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INDEX

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GENERAL STUDIES 2

1.1. INTERNATIONAL RELATIONS

1.1.1. BRINKMANSHIP IN THE AGE OF GROWING CONFLICT

Context:

Recently, the **Strait of Hormuz** has been closed by **Iran**, and **Iranian ports have been blockaded by the United States**, as a result of which the concept of **brinkmanship** has been **pushed back to the centre of global attention**.

Understanding Brinkmanship: Concept, Origin and Characteristics

1. **What is Brinkmanship?**
   - **Definition:** Brinkmanship refers to a **deliberate and calculated strategy** of pushing a dangerous situation to the **edge of conflict, the brink**, in order to **force an adversary to back down**, make concessions, or come to the negotiating table.
   - **Mechanism:** It involves **a single action** or **a series of escalatory actions** during a **conflict or a short-of-war situation**, forcing **a perilous climb up the escalation ladder**.
   - **Core Risk:** The **fundamental danger** lies in **escalation spiralling out of control**, particularly when nuclear-armed states are involved, often referred to in strategic literature as an **Armageddon scenario**.
2. **Origin of the Concept**
   - The term was coined by **Western political scientists** in the **1950s and 1960s** while analysing landmark crises of Cold War era.
   - **Berlin Blockade (1948-49):** The **Soviet Union's blockade of West Berlin** and the **Western Allied airlift** response was an early **textbook example of competitive brinkmanship between superpowers.**
   - **Cuban Missile Crisis (1962):** Widely regarded as the **most dangerous episode of Cold War brinkmanship**, where the **United States and the Soviet Union** came dangerously close to nuclear conflict before stepping back.
3. **Key Characteristics of Brinkmanship**
   - **Deliberate escalation of tensions** is carried out to create pressure upon the adversary.
   - **Military threats, sanctions, economic coercion, or strategic signalling** are used to strengthen bargaining power.
   - **Psychological pressure and fear** are used as strategic tools.
   - **Risks of miscalculation and accidental conflict** are significantly increased.
   - The strategy depends heavily upon **deterrence, perception, and the willingness** to use force if necessary.
   - Even **limited escalation** can rapidly spiral into a larger conflict situation.

Categorizing the Modern Variations of Brinkmanship

1. **Terrorism as Brinkmanship**
   - **Non-State Actors: Terrorism** has emerged as a **principal instrument of brinkmanship**, frequently used by **non-state actors** to **provoke disproportionate state responses** and gain international attention.
   - **Rarely Successful:** Globally proscribed terrorist movements such as **Al-Qaeda and the Islamic State** have rarely achieved their stated goals through this method.
   - **Exceptions:** A **few organisations** such as the **Irish Republican Army (IRA) in Northern Ireland** and **the FLN (National Liberation Front)** in **Algeria** did succeed in forcing stronger adversaries to make significant political concessions.
2. **Proxy Brinkmanship**
   - **Definition:** This form involves using proxies, often designated as global terrorist outfits, to erode the resolve of stronger powers and force concessions on issues of statehood and sovereignty.
   - **Pakistan and Iran** have practised proxy brinkmanship against stronger powers for over four decades, using asymmetric tactics to achieve strategic leverage.
   - **Hamas Attack (October 2023):** The Hamas attack on Israel on October 7, 2023 is a clear example of proxy brinkmanship, which in turn triggered **Israel's disproportionate counter-brinkmanship in Gaza**, demonstrating the rapid and dangerous breakdown of deterrence.
3. **State-Level Brinkmanship by Major Powers**
   - **United States:** The US has traditionally preferred the **direct application of force or economic coercion over brinkmanship**. However, frustrated by Iran's resistance to negotiations, the US has now resorted to an economic blockade as a form of coercive brinkmanship.
   - **Russia:** Driven by frustration over **NATO's eastward expansion** and initial expectations of a **quick Ukrainian capitulation in February 2022**, Russia has engaged in sustained brinkmanship including **periodic nuclear sabre-rattling and the indiscriminate use of hypersonic weapons** against civilian centres.
   - **China:** Since 2006, China has mastered the **art of controlled maritime brinkmanship**, making aggressive claims over the **South China Sea and the East China Sea** while daring weaker neighbours to resist. Only Japan, over the **Senkaku Islands** dispute, and **Taiwan** have effectively pushed back against Chinese coercion.
   - **North Korea:** If any nation has perfected brinkmanship in the 21st century, it is **North Korea**. Using demonstrated missile and nuclear capabilities alongside deliberate opacity, **Pyongyang** has successfully kept the world's most powerful nation from forcing it into a rules-based international order.

Implications of Growing Brinkmanship on the Global Order

- **Erosion of Deterrence:** Repeated acts of brinkmanship, particularly those that go unpunished or succeed, weaken the credibility of deterrence frameworks that have historically prevented full-scale conflict.

