramatically different outcomes. Pakistan's civilian leaders surely know this, but can they summon the will for collective action? While there is a murmur of dissent against Munir's plans, few would bet on Pakistan's political parties to prevail.

Pakistan's predicament offers a wider lesson. If there is no meaningful resistance to the dominant political force and its regressive ideology, societies have to endure prolonged stagnation and repeated humiliation. Resistance certainly imposes immediate costs. Yet it is also the mechanism through which institutions recover their balance and political systems renew themselves.

The writer is a contributing editor on international affairs for The Indian Express. He is also the distinguished professor at the Motwani Jadeja Institute of American Studies, Jindal Global University and the Korean Foundation Chair on Asian geopolitics at Council on Strategic and Defense Research, New Delhi

- Key Terms and Explanations
  - **Gen Z Political Mobilisation:** This refers to the emerging phenomenon where the younger generation is acting as an unexpected force for political change across South Asia, successfully driving unprecedented transformations in neighboring nations. In this context, it represents the potential of youth to disrupt stagnant political systems.
  - **Institutionalisation of Military Predominance:** A strategic evolution in civil-military relations where armed forces shift away from traditional, extra-constitutional military coups and instead attempt to embed their authority directly within the established constitutional framework of a nation.
  - **Charter of Democracy (2006):** A landmark political agreement signed by rival civilian leaders recognizing the destructive nature of repeated military interventions. It serves as a historical example of political parties attempting to unite and stop inviting the military into their partisan battles to protect democratic integrity.
  - **Instrumentalisation of Religious Nationalism:** The strategic use of religious sentiments and expanding state control by a dominant political or military establishment. This tool is actively used to prevent widespread public frustration from coalescing into a unified, nationwide democratic movement.
  - **Fiscal Federalism Revision:** The restructuring of how financial resources and administrative powers are shared between the central government and provincial units. In authoritarian contexts, this is often manipulated to break up existing provinces and vest greater authority in the center.



- **Main Arguments and Substantive Parts**
  - **The Paradox of Youth Demographics:** While neighboring nations are experiencing political upheaval driven by their youth, specific countries in the subcontinent remain stagnant despite sharing similar youthful demographics and experiencing even deeper economic anxieties. Pervasive state dominance and extensive control over society make popular mobilization exceptionally difficult.
  - **Evolution from Coups to Constitutional Control:** The traditional blueprint of interrupting constitutional politics through direct military coups is being replaced by a more ambitious project. The new strategy focuses on institutionalizing predominance by revising political structures, potentially breaking up provinces, and concentrating power in the center through preferred technocrats.
  - **The Complicity of Civilian Leadership:** A core thesis is that civilian political parties are largely responsible for their own marginalization. In their endless internecine struggles, they repeatedly turn to the military to gain a tactical advantage over political rivals. This fatal reliance allows the military establishment to install and uninstall civilian governments at will.
  - **The Failure of Authoritarian Economic Models:** History demonstrates that while some authoritarian regimes have delivered sustained economic growth, a political system heavily dominated by its military without strong independent institutions fails to achieve this. Despite maintaining privileged ties with global economic powers like the US and China, as well as oil-rich Gulf states, the over-centralization of power has resulted in a continuous path of economic decline over the last three decades.

- **Historical Evolution of the Issue**
  - **The Era of Direct Interventions:** Historically, the political trajectory of the region was characterized by overt and repeated interruptions of democratic processes. Power was seized directly through military coups led by successive field marshals and generals who suspended the constitution to establish control.
  - **The Brief Democratic Awakening:** A pivotal milestone occurred in 2006 when fierce civilian political rivals momentarily recognized the systemic damage caused by military overreach. They signed a historic charter, promising to stop seeking the military's help in partisan disputes, offering a brief window of hope for civilian supremacy.
  - **The Reversion to Patronage Politics:** This moment of collective resolve was short-lived. Major political leagues and parties soon succumbed to familiar temptations, reverting to the practice of seeking tactical advantages through military patronage, ultimately becoming victims of the very system they helped empower.
  - **The Contemporary Strategic Overhaul:** Currently, the issue has evolved from direct military rule to a phase of structural manipulation. The dominant military force is now designing blueprints for revised political and federal structures, expecting a weakened, divided civilian parliament to provide a veneer of constitutional approval.

As Gen Z leads change in Subcontinent, is Pakistan doomed to be the exception?

GEN Z POLITICAL MOBILIZATION & THE SUBCONTINENT: WHY IS PAKISTAN THE EXCEPTION? — A Comprehensive UPSC/APSC Analysis by AXIA IAS ACADEMY

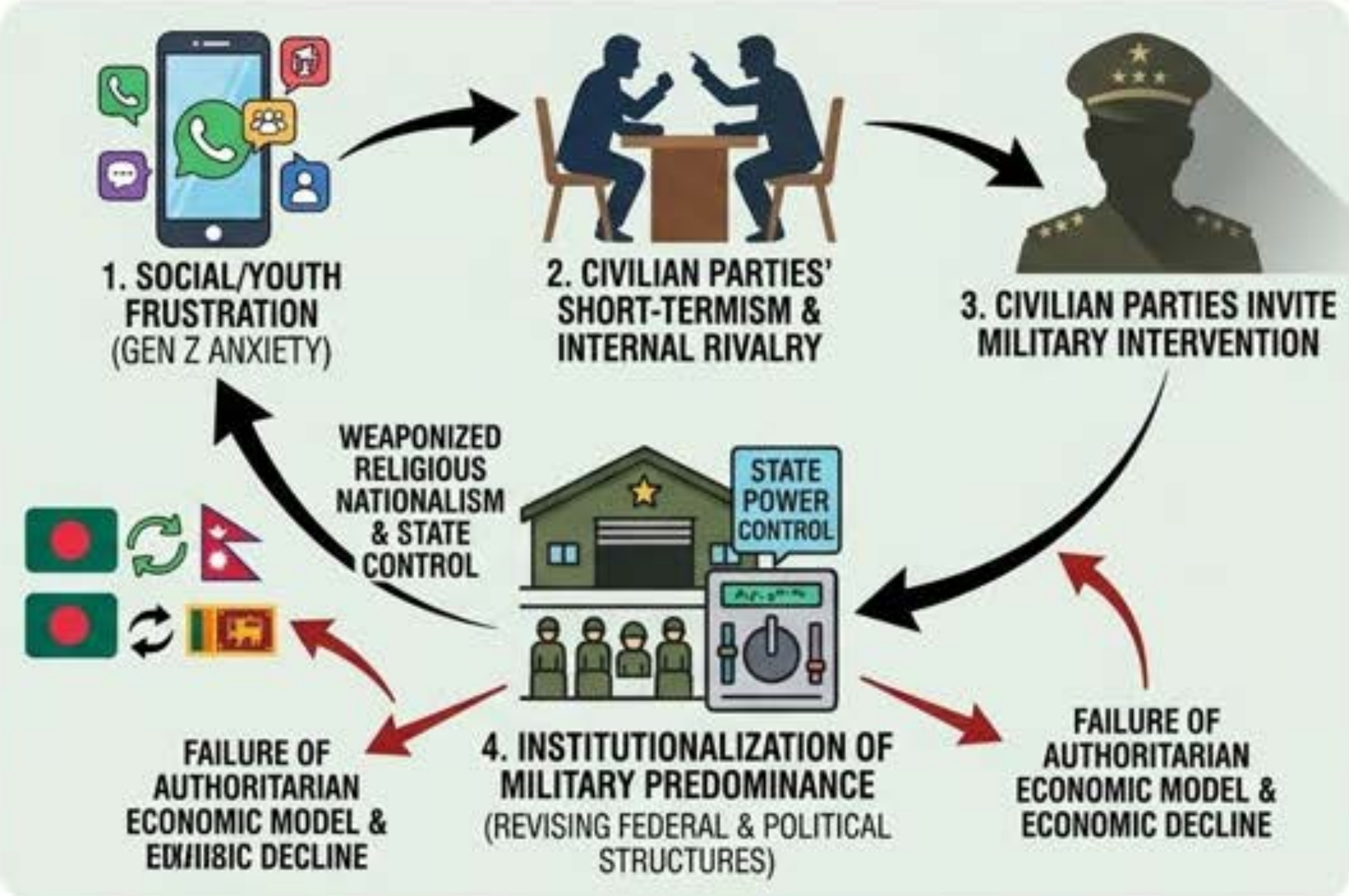
THE POLITICAL-ECONOMIC CYCLE OF PAKISTAN'S MILITARY DOMINANCE

GEN Z: REGIONAL TREND vs. PAKISTAN:
- Key Contrasts
- Point-wise details from text