- **Marginalisation of the United Nations:** As global institutions like the UN are increasingly bypassed, coercion and brinkmanship are filling the vacuum of multilateral diplomacy, further destabilising the international order.
- **Risk of Uncontrolled Escalation:** The chain of action and counter-brinkmanship, as seen in the US-Iran standoff and the Russia-Ukraine war, creates conditions where miscalculation or misjudgement can rapidly spiral into large-scale conflict.
- **Normalisation of Force:** The frequent resort to brinkmanship normalises the use of coercive and military tools in international relations, making peaceful conflict resolution progressively harder.
- **Global Economic Disruption:** Strategic chokepoints such as the Strait of Hormuz, when weaponised through brinkmanship, have cascading economic consequences for global energy markets, trade, and supply chains.
- **Threat to Smaller Nations:** Countries with limited military and economic power face heightened vulnerability in a world where brinkmanship replaces diplomacy, as they lack the leverage to resist coercion by major powers

India's Approach Towards Brinkmanship

- **Strategic Restraint as a Core Value:** India's strategic DNA is defined by **restraint and responsibility**. India has consistently chosen calibrated and proportionate use of force even under the gravest provocation, eschewing the path of brinkmanship.
- **Operation Sindoor (May 2026) as an Example:** India's precision strikes following the Pahalgam terror attack demonstrated a calibrated response that was measured, targeted, and backed by strong diplomatic messaging, distinguishing it sharply from reckless brinkmanship.
- **No First Use Nuclear Doctrine:** India's **No First Use nuclear doctrine** and its rejection of nuclear coercion reflect a deeply embedded commitment to strategic stability and responsible nuclear stewardship.
- **Active Engagement with Global Institutions:** Unlike powers that exploit institutional vacuums, **India continues to engage constructively with multilateral forums including the UN, BRICS, SCO, and the Quad** to build consensus-based solutions to global challenges.
- **Firm Posture with Diplomatic Preference:** While India maintains a credible military deterrent, it has consistently prioritised dialogue and diplomacy as the first resort in conflict situations, signalling that strength and restraint are not mutually exclusive.

Way Forward for Restoring Stability in a Brinkmanship-Prone World

- **Reinvigorating Multilateral Diplomacy:** Global institutions, especially the **United Nations, must be reformed** and **strengthened** so that they serve as credible and effective platforms for conflict resolution rather than being bypassed by powerful states.
- **Establishing Clear Escalation Thresholds:** Major powers must engage in structured dialogue to define and mutually agree upon red lines that prevent brinkmanship from crossing into open armed conflict, particularly in the nuclear domain.
- **Strengthening Regional Conflict Resolution Mechanisms:** Regions such as **West Asia, East Asia, and Eastern Europe** need robust and institutionalised frameworks for de-escalation, crisis communication, and confidence-building measures.

- **Addressing Root Causes of Conflict:** Sustainable peace requires addressing the underlying political, economic, and territorial grievances that drive states and non-state actors to resort to brinkmanship in the first place.
- **Promoting Responsible Nuclear Stewardship:** Nuclear-armed states must reaffirm their commitments to arms control treaties and develop new frameworks to prevent nuclear brinkmanship from becoming a legitimate tool of statecraft.
- **India's Role as a Responsible Balancer:** Given its strategic positioning, democratic values, and tradition of restraint, India is well placed to champion dialogue-based conflict resolution and act as a credible voice against the growing normalisation of brinkmanship.

Conclusion

- The growing reliance on **brinkmanship** across the globe signals a **dangerous regression from the norms of diplomacy** and **multilateralism** that the **post-World War II international order** was built upon.
- The world urgently needs to **introspect and course-correct**, reaffirming the primacy of dialogue and institutional cooperation before the escalation ladder leads to a conflict that no power, however strong, can fully control.

Q. *The growing reliance on brinkmanship reflects the weakening of diplomacy and multilateralism in contemporary international relations. Critically examine. 15 Marks*

1.1.2. THE QUAD AT A CROSSROADS: STRATEGIC DELIVERABLES, INTERNAL CONTRADICTIONS

Context:

The recent meeting of the Quad Foreign Ministers highlighted both the grouping's growing institutional agenda and emerging internal contradictions amid shifting global geopolitics.

Evolution of the Quad

- **2007** – Initial formation at official level.
- **2017** – Revived amid growing Indo-Pacific concerns.
- **2021** – Elevated to leader-level summits.
- **2024** – India assumed Quad chairmanship.

Key Outcomes of Recent Quad Foreign Ministers' Meeting

1. **Upgraded Maritime Transparency:** Formalized the IPMSC and IPMDA surveillance frameworks to pool radar/satellite assets, actively tracking "dark shipping" and countering grey-zone coercion.
2. **Operational Interoperability:** Launched the Quad-at-Sea Ship Observer Mission to embed naval personnel on partner vessels, building deep tactical trust for regional humanitarian or security standoffs.

3. **Strategic Infrastructure Alternative:** Initiated the Quad's first-ever joint physical infrastructure project to build a commercial port in Fiji, offering transparent financing over predatory debt models.
4. **Supply Chain De-risking:** Finalized a critical minerals cooperation initiative to secure parallel, non-Chinese extraction and processing lines for critical green-tech and defense manufacturing.
5. **Rules-Based Geopolitical Alignment:** Reaffirmed absolute diplomatic commitments to UNCLOS, freedom of navigation, and territorial integrity, while issuing explicit, joint counter-terror statements naming localized threats.

Major Challenges Facing the Quad

1. **Strategic Divergence Among Members**
   - **U.S. Unilateralism vs. Minilateral Consensus:**
     - Washington's unpredictable foreign policy shifts—such as sudden diplomatic re-engagements with China and Russia, alongside unilateral military operations in West Asia—often bypass regional consultations.
     - During the 2026 West Asia crisis, the US engaged in direct hostilities with Iran (including intercepting an Iranian ship in the Indian Ocean) and initiated backchannel mediation via Pakistan without briefing its Quad allies.
     - This selective transparency forces partners like India and Japan (who are deeply dependent on West Asian oil and trade lanes) to absorb security shocks blindly, causing a distinct trust deficit.
2. **Lack of Consensus on China**
   - **Asymmetric Threat Perceptions:**
     - The four members have vastly different geopolitical constraints regarding Beijing. Japan and Australia are formal, treaty-bound military allies of the US, viewing the Quad as an extension of a hard security containment strategy against China.
     - India shares a direct, contested land border (LAC) with China. Bound by its foundational policy of strategic autonomy, New Delhi completely avoids formal military alliances, preferring defensive balancing and keeping the Quad's official focus strictly on non-military, inclusive "public goods" delivery.
     - This structural mismatch makes it difficult for the grouping to agree on hard-power red lines or clear collective security protocols when China behaves aggressively.
3. **Institutional Weakness**
   - **Ad-Hoc Structural Framework:**
     - Unlike traditional security alliances like NATO, the Quad is fundamentally a loose, minilateral consultative forum. It possesses no permanent headquarters, no central secretariat, and lacks any legally binding treaty foundation.

- Without a formal administrative core, the tracking and implementation of complex joint initiatives (such as Open RAN telecom rollouts or the Fiji port construction) depend entirely on changing political administrations and bureaucratic momentum in individual capitals.

4. **Delayed Summit Diplomacy**
   - **The Institutional Impasse:**
     - The Quad's highest level of commitment is demonstrated through its annual Leader-Level Summit. However, complex bilateral frictions have repeatedly derailed this mechanism during India's current chairmanship cycle.
     - India-US ties suffered setbacks due to diplomatic standoffs (e.g., the Pannun-Nijjar case in 2024), disruptive tariff and trade policies introduced by the Trump administration in 2025, and deep differences over security claims like "Operation Sindoor."
     - With the summit remaining unscheduled well into mid-2026, failing to convene the four heads of state forces India to pass the Chair to Australia without holding a summit. This risks signaling a permanent, functional downgrade of the alliance back to a basic ministerial dialogue.
5. **Perception Problem**
   - **The "Asian NATO" Narrative vs. Regional Acceptance:**
     - The Quad struggles with a severe branding crisis. Beijing consistently weaponizes this, labeling the group an exclusive, anti-China containment clique or a "small circle" designed to destabilize regional peace.
     - Central groupings like ASEAN (Association of Southeast Asian Nations) view the Quad with deep suspicion, worrying that its heavily security-centric, maritime-dominated focus will turn the Indo-Pacific into a dangerous arena for great-power competition. This hesitance severely restricts the Quad's ability to gain broad diplomatic buy-in from smaller, critical neutral states.

Why the Quad Still Matters (Significance for India)

1. **Net Maritime Security Provider:** It serves as a vital hard-power multiplier that anchors India's Indian Ocean dominance through intelligence-sharing networks like IPMDA to counter grey-zone coercion and dark shipping.
2. **Defensive Strategic Balancing:** It provides India with a formidable diplomatic and maritime shield to balance China's aggressive expansionism along the Line of Actual Control (LAC) and the wider Indo-Pacific without forcing New Delhi into a formal military alliance.
3. **Geo-Economic Resilience:** It secures India's economic future by building parallel, trustworthy supply chains for critical minerals and semiconductors, drastically reducing a vulnerable reliance on Chinese manufacturing.
4. **Alternative Infrastructure Vehicle:** It enables India to co-fund high-quality connectivity projects—such as the Fiji port—offering regional states a transparent, sustainable alternative to China's predatory Belt and Road Initiative (BRI) debt diplomacy.

5. **Global Anti-Terror Alignment:** It elevates India's national security imperatives to the global stage, leveraging joint platforms to secure explicit international condemnation of cross-border terrorism following flashpoints like the Pahalgam attack.

Way forward

1. **Institutionalize with Flexibility:** Establish a fixed, predictable annual Summit calendar backed by a rolling joint secretariat to immunize functional cooperation from passing bilateral frictions.
2. **Commit to a "No-Surprise" Doctrine:** Create dedicated crisis-communication hotlines to ensure prior strategic consultation and eliminate unilateral geopolitical moves that shock partner economies.
3. **Broaden the Non-Military Agenda:** Prioritize tangible regional public goods like climate resilience funding, critical mineral supply lines, and deep-sea connectivity infrastructure over pure military alignment.
4. **De-escalate "Containment" Rhetoric:** Rebrand the Quad as an inclusive, positive-agenda developmental platform to clear regional anxieties and win the trust of neutral blocs like ASEAN.
5. **Operationalize Asymmetric Convergence:** Respect individual national policy frameworks—like India's strategic autonomy and US formal treaty networks—allowing flexible national approaches toward China while remaining united on a rules-based order.

Conclusion

The Quad's strength lies not in complete strategic convergence, but in its shared vision of a rules-based order. For the grouping to realize its worthy objectives, partners must engage in collective reflection, ensuring that tactical divergence does not overpower strategic

Q. *Quadrilateral Security Dialogue (Quad)' is transforming itself into a trade bloc from a military alliance, in present times – Discuss. 15 Marks*

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2.1. ECONOMY

2.1.1. INDIA'S GREEN TRANSITION STILL RELIES ON A COAL FOUNDATION

Context

- The **sharp increase in global energy prices amid the intensifying conflict in West Asia** has once again exposed **India's persistent exposure to external energy disruptions.**
- Even with significant progress in renewable energy expansion, **nearly half of the India's fossil fuel** imports continues to move through the **Strait of Hormuz**, including **crude oil supplies from Saudi Arabia and Liquefied Natural Gas (LNG) imports from Qatar.**
- While **India** is widely regarded **as an important player in the global clean energy transition**, its **power sector still relies predominantly on coal for electricity generation.**