MILITARY STRATEGY EVOLUTION:
- Direct Coups to Constitutional Embedding
- Point-wise details

CIVILIAN PARTIES' COMPLICITY:
- Lack of Collective Action
- Short-termism
- Point-wise details

MULTI-DIMENSIONAL ANALYSIS:
- Social, Political
- Legal Dimensions
- Point-wise points



MULTI-DIMENSIONAL ANALYSIS:
- Social, Political, Legal Economic Dimensions
- Point-wise points

HISTORICAL TIMELINE:
- Pre-Independence to Present
- Charter of Democracy (2006)
- Point-wise events

APSC FOCUS:
- Regional Instability & Assam's Strategic Concerns (Border, Security, Act East)

WAY FORWARD:
- Necessary Reforms for Renewal
- Principled Civilian Consensus
- Point-wise solutions

- **Logical and Philosophical Base**
  - **The Principle of Resistance and Renewal:** The fundamental philosophical argument rests on the idea that meaningful resistance to regressive ideologies and dominant political forces is absolutely necessary for societal health. While resistance imposes immediate costs, it is the essential mechanism through which political systems recover their balance and institutions renew themselves.
  - **The Fallacy of Centralized Efficiency:** The underlying logic actively challenges the justification often used by military establishments: that civilian politicians are inherently corrupt and incompetent, necessitating centralized military authority. The counter-logic demonstrates that concentrating authority without strengthening democratic institutions inevitably leads to prolonged stagnation and repeated national humiliation.
  - **The Tragedy of the Commons in Politics:** The political dynamics described operate on a classic collective action problem. Civilian leaders rationally, but destructively, prioritize their immediate, short-term survival and partisan gains over the long-term, collective necessity of building an independent democratic framework.

- **Multidimensional Analysis**
  - **Social Dimension:** There is a profound disconnect between the immense youth frustration born from economic anxiety and their inability to drive systemic change. State control and the active weaponization of religious nationalism act as immense social barriers, preventing localized anger from merging into a cohesive democratic movement.
  - **Political Dimension:** The political landscape is defined by an extreme imbalance of power. Civilian institutions are systematically hollowed out by their own infighting, rendering parliament incapable of mounting a united opposition against the military's blueprint for governance.
  - **Legal & Constitutional Dimension:** The threat to democracy has moved from the battlefield to the legislature. The push to revise fiscal federalism, break up administrative provinces, and legally vest greater authority in a centralized command represents a sophisticated constitutional embedding of non-democratic power.
  - **Ethical Dimension:** A deep ethical crisis exists within the political leadership. The willingness of civilian parties to compromise democratic principles and sacrifice constitutional integrity merely to outmaneuver political rivals represents a profound moral failure in public leadership.
  - **International Dimension:** Global geopolitics often inadvertently supports domestic authoritarianism. When foreign administrations show warmth to military leaderships and international media validates them as strategic geniuses, it emboldens the military establishment to further tighten its grip on the domestic polity.
  - **Economic Dimension:** The economic analysis reveals a stark reality: geopolitical rents and international alliances do not substitute for robust domestic institutions. Decades of prioritizing military dominance over institutional economic strengthening have trapped the nation in a relentless cycle of economic decline.

- **Linkages with NCERTs**
  - **Class 12 Political Science (Contemporary World Politics):** The chapter on *'Contemporary South Asia'* is fundamental here. It details the complex civil-military relations, the historical struggles for democratization in the region, and provides the exact historical context for why the military retains structural dominance in certain neighboring states.
  - **Class 11 Political Science (Indian Constitution at Work):** The chapters on *'Federalism'* and *'Legislature'* are critical for analyzing the constitutional aspects of this issue. They help students visualize the dangers of altering fiscal federalism to over-centralize power and the consequences of a legislature becoming subordinate to executive or military dictates.
  - **Class 10 Political Science (Democratic Politics II):** The chapter on *'Political Parties'* perfectly maps onto the collective action failure discussed. It highlights the indispensable role of principled political parties in deepening democracy and the systemic risks that arise when parties prioritize short-term rivalries over democratic consolidation.

Linkages with UPSC CSE Syllabus

- **General Studies Paper 2 (International Relations):** *India and its neighborhood-relations.* The internal political stability, structural dominance of the military, and economic trajectory of a nuclear-armed neighbor have immediate and profound implications for India's foreign policy, border security, and regional stability.
- **General Studies Paper 2 (Indian Polity & Constitution):** *Comparison of the Indian constitutional scheme with that of other countries.* Analyzing how a neighboring state's military seeks to institutionalize its power within the constitution provides a stark comparative contrast to India's successful consolidation of civilian supremacy and cooperative federalism.
- **General Studies Paper 4 (Ethics, Integrity, and Aptitude):** *Probity in Governance and Ethical concerns in government institutions.* The phenomenon of political parties continuously compromising democratic values and turning to non-democratic forces for tactical gains serves as a primary case study in the breakdown of political ethics and institutional integrity.
- **Political Science and International Relations (PSIR) Optional:** *Paper 2 - State Dynamics and Political System in South Asia.* This directly addresses the syllabus points regarding the political economy of neighboring countries, the crisis of governability, and the enduring role of the military and bureaucracy in subverting democratic transition.

- **Way Forward**
  - **Fostering a Principled Political Consensus:** Civilian political factions must prioritize long-term institutional health over short-term partisan victories. A renewed, binding agreement akin to a modernized Charter of Democracy is essential to create a united front against any non-democratic institution attempting to rewrite the constitutional framework.
  - **Institutionalizing Civilian Supremacy:** Constitutional safeguards must be heavily fortified to prevent the centralization of fiscal and administrative powers. Reforms should focus on decentralizing authority to provinces and ensuring that parliament remains the sole architect of national political structures.
  - **Decoupling State and Religion:** To allow organic, youth-driven democratic movements to flourish, civil society and the judiciary must actively counter the state's instrumentalisation of religious nationalism. Political discourse must be forcibly realigned toward immediate socio-economic grievances and institutional accountability.
  - **Recalibrating International Engagement:** The global democratic community should adopt a condition-based diplomatic approach. International partnerships and economic assistance must be strictly tethered to the strengthening of civilian institutions and democratic processes, rather than offering unconditional legitimacy to military establishments.

- **Previous Years' UPSC and APSC Questions**
  - **UPSC Prelims 2017 (Conceptual):** "Democracy's superior virtue lies in the fact that it calls into activity (a) the intelligence and character of ordinary men and women. (b) the methods for strengthening executive leadership. (c) a superior individual with dynamism and vision. (d) a band of dedicated party workers." *(This highlights the core tension between youth mobilization and centralized executive/military control).*
  - **UPSC Prelims 2021 (Conceptual):** "We adopted parliamentary democracy based on the British model, but how does our model differ from that model? 1. As regards legislation, the British Parliament is supreme or sovereign but in India, the power of the Parliament to legislate is limited. 2. In India, matters related to the constitutionality of the Amendment of an Act of the Parliament are referred to the Constitution Bench by the Supreme Court." *(Useful for comparing constitutional frameworks and civilian supremacy).*
  - **UPSC Mains GS 2 (2013):** "The proposed withdrawal of International Security Assistance Force (ISAF) from Afghanistan in 2014 is fraught with major security implications for the countries of the region. Examine in light of the fact that Pakistan is faced with a plethora of challenges and needs to put its own house in order."
  - **UPSC Mains GS 2 (2015):** "Terrorist activities and mutual distrust have clouded India-Pakistan relations. To what extent the use of soft power like sports and cultural exchanges could help generate goodwill between the two countries?" *(Contextualizing regional stability amidst internal democratic deficits).*
  - **APSC Mains GS 2 (State Specific Dynamics):** While specific APSC questions vary by year, recurring themes include asking candidates to evaluate the impact of political and economic instability in neighboring nations (like Bangladesh, Myanmar, and Pakistan) on Assam's internal security, border management, and India's overall Act East Policy.