Expansion of Renewable Energy Capacity in India

- **Growth in Installed Renewable Capacity Since 2017:** Since 2017, **renewable energy sources** have consistently contributed the largest share of new power capacity additions in India.
  - By March 2026, renewables constituted **42.4% of the total installed power capacity**, compared to merely **0.72% in March 2005**. During the same period, the share of **coal-based capacity** declined from **58.7% to 42.2%**.
- **Gap Between Installed Capacity and Actual Power Generation:** Despite accounting for more than two-fifths of installed capacity, **renewable energy generated only 15.8% of India's actual electricity output in April 2026**.
  - In contrast, **coal continued to dominate electricity generation with a 71.8% share**, only slightly lower than its **76.2% contribution in March 2019**.
- **Renewables Have Expanded Alongside Coal Rather Than Replacing It:** India has added very little new **fossil fuel-based capacity** since 2018, while only a negligible number of old coal plants have been retired.
  - As a result, renewable energy growth has occurred **without reducing the existing coal base**. Additionally, the decline in **gas-based power capacity** has further reinforced coal's dominance in actual electricity generation.
  - Consequently, the ongoing energy transition is **expanding the power grid without substantially decarbonising it**.

Key Issuses in India's Power System

- **Intermittency of Solar and Wind Energy: Solar panels** generate electricity only during sunlight hours, while **wind turbines** operate only when wind is available. However, **electricity demand remains continuous and peaks in the evening** when solar output falls to zero. This mismatch forces grid operators to retain **coal plants** as constant backup support.

- **Lack of Large-Scale Battery Storage:** Storing excess renewable electricity for use during peak demand requires **grid-scale battery storage systems**. India currently lacks such infrastructure at the required scale, making it difficult to depend entirely on renewables for uninterrupted power supply without risking **blackouts**.
- **Weak Grid Infrastructure and Transmission Bottlenecks:** India's **transmission network** is still unable to efficiently transfer electricity from renewable-rich states such as **Rajasthan and Tamil Nadu** to high-demand states like **Uttar Pradesh and Bihar**. This results in curtailment of renewable power and continued reliance on local **coal-based plants**.
- **Coal Continues to Provide Grid Stability:** The continued role of **coal** is not merely a policy failure but also reflects existing **technological limitations**. Coal provides essential **baseload reliability** and balancing support that intermittent renewables, without sufficient storage and grid flexibility, cannot yet fully replace.

Impact of Global Energy Shocks on India

- **Link Between Electricity Prices and Global Oil Markets:** Historical trends show that India's **electricity tariffs** closely follow **Brent crude oil prices** because coal continues to determine the **marginal cost of power generation**. **Rising global crude prices** increase coal costs, raise electricity tariffs, fuel **inflation**, and add fiscal pressure on governments and **state electricity boards**.
- **India's Position Compared to China and Spain: China** has significantly reduced its dependence on fossil fuels, with **oil and gas accounting for only 4% of its electricity mix**. At the same time, **electric vehicles** contribute over half of new car sales, reducing oil demand by more than **one million barrels per day**.
    - Similarly, **Spain** has broken the **gas-electricity price** link through deeper **renewable integration**. India, however, remains exposed because **coal still dominates electricity generation and pricing**.
- **Geopolitical Crises Directly Affect India's Economy:** Since **fossil fuels** continue to determine electricity prices in India, instability in **West Asia**, disruptions in the **Strait of Hormuz**, or any global supply shock directly increase energy costs for Indian **industry, agriculture, and households**, weakening competitiveness and household budgets.

Way Forward for Transforming India's Energy System Beyond Capacity Expansion

- **Large-Scale Investment in Battery Storage:** The most critical requirement for India's energy transition is affordable **grid-scale battery storage**. Without large-scale storage to supply electricity during evenings and cloudy periods, intermittent **renewable energy** cannot replace **coal** in actual power generation, irrespective of installed capacity.
- **Modernisation of Grid Infrastructure:** India's **power grid** must be upgraded to manage **bidirectional power flows**, integrate **distributed renewable sources**, enable **real-time demand-supply balancing**, and reduce the risk of outages caused by aging infrastructure.
- **Strengthening Inter-State Transmission Networks: Green energy corridors** linking renewable-rich states with major demand centres must be expanded rapidly. This will enable surplus **solar power from Rajasthan** and **wind power from Tamil Nadu** to reach high-demand states such as **Uttar Pradesh and Bihar**, improving utilisation of installed capacity.

- **Reforms in Electricity Markets:** India's **electricity market structure** must evolve to encourage **energy storage**, flexible generation, and **demand-response mechanisms**. Measures such as **time-of-day pricing**, ancillary service markets, capacity payments, and **green energy trading platforms** can accelerate renewable integration.
- **Planned and Phased Retirement of Coal Plants:** India requires a structured and time-bound strategy to retire old, inefficient, and highly polluting **coal plants** gradually as storage and balancing capacity expands, rather than relying only on fiscal pressure or chance.
- **Faster Adoption of Electric Vehicles:** Rapid adoption of **electric vehicles (EVs)**, especially in **two-wheelers, three-wheelers, and public transport**, can significantly reduce India's dependence on **crude oil imports**. Smart overnight EV charging can also support the grid as a form of distributed storage.
- **Matching Energy Targets with Infrastructure Expansion:** India has set a target of **500 GW of non-fossil fuel capacity by 2030** and aims to achieve **60% non-fossil fuel power by 2035**. However, these goals will succeed only if supported by equally ambitious investments in **storage, transmission, and grid infrastructure**.

Conclusion

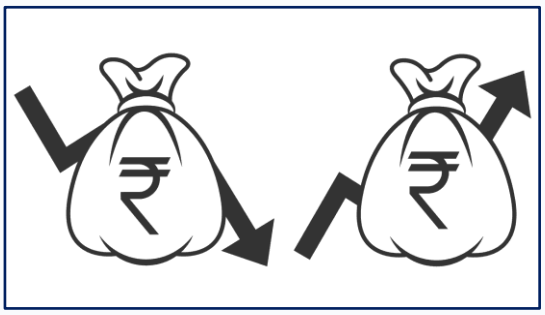
- India's **energy transition** is real but incomplete, because expanding renewable capacity without **replacing coal in actual generation** leaves the country equally exposed to **global energy shocks, import dependence, and geopolitical instability** as before.

Therefore, it must urgently focus on building **storage, grid modernisation, transmission connectivity, and market infrastructure** so that India's growing renewable capacity can finally displace coal in everyday electricity generation and make the green transition a genuine economic reality

Q. *India's energy transition requires structural reforms beyond renewable capacity expansion to reduce coal dependence and ensure long-term energy security. Discuss. 15 Marks*

2.1.2. FINANCE COMMISSION TRANSFERS AND EQUITY ISSUE IN INDIA

Context:



The recent recommendations of the **16th Finance Commission (FC)** have revived debates regarding the balance between **equity and efficiency** in fiscal transfers between the Centre and States. Although the 16th Finance Commission (FC) has continued to **prioritise equalisation, several better-performing States** have raised concerns regarding **declining devolution shares, fiscal stress, and reduced fiscal autonomy.**

Finance Commission and Its Role in Fiscal Federalism

- **Constitutional Basis:** Under **Article 280 of the Indian Constitution**, the **Finance Commission (FC)** is constituted every five years to recommend the distribution of Union tax revenues between the **Centre and States** and among the States themselves.

- **Addressing Fiscal Imbalances:** The **Finance Commission (FC)** addresses two major imbalances: **vertical fiscal imbalance**, arising from the mismatch between the Centre's revenue powers and States' expenditure responsibilities, and **horizontal fiscal imbalance**, arising from unequal fiscal capacities among States.
- **Instrument of Cooperative Federalism:** The Finance Commission acts as the primary constitutional mechanism for operationalising **cooperative federalism** in India through fiscal transfers and resource-sharing arrangements.
- **Recommendations of the 16th Finance Commission:** The **16th Finance Commission** retained the same **41% vertical devolution share** recommended by the 15th FC and continued to prioritise **equity** in horizontal transfers.

Key Concerns Raised by States Before the 16th Finance Commission

1. **Exclusion of Cesses and Surcharges from the Divisible Pool**
   - **Cesses and surcharges** have exceeded **15% of gross tax revenues** yet remain excluded from the divisible pool.
   - States demanded these be either included in the pool or **capped at 8 to 10%**, as this exclusion directly reduces actual devolution received by States.
2. **Growing Fiscal Pressures on States**
   - **COVID 19 pandemic** caused an extraordinary rise in expenditure and a sharp fall in revenues.
   - **GST rationalisation** from four rates to two principal rates introduced uncertainty in State tax buoyancy.
   - **Mounting public debt** has constrained developmental expenditure across States.
   - **Centrally Sponsored Schemes** have narrowed fiscal autonomy; the restructured **MGNREGA** now requires States to bear **40% of programme costs**.
   - These pressures led several States to demand a **50% vertical share** instead of the existing 41%.
3. **Frequent Changes in Devolution Criteria**
   - Successive Finance Commissions have frequently altered criteria and weights, making it difficult for States to **predict their future shares**.
   - States called for a reduced weight for the **income distance criterion** and its adjustment for **purchasing power differences** to reflect inter State cost of living variations.
4. **Steady Decline in Shares of Better Performing States**
   - The combined share of the **four southern States** (Andhra Pradesh including Telangana, Karnataka, Kerala and Tamil Nadu) declined from **24.8% (Sixth Finance Commission) to 15.8% (15th Finance Commission)**.
   - In contrast, the share of the **four major beneficiary States** (Bihar including Jharkhand, Madhya Pradesh including Chhattisgarh, Uttar Pradesh including Uttarakhand and West Bengal) rose from **42.5% to 51%**, widening the gap to **35.2 percentage points**.

5. **Fiscal Transfers Have Not Ensured Convergence in Public Services**
    - In **2022-23**, **Bihar spent only Rs. 937 per person on health** against Arunachal Pradesh's **Rs. 10,148**, a gap of **10.8 times**.
    - Bihar's per student spending on elementary education in **2023-24** was **Rs. 20,282** against Sikkim's **Rs. 1,30,498**.
    - These figures establish that **unconditional equalisation transfers alone have failed to ensure convergence** in public service delivery.

Recommendations of the 16th Finance Commission and Their Significance

- **On Vertical Devolution**
    - The **16th Finance Commission accepted the Centre's argument** that cesses and surcharges cannot be shared because they finance welfare and infrastructure programmes that indirectly benefit States. Accordingly, the **41% vertical share was retained**
- **On Grants and Fiscal Discipline**
    - Revenue deficit grants as well as sector specific and State specific grants were **abolished** by the **16th Finance Commission**.
    - States were directed to **discontinue off budget borrowings**, bring all liabilities on to their budgets, and maintain **fiscal deficits below 3%** of **Gross State Domestic Product (GSDP).** While these are sound fiscal norms, their immediate implementation is likely to increase **short term fiscal stress** for several States.
- **On Horizontal Devolution Criteria**
    - **Income Distance:** Assigned the highest weight of **42.5%**, reflecting the Commission's continued emphasis on equity.
    - **Population:** Assigned a weight of **17.5%**.
    - **Area:** Assigned a weight of **10%**.
    - **Forest Cover:** Assigned a weight of **10%**.
    - **Demographic Performance:** Assigned a weight of **10%**, with the criterion modified by replacing the inverse fertility rate with **population growth**.
    - **States' Contribution to National GDP:** A new criterion assigned a weight of **10%**, replacing the earlier tax effort criterion. However, instead of using actual **GSDP shares**, a **square root transformation was applied**, which significantly **diluted the advantage of economically larger States**.