V SHUNMUGAM

Why GIFT City needs to enable dual listing

GLOBAL COMPETENCE. It will help attract foreign investors, and thereby position GIFT City as a favoured choice for cross-border equity access in Asia

On July 14, 2026, the International Financial Services Centres Authority (IFSCA) released a consultation paper proposing that companies list equity shares on GIFT City exchanges without a traditional public offer. It cites Spotify, Slack, and Coinbase as precedents and sets a minimum post-listing market capitalisation of $50 million. But the more consequential question it raises is why, after six years of institution-building, GIFT City still has no secondary equity market with assets that foreign investors choose to hold within it for its own sake.

Examining the GIFT City markets ecosystem, the key figures are familiar but worth restating. As of March 2026, the assets of the International Banking Unit reached $111 billion, up from $88.51 billion in March 2025, a rise of about 25.4 per cent year-on-year. Fund Management Entities grew from 162 to 217 within this period, and registered funds or schemes totalled 360. Non-retail schemes raised a total of $39.09 billion in commitments, compared to $15.74 billion a year earlier — an increase of roughly 148 per cent. However, the data on capital deployment highlights the underlying structure: $15.36 billion of investments went into India and $1.59 billion abroad, totalling $16.95 billion. GIFT City efficiently channels capital, but unless it generates assets held by foreign investors, it remains a corridor rather than a true market.

IFSCA's efforts to build a listed equity market have met a lukewarm response, and the reason is structural. Currency and commodity derivatives at GIFT City faced a market already served by CME Group, ICE, and LME — venues with decades of incumbency that regulation cannot replicate. The equity secondary market faces the same problem: intermediaries at GIFT IFSC — custodians, depository participants, and broker-dealers — exist only as a framework and are very thin in practice. The regulation is present; the global-standard plumbing is not.

THE COLD-START PROBLEM

The direct listing paper, as mentioned in the consultation paper, starts from the harder end. An unlisted company arriving at GIFT City has no price history, no index membership, and no existing shareholder base. Foreign institutional allocators deploy through screens that require trading history, analyst coverage, and liquidity benchmarks. A company meeting a $50 million capitalisation threshold at listing may not pass any of those filters on day one. Direct listing of unlisted issuers is a building block; it could not be a foundation for a secondary equity market.

Instead, dual listing enables companies already traded on NYSE, Nasdaq, or LSE to also list at GIFT City using a fungible share or depository receipt. The investor base is established, and prices are already determined in a robust primary market. Companies have already filed disclosures under IFRS or US GAAP. This approach doesn't require capital to discover new information; instead, it allows existing holders of a known instrument to transact at GIFT City, leveraging a time-zone advantage.

Dual listing enables companies already traded on NYSE, Nasdaq, or LSE to also list at GIFT City using a fungible share or depository receipt

The evidence worldwide is clear. Alibaba's secondary listing in Hong Kong in November 2019 raised $11.3 billion and achieved a first-day trading volume of $1.78 billion, accounting for over 20 per cent of HKEX's total that day. By mid-2022, the average daily trading volume in Hong Kong was $0.7 billion, compared to $3.2 billion in the US. This represents about 22 per cent of global trading volume, offering Asian investors access to a familiar market for a stock they already owned. The London Stock Exchange's International Secondary Listings category allows non-UK companies to access London markets without bearing full UK disclosure requirements — which is a model IFSCA could consider adopting.

COLLATERAL UPSIDE

A dual-listed equity market at GIFT City would benefit more than just the exchange. Custodians managing foreign-investor holdings require dollar-denominated infrastructure, daily MTM reporting, and standard margining. These enhancements would elevate GIFT City's custody services from a licensed setup to a globally operational business. Depository participants would handle DVP (delivery versus payment) transactions, which are absent in a derivatives-dominated marketplace. Broker-dealers would establish research and market making desks aligned with the Asia-Europe time zone. Meanwhile, legal and fintech firms specialising in multi-jurisdictional disclosure and order routing would find a strong commercial base in GIFT City, rather than in Singapore or Dubai. Ecosystem growth depends on ongoing, commercially viable activity driven by consistent demand for services.

WHAT IFSCA MUST NOW DO

IFSCA should develop a dual listing framework that runs in parallel, featuring an International Secondary Listings category. This category would require a qualifying primary listing on a recognised global exchange, along with IFRS/USGAAP financial statements. It should also include a fungible mechanism to prevent price divergence. A simple information document — rather than a full prospectus — should be acceptable if the primary exchange mandates continuous disclosure. Settlement must align with global prime-brokerage standards, including T+1 in dollar, DVP-based clearing, seamless Central Securities Depository (CSD) connectivity, and integration with global custodians. Finally, bilateral regulatory cooperation/understanding with home-market regulators must be established before any dual-listed company begins trading.

GIFT City was envisioned as a marketplace rather than a simple pass-through. The recent listing announcement indicates IFSCA recognises what yet needs to be addressed. Enabling dual listings of internationally traded securities brings proven liquidity, enhances the ecosystem, and provides foreign investors with an equity asset class within GIFT City jurisdiction that is worth holding and trading in the Indian time zone.

The intermediary community at GIFT IFSC must develop true global competence — not just be licensed but meet the high standards expected by sovereign wealth funds and pension managers. IFSCA should establish binding benchmarks for settlement timelines, reporting standards, and system integration. Ultimately, dual listing, globally capable intermediaries, and a regulatory regime will position GIFT City as the first choice for cross-border equity access in the Asian time zone.

The writer is Partner, MCQube

- **Key Terms and Explanations**
  - **International Financial Services Centre (IFSC) & IFSCA**: An IFSC is a dedicated financial zone within a country that caters to customers outside the jurisdiction of the domestic economy, dealing in foreign currency transactions. The International Financial Services Centres Authority (IFSCA), established under the IFSCA Act 2019, acts as a unified statutory regulator for financial products, services, and institutions within India's IFSC at GIFT City (Gujarat).
    - *Example*: While domestic stock exchanges like the BSE or NSE operate in Indian Rupees (INR) for domestic investors, exchanges in GIFT IFSC operate primarily in foreign currencies (such as USD) for global investors.
  - **Dual Listing / Secondary Listing**: A corporate action where a company lists its equity shares on two or more stock exchanges simultaneously. A secondary listing allows a firm already listed on a primary global exchange (e.g., NYSE or Nasdaq) to list on a secondary exchange (e.g., GIFT City) without going through a fresh Initial Public Offering (IPO).
    - *Example*: A tech firm listed on the New York Stock Exchange (NYSE) issuing fungible depository receipts to be traded on GIFT City's international exchange.
  - **Cold-Start Problem in Equity Markets**: A structural market failure where a newly established trading venue struggles to attract trading volume because it lacks pre-existing liquidity, price discovery mechanisms, historical analyst coverage, and index representation.
    - *Example*: An unlisted firm listing directly on a brand-new international exchange faces zero investor demand because institutional investors cannot price the asset accurately without historical trading data.
  - **Fungible Shares and Depository Receipts**: Depository Receipts (DRs) are negotiable financial instruments issued by a bank representing foreign shares held in a local custodial account. Fungibility means these instruments can be freely converted back and forth into underlying shares across jurisdictions without price friction.
    - *Example*: An American Depository Receipt (ADR) or Global Depository Receipt (GDR) that can be bought in GIFT City in USD and converted seamlessly into the underlying stock listed in London or New York.
  - **Delivery versus Payment (DvP) and T+1 Settlement**: DvP is a settlement safeguard ensuring that the final transfer of a security occurs if and only if the final payment occurs. T+1 settlement means that transactions concluded on a given day are fully settled within one business day.
    - *Example*: An institutional fund buying global equity receipts at GIFT City receives cleared ownership within 24 hours, eliminating the counterparty risk of the seller defaulting on the security delivery.
  - **Mark-to-Market (MTM) and Margining**: Financial risk management tools where assets are valued daily based on current market prices (MTM), and traders must post collateral (margins) to cover potential losses from daily price fluctuations.