Impact of the New Formula on State Finances

- **Gainers and Losers in Devolution**: Under the new formula, **14 States** saw a marginal rise in their shares, with **Karnataka** gaining the most (**0.484 percentage points**), while **Uttar Pradesh** and **Madhya Pradesh** witnessed a reduction in their **relative weights**.
- **Marginal Gains for Southern States**: The combined share of **southern States** rose slightly to **17%**, but this remains significantly lower than the **historical high** of **24.8%** seen during the **Sixth Finance Commission** period.
- **Dilution of Performance Advantage**: The use of **square-root GSDP shares** rather than **actual GSDP shares** has slashed the **weighted contribution** of States like **Maharashtra** from **14.23% to 8.31%**, depriving them of substantial **capital resources**.

- **Concerns Regarding Political Representation and Delimitation**: As **parliamentary delimitation** approaches, there is a fear that **fiscally efficient States** with **lower populations** will lose both **political voice** and **financial resources**, further skewing the **federal balance** in favor of **politically influential** but **economically lagging States**.

Way Forward for Building a Balanced, Transparent, and Data-Driven Fiscal Transfer System

- **Integrating Cesses into the Divisible Pool**: To restore **vertical equity**, the **16th Finance Commission** or future amendments should consider **capping cesses and surcharges** at **8%-10%** of **gross tax revenues** or including them in the **sharable pool**.
- **Implementing Alternative Devolution Models**: Moving toward an **equal-weight scheme** across all six criteria would provide a more **balanced outcome**, ensuring that **developed States** like **Tamil Nadu** and **Maharashtra** receive hundreds of billions in **additional annual funding**.
- **Utilizing Data-Driven Weighting Methods**: The Commission should adopt sophisticated tools like **Principal Component Analysis (PCA)** to assign weights based on **empirical data** rather than **arbitrary percentages**, ensuring **transparency**.
- **Focusing on Fiscal Outcome Indicators**: Future transfers must prioritize **fiscal capacity** and **expenditure efficiency**, moving away from **non-fiscal indicators** that may penalize States for successful **population control** and **economic reforms**.

Conclusion

The **16th Finance Commission** attempts to bridge the gap between **poor and rich States**, yet the **marginal shift** suggests that the **efficiency-equity trade-off** remains unresolved. For a **truly resilient India**, the **fiscal architecture** must evolve to reward **economic contribution** while ensuring that **basic public services** are converged across all **geographical boundaries**.

Q. *The Finance Commission's transfer formula has increasingly raised concerns regarding equity, efficiency, and fiscal autonomy of States. Critically examine. 15 Marks*

2.1.3. INDIA'S ENERGY STRATEGY NEEDS PRICE CORRECTION

Context:

- The **Strait of Hormuz,** through which **nearly 20 percent of the world's traded oil passes**, has become the **most critical geopolitical fault line in global energy markets** today, as escalating **West Asia tensions** disrupt supplies and expose the fragile link between **energy security** and **geopolitics.**
- For India, which **imports over 85 percent of its crude oil needs**, this crisis has brought into sharp focus both the **resilience of recent energy management policies** and the **urgent need for deeper structural reforms that go well beyond short term crisis response.**

Impact of Hormuz Crisis Affecting the Global Energy Economy

- **Sharp Rise in Global Crude Oil Prices: Brent crude prices** have surged sharply as fears of prolonged Gulf supply disruption continue to affect global markets. The crisis has significantly increased the import bills of **oil dependent economies**, creating strong **inflationary pressure** across sectors such as transport, food, manufacturing, and logistics.
- **Increase in Global Shipping and Transportation Costs:** Shipping disruptions have added major costs beyond the rise in crude prices by forcing vessels to use longer and more expensive routes. Several ships are being rerouted around the **Cape of Good Hope**, increasing delivery timelines by weeks and pushing **freight charges** and **marine insurance premiums** to multi year highs across global trade routes.
- **Growing Pressure on Global Gas Markets: Global gas markets are under additional pressure due to disruptions in LNG exports from Qatar.** The shutdown of key **liquefied natural gas** export infrastructure has tightened gas supplies globally, affecting **power generation, fertilizer production,** and **industrial output** in several economies at the same time.
- **Fuel Price Burden on Advanced Economies:** Several **advanced economies** have passed **the full burden of the crisis** directly on to consumers through steep **fuel price hikes**, with **petrol prices crossing extremely high levels** in countries such as **Germany, the United Kingdom, and Hong Kong.** However, **domestic fuel prices in India** have largely remained stable, thereby **shielding consumers from immediate inflationary shocks** and **sudden increases** in transportation and household expenses.