- **Main Arguments and Substantive Parts**
- **The Pass-Through Paradox of GIFT City**
- GIFT City has registered significant scale in primary capital intermediation, but it currently operates primarily as a transit corridor rather than a true asset-holding offshore hub.
  - By early 2026, International Banking Unit (IBU) assets reached $111 billion, and non-retail scheme commitments grew to $39.09 billion.
  - Out of $16.95 billion in capital deployment, $15.36 billion flowed directly into domestic Indian assets and $1.59 billion abroad.
  - Despite these inflows, foreign investors do not hold or trade secondary equity assets within GIFT City for its own sake, leaving the secondary market ecosystem thin.
- **The Failure of Direct Listing for Unlisted Entities**
- Expecting unlisted foreign or domestic companies to undertake direct listings in an emerging offshore exchange creates a severe liquidity bottleneck.
  - Unlisted companies lack established price histories, index inclusion, equity research coverage, and active shareholder bases.
  - Global institutional asset allocators rely on automated screening filters that disqualify assets lacking high daily trading volume and analytical coverage.
  - Attempting to build a secondary market solely through direct listings forces new issuers to overcome the "cold-start" friction, yielding minimal trading activity.
- **Dual Listing as a Strategic Bridge**
- Allowing secondary listings of companies already traded on mature platforms (such as the NYSE, Nasdaq, HKEX, or LSE) bypasses the price-discovery hurdle.
  - Dual listing leverages pre-established global valuations, robust disclosures under international financial reporting standards (IFRS/US GAAP), and existing investor confidence.
  - Investors in the Asian time zone can trade recognized global assets locally without waiting for Western markets to open.
  - Historical precedents validate this model: Alibaba's secondary listing on the Hong Kong Stock Exchange (HKEX) in 2019 raised $11.3 billion and generated substantial daily trading volume ($0.7 billion daily vs. $3.2 billion in the US by 2022). Similarly, the London Stock Exchange uses its International Secondary Listings framework to attract foreign issuers with streamlined disclosure mandates.
- **Institutional Infrastructure and Intermediary Depth**
- Developing a secondary equity venue requires an operational foundation of specialized market intermediaries.
  - A thriving secondary market requires active custodians, market makers, research desks, and broker-dealers capable of real-time valuation and order routing across time zones.
  - Global custodians require robust dollar-denominated clearing, daily Mark-to-Market (MTM) reporting, and standardized margining protocols.
  - Introducing Delivery versus Payment (DvP) settlement models in a derivatives-dominated market provides the security required by sovereign wealth funds and global pension managers.

- **Historical Evolution of the Issue**
  - **Post-1991 Liberalization Era**: Following the balance of payments crisis, India relied on Foreign Institutional Investment (FII) and overseas Depository Receipts (ADRs/GDRs) to access foreign equity capital. Offshoring of Indian financial trading shifted to global financial centers like Singapore (SGX), London (LSE), and Dubai (DIFC) due to capital controls under FEMA and domestic transactional taxes.
  - **The High-Level Committee Recommendations (2007–2008)**: The Percy Mistry Committee Report (2007) on Making Mumbai an International Financial Centre and the Raghuram Rajan Committee Report (2008) highlighted the economic drag of exporting financial services. They advocated establishing an offshore financial center on Indian soil to re-shore financial trading, deepen capital markets, and facilitate cross-border capital flows.
  - **Establishment of GIFT IFSC (2015)**: The Government of India designated Gujarat International Finance Tec-City (GIFT City) as India's premier IFSC under the Special Economic Zones Act, 2005. Initial capital market attempts involved setting up international exchanges—India INX and NSE IX—focused primarily on index and currency derivatives.
  - **Unified Regulatory Era (2019–2023)**: Parliament passed the International Financial Services Centres Authority Act, 2019, creating IFSCA in 2020 as a single-window regulator replacing multi-body oversight (SEBI, RBI, IRDAI, PFRDA). Key structural milestones included the launch of the NSE IX-SGX Connect in 2023, which successfully re-shored trading in Nifty derivatives from Singapore to GIFT City.
  - **Transition to Equity Market Maturity (2024–2026)**: By mid-2026, while fund management and banking units achieved massive asset accumulation ($111 billion in IBU assets), the lack of secondary equity market depth prompted IFSCA's July 2026 consultation paper proposing direct and dual-listing mechanisms to transition GIFT City from a capital conduit into an asset-holding hub.

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+91 6002-417488
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GIFT CITY DUAL LISTING: A STRATEGIC UPLIFT

CURRENT CHALLENGES & KEY TERMS

(1. Pass-through Paradox
- IBU assets \$111B, but \$15.36B flow into India.
- Corridor, not asset hub.

(2. Cold-Start Problem
- Unlisted firms have no history/research.
- Institutional funds can't screen.

(3) Key Terms

IFSC/IFSCA
Unified offshore regulator

Dual Listing
listing on 2+ exchanges

Fungibility
negotiable instruments convertible across venues

THE DUAL LISTING BRIDGE

EXISTING GLOBAL EXCHANGE

NYSE LSE Nasdaq

Established Liquidity, Pricing, Research

DUAL LISTING BRIDGE

GIFT CITY

Asia Time Zone Access

Asian Time Zone Traders

EXISTING GLOBAL EXCHANGE

GIFT CITY SECONDARY MARKET

Alibaba example (HKEX 2019): \$11.3B raised, \$0.7B daily vol

IMPACTS & PATH FORWARD

(4) Multidimensional View
- Economic - Capital Depth
- Political - Geo-economic Stature
- Social - Brain Drain Reversal

(5) Way Forward
- Create 'International Secondary Listings' category.
- Parallel framework.
- Simplified info document with IFRS/US GAAP disclosures.
- T+1 dollar-denominated clearing.
- DvP settlement standard.

EXAM RELEVANCE & PYQ THEMES

(6) UPSC & APSC Linkages
- **GS3 Economy** - Resource mobilization, financial reforms
- **GS2 Governance** - Statutory Regulators
- **GS4 Ethics** - Corporate Governance

(7) NCERT Linkages
- Class 12 Macro/BSt
- Class 11 IED Ch3

(9) PYQ THEMES (UPSC & APSC)
- Mobilization of resources (UPSC 2023)
- **Re-shoring** Indian financial services (UPSC 2021)
- Deep markets bottlenecks (UPSC 2017)
- IFSC role in regional development (APSC 2023)

- **Logical and Philosophical Base**
- **The Logic of Network Externalities and Path Dependency**
- Capital markets operate under strong network effects: liquidity attracts liquidity.
- $\text{Market Liquidity} \propto f(\text{Trading Volume}, \text{Analyst Coverage}, \text{Participant Density})$
- An exchange with low trading volume inherently suffers from higher bid-ask spreads, discouraging new participants. The proposal for dual listing accepts this economic reality by borrowing liquidity and valuation benchmarks from established primary venues (e.g., New York or London) rather than attempting to generate liquidity out of thin air.
- **Financial Sovereignty vs. Global Integration**
- The philosophical foundation balances regulatory sovereignty with international economic openness. Historically, Indian companies sought capital abroad, transferring regulatory oversight to foreign jurisdictions. Creating an offshore financial center on domestic soil allows India to exercise jurisdictional oversight over international capital flows while providing global investors a familiar, dollar-denominated operational ecosystem.
- **Pragmatic Regulatory Architecture**
- The underlying governance philosophy shifts from prescriptive, prohibition-heavy domestic regulation to an agile, principles-based framework tailored for cross-border capital. By accepting continuous disclosures under recognized frameworks (such as IFRS or US GAAP) and replacing cumbersome full prospectuses with streamlined information documents for secondary listings, the regulator prioritizes operational efficiency while maintaining investor protection standards.

- **Multidimensional Analysis**
- **Social Dimension**
  - **Reversal of Brain Drain**: Establishing a high-end financial services ecosystem creates specialized employment in investment banking, financial analysis, asset management, and risk compliance, retaining top-tier domestic talent.
  - **Financial Sophistication**: Expands the exposure of domestic professionals to international corporate governance practices and complex multi-jurisdictional financial instruments.
- **Political Dimension**
  - **Geo-economic Stature**: A functioning international financial center elevates India's role in the global financial architecture, transforming the nation from a recipient of foreign capital into a global financial manager.
  - **Cooperative Federalism and Governance**: Demonstrates the viability of statutory autonomous regulators (IFSCA) executing specialized financial policies alongside state-level infrastructure initiatives.
- **Legal Dimension**
  - **Cross-Border Regulatory Harmonization**: Requires bilateral Memorandums of Understanding (MOUs) and regulatory coordination mechanisms between IFSCA and global market regulators (e.g., US SEC, UK FCA) to handle insider trading and market manipulation across borders.
  - **Jurisdictional Clarity**: Navigates legal friction points regarding share fungibility, tax treaty interpretations, cross-border dispute resolution, and foreign investor rights under domestic law.
- **Ethical Dimension**
  - **Protection of Retail and Pension Funds**: Balancing light-touch regulatory frameworks designed to attract foreign capital with ethical obligations to protect underlying investors from opaque corporate governance structures.
  - **Preventing Arbitrage Exploitation**: Ensuring that dual-listing structures are not exploited for round-tripping, trade mis-invoicing, or regulatory arbitrage that evades domestic capital control frameworks.
- **International Dimension**
  - **Strategic Time-Zone Advantage**: Fills the critical operational trading gap between the close of East Asian markets (Tokyo, Hong Kong) and the opening of European and American exchanges (London, New York).
  - **Global Competition**: Positions GIFT City against established offshore centers like Singapore (SGX), Dubai (DIFC), and Hong Kong (HKEX), shifting the competitive dynamic from pure cost arbitrage to institutional competence.
- **Economic Dimension**
  - **Transitioning from Corridor to Asset Hub**: Transforms GIFT City from a mere pass-through channel for inward foreign investment into a platform holding long-term secondary equity assets.
  - **Lowering Capital Costs**: Enhances liquidity and access to a broader investor base, reducing the cost of equity capital for international and domestic firms expanding cross-border operations.

- **Linkages with NCERTs**
  - **Class 12 Macroeconomics — Chapter 6: Open Economy Macroeconomics**
    - *Context*: Discusses the Balance of Payments (BoP), capital account transactions, foreign direct investments (FDI), and foreign portfolio investments (FPI).
    - *Relevance*: Explains how an IFSC operates outside the domestic tariff and exchange control zone to manage capital inflows and outflows, impacting a nation's capital account dynamics.
  - **Class 12 Business Studies — Chapter 10: Financial Markets**
    - *Context*: Details the functions of primary markets, secondary stock exchanges, money markets, and financial intermediaries (custodians, brokers, depositories).
    - *Relevance*: Directly addresses the mechanics of trading, price discovery, settlement processes (T+1, DvP), and how secondary market liquidity differs from primary capital raising.
  - **Class 11 Indian Economic Development — Chapter 3: Liberalisation, Privatisation and Globalisation: An Appraisal**
    - *Context*: Covers financial sector reforms introduced during the 1991 LPG initiatives, including deregulation, foreign investment limits, and exchange rate management.
    - *Relevance*: Illustrates the modern evolution of post-1991 reforms, moving from basic capital attraction toward developing advanced, globally integrated offshore capital trading venues.

- **Linkages with UPSC CSE Syllabus**
- **GS Paper 3: Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development, and Employment**
  - **Capital Market Mobilization**: Mechanics of converting pass-through foreign capital flows into sustained secondary market investment.
  - **Financial Infrastructure**: Operational setup of IFSCs, international depositories, T+1 settlement networks, and market-making mechanisms.
  - **Global Integration**: Structural policies for attracting global pension funds, sovereign wealth funds, and institutional allocators.
- **GS Paper 2: Governance, Regulatory Bodies, and Policy Framing**
  - **Role of Statutory Regulators**: Assessment of IFSCA's performance as a unified regulator compared to traditional sectoral regulators (SEBI, RBI).
  - **Ease of Doing Business**: Streamlining cross-border listing disclosures, prospectus requirements, and bilateral regulatory MOUs.
- **GS Paper 4: Ethics and Corporate Governance**
  - **Market Integrity vs. Fast-Track Deregulation**: Ethical issues concerning reduced prospectus requirements for dual-listed companies and protecting retail/institutional investors from fraud.
  - **Conflict of Interest & Regulatory Arbitrage**: Mitigating risks of cross-border financial malpractices, illegal round-tripping, and shadow banking operations.
- **Essay and Optional Subject Relevance**
  - **Essay Topics**: "India's Journey from Capital Importer to Global Financial Leader," or "Financial Infrastructure as a Catalyst for Economic Growth."
  - **Economics Optional (Paper II)**: Financial sector reforms post-1991, external sector management, capital account convertibility debates.
  - **Commerce & Accountancy (Paper II)**: Financial markets, valuation of equity instruments, cross-border corporate listing strategies, IFRS implementation.

- **Way Forward**
- **Formalize a Streamlined Dual-Listing Regulatory Category**
- IFSCA should establish an **"International Secondary Listings"** category operating alongside the primary listing framework.
  - Permit secondary listings for foreign or domestic firms that already possess a primary listing on a recognized major global exchange.
  - Replace full prospectus requirements with a streamlined, short-form information document, provided the issuer remains compliant with continuous disclosure mandates on its primary exchange under IFRS or US GAAP.
- **Enhance Market Infrastructure and Settlement Protocols**
- Transition the operational plumbing to match global prime-brokerage standards.
  - Implement robust **Delivery versus Payment (DvP)** clearing and T+1 dollar-denominated settlement protocols to eliminate counterparty risk for global investors.
  - Establish seamless connectivity with Central Securities Depositories (CSDs) and Tier-1 global custodians to ensure friction-free cross-border asset transfers.
- **Build the Financial Intermediary Ecosystem**
- Incentivize global financial intermediaries to establish operational desks within GIFT City rather than serving clients from Dubai, Singapore, or London.
  - Offer targeted fee structures, competitive operational costs, and licensing ease for global broker-dealers, market makers, equity research firms, and custodial institutions.
  - Foster an active local community of market analysts to provide coverage for listed equities, resolving the analytical coverage deficit.
- **Establish Bilateral Regulatory Frameworks**
- Secure formal bilateral cooperation agreements and information-sharing MOUs between IFSCA and major market regulators (e.g., US SEC, UK FCA, HKEX, MAS).
  - Ensure regulatory enforcement capabilities for cross-border market manipulation, insider trading, and trade surveillance.
  - Establish clear legal mechanisms to prevent price divergence and arbitrage between the primary exchange and the GIFT City secondary listing venue.