India's Structural Energy Security Challenges

- **Deep Dependence on Imported Fossil Fuels:** India's energy challenge remains largely **structural** rather than temporary. Critical sectors such as **transport, aviation, manufacturing, agriculture, and logistics** continue to depend heavily on imported fossil fuels, leaving the economy vulnerable to global price shocks.
- **Indirect Impact of Global Energy Disruptions:** Even if immediate fuel shortages are avoided, prolonged global disruptions continue to affect the broader economy through a widening **current account deficit**, rising **inflation**, and depreciation of the **Indian rupee**. Sustained high oil prices therefore weaken long term economic stability.
- **Limitations of Strategic Petroleum Reserves:** Although India's **Strategic Petroleum Reserves** have improved, reserve capacity remains insufficient to provide long term insulation from global energy shocks. Expansion of reserve capacity along with greater domestic exploration and production remains necessary for stronger energy security.
- **Growing Focus on Energy Conservation:** Increasing emphasis has been placed on **fuel conservation**, **reduced travel, and remote work practices**, indicating recognition that global energy uncertainty may continue for a prolonged period.

Financial Burden of the Hormuz Crisis on the Indian Economy

- **Heavy Losses Faced by Oil Marketing Companies:** State run **Oil Marketing Companies** such as **Indian Oil Corporation, HPCL, and BPCL** have been absorbing massive financial losses to maintain stable fuel prices. Petrol and diesel continue to be sold below **market linked prices**,

leading to daily under recoveries worth hundreds of crores during periods of high global crude oil volatility.

- **Artificial Fuel Price Stability and Its Consequences:** Artificially low fuel prices discourage **responsible energy consumption** and reduce incentives for households and industries to adopt **fuel efficient technologies** and conservation practices. When prices do not reflect actual global market conditions, long-term energy efficiency improvements remain limited.
- **Economic Unsustainability of Continued Price Suppression:** The present strategy of absorbing losses is economically difficult to sustain over a long period. Continued fuel price suppression increases pressure on the **fiscal deficit**, weakens the **Indian rupee**, and creates uncertainty regarding the long-term financial health of India's energy sector

How India's Energy Response and Preparedness Have Been Strengthened

- **Diversification of Crude Oil Imports:** A diversified **crude sourcing basket** has been developed to reduce excessive dependence on any single region. Stronger energy partnerships with **Russia, the United States, West Africa, and the Atlantic basin** have helped ensure that disruptions in the Gulf region do not immediately create domestic fuel shortages or refinery disruptions.
- **Strengthening of Strategic Petroleum Reserves:** India's emergency oil storage capacity has been strengthened through strategic agreements with major energy partners such as the **UAE**. Under this arrangement, nearly **30 million barrels of crude oil** have been stored in India's **Strategic Petroleum Reserves**, improving the country's preparedness against sudden global supply shocks.
- **Expansion of Domestic LPG Production:** Domestic **LPG production** was reportedly increased by nearly **50 percent** during the crisis period to protect household energy access. Refineries were directed to maximise output as LPG connections under the **Ujjwala scheme** expanded from nearly **14.5 crore in 2014 to more than 33 crore**, making uninterrupted LPG supply socially critical.
- **Priority Allocation of Natural Gas Supplies:** Gas allocation was prioritised for households, public transport systems, and all **25 fertilizer plants**, which reportedly continued receiving nearly **70 percent of their gas requirements**, thereby protecting both daily life and agricultural supply chains.
- **Strengthening of Maritime Security and Diplomatic Coordination: Naval deployments** in the **Gulf of Oman** and active diplomatic engagement with multiple countries were undertaken to secure India's energy supply routes and maintain continuity in crude oil transportation and refinery operations.

Way Forward for Building Long Term Energy Security

- **Need for Transparent Fuel Price Rationalisation:** A one-time and transparent fuel price correction of around **13 percent** has been suggested as economically necessary to reduce losses of **Oil Marketing Companies (OMC)** and improve fiscal stability without triggering uncontrolled inflation.
- **Importance of Predictable Pricing Policies:** A **single well communicated price** adjustment is considered more effective than repeated small revisions, which create uncertainty for **households** and **businesses** and make financial planning difficult.

- **Accelerating Renewable Energy Transition:** Faster expansion of **solar energy, wind energy, green hydrogen, electric vehicles, and public transport electrification** is essential to reduce long term dependence on imported oil and improve energy security.
- **Expansion of Strategic Reserves and Supply Partnerships: Strategic petroleum reserves** should be expanded further and **energy partnerships** with stable suppliers should continue to be strengthened to reduce exposure to sudden global disruptions.
- **Promotion of a National Energy Conservation Mission:** Greater emphasis should be placed on **energy efficiency standards, green building norms, and public awareness campaigns** to reduce overall fuel consumption without affecting economic growth or quality of life.

Conclusion

The Hormuz crisis has highlighted that India's long term energy security and economic stability can be ensured only through diversified energy imports, renewable energy transition, realistic fuel pricing, stronger strategic reserves, and greater energy conservation practices.

Q. *The Strait of Hormuz crisis has exposed the structural vulnerabilities of India's energy security framework. Critically examine the impact of crisis on the Indian economy and suggest measures needed to strengthen India's long term energy resilience. 15 Marks*

2.1.4. NATIONAL RESILIENCE REQUIRES MORE THAN BEHAVIOURAL APPEALS

Context:

- Growing global instability arising from the **America Iran conflict** and disruptions in the **Strait of Hormuz** has increased concerns regarding India's **energy security**, economic stability, and institutional preparedness.
- Public appeals promoting **self reliance**, energy conservation, reduced foreign travel, and responsible consumption have reopened debate regarding the balance between **citizen responsibility** and **government accountability** during periods of global uncertainty.

Appeals for Responsible Consumption During Global Uncertainty

A. Why These Appeals Matter in the Current Global Context?

- **Interconnected Global Economy Increases India's Vulnerability:** Events in the **Strait of Hormuz** directly affect India's energy imports, food supply chains, and foreign exchange reserves, making citizens' consumption patterns a genuine concern for national stability.
- **Domestic consumption as a Buffer against External Shocks:** Promoting **local products** and **reducing import dependence** can strengthen **India's trade balance and reduce exposure to global supply chain disruptions**, particularly in essential goods and energy.

- **Environmental and Health Co-Benefits:** Appeals for energy conservation, domestic tourism, and reduced unnecessary travel also align with **India's climate commitments** under the **Paris Agreement** and contribute to long term environmental sustainability.
- **Support for the Atmanirbhar Bharat vision:** Encouraging **indigenous innovation and self-reliance at the citizen level** supports the broader national goal of building a self-sufficient economy less dependent on foreign technology, goods, and capital.
- **Civic virtue in a crisis:** Responsible consumption, social solidarity, and support for domestic industries are genuine civic responsibilities, and citizens do have a meaningful role to play when the nation faces economic headwinds.

B. Limits of Behavioural Appeals During Structural Crises

- **Burden is Shifted from the State to Individuals:** When governments primarily respond to structural economic challenges by urging citizens to sacrifice or adapt, without undertaking matching institutional reforms, the social contract weakens and citizens bear the cost of failures that are not theirs.
- **Behavioural Messaging can Obscure Systemic Failures:** Appeals to conserve electricity or buy local often draw attention away from the far larger responsibility of governments and corporations in shaping structural economic outcomes through policy, regulation, and public investment.
- **Patriotism cannot Substitute for Policy Coherence:** Emotional appeals to national pride and citizen sacrifice, however resonant, cannot replace long term economic planning, institutional competence, and evidence based policymaking as the foundation of national resilience.
- **No Country can Achieve Resilience through Behavioural Nationalism Alone:** Food security, climate change, financial systems, and technological ecosystems all transcend national borders and require systemic institutional responses, not merely changes in individual consumption habits.
- **Governments Rarely Issue Equivalent Accountability Commitments:** Citizens are repeatedly asked to conserve and adjust, yet governments seldom publicly commit to matching responsibilities such as greater transparency, regulatory stability, sustained public investment, or institutional reform.

Global Best Practices for Building Institutional Resilience During Global Crises

- **Nordic Model (Denmark, Sweden, Finland):** Universal **social protection systems**, **transparent governance**, and sustained **public investment** in health and education ensure citizens cooperate during crises because the **social contract** is actively fulfilled by the state.
- **Singapore's Strategic Planning Model: Evidence-based policymaking**, **regulatory stability**, and long-term investment in **human capital** and **innovation ecosystems** build genuine resilience without relying on behavioural appeals.
- **Germany's 2022 Energy Crisis Response:** Massive **public investment in renewable energy**, **regulatory reform**, and **transparent parliamentary accountability** demonstrated that durable **energy security** requires structural institutional action, not symbolic citizen campaigns.

Way Forward for Building Strong Institutions for Long Term National Resilience

- **Strengthening Social Protection and Public Health Infrastructure:** The **COVID 19 pandemic** demonstrated that resilient societies are built through strong **public institutions**, not just disciplined citizens, and future resilience requires sustained investment in **primary health care**, **disease surveillance**, **nutrition**, **mental health**, and **emergency preparedness**.
- **Addressing Economic Inequality and Protecting Informal Workers:** Economic resilience cannot emerge from patriotic appeals alone when millions remain financially insecure, unemployed, or trapped within **informal labour systems** and the **gig economy** without adequate **social protection**, making **universal coverage** an urgent governance priority.
- **Expanding Investment in Education, Science, and Innovation Capacity:** Genuine **self reliance** is built through decades of investment in **laboratories**, **public universities**, **manufacturing ecosystems**, and **scientific temper**, and Indian **research institutions** must themselves emerge as among the world's leading centres of **knowledge** and **innovation**, not merely host foreign campuses.
- **Ensuring Transparency and Building Public Trust During Crises: Public trust** is a strategic national asset during crises, and citizens cooperate effectively when governments communicate honestly, acknowledge uncertainties, and allow **independent institutions**, **experts**, and the **media** to function freely without interference or suppression.
- **Promoting Climate Resilience and Sustainable Urban Development:** Asking citizens to conserve electricity while cities suffer from poor **urban planning**, inadequate **public transport**, shrinking **green spaces**, and worsening **environmental degradation** addresses symptoms rather than causes, and failed initiatives like **smart cities** must be critically evaluated rather than quietly forgotten.
- **Ensuring Regulatory Stability and Predictable Governance: Businesses**, **workers**, **researchers**, and **entrepreneurs** need consistent and stable **policy environments** to make long term investments in capacity and technology, as **predictable governance** and **institutional consistency** are non negotiable foundations of a **self reliant economy**.
- **Protecting Democratic Dialogue and Institutional Independence:** Governments must stop framing criticism as anti national, since democracies become stronger through **open debate**, **institutional criticism**, **intellectual diversity**, and **democratic course correction**, all of which are essential to building the **accountability** that genuine national resilience demands.
- **Renewing the Social Contract Through Responsible Governance:** India's ambition to become a major **economic** and **geopolitical power** requires **strong institutions**, **evidence based policymaking**, **human capital investment**, and a government that accepts greater responsibility for **national resilience** rather than outsourcing it to citizen behaviour.

Conclusion

While **responsible consumption and civic solidarity** are important virtues, they cannot **substitute for governance**. The **true test of leadership** during global crises is whether governments demonstrate the **accountability, foresight, and policy seriousness** needed to protect citizens through strong institutions and sustained public investment.

Q. *Behavioural alone cannot ensure economic resilience during global crises. Critically examine. 15 Marks*

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