- **UPSC CSE Mains Questions**
  - **2023 (GS Paper 3)**
    - *Question*: "Faster economic growth requires increased mobilization of resources and efficient financial intermediation." Examine this statement in the context of recent reforms in India's capital and banking markets. *(15 Marks, 250 Words)*
    - *Core Focus*: Resource mobilization, role of capital market infrastructure, financial sector reforms.
  - **2021 (GS Paper 3)**
    - *Question*: Discuss the significance of Indian International Financial Services Centres (IFSCs) in re-shoring Indian financial services traded in foreign jurisdictions. What regulatory challenges must be addressed to compete with global financial hubs like Singapore and Dubai? *(15 Marks, 250 Words)*
    - *Core Focus*: GIFT City, re-shoring financial trading, cross-border regulatory harmonization.
  - **2019 (GS Paper 3)**
    - *Question*: Explain the structural impediments facing the deepening of corporate bond and equity markets in India. How do international financial centers assist in diversifying funding sources for domestic infrastructure? *(10 Marks, 150 Words)*
    - *Core Focus*: Market depth, corporate finance, alternative funding venues.
  - **2017 (GS Paper 3)**
    - *Question*: What are the key bottlenecks in transitioning from primary capital attraction to building deep secondary financial markets in emerging economies? Suggest policy measures to overcome these hurdles. *(15 Marks, 250 Words)*
    - *Core Focus*: Secondary market liquidity, market market-making, infrastructure reforms.
- **APSC CCE Mains Questions**
  - **2023 (GS Paper 3)**
    - *Question*: Analyze the role of International Financial Services Centres (IFSCs) in promoting foreign portfolio investment and accelerating economic development in India. *(10 Marks, 150 Words)*
    - *Core Focus*: IFSC impact on economic growth, foreign portfolio inflows.
  - **2022 (GS Paper 3)**
    - *Question*: "Developing strong institutional infrastructure is essential for building robust capital markets." Discuss with reference to clearing, settlement, and custodial services in financial hubs. *(15 Marks, 250 Words)*
    - *Core Focus*: Intermediary ecosystems, settlement mechanisms, financial infrastructure.

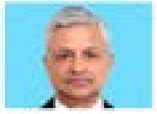
NATO enters a new strategic era of transformation

For the first time since the creation of the North Atlantic Treaty Organization (NATO) in 1949, Washington is asking Europe not merely to spend more on defence but also to assume primary responsibility for its own security. This marks a fundamental shift in the transatlantic compact and signals the emergence of a new phase in the Alliance's evolution. The question is no longer whether NATO will endure, but how it is adapting to a changing strategic landscape.

America's shift

The National Security Strategy of the United States of America (November 2025) maintained NATO as America's principal transatlantic alliance while signalling a significant shift in Washington's expectations of European allies, particularly regarding burden-sharing and collective defence responsibilities. It argued that the era of the U.S. serving as Europe's primary security guarantor was drawing to a close and that prosperous European allies must shoulder greater responsibility for defending their own continent. While endorsing NATO's commitment to increase defence spending to 5% of GDP as the new benchmark for burden sharing, the strategy envisaged the U.S. remaining the Alliance's strategic enabler, nuclear guarantor and political convener rather than its sole military backbone. The objective is a stronger, more self-reliant Europe that allows Washington to devote greater strategic attention to the Indo-Pacific.

This rebalancing is already evident. Following Russia's invasion of Ukraine in 2022, U.S. troop strength in Europe rose to around 1,00,000 personnel. Since then, Washington has gradually reversed that surge. During 2025-26, it withdrew around 5,000 troops from Germany, cancelled the planned deployment of 4,000 troops to Poland, and reduced Brigade Combat Teams in Europe from four to three, bringing the U.S. military presence in Europe down to approximately 75,000-80,000 troops – close to pre-Ukraine war levels. The 36th NATO Summit in Ankara in July 2026 reinforced this transition. While reaffirming the Alliance's commitment to Article 5, members pledged €70 billion in military assistance for Ukraine in 2026, committed to sustaining comparable support in 2027, endorsed European-led development of long-range precision strike capabilities and accelerated efforts to strengthen NATO's defence industrial base. The underlying message was unmistakable: Europe must assume greater responsibility for its conventional defence as the U.S. increasingly prioritises the Indo-Pacific.



Advitya Madan

Commanded 15 Punjab in Lebanon under the United Nations Flag, commanded 27 Sector as DIG in Churachandpur, Manipur, and was Brigadier, Operational Logistics, in HQ Western Command. He is currently an analyst on geopolitics, international and defence affairs

NATO's European shift offers India new strategic and defence opportunities

Lord Ismay, NATO's first Secretary General, famously described the Alliance's original purpose as "to keep the Russians out, the Americans in, and the Germans down". While that dictum captured the strategic logic of the Cold War, NATO today has entered a distinctly different phase that may be summed up as keeping Russia deterred, America engaged and Europe prepared.

NATO's evolution over time

The Alliance's evolution can be viewed in three phases. NATO 1.0 (1949-1991) relied overwhelmingly on American military and nuclear power to deter Soviet aggression and preserve transatlantic unity. NATO 2.0 (1991-2022) followed the collapse of the Soviet Union, expanding eastwards, incorporating former Warsaw Pact members and undertaking operations in the Balkans and Afghanistan. Yet, this period also witnessed declining European defence expenditure and growing dependence on the U.S. for intelligence, logistics, strategic mobility and high-end military capabilities, making burden sharing an increasingly contentious issue.

The Russian invasion of Ukraine has ushered in NATO's third phase, a more balanced transatlantic partnership in which Europe assumes primary responsibility for conventional defence while the U.S. continues to provide strategic enablers such as nuclear deterrence, intelligence, long-range precision strike capabilities and global power projection. This is less a story of American disengagement than one of strategic redistribution.

The scale of Europe's response was evident at the 2025 Hague Summit, where NATO members committed to increasing core defence spending to at least 3.5 % of GDP by 2035, with progress to be reviewed in 2029. Germany has doubled defence expenditure since 2023 and aims to reach the same target by 2029 while rebuilding military capability to deter Russia. Moscow, meanwhile, has reorganised its western military posture with new headquarters, formations and bases facing NATO.

The more difficult challenge, however, is not spending but replacing the American military ecosystem. Even as European armies become stronger, they continue to depend heavily on the U.S. for intelligence, surveillance, satellite support, command and control systems, strategic airlift, missile defence, long-range precision strike capabilities and, above all, the nuclear umbrella. Washington's reduction of rapid reaction assets, including bombers, fighter aircraft, air-refuelling tankers, warships, aircraft carriers and attack submarines, together with the deferred deployment of Tomahawk cruise missiles to Germany, illustrates the extent of that dependence. Europe's central dilemma is therefore not simply building larger armed forces but developing the integrated capabilities that have long underpinned NATO's effectiveness. As Poland's Foreign Minister recently observed, Europe does not need to match American military power; it simply needs to be stronger than Russia.

New Delhi and the rebalance

For India, NATO's transformation is less about Europe than about the redistribution of American strategic attention. A Europe capable of assuming greater responsibility for its own security would enable Washington to devote more diplomatic attention, military resources and strategic investments to the Indo-Pacific, reinforcing the regional balance amid China's growing assertiveness. At the same time, a more capable Europe could emerge as an important partner for India in defence manufacturing, advanced technologies, artificial intelligence, cybersecurity, semiconductors and space.

New Delhi should therefore view these changes through the prism of strategic opportunity rather than alliance politics. Closer cooperation with both the U.S. and Europe can complement, not compromise, India's long-standing commitment to strategic autonomy. If navigated prudently, NATO's new strategic model can expand India's defence industrial partnerships, accelerate technological modernisation and strengthen its position as a leading power in an increasingly multipolar world.

- **Key Terms and Explanations**
  - **Transatlantic Security Compact:** The formal and informal security architecture established between North American powers (United States and Canada) and European nations under the North Atlantic Treaty Organization (NATO). It rests on mutual defense guarantees, shared military infrastructure, and collective deterrence against external threats.
  - **Burden-Sharing:** The equitable distribution of financial, operational, and material responsibilities among alliance members. Historically, the US bore the primary financial and military load; current strategic mandates push European allies to spend significantly higher proportions of GDP (targets reaching 3.5% to 5%) on conventional defense.
  - **NATO 1.0, 2.0, and 3.0 Framework:**
    - *NATO 1.0 (1949–1991):* The Cold War containment posture focused on deterring Soviet military aggression in continental Europe through American military deployment and nuclear supremacy.
    - *NATO 2.0 (1991–2022):* The post-Cold War out-of-area operational phase characterized by eastward expansion, crisis management (Balkans, Afghanistan), declining European defense budgets, and heavy reliance on US military enablers.
    - *NATO 3.0 (Present Era):* The contemporary restructuring where Europe assumes primary conventional deterrence responsibilities against regional threats, allowing the US to transition into a strategic enabler while redirecting primary military focus toward the Indo-Pacific.
  - **Strategic Enablers:** Critical, high-end military capabilities essential for executing modern combat operations. These include Intelligence, Surveillance, and Reconnaissance (ISR) networks, satellite communication systems, long-range precision strike assets, strategic airlift capabilities, missile defense systems, and the overarching nuclear umbrella.
  - **Strategic Autonomy:** The capacity of a nation or regional bloc to set foreign policy objectives and execute defense operations independently, without existential reliance on external major powers for basic survival or technological sovereignty.

- **Main Arguments and Substantive Parts**
- **The Structural Pivot in Transatlantic Relations**
- The global security landscape is witnessing a fundamental transformation in how Western collective defense operates. The United States is no longer positioned as the sole military guarantor for European conventional defense. Washington is actively signaling that while its commitment to collective defense under Article 5 remains intact, European allies must take primary ownership of continental land security. This transition is not a retreat into isolationism, but a deliberate redistribution of military responsibilities designed to free up American strategic capacity.
- **Rebalancing American Military Footprint**
- The physical posture of American forces in Europe demonstrates this operational recalibration. Following the immediate troop surge after the 2022 Ukraine crisis—which brought US personnel levels in Europe to nearly 100,000—Washington began systematically drawing back forces to pre-war baseline levels of approximately 75,000 to 80,000 troops. Tactical adjustments include the cancellation of scheduled deployments to Eastern flank states like Poland and the reduction of active Brigade Combat Teams in the European theater, illustrating that long-term continental land defense must be sustained by European forces rather than permanent American military presence.
- **Defense Spending Norms and Institutional Mandates**
- European capitals are undergoing a rapid fiscal shift to match this new security reality. Key summit declarations—such as the commitment to scale core defense spending to at least 3.5% of GDP by 2035 and targets stretching toward 5%—reflect an aggressive military expansion. European nations are allocating billions in military assistance, expanding long-range precision strike programs, and rebuilding defense manufacturing capacity. Germany, for instance, has dramatically accelerated its defense outlays, marking a historic shift in its post-World War II defense posture.
- **The Ecosystem Gap and Operational Bottlenecks**
- A major operational challenge for European self-reliance is replacing the deep-rooted "American military ecosystem." While European nations can increase troop counts and buy conventional platforms, European armies remain structurally reliant on US command-and-control systems, space-based surveillance, strategic airlift tankers, attack submarines, and air-refueling capabilities. True European military self-sufficiency requires building integrated industrial and operational architectures rather than simply purchasing hardware.
- **Global Strategic Implications for India**
- This transatlantic rebalancing creates direct opportunities for India's foreign policy. As the US shifts its primary military assets, intelligence apparatus, and naval presence toward the Indo-Pacific to balance Chinese power, India gains a more focused strategic partner in Washington. Simultaneously, a more defense-capable Europe opens up new avenues for New Delhi to establish technological partnerships, defense co-development agreements, and supply chain alliances in advanced sectors like artificial intelligence, space, semiconductors, and cybersecurity.

- **Historical Evolution of the Issue**
- **Phase 1: Cold War Foundation (1949–1991)**
  - **1949:** The North Atlantic Treaty is signed in Washington, creating a collective defense mechanism against the Soviet Union amidst a devastated post-WWII Western Europe.
  - **1950s–1980s:** NATO functions under the principle of total reliance on US conventional forces forward-deployed in West Germany, supported by the US nuclear triad. The Alliance's core strategic objective is defined by maintaining direct containment of Soviet expansion while stabilizing Western Europe.
- **Phase 2: Post-Cold War Expansion and Capability Gap (1991–2022)**
  - **1991:** The dissolution of the Soviet Union triggers a dramatic reduction in European defense budgets—a phenomenon known as the "peace dividend."
  - **1997–2004:** NATO expands eastward, incorporating former Warsaw Pact nations and Baltic states. During this period, the Alliance shifts focus to out-of-area operations such as the intervention in the Balkans and the post-9/11 mission in Afghanistan.
  - **2014:** The annexation of Crimea serves as an initial warning, leading to the Wales Summit agreement where NATO members commit to spending 2% of their GDP on defense by 2024—a target that many member states fall short of achieving over the following decade.
- **Phase 3: Strategic Redistribution and Structural Transformation (2022–Present)**
  - **2022:** Russia's full-scale invasion of Ukraine exposes systemic vulnerabilities in European ammunition stocks, military readiness, and defense industrial capacity, forcing an immediate, short-term US troop surge in Europe.
  - **2025–2026:** Washington institutionalizes the strategic shift toward the Indo-Pacific through updated National Security directives. NATO adopts updated burden-sharing benchmarks at major summits (Hague and Ankara), targeting up to 3.5%–5% GDP spending, formalizing European military leadership in conventional defense, and initiating a permanent reduction of American ground forces on the European continent.

STRATEGIC TRANSFMATION OF NATO: A NEW ERA.
AXIA
IAS ACADEMY
RISE ABOVE THE REST
THE ULTIMATE PIVOT: AMERICA'S STRATEGIC REBALANCE.
REBALANCING THE TRANSATLANTIC COMPACT
• U.S. shifting from sole conventional guarantor to strategic enabler
• Prosperous European allies must assume conventional primary responsibility
North Atlantic areas
Strategic Redistribution
Indo-Pacific as the primary theater
Indo-Pacific as the primary theater
NATO's EVOLUTION:
THREE PHASES OF BURDEN-SHARING.
NATO 1.0 (1949-1991)
THREE PHASES DIHS OF BURDEN-SHARING
Cold War Deterrence
NATO 1.0 (1949-1991)
• Primary reliance on US military backbone to contain USSR
Post-Cold War Expansion
NATO 2.0 (1991-2022)
• Eastward growth
• Declining European spend, growing dependence on US enablers
Strategic Rebalancing
NATO 3.0 (2022-Present)
Ukrainian assistance
Hague Summit
Ankara targets
• Europe assumes primary conventional lead
• U.S. continues strategic support
• Increased defense spending targets
CHALLENGES FOR EUROPEAN SELF-RELIANCE.
BUDGETARY MANDATES & SPENDING
3.5%-5%
%
• Aggressive military expansion
• German example of doubled spending
THE ECOSYSTEM GAP: REPLACING U.S. CAPABILITIES
Conventional Land Forces
THE REPLACING U.S. CAPABILITIES
Conventional Land Forces
Increasing European lead
Integrated Capabilities Gap
Continued high US reliance
C&C systems
Satellite ISR
Strategic Airlift
Nuclear umbrella
GLOBAL & INDIAN IMPLICATIONS.
SHIFT IN GLOBAL STRATEGIC FOCUS
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• Rebalancing American attention, reinforcing regional balance
OPPORTUNITIES FOR INDIA: A PRISMATIC SHIFT
• Diversifying defense industrial partnerships
• Accelerating technological modernization
• Enhancing position in multipolar world
• Complementing strategic autonomy
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- **Logical and Philosophical Base**
- **Neorealism and the Balance of Power**
- The strategic transition of collective defense structures is rooted in structural realism. States operate within an anarchic international system where power distribution determines foreign policy postures. The United States, facing global resource constraints and a rising peer competitor in the Indo-Pacific, is executing a rational realignment to prevent hegemonic overstretch. By forcing Europe to balance against regional threats independently, Washington frees up military assets to maintain the global balance of power where it faces its greatest strategic challenge.
- **The Dilemma of Alliance Entanglement vs. Autonomy**
- From a liberal institutional perspective, alliances are sustained by shared values and rules-based frameworks. However, the operational reality of alliances reveals the classical security dilemma of entitlement versus abandonment. European states previously faced a "free-rider" dynamic—relying on American security assurances without bearing proportional costs. The new strategic logic replaces unconditional protection with a transactional model of burden-sharing, compelling European states to build authentic strategic sovereignty to safeguard their own regional order.
- **Deterrence Theory and Capability Substitution**
- The shift relies on the logic of deterrence through denial rather than simple nuclear intimidation. Deterrence requires credible, forward-deployed conventional capabilities capable of resisting aggression at the onset of conflict. The strategic framework replaces American ground forces with European conventional land power, while maintaining the American strategic umbrella (nuclear capabilities and advanced satellite ISR) as the ultimate backstop.

- **Multidimensional Analysis**
- **Social Dimension**
  - **Guns vs. Butter Trade-offs:** Redirecting national budgets to meet high defense targets (3.5%–5% of GDP) strains European social safety nets, healthcare systems, and public infrastructure spending.
  - **Public Consensus and Militarization:** European societies, long accustomed to post-Cold War peace dividends, face domestic political friction over militarization, defense spending, and mandatory military service discussions.
- **Political Dimension**
  - **Intra-European Fragmentation:** Western European nations and frontline Eastern European states often differ on threat perceptions, creating political friction over how fast defense integration should occur.
  - **Transatlantic Political Cohesion:** Domestic political shifts in Washington create uncertainty around long-term security guarantees, driving European leaders to build independent defense structures.
- **Legal Dimension**
  - **Article 5 Interpretation:** While Article 5 mandates collective defense, it allows individual states to determine the specific nature of action taken, raising legal questions around operational obligations during regional conflicts.
  - **Constitutional and Legal Limits:** Sovereign legal constraints—such as Germany's historical constitutional restrictions on force deployment and fiscal borrowing limits—require ongoing legislative adaptations to support expanded defense capabilities.
- **Ethical Dimension**
  - **Ethical Security Reliance:** Prolonged security dependency on external powers creates ethical questions regarding national sovereignty and self-determination.
  - **Defense Allocations vs. Global Development:** The redirection of national wealth into defense technology and conventional arms reduces available funding for international development aid, global climate initiatives, and humanitarian assistance.
- **International Dimension**
  - **Indo-Pacific Power Dynamics:** The withdrawal of primary American ground focus from Europe frees up strategic assets for the Indo-Pacific, directly influencing the security equilibrium in the Indian Ocean and South China Sea.
  - **Multi-Hub Security Alliances:** Global security architecture is shifting from centralized regional alliances to networked, multi-hub defense partnerships connecting Western, European, and Indo-Pacific actors.
- **Economic Dimension**
  - **Fiscal Burden on European Budgets:** Sustaining heightened defense outlays requires significant sovereign borrowing or fiscal reallocation, impacting European economic growth models.
  - **Defense Industrial Base Scaling:** Expanding military self-reliance creates economic opportunities for Europe's domestic defense sector, driving innovation in advanced manufacturing, AI, space, and supply chain resilience.

- **Linkages with NCERTs**
  - **Class 12 Political Science: Contemporary World Politics – Chapter 1 (*The Cold War Era*) & Chapter 2 (*The End of Bipolarity*)**
    - *Context:* Explains the creation of Western and Eastern military blocs post-WWII, the emergence of NATO in 1949, and the subsequent collapse of the Soviet Union.
    - *Relevance:* Understanding NATO 1.0 and 2.0 provides essential context for analyzing how the alliance's modern transformation (NATO 3.0) dismantles Cold War security arrangements.
  - **Class 12 Political Science: Contemporary World Politics – Chapter 4 (*Alternative Centres of Power*)**
    - *Context:* Evaluates the economic and political integration of the European Union and its potential as an independent global actor.
    - *Relevance:* Directly connects to Europe's ongoing effort to build sovereign military and defense-industrial capabilities alongside its economic power.
  - **Class 11 Political Science: Political Theory – Chapter 10 (*Development*) & Chapter 8 (*Citizenship*)**
    - *Context:* Discusses state expenditure priorities, public resource distribution, and societal security obligations.
    - *Relevance:* Frame the national "guns vs. butter" debate that European democracies face when reallocating public funds from social development to military readiness.

- **Linkages with UPSC CSE Syllabus**
- **General Studies Paper 1 (World History)**
  - **Topic:** *Re-redraws of national boundaries, Cold War, alliance formations, and post-WWII international developments.*
  - **Application:** Provides the historical context of 20th-century alliance structures, tracking how post-WWII security commitments evolve into modern, multipolar power dynamics.
- **General Studies Paper 2 (International Relations)**
  - **Topic:** *Bilateral, regional, and global groupings and agreements involving India and/or affecting India's interests; Effect of policies and politics of developed and developing countries on India's interests.*
  - **Application:** Core relevance. Direct application to US foreign policy realignments, European security integration, NATO's structural evolution, and how the pivot to the Indo-Pacific enhances India's strategic positioning and defense partnership opportunities.
- **General Studies Paper 3 (Internal Security & Defense Tech)**
  - **Topic:** *Indigenization of technology, defense manufacturing, cybersecurity, and space-based security assets.*
  - **Application:** Examines how European defense industrial expansion creates opportunities for India in technological co-development, defense technology transfers, supply chain diversification, and critical tech collaboration in AI and semiconductors.
- **General Studies Paper 4 (Ethics)**
  - **Topic:** *Ethical dilemmas in international relations, allocation of public resources, and sovereign responsibility vs. global commitments.*
  - **Application:** Analyzes the ethical tradeoffs between national defense spending and social welfare allocations, as well as the responsibilities of states to maintain regional stability without creating security dependencies.

- **Way Forward**
- **Structured Capability Building for Europe**
- European nations must focus on developing joint military capabilities rather than simply increasing uncoordinated national defense spending. Priorities should center on critical enablers where reliance on the US is highest, including space-based surveillance platforms, integrated missile defense, aerial refueling tankers, and joint command-and-control architectures.
- **Standardizing European Defense Procurement**
- To maximize the impact of higher defense spending, the European Union and European NATO members should streamline defense procurement programs. Ending fragmented, duplicated national military acquisition programs will create economies of scale, lower unit costs, and accelerate the modernizing of Europe's defense industrial base.
- **Defining Clear Roles in Transatlantic Security**
- The United States and its European allies should establish explicit operational boundaries. Under this model, European forces assume primary command over land, air, and naval defense in the European theater, while the US focuses on providing high-end strategic deterrence, global intelligence integration, and maritime security in the Indo-Pacific.
- **Leveraging Defense Partnerships for India**
- India should actively engage with a more defense-capable Europe to diversify its defense tech procurement and technological partnerships. New Delhi can position itself as a trusted partner for European defense firms seeking supply chain resilience, joint manufacturing, and research collaboration in emerging technologies like AI, space systems, cybersecurity, and advanced electronics.
- **Balancing Strategic Autonomy in the Indo-Pacific**
- As American strategic attention concentrates on the Indo-Pacific, India must continue to deepen bilateral and multilateral security coordination in the Indian Ocean Region. This approach allows India to leverage the broader shift in global power dynamics to reinforce regional stability while safeguarding its core foreign policy principle of strategic autonomy.

UPSC CSE Mains Questions

- **GS Paper 2 (2023):** *"The shift in global strategic focus toward the Indo-Pacific theater is reshaping classical alliance frameworks." Examine how the rebalancing of global military assets by major powers impacts security dynamics in the Indian Ocean Region.*
- **GS Paper 2 (2021):** *"Critically analyze the relevance and strategic recalibration of NATO in the contemporary world order amidst changing global security priorities."*
- **GS Paper 2 (Analytical Practice):** *Assess the implications of European defense autonomy for India's defense industrial base. How can New Delhi leverage a transforming European security structure to deepen technological co-development without compromising strategic autonomy?*

APSC CCE Mains Questions

- **GS Paper 2 (APSC 2022):** *"Discuss the relevance of global collective defense alliances in the modern multipolar era, with special reference to their impact on the foreign policy choices of developing nations like India."*
- **GS Paper 2 (APSC Analytical Practice):** *The pivot of global strategic attention toward the Indo-Pacific region opens new avenues for maritime security and defense partnerships. Explain how India can leverage these structural foreign policy shifts to safeguard its national interests.*